Virbac

ANNUAL REPORT 2017

Shaping the future of **animal health**

INTRODUCTION

SUSTAINABLE DEVELOPMENT

FINANCIAL REPORT

Interview with Sébastien Huron
Chairman of the executive board of the Virbac group

Solid foundations
committed to animal health

How does Virbac view its activity?

Our vision is based on a profound belief: as humans, we are part of the animal kingdom. Caring for animal health and welfare means protecting living beings in the broadest sense. And this is a true collective responsibility.

How does this responsibility translate into food producing animals?

With the robust population growth of developing countries and the changes in purchasing power and nutritional habits around the world, animal protein consumption is on the rise. "Feeding the planet" is therefore becoming a major challenge. This is why we continue our advocacy efforts in aquaculture, which is the main source of animal protein in the world. Since the issue surrounding animal production quality is equally important, we are pursuing our commitment to searching for alternatives to antibiotics. Finally, maintaining cow health and welfare is at the heart of our Target 150 program, which we shared with professionals from the dairy farming industry at an international symposium.

Virbac also plans to care for companion animals: was this promise kept in 2017?

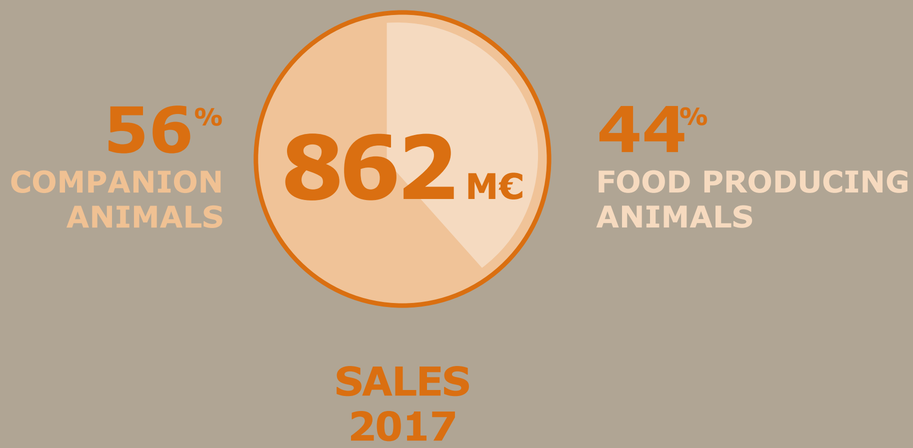
Yes. We strive to broaden the scope of our health solutions, especially in the area of prevention. Nutrition is a vital component of this and has spurred on our physiological petfood range's geo-extension program and the launch of our new dietetic product range for dogs and cats. In June, Virbac also had its marketing authorization amended for the extension of the protection period on its Canigen CHPPi vaccine for up to three years. Another advance: providing canine veterinarians with Speed Reader, a blood dosing analyzer used for testing five biomarkers in dogs and cats, thus facilitating diagnosis. On the treatment front, we offer in the Brazilian market the very first registered veterinary drug that treats canine leishmaniosis, while taking an active part in government-driven public education initiatives.

Does the rise of digital technology change the relationship with veterinarians, farmers or pet owners?

Social networks are an unprecedented sounding board for our companion animal awareness campaigns, for example our communications on unwanted dog behaviors in France, alternatives to surgical castration in Australia or parasitism in Spain and Italy. Digital technology brings us closer to pet owners and enables us to cater to their consumption patterns.

On the business side, how did things go in 2017?

On the European markets, our overall situation is favorable. Development was driven, in particular, by sales momentum in the United Kingdom, Italy, Poland and Belgium. The few challenges encountered with our vaccines and the relative loss of competitiveness in our external parasiticide ranges have been offset by double-digit growth of our flagship products, such as our contraceptive implant and new petfood range.



How does the company seize the momentum of developing markets?

Virbac posted double-digit growth in China, as a result of sustained market development and a modified distribution model that optimized its presence in the country. In Brazil, our focus on the cattle market earned us double-digit growth for the second consecutive year and a four-fold increase in profitability in the food producing animal segment over the past two years. We took advantage of the many opportunities 2017 brought to Mexico and South Africa, where our growth rate remained high, as was the case in Chile.

How is Virbac positioned in the United States?

The return of our products, whose market share recovery is slower than expected after an absence of more than 18 months, naturally led to restocking throughout the various levels of the distribution chain, generating a sales surplus of around $25 million in 2016. Consequence: a significant decrease in our revenue for the 2017 financial year. Today, although our inventories with distributors, apart from our parasiticide ranges, are for the most part back to normal, we still need time to return to historical market share levels.

And on the industrial front?

We transferred the production of our Sentinel Spectrum parasiticide to the American plant in St. Louis, which should provide improved mitigation of certain fixed plant-related costs. The Biology plan, which has been in place in France since June 2017, aims to increase our level of vaccine industrial process proficiency, against a backdrop of ever-tightening regulatory requirements.

How are things looking in 2018?

We expect moderate growth in our business. Outlook remains good in Europe and promising in the Asia-Pacific and Latin America areas, especially in developing countries. In the United States, the launch of the Iverhart Max soft chews, a palatable parasiticide tablet solution to canine heartworm disease, and the return of several products by the end of 2018 should generate a higher volume of business compared to 2017. On the financial front, our operational profitability rate should gain about half a point, at constant exchange rates. Vigilance related to our investments and our changing working capital requirements should allow the Group to enjoy continued debt relief at constant exchange rates.

R&D CENTERS ON 5 CONTINENTS

4,825 EMPLOYEES

PRODUCTION SITES IN 11 COUNTRIES

SALES SUBSIDIARIES IN 33 COUNTRIES

How do you see the long-term future unfolding?

We are confident. There are plenty of growth opportunities for Virbac, particularly in the food producing animal segment, since we maintain a presence in less than 50% of the global markets. As for the companion animals segment, growth prospects are expected, along with a desire to create strong brands and the implementation of new distribution models in some countries. In both of these segments, we are preparing for the future through geo-extension of our ranges, R&D investments and proposed licensing agreements. Our expansion continues, of course, in line with our sustainable development policy that puts our employees at the heart of our organization.

What does this mean?

The satisfaction of veterinarians, farmers, and animal owners is our reason for being. We are convinced of this: there can be no happy customers without well-rounded and engaged employees. As such, I would like to thank, on behalf of the executive board, all of our teams around the world. We strive to provide them with the opportunity to grow in an environment where everyone can take initiatives and venture off the beaten path, so that Virbac remains an agile and innovative company where conviviality, team spirit and cooperation prevail, all in the service of animal health.

FIND THE MESSAGE FROM THE CHAIRMAN AT CORPORATE.VIRBAC.COM

Balanced governance to support Group's development

Separation of powers and collegiality
Since 1992, there has been a clear separation between Virbac's strategic and operational management functions exercised by the executive board, and supervision of this management function devolved to the supervisory board. This structure meets the desire to establish a balance of power between the executive and supervisory functions. It involves a regular and effective dialogue between the executive board and the supervisory board, as well as mutual trust. Collegiality is a key organisational principle in Virbac's governance. Its two governing bodies, the supervisory board and the executive board, operate on the basis that their respective members seek common positions and take collective decisions, working as real team.

Committed and experienced management
Virbac's governance is based on enhanced governing bodies, composed of members with a strong and long-term level of commitment. Their professional experience covers many of the aspects involved in the day-to-day management of a major international group. All but one of the supervisory board's members are senior executives with extensive operational management experience. Virbac's management, whether members of its supervisory board or members of its executive board, is committed to providing sustained support for the Group's long-term strategy. Moreover, the involvement of supervisory board members and the non-voting advisor is not limited to their participation in formal board debates. Their involvement also includes regular informal discussions and periodic ad hoc meetings if circumstances so require.

Continual improvements to governance
Virbac follows the recommendations of the current Afep-Medef corporate governance Code. The Group continues to improve its governance practices. In some cases, it surpasses the objectives set by the Afep-Medef Code, particularly with regard to representation between women and men, the board being composed of three women and three men.

THE SUPERVISORY BOARD

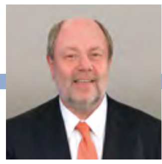
It ensures the permanent control of the management of the executive board, and the regular review of the accounts and of all major projects and investments.

MARIE-HÉLÈNE DICK, chairwoman

PIERRE MADELPUECH, vice-chairman

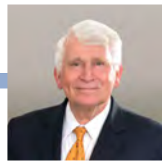
SOLÈNE MADELPUECH, member

OLIVIER BOHUON, independent member



PHILIPPE CAPRON, independent member

GRITA LOEBSACK, permanent representative of the company Galix Conseils, independent member



XAVIER YON, permanent representative of the company Xavier Yon Consulting Unipessoal Lda, non-voting advisor

Two special committees aid the supervisory board in its tasks: the audit committee and the compensation committee.
The supervisory board is assisted by a non-voting advisor, Xavier Yon.

AUDIT COMMITTEE

The audit committee is responsible for:
• ensuring the monitoring of the financial reporting process;
• ensuring the existence and effectiveness of the internal control and risk management systems;
• issuing a recommendation on the statutory auditors proposed for appointment by the shareholders' meeting;
• monitoring the achievement by the statutory auditors of their duties;
• ensuring that the statutory auditors comply with the conditions of independence;
• approving the provision by the statutory auditors of non-prohibited services other than certifying accounts;
• and reporting to the supervisory board on the performance of its duties.

It is comprised of Philippe Capron, chairman, Olivier Bohuon and Pierre Madelpuech.

COMPENSATION COMMITTEE

The compensation committee is responsible for:
• drawing up recommendations and proposals regarding the compensation of the members of the executive board;
• remaining informed about the Group's general human resources policy and more specifically, the compensation policy for the Group's main executives;
• reviewing proposals and conditions relating to stock grants;
• drawing up proposals regarding the amounts of directors' fees to be paid to the members of the supervisory board.

It is comprised of Marie-Hélène Dick, chairwoman, Olivier Bohuon and Grita Loebsack.

NON-VOTING ADVISOR

Xavier Yon, permanent representative of the company Xavier Yon Consulting Unipessoal Lda.

STATUTORY AUDITORS

Deloitte & Associés, represented by Vincent Gros.
Novances-David & Associés, represented by Jean-Pierre Giraud.

THE EXECUTIVE BOARD

Habib Ramdani,
chief financial officer

Sébastien Huron,
chairman of
the executive board

Christian Karst,
general manager and
executive vice-president
Corporate Development

Jean-Pierre Dick,
responsible for special
projects and chairman of the
Fondation d'Entreprise Virbac

The executive board is responsible for the strategic and operational management of the Virbac group. Its four members work closely together and they take collective decisions. This way of working encourages joint reflection and the search for a consensus.
The members of the executive board regularly discuss the company's long-term vision and operational requirements outside the formal meetings of the executive board. This flexible organisation allows a high level of responsiveness when taking strategic decisions.

The executive board reports on its work to the supervisory board and submits all of the Group's strategic operations to the supervisory board for its formal approval.
It is supported in its work by a regular dialogue with the members of the strategic committee. In addition to the members of the executive board, the strategic committee also includes the Group's nine functional directors and five area directors.

SUSTAINABLE DEVELOPMENT

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 CO_2;
- 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.

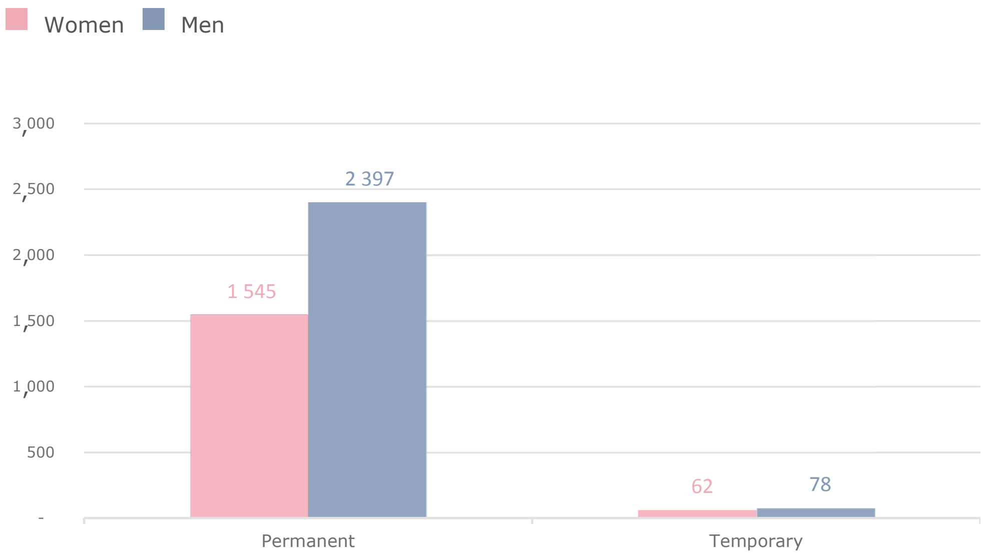
G4-9 Size of the organization (total number of employees, sites, net revenue, total capital broken down into liabilities and equity, product quantities and services provided)

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

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

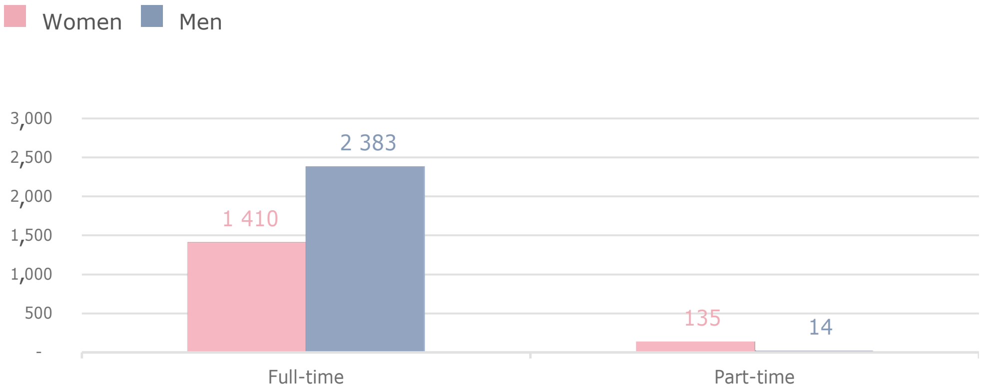
The scope of the workforce for 2017 covers 16 countries and represents 4,082 employees or 85% of the total staff. The change in the permanent workforce is -0.33% (3,942 in 2017 compared to 3,955 in 2016). On the social reporting scale, the total number of staff dropped by 13.

Breakdown of total employees (by number)



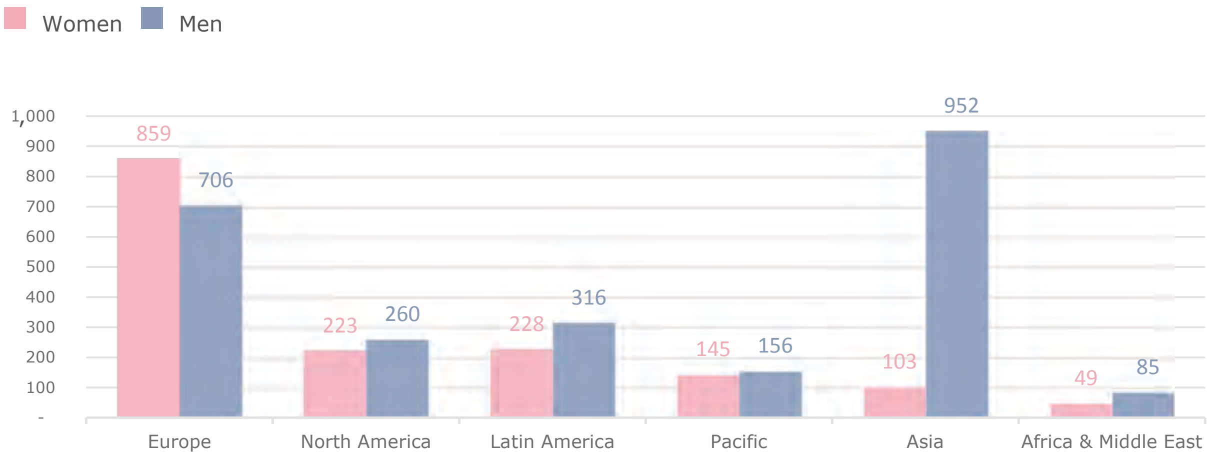
Temporary workforce includes contracts terminating at the end of a specified period or when a specific task, given an estimated date of completion, is completed.

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.

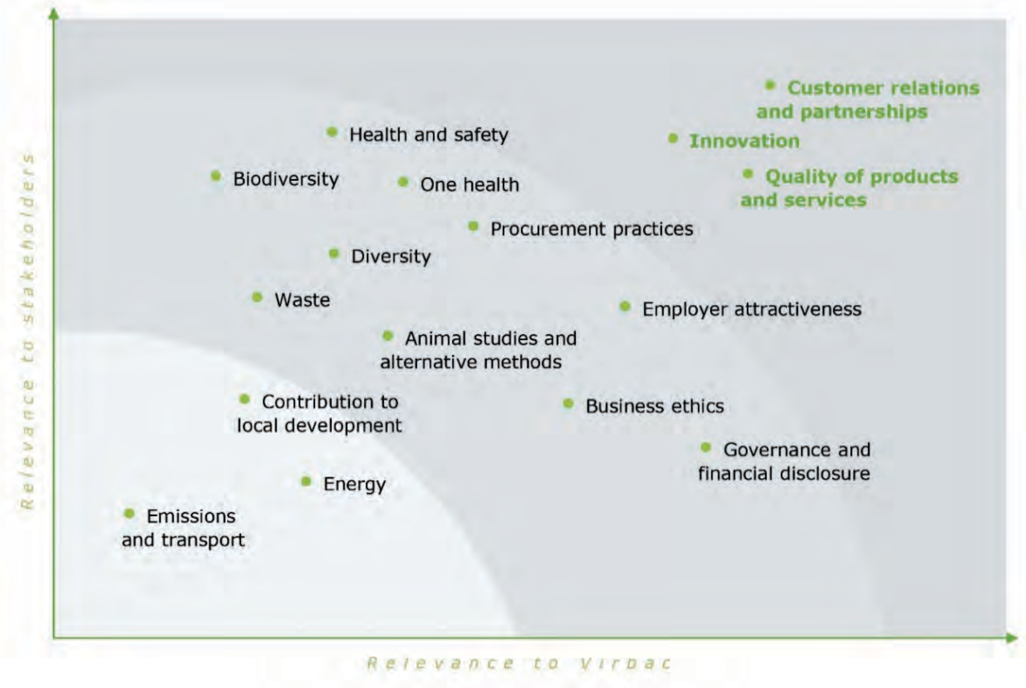
In 2015, Virbac gave some strategic thought to CSR (Corporate social responsibility) and conducted an analysis of materiality in order to assess the key issues for the Group in terms of sustainable development. To do this, Virbac used a third-party expert, who directed the analyses and assessments.

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"**.

GRI Empowering Sustainable Decisions
Materiality Disclosures
Virbac
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Service

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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

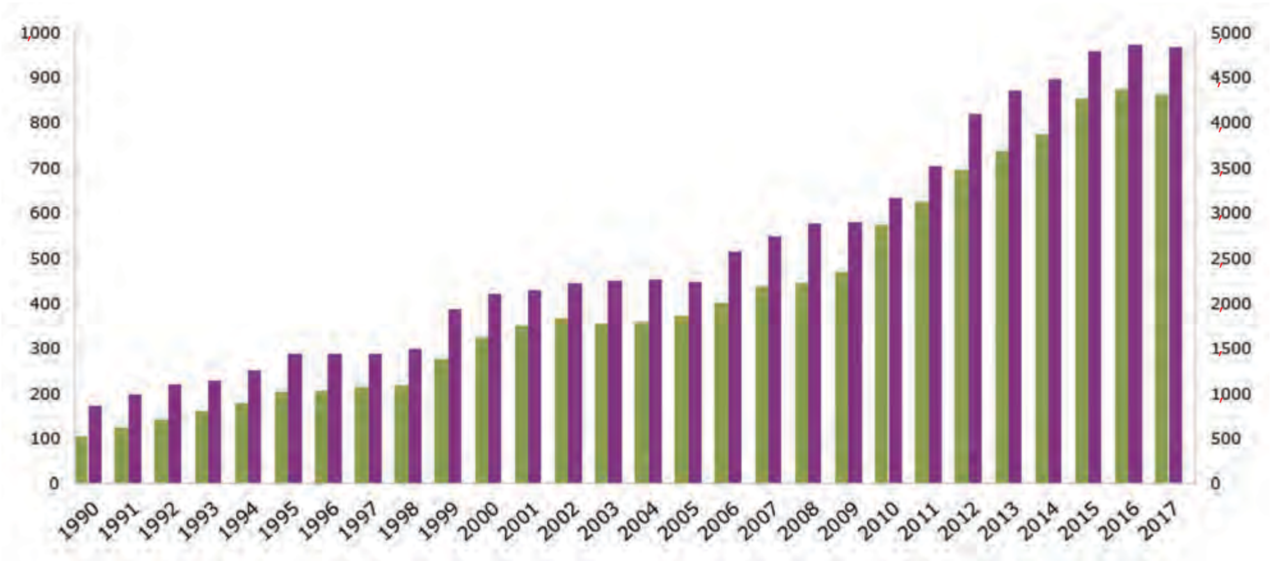
Performance indicators

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.

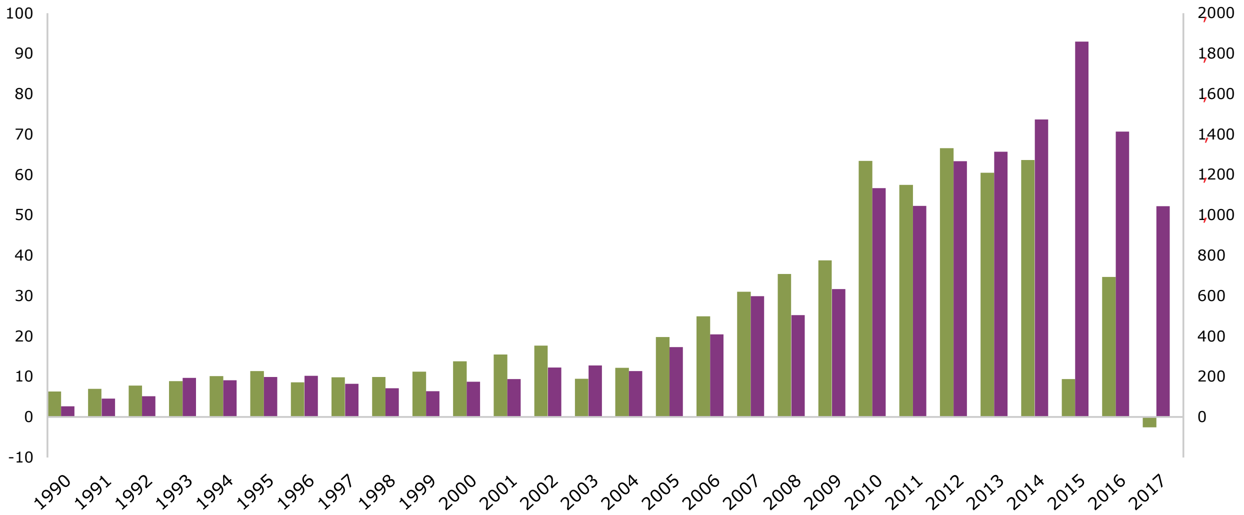
Change in revenue (in € million) and Group workforce

Revenue Workforce



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

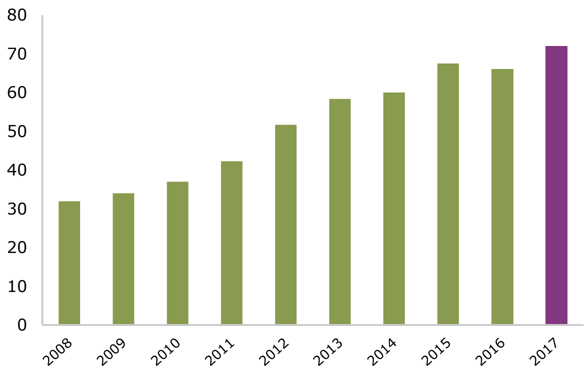
Net profit - Group share Market capitalization as at 31/12



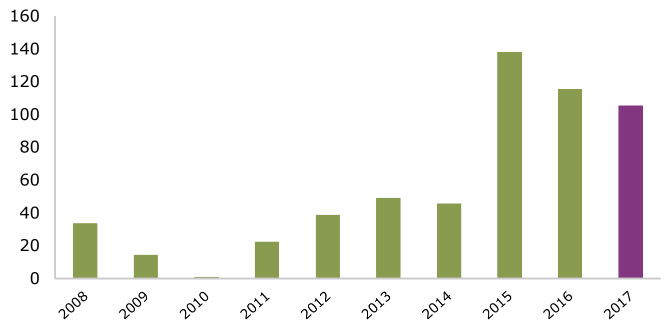
Virbac pursues a policy of investment and innovation that ensures the continuity and independence of the company. Also, Virbac independently sustains its internal and external growth. The resources thus identified support funding for innovation that is geared towards meeting the needs of customers.

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.

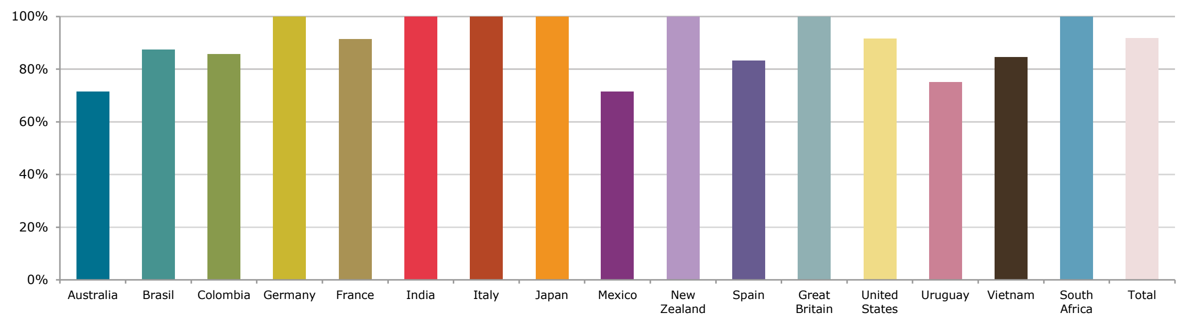
MARKET PRESENCE

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

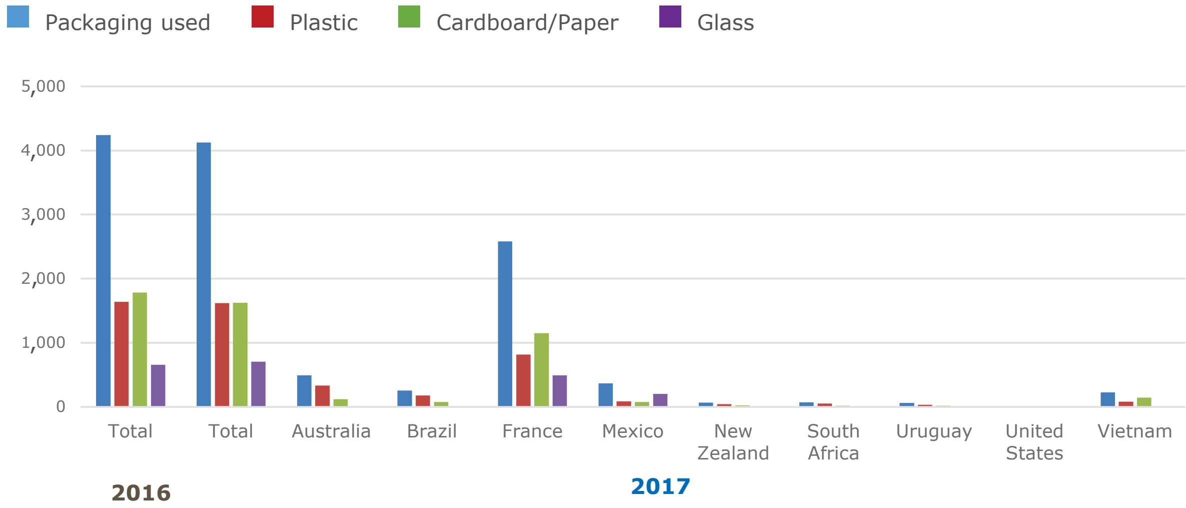
Minimize wastage at every stage of the industrial process

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.

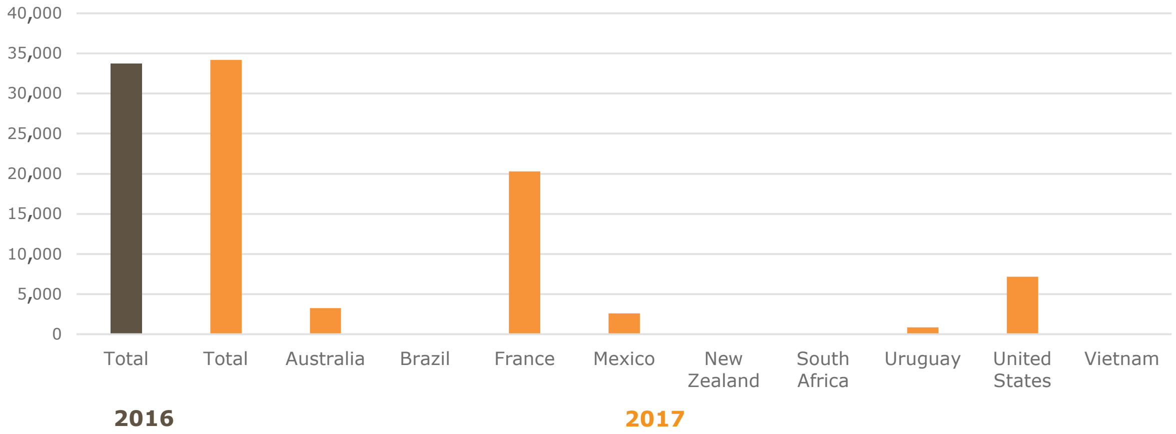
ENERGY

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

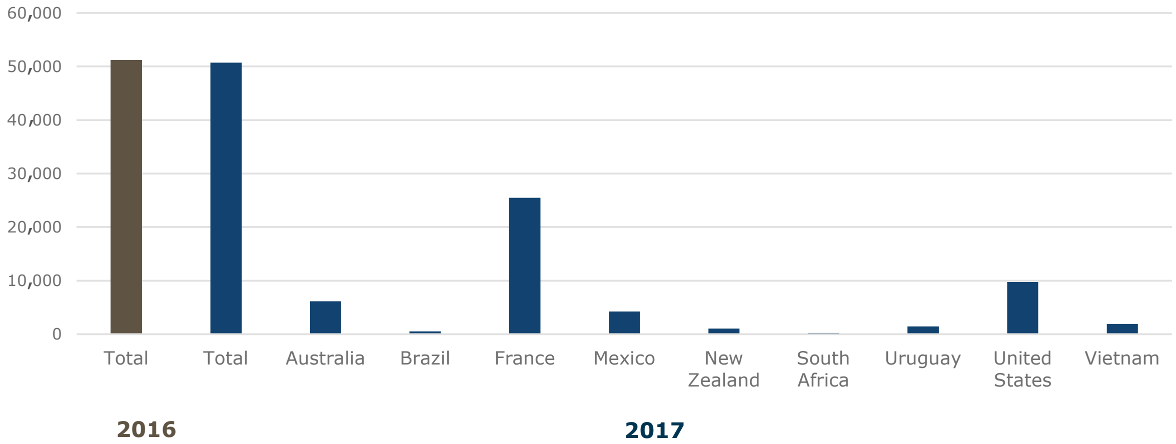
The 34,170 MWh of gas consumed in 2017 over the entire environmental scope are broken down in the table below. The sites in Vauvert (France), South Africa, New Zealand, Brazil and Vietnam do not use gas. At constant scope, gas consumption only increases by 1%.

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.

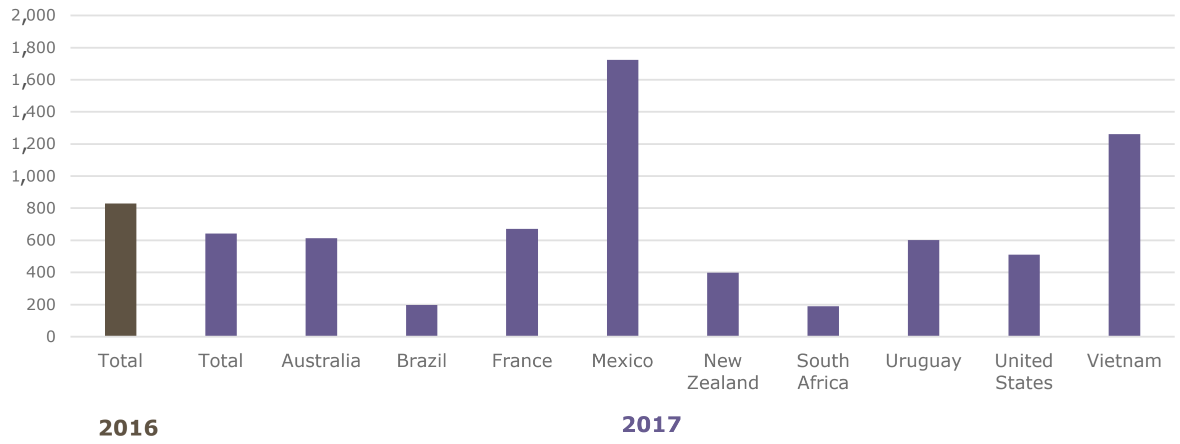
Electricity (MWh)



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 CO_2 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.

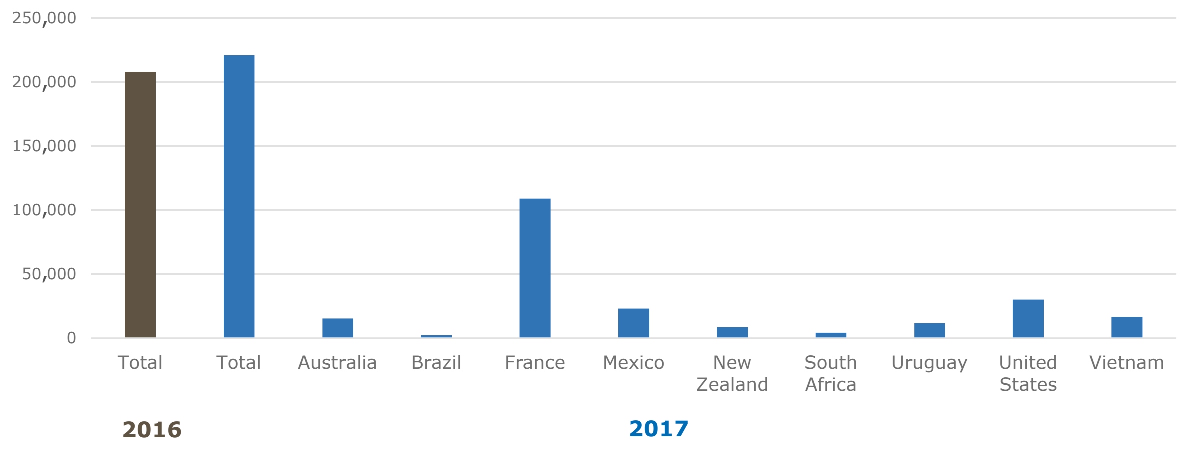
WATER

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 m^3 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 **(m^3)**



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.

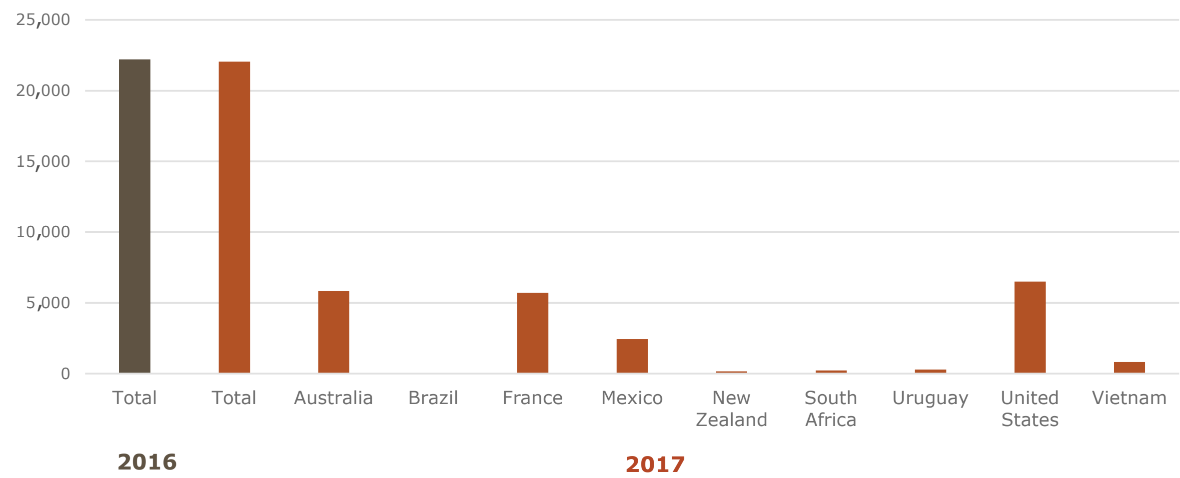
EMISSIONS, EFFLUENTS AND WASTE

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.

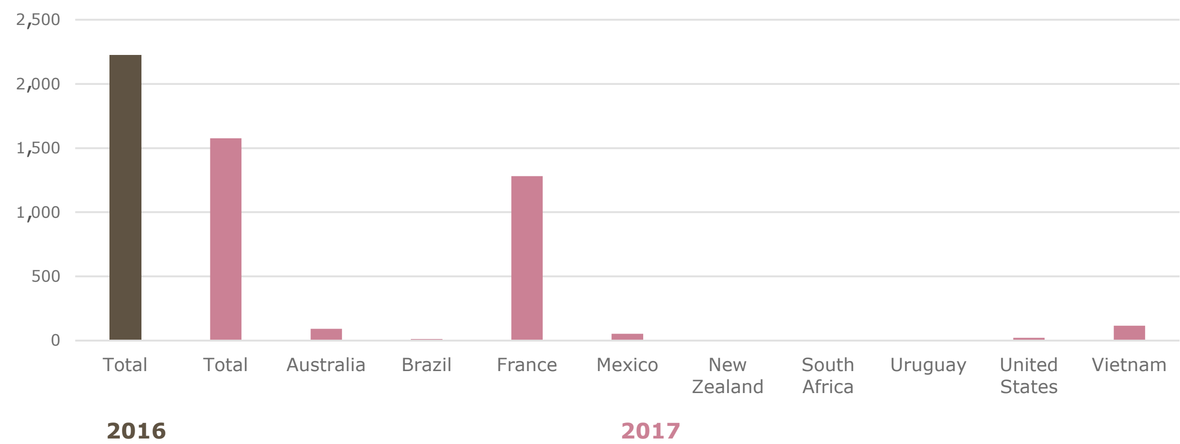
G4-EN15 Direct greenhouse gas emissions (scope 1)
G4-EN16 Indirect greenhouse gas emissions (scope 2) related to energy

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 CO_2, 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 CO_2 emission.

Greenhouse gas: energy-related emissions (equivalent tons of CO_2)



Greenhouse gas: emissions related to refrigeration gases (equivalent tons of CO_2)

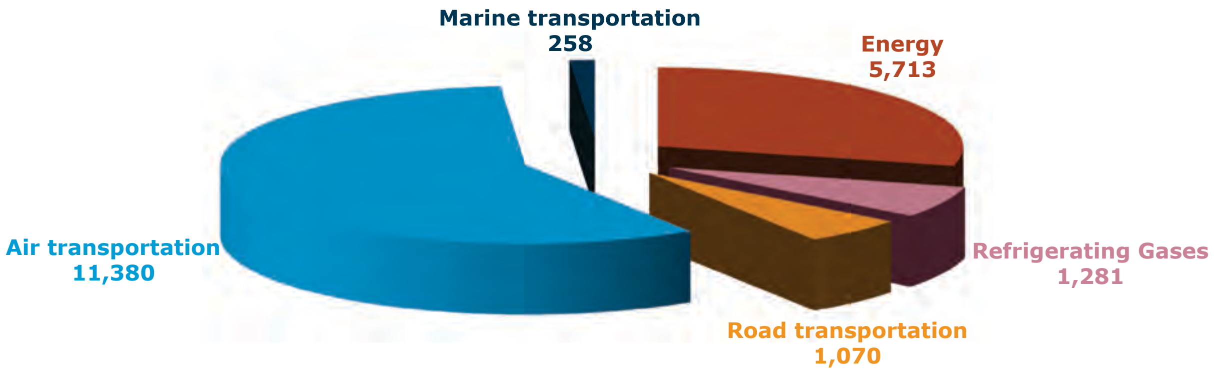


In accordance with the CO_2 regulations for companies with more than 500 employees, Virbac has committed to a plan for the reduction of greenhouse gases related to energy consumption (gas and electricity). Thus, in addition to all the thermal insulation already installed, all the "anomalies" (valves, 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 CO_2)

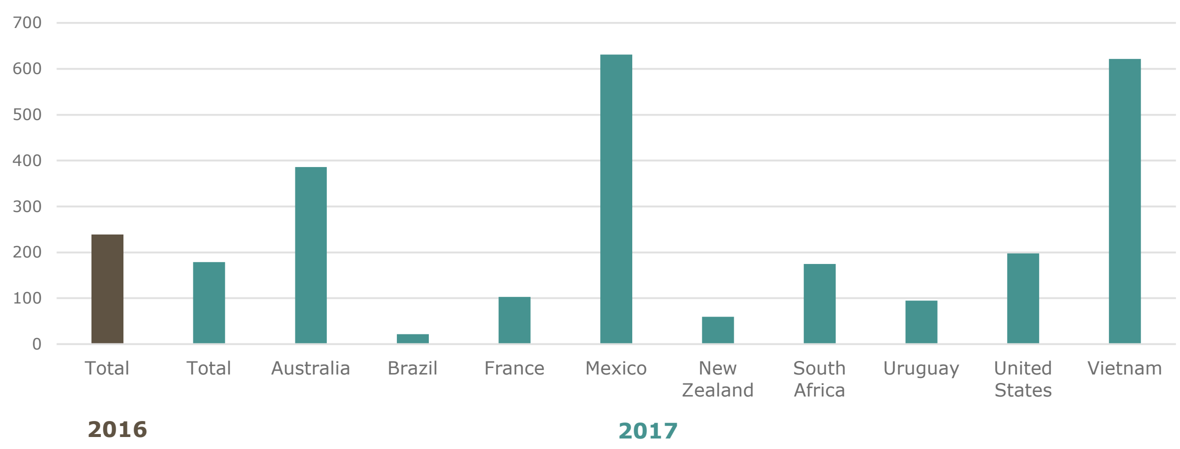


The new calculation method for transportation-related emissions do not allow for comparisons with prior years, but they account for more than two-thirds of France's total emissions.

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 CO_2/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 CO_2 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.

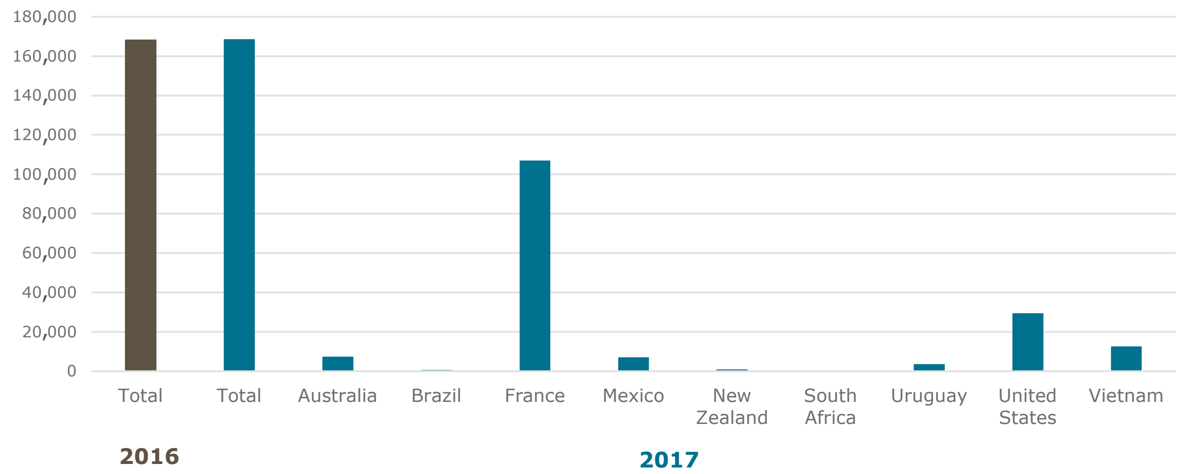
G4-EN21 NOx, SOx and other substantial atmospheric emissions

Due to the nature of its activity and the energy used, Virbac generates low NOx emissions (related to boilers that run on natural gas at production sites equipped with them) and no significant SOx emissions. Measures carried out in 2017 at all Carros sites in France show that NOx 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 NOx 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.

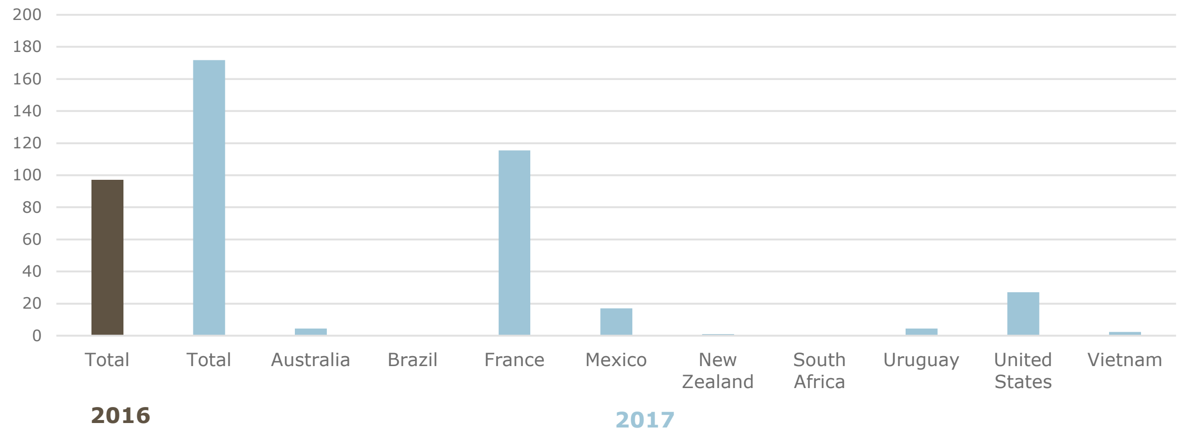
G4-EN22 Total water discharges, by type and destination

The quantity of industrial water discharged by all the Virbac sites worldwide amounted to 168,535 m^3 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 (m^3)



Quantities of COD discharged (tons)



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

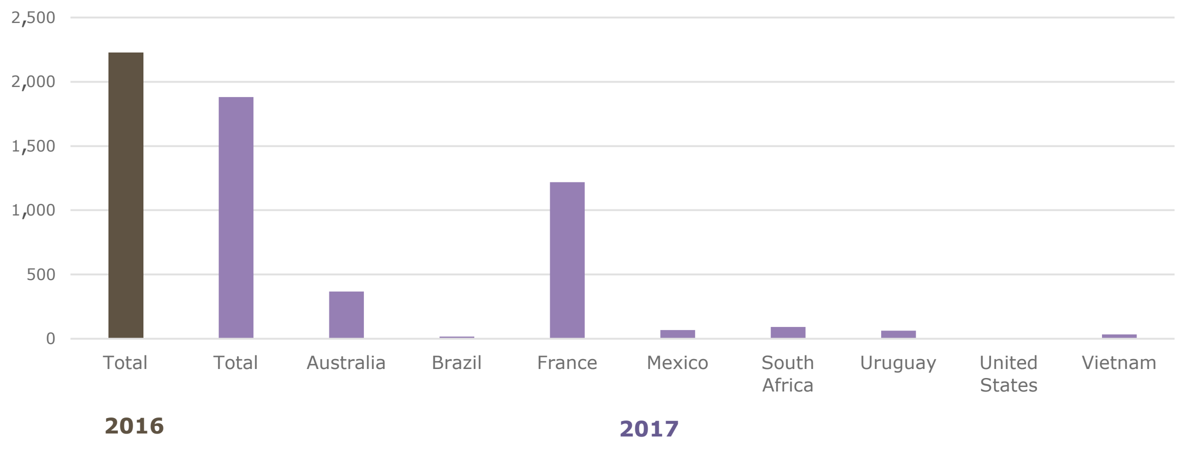
Virbac produces two kinds of waste: non-hazardous industrial waste and hazardous industrial waste. These are handled by dedicated waste collection and sorting sectors which ensure optimal waste recycling or recovery depending on the nature of the waste.

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)

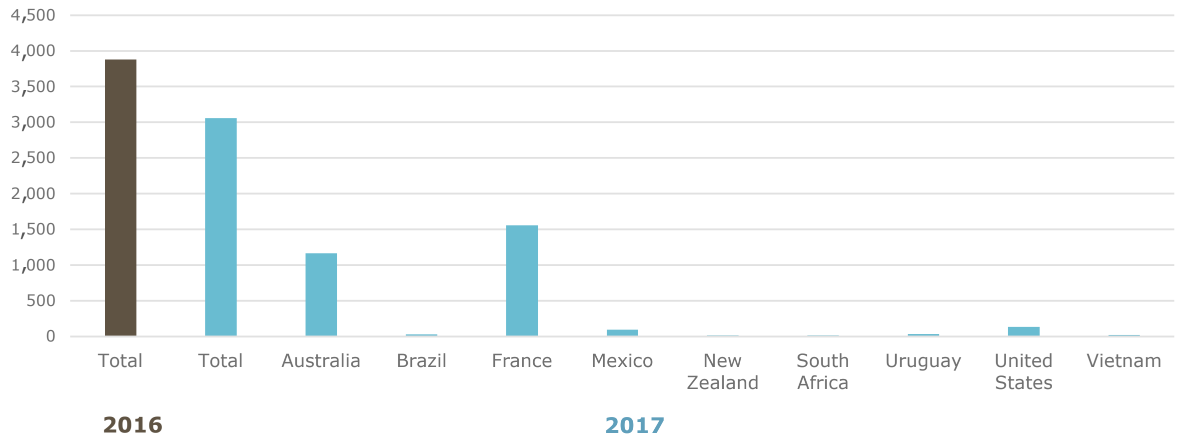


Controlling volumes of hazardous industrial waste

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.

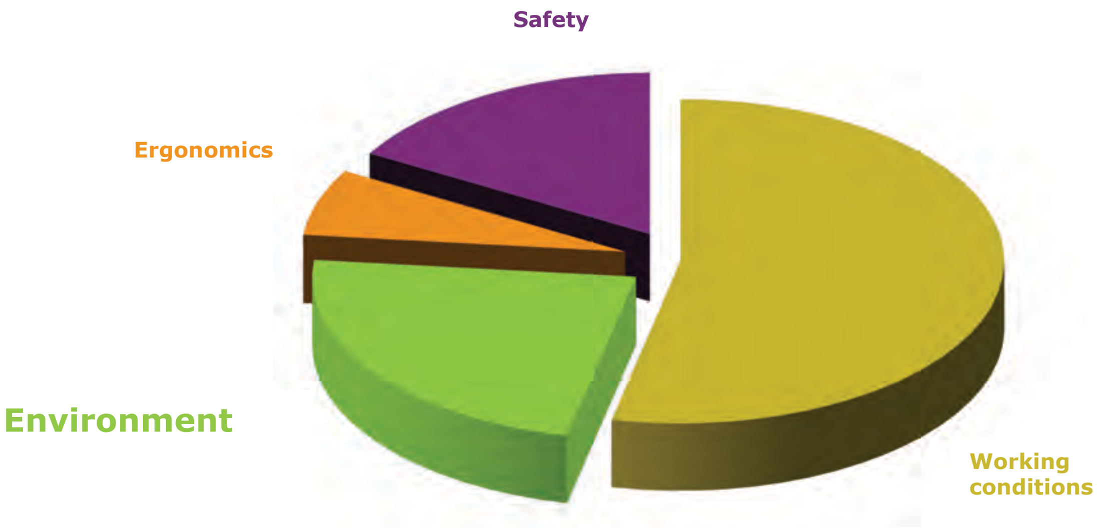
Total number of meetings via the videoconferencing tool built into workstations				
2013	**2014**	**2015**	**2016**	**2017**
3,289	5,360	6,270	6,923	13,289

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.

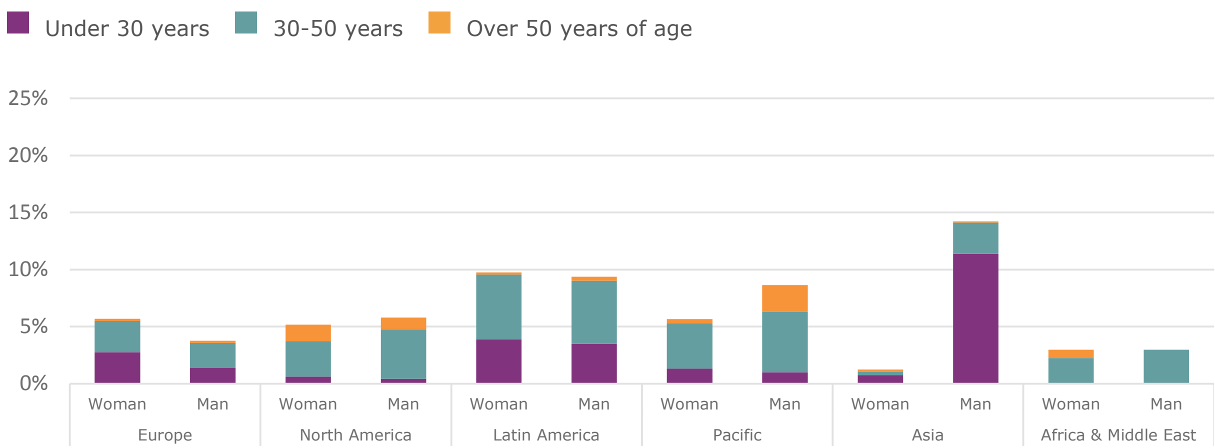
Developing employees also means offering more career opportunities within the Group. World-wide open positions are brought to the attention of employees by publishing them on the Virbac Intranet, so as to promote increased internal and international mobility. To better respond to the increase in employee 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

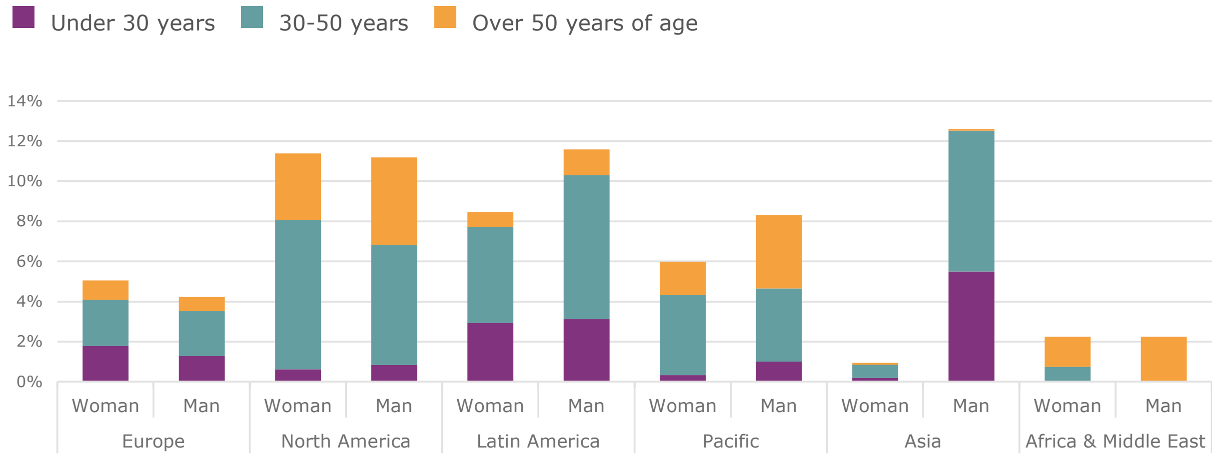
G4-LA1 Total number and percentage of new employees hired and turnover rate of employees by age group, gender and geographical area

Newly-hired employees (%)



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 (%)



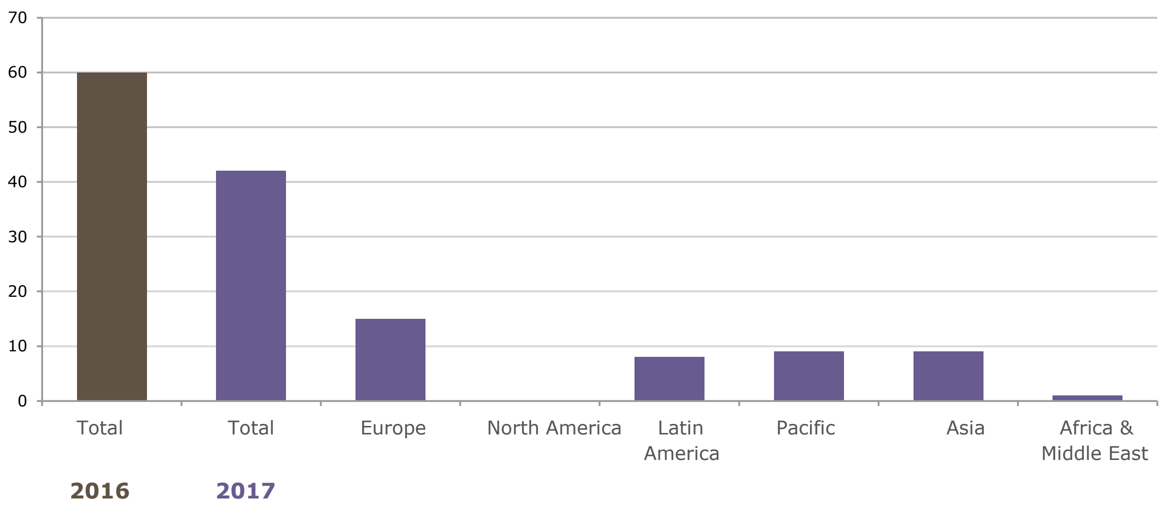
With 555 departures, total staff turnover rate in 2017 was 13.6%, down one point from 2016 (14.6%). The countries in which we see the highest staff turnover rates are Uruguay, with 34%, the United Kingdom, with 30.8%, and the United States, with 22.6%.

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%.

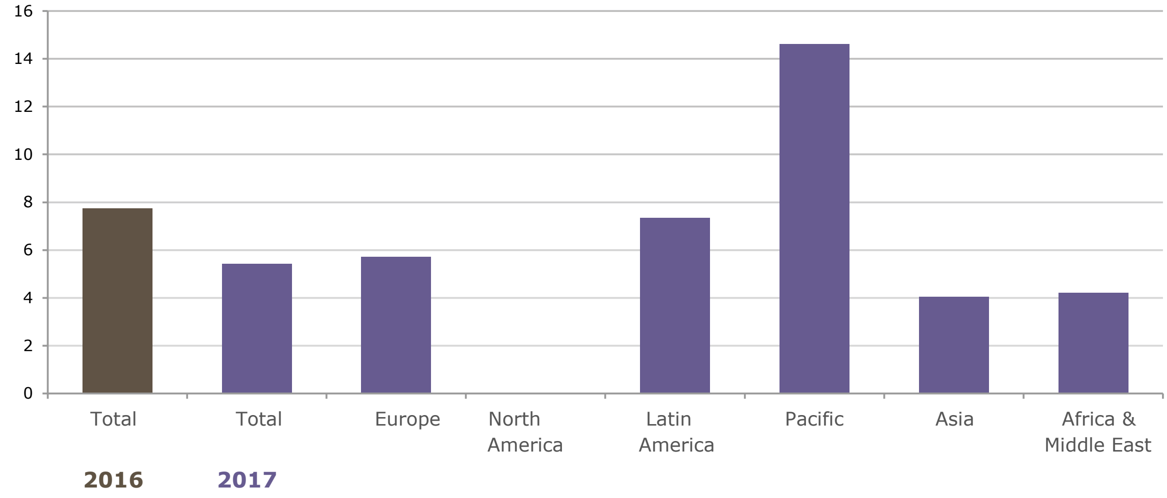
HEALTH AND SAFETY AT WORK

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

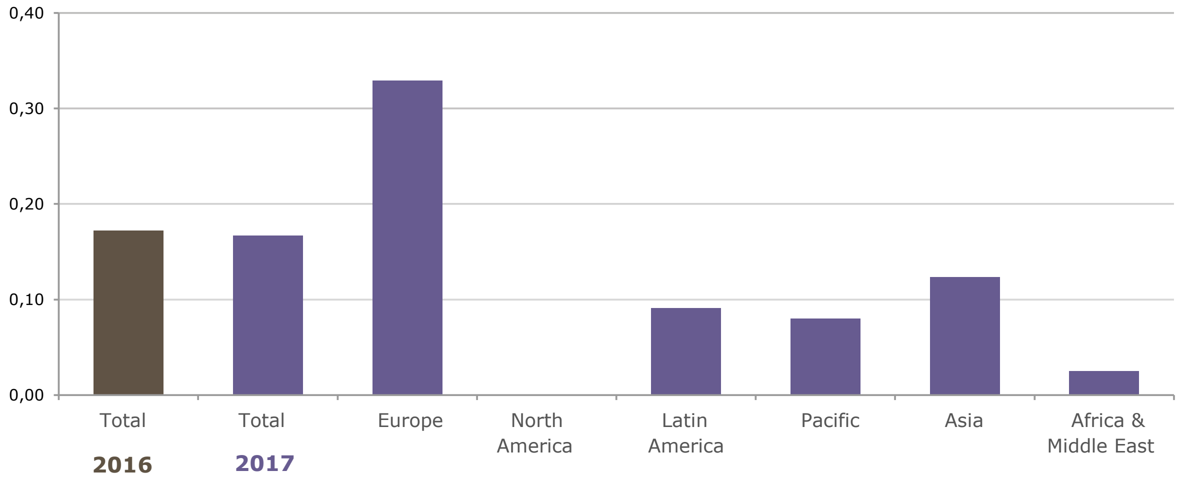


With a 31% decrease, the Group's 2017 results show a net improvement in the frequency rate (5.32 vs 7.73 in 2016). Apart from the Pacific region, which remains stable, all regions show improvement, particularly North America and Latin America. France remains stable with a frequency rate of 6.49. In 2017, 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

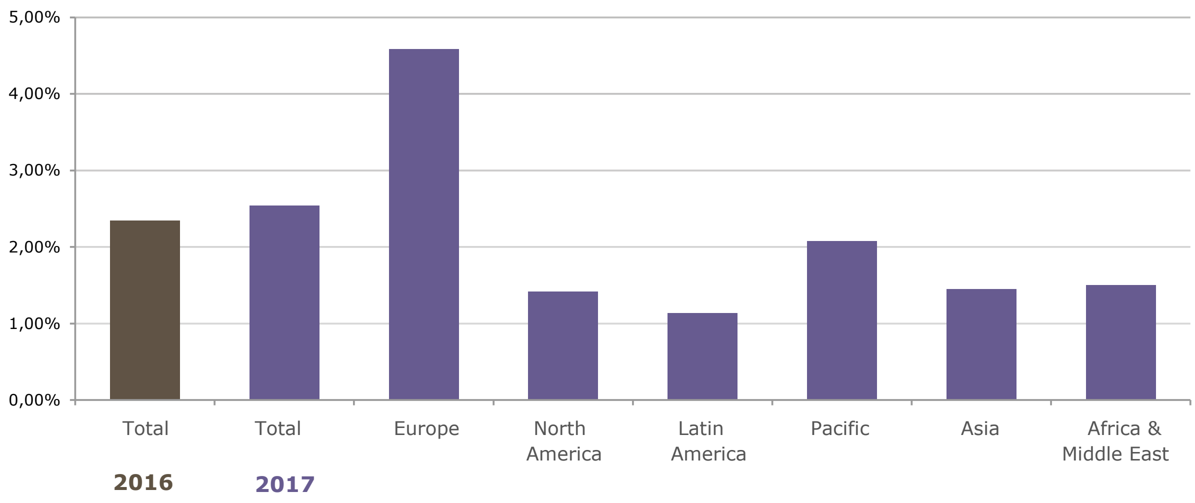
The notion of occupational disease is a concept specific to France. Over the year 2017 in France, three statements were made and accepted. All of these diseases were related to the handling of heavy loads. These three occupational diseases and one other from 2016 resulted in 117 lost working days.

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.

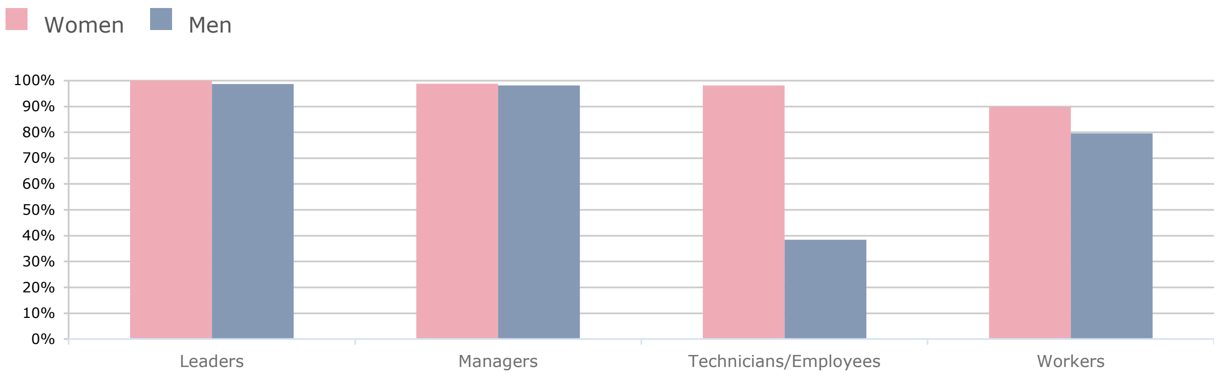
New initiatives were also established in certain subsidiaries, as in Northern Europe, leading discussion groups for managers, or a Lean Office training project with the implementation of a Kaizen approach in Brazil or thoughts about succession plans in Australia and Mexico.

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.

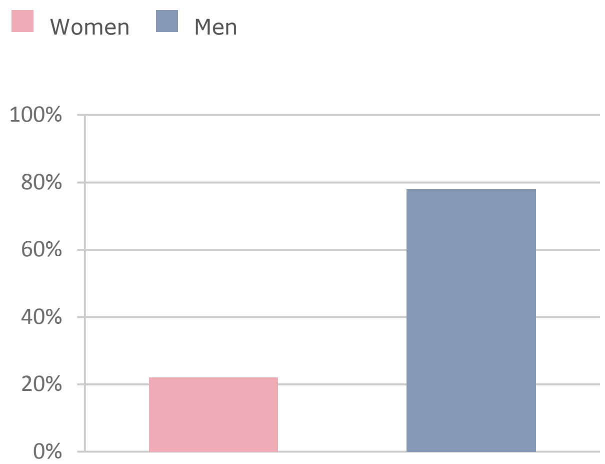
The Intergenerational Agreement, signed in 2013, aims to:

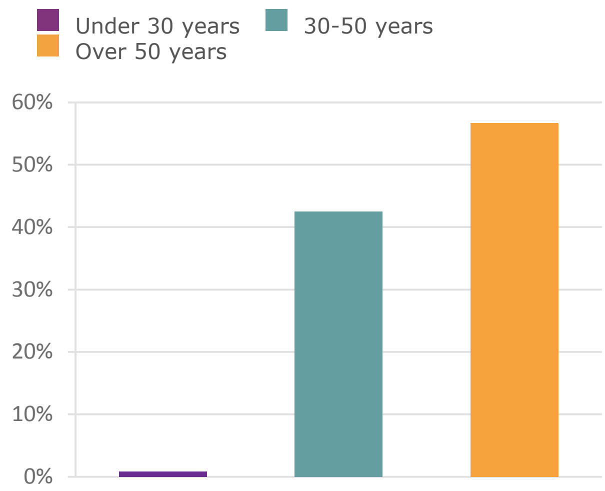
- permanently integrate young workers;
- recruit and retain seniors in the workforce;
- foster intergenerational skills sharing.

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

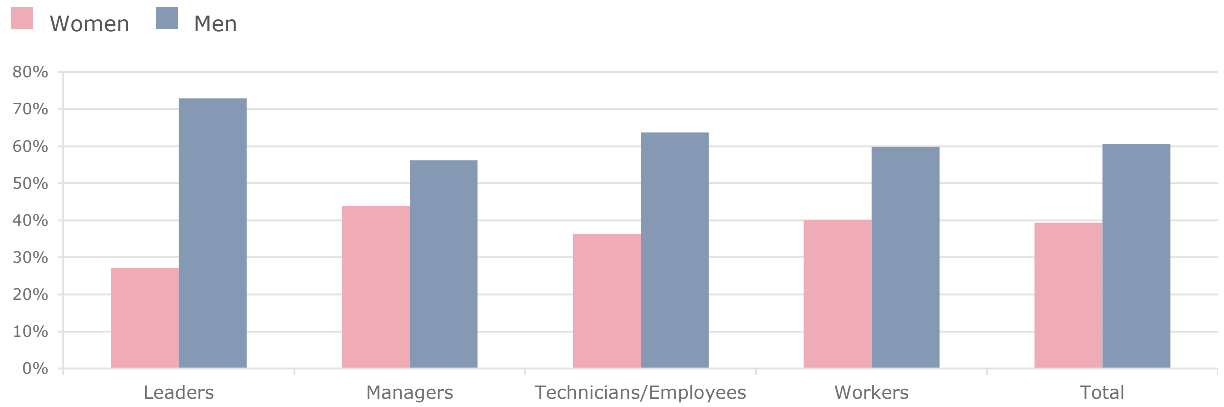
In France, 50% of the members of the supervisory board are women. The Group has a recruitment policy that is firmly based on skills. In terms of social scope, 22% of women to 78% of men are found in leadership roles (senior management in France, *general manager* and their subsidiary-based executive 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 (%)





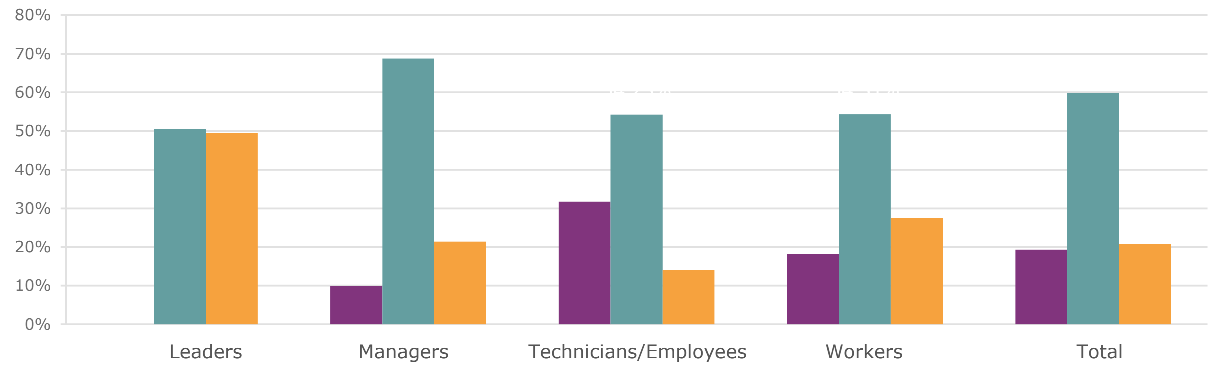
Distribution of employees (%)



Distribution of employees (age range)

Under 30 years 30-50 years Over 50 years

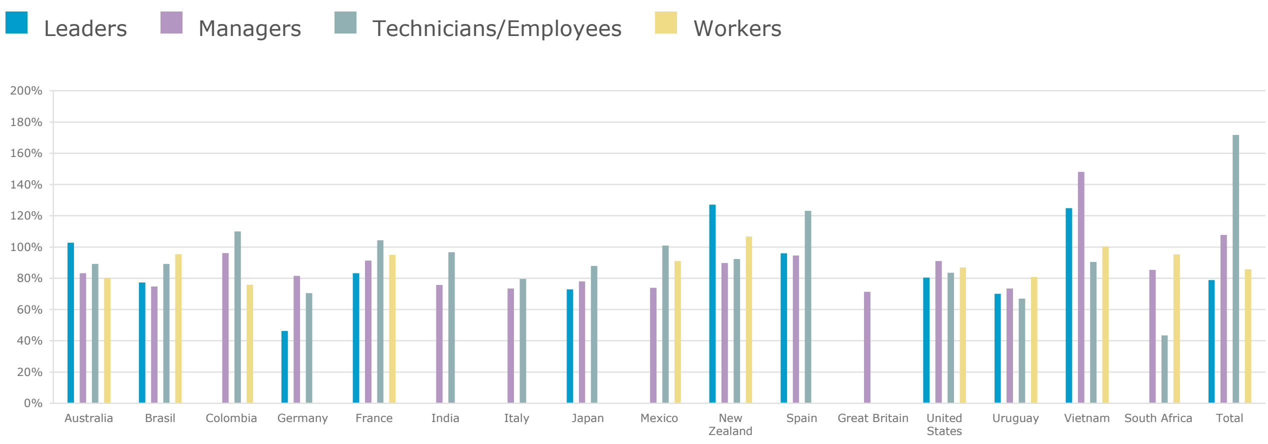
In the social reporting sphere, 61% of employees are men and 39% are women. In proportion, leaders represent the oldest population, with 50% of leaders over 50 years of age, and 69% of managers in the 30-50 year age group.



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.

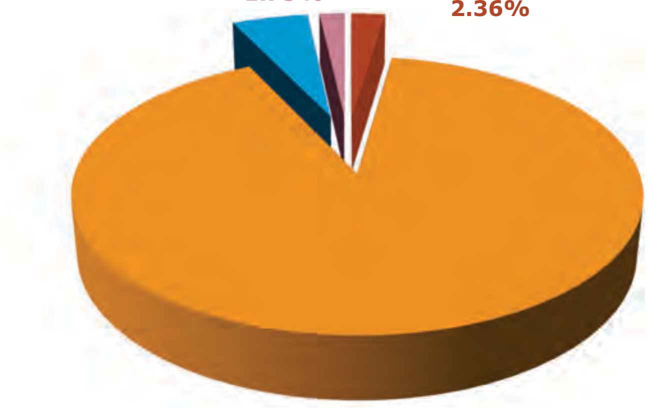
Virbac develops pharmaceutical and biological products for which regulatory requirements, as well as some quality controls imposed by medication agencies, must involve testing on animals. Virbac commits itself to the 3Rs rule (reduce, refine, replace) and is proactive in replacing studies and trials 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 (%)

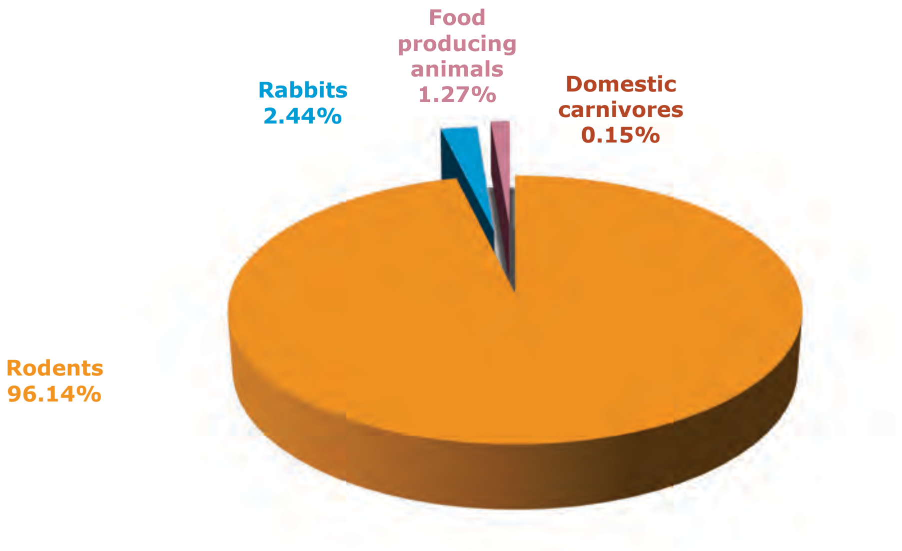


Out of the 7,466 rodents and rabbits used in studies, 1,745, or 23%, were used for validation and development of alternative methods. This temporary phase makes it possible to prove the reliability of alternative methods, particularly for the quality control of vaccines, and to foresee a significant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

<u>Nutritional products not subject to pharmaceutical registration</u>

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

ASSESSMENT PRIOR TO MARKET LAUNCH	
Pre-development: nutritional recommendations check	100%
Pre-development: raw materials check	
Development: safety check for animal use	
Development: digestibility and palatability check	
Development: stability check	
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) 3-1048[1], 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 3000[2] 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 important[3]:

- 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 us[4] 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 cod; 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.

FINANCIAL REPORT

Management report

2017 KEY EVENTS

Sébastien Huron was appointed chairman of the Virbac group's executive board on December 21, 2017. At its annual shareholders meeting held on June 23, Virbac announced that Eric Marée, chairman of the executive board for the past 17 years, had informed the supervisory board of his wish to retire once the current term ends on December 20, 2017. Marie-Hélène Dick, chairwoman of the supervisory board, reported the intention of the board, which met on June 22, to appoint Sébastien Huron chairman of the new executive board.

On September 5, 2017, Jeanine Dick, the wife of Virbac's founder, resigned from her position as vice-president of the supervisory board. Present since the early days of the company in 1968, Jeanine Dick also suggested to the members of the supervisory board that her granddaughter Solène (the eldest daughter of Marie-Hélène Dick and Pierre Madelpuech) should succeed her as a member of the Group's supervisory board. Her appointment through co-option was approved at the board meeting. On the same day, Pierre Madelpuech was appointed vice-president of the supervisory board.

Virbac has obtained new funding from the European investment bank (EIB). This new source of funding amounting to $90 million, obtained by Virbac under advantageous conditions and for maturities of seven to eleven years, strengthens the Group's financing and improves its level of liquidity. In particular, it is intended to support Virbac's research and development programs and innovation investments.

On October 30, 2017, Virbac United States announced a plan to reduce staff, relating to 61 positions, 34 of which were vacant. A decision was made to restructure to respond to the situation which arose due to the halting of production on the St. Louis site and to adjust the overheads accordingly. The total amount of this restructuring plan amounts to $1.5 million.

EVENTS SUBSEQUENT TO DECEMBER 31, 2017

On January 31, 2018, the Court of Cassation partially quashed the judgment handed down on May 13, 2015 by the Lyon Court of Appeal in the case against Virbac brought forth by one of our main competitors (Fiproline case).
Virbac will give notice of the ruling with a view to being reimbursed the approximately €2 million paid out following the Court of Appeal's ruling, with a new case very likely to be brought before the Court of Appeal for a fresh ruling. This ruling, having been handed down in 2018, has no effect on the 2017 accounts.

CHANGES IN GROUP SCOPE

Scope as of December 31, 2017

The consolidated financial statements as of December 31, 2017 include the financial statements of the companies that Virbac controls indirectly or directly in law or in fact. The list of consolidated companies is provided in note A38.
Changes in the scope made during the financial year are described in the "Scope" paragraph on page 135 of the annual report.

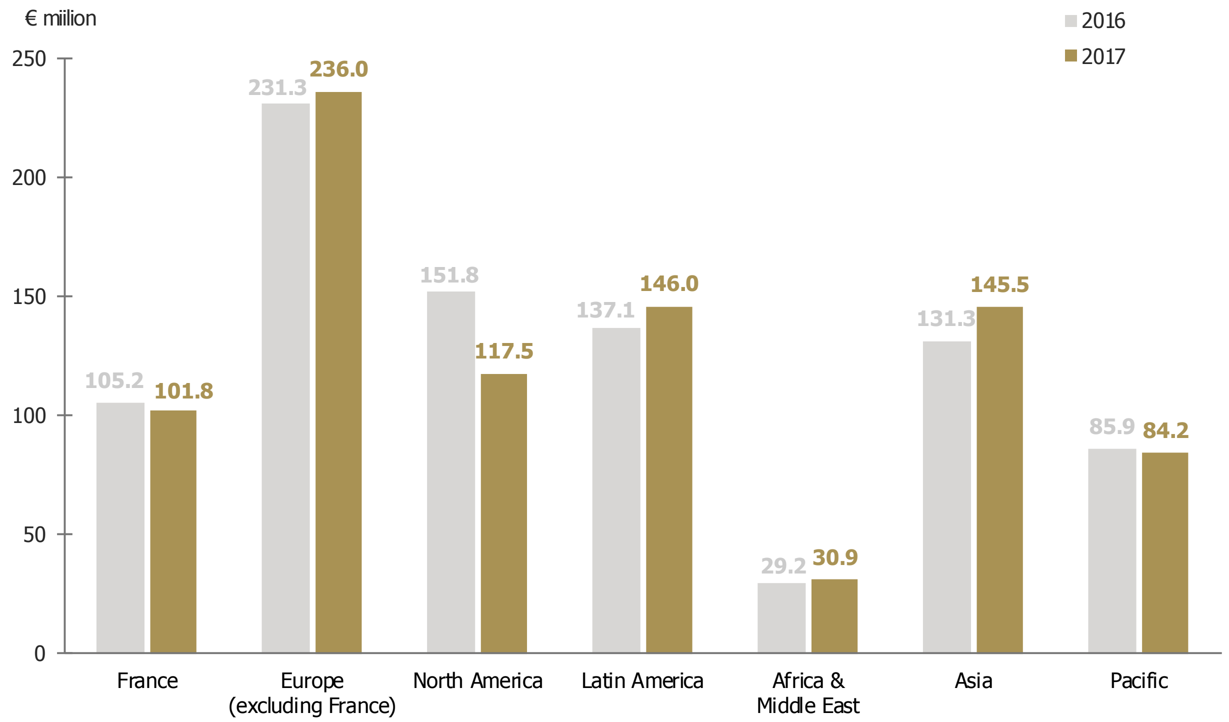
THE GROUP'S BUSINESS PERFORMANCE

In 2017, the Group registered consolidated revenue of €861.9 million, a slight decline of -1.1% and -0.5% at actual exchange rates and constant rates respectively, compared with last year.

Performance by geographic region

Geographically, in the United States, overall sales for the year fell by 22.6% and 20.2% at actual and constant exchange rates respectively. Outside the United States, the Group posted +3.4% organic growth (+3.6% at actual exchange rates). In Europe, there has been slight growth at constant exchange rates, boosted by the performance of the United Kingdom, Italy, Poland and Belgium, despite an overall downturn in the vaccine and external parasiticide ranges.
In the rest of the world, organic growth continues to be strong in many emerging countries, in particular Brazil, Mexico, China and Chile, as well as India, which returned to two-digit growth in the second half of the year after the effects of the coming into force of the new VAT in mid 2017, as well as demonetization at the end of 2016. The Pacific region showed a slight decline over the year, primarily as a result of a decision to discontinue products in New Zealand.

The major contributions by geographical area are as follows:



France

In 2017, business in France experienced a decline of 3.2% compared with 2016, largely due to dog vaccines and bovine intramammary antibiotics.

Europe (excluding France)

As in 2016, business in Europe experienced growth of 2.0% and 3.4% at actual exchange rates and constant rates respectively. This growth was achieved by the good performance recorded in the United Kingdom, Italy, Belgium, Poland and in Eastern Europe. On the other hand, Germany experienced a slight decline compared with 2016, as well as the OTC ranges with the closure of the Fipronil business by some distributors.

United Kingdom

The region is posting an increase of 6.5% at constant exchange rates, under the impetus of Prinovox, the effect of a full year of Propofol and the strong growth of the new petfood range Veterinary HPM.

Italy

The growth of 6.6% seen in Italy has been achieved largely due to increased sales of antibiotic premixes and the launch of blood marker dosage analyzers with a series of tests of five biomarkers in dogs and cats, Speed Reader.

Benelux

This region has experienced growth of 5.7%, achieved in particular by Belgium (+12.0%). This growth is supported by sales of bovine parasiticides, feline vaccines, internal parasiticides for companion animals and by the development of the new petfood range.

Poland

The largest increase in the area was recorded by Poland, with +35.5% at constant exchange rates. This growth is mainly linked to the return to the market of Shotapen and to sales of antimicrobial products in the swine and poultry segment.

Eastern Europe

In this area of Europe, Virbac is posting growth of 22.2% as a result of sales of Deltanil in Russia, as well as the suite of ruminant products and the dermatology products for dogs and cats.

Germany

Germany experienced a 1.4% reduction in its business, being greatly impacted by the European restrictions on the use of antibiotics, the vaccines crisis and increased competition in the parasiticide sector.

North America
In the United States, business is in overall decline by 20.2% at constant exchange rates, although it continues to rise in respect of ex-distributor sales (around 4.0%). As a result of the stockpiling in distribution at end 2016 and lower than expected ex-distributor sales, the Iverhart range fell very significantly in ex-Virbac sales, although it grew by 50.0% in ex-distributor sales. Ex-Virbac sales of the Sentinel range fell by 11% at constant exchange rates, while ex-distributor sales declined only very slightly over the period (2%); this difference is explained by the increase in distributor inventories between 2015 and 2016. It should be noted that even though there was significant restocking of the distributors over the last quarter, overall distributor inventories of American products are hovering at levels slightly below those at the end 2016.

Latin America
In 2017, the Latin America area (excluding aquaculture business) recorded growth of 8.7% at constant exchange rates. This excellent growth achieved by Brazil and Mexico is offset in part by Colombia and Uruguay.

Brazil
The 19.3% growth at constant exchange rates achieved in Brazil is linked to exceptional performance of 35% in the ruminant segment brought about by vaccines and parasiticides and also by excellent performance of 9.0% in the companion animal sector.

Mexico
Mexico posted growth of 9.3% at constant exchange rates. This increase achieved by antibiotics for cattle (20.0%) is offset by problems encountered in the supply of dog vaccines by Carros, resulting in a fall in sales in Mexico of about 10.0%.

Colombia
Colombia recorded a decline of 3.0% at constant exchange rates, linked to the temporary supply shortfall of vaccines which had a negative impact of 25% on sales. This decline is however offset by an interesting increase in the ruminant segment.

Uruguay
Virbac Uruguay has experienced a few issues in the area of vaccines for cattle and parasiticides, which resulted in an 8.0% fall in sales.

Chile
Business in Chile posted a global increase of 5.7% at constant exchange rates, specifically due to the excellent performance of the companion animals ranges and in particular to the development of the petfood range. In the aquaculture sector, there was an 8.6% increase at constant exchange rates compared with 2016. This growth was supported by all the aquaculture products, except Veterin.

Africa & Middle East
In 2017, the Virbac South Africa business grew by 9.2% at constant rates. After the drought which had a huge impact on the food producing animals business in 2016, the Company returned to growth thanks to its flagship product Multimin, but also through its exports to the rest of Africa and the development of the companion animals segment.

Asia
In this region, revenue was up 10.8% from 2016 at actual rates and 9.3% at constant rates. All of the area's subsidiaries, with the exception of Vietnam and Japan, had a hand in this growth.

India
In spite of a first semester impacted by new VAT regulations coming into force and by demonetization, India achieved 7.3% annual growth at constant exchange rates. Business in India therefore continues to grow under the impetus of food supplements, parasiticides and antibiotics for cattle.

Greater China region
The Greater China region, which includes the Virbac entities located in China, Hong-Kong and Taiwan, saw growth of 29.2% in 2017 at constant exchange rates. The change in business model carried out in this region means that performance in the companion animal segment with Epiotic in dermatology, Zoletil in the anesthetic range and Rilexine in the antibiotic range has continued. The food producing animal segment also experienced excellent growth, thanks to the swine vaccines in Taiwan and ruminants antibiotics (Shotapen).

Japan
Japan saw a slight decline of 1.6% at constant exchange rates in 2017, compared with 2016. However, there was good growth posted in the last quarter, linked to the launch of Moxiheart, an internal parasiticide and to the good performance of the companion animal ranges.

Thailand
Following supply issues, Virbac Thailand decided to change its distribution model at the end of last year. This move has paid off as the subsidiary has recorded a 55.8% increase at constant exchange rates compared with 2016.

South Korea
Virbac Korea has recorded growth of 6.6% at constant exchange rates compared with 2016, with excellent performance in the food producing animal segment.

Vietnam
Vietnam has posted a 22.5% fall at constant rates compared with 2016. This poor performance is explained by the blockade on Vietnamese swine imports into China.

Pacific

Australia
Australia is posting a stable position at actual exchange rates for 2017 and a slight decline of 1.0% at constant exchange rates, compared with 2016. This situation is linked to a fall of €2.0 million in sales of external parasiticides in the companion animal segment, offset in part by the good performance of Multimin (food supplement) and the launch of Tridectin, a parasiticide for sheep, which contributed €1.1 million to revenue.

New Zealand
In New Zealand, 2016 was marked by strong growth, specifically linked to the lack of competition in the intramammary sector. The 10.4% decline at constant exchange rates compared with 2016 is partly explained by the return of competing products to the market. The halt in the sale of the petfood range in New Zealand is the second factor contributing to the reduction in business.

Performance by segment

in € million	2017 revenue at actual rates	Growth by segment at constant exchange rates and perimeter					
		> -5%	- 5% to 0%	0% to + 5%	+5% to +10%	+10% to +15%	> 15%
Parasiticides	153.5	-16.1%					
Immunology	69.8	-6.2%					
Antibiotics/dermatology	70.2			2.1%			
Specialties	59.5					12.8%	
Equine	25.2		-1.9%				
Specialised petfood	32.1				5.6%		
Others	65.0		-1.0%				
Companion animals	**475.4**	**-5.1%**					
Bovine parasiticides	51.9				8.8%		
Bovine antibiotics	69.1		-0.5%				
Other ruminants products	130.0				8.4%		
Pig/poultry antibiotics	42.8			0.2%			
Other pig/poultry products	25.0			2.3%			
Aquaculture	56.5				8.6%		
Food producing animals	**375.2**				**5.3%**		
Other businesses	**11.2**						**23.7%**
Revenue	**861.9**		**-0.5%**				

Companion animals
In 2017, this business accounted for 55% of revenue, down by 5.1% at constant exchange rates and scope compared with 2016.
This decline was due mainly to the United States. Outside the United States, business in this segment grew by 0.7%, of which 1.5% was organic growth. The most heavily impacted ranges in comparison with the same period in 2016 were parasiticides and dog vaccines, which suffered due to the temporary reduction in production capacity. Conversely, the specialty ranges, dermatology, petfood and hygiene continued to perform well.

Food producing animals
In 2017, this business line accounted for 44% of Group revenue, growing by 5.3% at constant exchange rates and scope, compared with 2016.
At constant exchange rates and scope, all sectors posted healthy growth: bovine at +5.8%; industrial farming (swine and poultry) at +1.2%; and finally aquaculture at +8.6%, thanks to vaccine sales in Chile and sales of the nutraceutical and bioremediation ranges in Asia.

Other business lines

These business lines, which represent 1% of consolidated revenue in 2017, correspond to markets which are the least strategically important for the Group, and which mainly include the molding produced for third parties in the United States and in Australia. The increase posted to this line is linked to the $3.15 million in licensing revenue recorded in the 2017 accounts.

2017 major launches

The major product launches and ranges in 2017 are:

- Tridectin, an albendazole, levamisole and moxidectin-based parasiticide for roundworms and tapeworms in sheep, was launched in Australia;
- Speed reader, blood marker dosage analyzer with a series of tests of five biomarkers in dogs and cats, manufactured by Bio Véto Test, was launched in Italy;
- Maxflor Duo/Maxflin, a florfenicol and meglumine-based antibiotic indicated for the prevention and the treatment of respiratory diseases in cattle and swine was launched in Mexico;
- Effitix Plus, an external parasiticide combining permethrin and fipronil for the treatment of tick, flea and mosquito infestations in dogs, was launched in the United States;
- Milteforan, a miltefosine-based oral treatment for canine leishmaniasis whose administration in food facilitates optimum observance, was launched in Brazil;
- Nutribond, a palatable oral solution to boost dietary or drink intake for sick or recovering cats and dogs until a normal diet is back, was launched in the United States;
- Moxiheart, an internal parasiticide, was launched in Japan.

REVIEW OF THE 2017 FINANCIAL STATEMENTS

Consolidated accounts

Changes in results

in € thousand	2017	2016	*Change*
Revenue from ordinary activities	**861,882**	**871,828**	***-1.1%***
Current operating profit before depreciation of intangible assets arising from acquisitions	**80,341**	**82,860**	***-3.0%***
Depreciations of intangible assets arising from acquisitions	-15,946	-16,468	
Operating profit from ordinary activities	**64,396**	**66,392**	***-3.0%***
Other non-current income and expenses	-6,348	2,621	
Operating profit	**58,048**	**69,013**	***-15.9%***
Financial income and expenses	-17,811	-16,453	
Profit before tax	**40,237**	**52,560**	***-23.4%***
Income tax	-39,243	-14,987	
Including non-current tax expense	*-21,379*	-	
Share from companies' result accounted for by the equity method	765	294	
Net result from ordinary activities	**29,485**	**35,246**	***-16.3%***
Result for the period	**1,759**	**37,867**	***-95.4%***
attributable to the owners of the parent company	-2,575	34,646	*-107.4%*
attributable to the non-controlling interests	4,334	3,221	*34.5%*

Operating profit from ordinary activities before depreciation of intangible assets arising from acquisitions fell slightly by 3.0% compared with the previous financial year, from €82.9 million at the end of 2016 to €80.3 million as at December 31, 2017. Operating profit from ordinary activities before depreciation of assets arising from acquisitions expressed as a percentage of revenue was 9.3% in 2017 at both actual and constant exchange rates. The negative contribution by the United States to the Group's operating profit as well as the increase in research and development costs for the year explain the majority of this change. These items have been partially offset by the excellent performance in the Latin America including Chile, Europe, India and Asia areas. Exchange rates had a slight negative impact of €0.3 million on the operating profit from ordinary activities before depreciation of intangible assets arising from acquisitions.

Margins on purchasing costs fell by 2.3% based on actual rates, at a slightly faster pace than the slowdown in revenue (-1.1% based on actual rates).

Other current operating expenses net of income amounted to €478.1 million, a decrease of €10.7 million at actual rates (-2.2%).
This is principally due to the reduction in staff costs, mainly targeted on the industrial and commercial business activities in the United States, offset by a growth in the industrial and commercial business activities in Asia-Pacific. IT costs, with the ending of the depreciation of major tools such as ERP and bringing administrative costs at the headquarters under control have played a part in the overall reduction of other current operating expenses.

Other non-current income and expenses amounted to €-6.3 million in 2017, compared with €2.6 million in 2016. Non-current charges for 2017 relate to impairment of the goodwill of the GGU leishmaniasis vaccine of €5.0 million and to the restructuring plan in the United States of €1.3 million.

The financial result was -€17.8 million, compared with -€16.5 million the previous year.

The tax charge amounted to -€39.2 million, compared with -€15.0 million at the end of 2016. The tax charge was impacted by the impairment of €15.2 million of the deferred tax liability and the non-activation of the tax associated with the deficit for the period in the American subsidiary.
The Group's effective tax rate decreased from 33.88% in 2016 to 33.66% in 2017. This rate is explained in note A26 to the consolidated accounts.

The Group has decided to show a new performance indicator: net result from ordinary activities, corresponding to the consolidated net profit, reprocessed from other revenue and non-current expenses, as well as from the impairment of the American subsidiary's deferred tax liability. The reconciliation of the net profit with the current net profit for the period is shown in note A27 to the consolidated accounts.

The Group share of the net profit is a loss of €-2.6 million in 2017, compared with a profit of €34.6 million for the previous year, being a fall at actual rate of €37.2 million, explained mainly by the negative contribution of the United States to the consolidated profit.

The profit attributable to the non-controlling interests amounted to €4.3 million in 2017 compared with €3.2 million in 2016.

Consolidated balance sheet and financing

in € thousand	2017	2016
Net non-current assets	870,620	956,690
Operating WCR	138,948	175,876
Other WCR	-8,690	1,716
Invested capital	**1,000,878**	**1,134,282**
Equity attributable to the owners of the parent company	436,346	473,628
Non-controlling interests	42,497	47,159
Provisions	62,022	66,432
Net debt	460,013	547,063
Financing	**1,000,878**	**1,134,282**

The sharp reduction in net assets is mainly linked to exchange rate changes: €-34.8 million in goodwill, €-28.6 million for intangible assets and €-13.1 million for tangible assets.
Furthermore, €5.0 million impairment has been recorded on goodwill on the leishmaniasis vaccine, following completion of the impairment tests (for details, please see note A3 to the consolidated accounts).
Net investments for 2017 relative to intangible assets amount to €6.0 million and net allowances for depreciation amount to €19.6 million (compared with €21.0 million in 2016), half of which is for recorded intangible assets, in respect of the Sentinel acquisition in the United States.

Furthermore, productive investments were made in Carros (including more than €4 million in building fixtures and fittings), in Australia, as well as in Chile and Mexico, as part of the finishing touches made to the Argonavis site.

The working capital requirement fell sharply compared with the previous fiscal year and amounted to €130.3 million in 2017 down from €177.6 million in 2016. This is due in large part to currency effects, in particular on the inventories. It is also explained by the reduction in trade receivables as a result of the extension of the factoring program.

The Group's internal financing capacity dropped by 13%, from €71.8 million in 2016 to €62.5 million. The net financial debt reached €460 million compared with €547.1 million as at 31 December, 2016.

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

- a syndicated loan of €420 million, drawn in euros and dollars, contracted with a pool of banks and repayable in fine upon maturity in April 2020, with the option to extend the term to April 2022;
- market-based contracts (Schuldschein) consisting of four installments, with maturities of five, seven and ten years, at variable and fixed rates;
- a $90 million financing contract with the European investment bank (EIB), for a seven-year term, of which one half is repayable in full and the other half is payable over eleven years.

These funding instruments include a financial covenant compliance clause that requires the borrower to adhere to the following financial ratios based on the consolidated accounts and reflecting net consolidated debt for the period in question on the consolidated Ebitda (Earnings before interest, taxes, depreciation and amortization) for the same test period.

As of December 31, 2017, the net debt ratio on Ebitda was below the maximum amount set out by the covenant clause at 4.75.

Virbac also received bilateral loans and BPI (*Banque publique d'investissement*) financing.

As of December 31, 2017, the position of the funding instruments was as follows:

- the syndicated loan was drawn for amounts of $108 million and €161 million;
- the market-based contracts amounted to $15.0 million and €15.5 million;
- the bilateral loans and BPI and EIB financing amounted to €77.5 million and $90.0 million.

Statutory accounts

As of December 31, 2017, revenue for Virbac's parent company amounted to €264.2 million compared with €256.7 million in 2016, an increase of €7.5 million (2.9%).
The share of the revenue achieved by Virbac with the Group's subsidiaries accounted for 92.0% of its total sales. The remaining 8.0% involved direct sales by Virbac in countries where the company does not have a subsidiary.
In 2017, both companion animal products and food producing animal products contributed to growth. In companion animals, the successful performance of Suprelorin, as well as the dermatology and antibiotic ranges are offset in part by the lack of lepto/rage dog vaccines and a fall in sales of external parasiticides, in particular with the American subsidiary. In food producing animals, sales come from both the ruminant segment, with antibiotics and injectable parasiticides such as Shotapen, as well as from the industrial ranges, with the swine-poultry antibiotics aimed at Spain.

The financial result is down €4.4 million (-11.3%), mainly due to the lower dividends received (€-2.3 million compared with 2016), and to an increase in the provision for foreign exchange losses of €1.7 million compared with 2016.

Non-recurring income amounts to a loss of €2.3 million, down €17.5 million from 2016, mainly due to the redemption in 2016 by a subsidiary of its own shares generating a net capital gain of €17 million over the preceding financial year. Special amortization allowances also impacts net non-recurring income with a net allowance (charge) of €1.1 million.

Non-deductible expenses referred to in article 39-4 of the French general tax code amounted to €337,582 in respect of the fiscal year ended December 31, 2017. Net profit after tax stood at €34.5 million compared with €47.7 million in 2016.

Table of net result over the previous five fiscal years (Virbac parent company)

in €	2013	2014	2015	2016	2017
Financial position at year end					
Share capital	10,572,500	10,572,500	10,572,500	10,572,500	10,572,500
Number of existing shares	8,458,000	8,458,000	8,458,000	8,458,000	8,458,000
Overall results from operations					
Revenue before income tax	232,795,954	262,986,936	271,890,991	256,691,480	264,200,946
Earnings before tax, employee holdings, depreciations and provisions	44,220,515	53,827,212	51,424,402	61,235,284	44,522,664
Income tax payable	-8,673,947	-7,886,956	-7,301,645	-7,932,626	-9,688,591
Employee holdings	-	-	-	-	-
Allowances for depreciations and provisions	18,937,032	13,511,112	19,462,111	21,490,116	19,676,178
Earnings after tax, employee holdings, depreciations and provisions	33,957,429	48,203,056	39,263,936	47,677,793	34,535,077
Earnings distributed	16,070,200	16,070,200	-	-	-
Result from operations per share					
Earnings after tax, employee holdings, depreciations and provisions	6.25	7.30	4.87	8.18	6.41
Earnings after tax, employee holdings, depreciations and provisions	4.01	5.70	4.64	5.64	4.08
Dividend per share	1.90	1.90	-	-	-
Personnel					
Average number of employees	1,083	1,095	1,176	1,178	1,170
Total payroll	47,776,070	52,055,870	53,445,252	57,130,754	58,060,578
Total benefits (social security, other employee benefits, etc,)	23,628,028	25,254,103	25,317,677	27,095,012	27,353,031

Payment periods

According to articles L441-6-1 and D441-4 of the French commercial code, the information on payment periods of suppliers and customers of the Virbac parent company is shown below.

Supplier payment terms

in €	Article D. 4411.-1 : received invoices not paid at the closing date of the period, for which the maturity date has expired					
	0 day (as indication)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and over	Total (1 day and over)
[A] Portion in delay of payment						
Number of related invoices	4,485	-	-	-	-	1,193
Amount excluding tax of related invoices	22,415,856	3,144,819	127,783	3,943	136,525	3,413,070
Ratio of purchases total amount (excluding tax) for the period	6.5%	0.9%	0.0%	0.0%	0.0%	1.0%
[B] Excluded invoices from [A] linked to contentious or non booked payables						
Number of excluded invoices	119					
Total amount of excluded invoices	477,046					
[C] Used reference payment terms						
Payment terms used for the calculation of payment delays	Terms under contracts : terms granted by the suppliers (agreements/invoices) Legal terms : -					

Customer payment terms

in €	Article D. 4411.-2 : issued invoices not paid at the closing date of the period, for which the maturity date has expired					
	0 day (as indication)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and over	Total (1 day and over)
[A] Portion in delay of payment						
Number of related invoices	1,151	-	-	-	-	125
Amount excluding tax of related invoices	50,148,278	189,134	547,865	-5,623	8,809,216	9,540,592
Ratio of sales total amount (excluding tax) for the period	17.4%	0.1%	0.2%	0.0%	3.1%	3.3%
[B] Excluded invoices from [A] linked to contentious or non booked receivables						
Number of excluded invoices	4					
Total amount of excluded invoices	464,091					
[C] Used reference payment terms						
Payment terms used for the calculation of payment delays	Terms under contracts : terms granted to the customers (agreements/invoices) Legal terms : -					

RESEARCH, DEVELOPMENT & LICENSING

The various animal health sectors were in a constant evolution of flux due to scientific developments, regulatory changes and social changes affecting lifestyle and consumption patterns.
Innovation at Virbac is at the crossroads of these impacts and developments; both scientific and environmental factors driving change are analyzed to anticipate the products of tomorrow and incorporate them into the Group's strategic decisions.
Since its inception, Virbac's strategic decisions have focused their innovation and development activities first and foremost on the companion animal segment. More resources have been allocated in 2017 and activities dedicated to non pharma-regulated products, to petfood, continuing the actions begun in 2015/2016, as well as a very significant intensification in respect of vaccines: several agreements giving access to technological platforms have been signed with third parties.

In the ruminant segment, Virbac has intensified the regionalization of its portfolios, taking account of the specific characteristics of farming in each region: the dairy sector continues to be a key area driven by the global demand for dairy products and strong population growth in major consumer countries or regions, such as India or the Middle East. Cattle farming for meat production has shifted towards increased product quality, strengthening the role played by large-scale farming countries like Australia and Brazil, which operate alongside traditional intensive production countries.
In the swine sector, Asia's development continues and legitimizes Virbac's focus on this food producing species in this geographical area.

In the aquaculture sector, 2017 was marked by increased efforts for the development of personalized products and services for our customers. In Chile, new auto-vaccines have been developed and introduced on the market, in particular against the syndrome Bacterial kidney disease (BKD) in salmon, a developing disease, poorly controlled up to now by the current heterologous vaccines. In Vietnam, Virbac has signed an important partnership agreement with the Nong Lam University in Hô-Chi-Minh City to build a future Aquaculture technology center on the university campus, intended to strengthen and optimize our development capabilities for the hot water markets, and also designed to house a parasitology, bacteriology and virology diagnosis laboratory in about eighteen months, which will be made available to our customers.

To support these efforts to develop new products in these strategic segments, the Virbac group earmarked 8.4% of its revenue for research, development and licensing (RDL) activities. Funds are allocated to projects in their early stages meant to provide breakthrough innovations if the outcome is positive, mid-term projects and projects in the final stages of development whose registration documents are or will be filed with the various drug agencies.

Maintenance and protection of existing products’ registrations make up a significant part of resources utilized, justified by the need to safeguard assets such as these registrations, Virbac's quality policy and by increasing demands from the authorities.

Structurally, Virbac's innovation continues to develop to adapt to the strategy and to ambitions. The product innovation teams have been strengthened for the non pharma-regulated products, which rely on dedicated North-American and European structures. The team in charge of developing the petfood range has also been strengthened to cope with the planned geographic extensions.

The Group's pharmaceutical R&D is continuing the pooling of resources and the creation of synergies between the European and North-American teams around the joint companion animal projects. It is also intensifying the exchanges of skills between the European teams and the South-American and Pacific pharmaceutical R&D entities for projects aimed at food producing animals. Significant efforts are also being made to ensure quick and optimal internationalization of projects and Group products by embracing development plans that, right from the design phase, meet the specific requirements of major countries outside Europe and the United States, such as Japan, China and Brazil.

The R&D biology Group focuses on the various vaccine projects for companion animals, ruminants, swine and aquaculture. Its structure and operations are adapted to harness the expertise of the various biology experts in the Group assigned to any project, regardless of the development site. The projects have progressed and will lead to the signing of major agreements in 2018 in view of the positive results obtained on the proofs of concept. Collaborations with other biotechnical and public research companies continue and aim to open new ways of achieving Virbac's ambitions, thanks to new vaccine technologies.

The initial Veterinary HPM petfood range aimed at animals in good health has been supplemented by a range of foods aimed at dogs and cats suffering from kidney, urinary and arthrosic pathologies and which are overweight, often associated with age and a sedentary lifestyle. These specialized petfoods for dogs and cats products meet the new expectations of dog and cat owners, as well as those of veterinarians who prescribe and sell them.
The high-end diet represented by the specialized petfood for dogs and cats range is a vital preventive and therapeutic support tool for veterinarians in their daily practice, which results in very rapid market development in veterinary clinics.

Non pharma-regulated products intended for domestic carnivores are focused on the dermatology, nutraceutical and dental markets.
In 2017, the dermatological range continued its global development with the introduction of the Skin innovative science (SIS) technology over a greater geographic area, providing new benefits to product users who have been involved in Virbac's leadership in this field for many decades. This extension will continue in 2018.
Projects under way in the nutraceutical and dental sectors will quickly contribute to the Group's growth due to the short development cycle and to Virbac's significant presence in the companion animal veterinarian markets.

For the regulatory activities, following major efforts, the current Good Manufacturing Practices (cGMP) status has been re-established on the St. Louis site. The re-establishment of this site's cGMP status is necessary, among other things, for the development, filing and regulatory acceptance by the FDA of new registration and variation documents for existing products. This has enabled Iverhart Max Chunk and Zoletil to be registered on the North-American territory.

New registrations were filed with European, Japanese, Australian, Brazilian and Indian agencies for products intended for companion and food producing animals during 2017 and are gradually leading to marketing authorizations being obtained, such as Eradia in Europe and Tridectin in Australia.

Through its pharmaceutical and biological development teams and international regulatory specialists, Virbac is implementing a partnership strategy with numerous public and private organizations. The goal of these partnerships is to develop in conjunction with these organizations new technologies in the therapeutic and vaccine fields, as well as in animal health diagnostics. Start-ups or university teams are therefore building on the expertise of the Virbac teams in order to adapt and expedite the development of their innovations.
Through its exclusively veterinarian activity, a number of human pharmaceutical companies, either major groups or start-ups, see in Virbac a favored partner for the development of their veterinarian medicinal specialties, if they can find a therapeutic benefit in these for the treatment of animal pathologies.
The teams in charge of these partnerships work closely with potential partners in order to search for innovations that are relevant to both companion and food producing animals. The fruits of this labor led to a certain number of collaborations in 2017 in various fields dealing with important animal health needs.

PRODUCTION

France

For the French Industrial Operations department, 2017 was marked by a very significant improvement in the service rate. In fact, the level of customer backorders has been cut by two-thirds during 2017. This is the fruit of a considerable amount of work, started many years ago, to secure major components and the escalation of our product quality management improvement program. Within this context, investments have continued, with the air-conditioning of the storage of finished products.

Following the problems encountered in 2016 on the vaccine range, a special focus was given in 2017 to the biology, through an initiative called "Biology plan" which has enabled the supply chain of this product range to be improved.

On the Vauvert site at the beginning of the year, Virbac Nutrition (the Group's entity specializing in petfood) successfully launched the new dietary range Veterinary HPM and finalized the plan to convert the site which started several years ago, to adapt the industrial tool to these new products.

International

United States

In 2017, Virbac finalized the transfer of the production of Sentinel Spectrum to the St. Louis site. After the lifting of the warning letter in 2016, Virbac was able to launch production of Iverhart Max Soft Chew for sales of the product in 2018. Virbac also opened a new distribution center in Kansas city. This site was approved by the Missouri Board of Pharmacy. The volume of products shipped through this platform will multiply over time as distribution licenses are obtained for each State.

Asia/Pacific/South Africa

In Vietnam, significant advances have been made in respect of the objective to comply with the American and European standards enacted by the Food safety modernization act (FSMA) and the Hazard analysis critical control point (HACCP). A new formula has been developed in the range of chews, for a sales launch in Europe and in the United States, which will be staggered over the first half of 2018.

In Australia, 2017 was marked by the launch of Tridectin, a product developed *in situ* and manufactured by the Penrith factory. Production of vaccines indicated in the preventive treatment of clostridiosis significantly increased as a result of the approval and registration of a new strain at the end of 2016. Investments in industrial equipment have resulted in an increase of 33% in the production capacity in the Macquarie Park factory. The audit conducted by the Australian pesticides and veterinary medicines authority (APVMA) of the Crockwell and Milperra sites concluded with the gaining of the top level of compliance. Following the audit of the Penrith site by the Australian quarantine and inspection services(AQIS), the Health department issued Virbac Australia a license authorizing the handling of restricted biological organisms.

In New Zealand, the industrial teams have been working on the standardization of the production processes in compliance with good manufacturing processes, with the objective of considerably reducing waste. In 2017, production achieved volumes of 11 tons of intramammaries and 63,000 liters of injectables.

In South Africa, an audit of the production site was conducted by the local regulatory authorities. A quality inspection was also conducted on the reprocessing sites in Zimbabwe and in Kenya. No major points were noted during these reviews. With the aim of dealing with climatic events (heavy rains in 2017) and the fluctuation in demand which results from this, Virbac RSA decided to increase its back-up stocks.

Latin America

In Mexico, 2017 was the first full year of production on the new Argo Navis site. After a start-up phase in the first quarter, following the transfer of technologies and expertise, the factory is now in full production. 60% of the production from Virbac Mexico is destined for the Mexican market and 40% for export, 25% of which will be to other countries in Latin America and 15% to the Apisa area.

In 2017, Virbac Uruguay increased its production volumes by 16% for biological products and by 58% for pharmaceutical products to be able to fulfill demand on the Brazilian market for products such as Clostrisan and Fort Up. The improvements made to the antigens production unit have resulted in significant productivity improvements on the Instrucciones site.

In Chile, work to modernize the production units has continued, specifically including the companion animal tablets production workshop, which has received its production authorization from the authorities.
The conversion project for the vaccines unit has been launched, with a view to increasing production capacity. This project should be spread over two years. A pneumatic charging system has also been installed in two workshops, so as to speed up the manufacturing process of powder-based products, such as Veterin 50%.

QUALITY ASSURANCE

In a highly evolving and regionally fragmented regulatory environment, the Corporate Quality Assurance department is gradually rolling out its head office expertise to all of its subsidiaries.

The Group's quality strategy is based on the three tenets of product proficiency, pharmaceutical compliance and sustainable economic output. The goal is to elevate the quality standards in compliance with and in anticipation of regulatory requirements that apply to the various research and production facilities, as well as the commercial subsidiaries, and to ensure the group's sustainability.

In respect of strategy, work on the definition and roll-out of a Group quality benchmark began in 2014. The Virbac quality system (VQS), based on a participative approach involving the cooperation of teams in all regions, defines the quality standards for all production and research sites, while taking account of the regulations and the diversity of products and dosage forms. The objective of this benchmark is to address the entire product cycle, from research to production and distribution, in order to secure the supply chain and to integrate regulatory requirements.
In 2015, the first two chapters of the benchmark were drafted. They cover topics related to quality management and quality assurance, for example, managing quality and related risks, training, Corrective actions, preventative actions (CAPA), tackling change, customer claims or product recalls.
In 2016, the quality policy was rolled out in all departments and in all subsidiaries worldwide. It outlines Virbac's commitments to deliver products that are safe, efficient, reproducible, compliant with regulations and easy to use by customers.
The Virbac quality system has expanded to include the Group's organizations, processes, tools and quality benchmarks. Some automated quality processes are built in a core model format.
In 2017, Virbac continued to enhance and implement the Virbac quality benchmarks with the roll-out of the core model in the United States and Mexico.

Job training is also at the heart of the quality approach. This is precisely why important work was conducted to update job descriptions with a more precise identification of the skills required, acquired and to be developed, so as to propose training plans tailored toward enhancing team skills and embracing a pharmaceutical culture.

In parallel, significant effort to mobilize around major product launches was made with the establishment of a multidisciplinary team involving positions in research and development, production and quality assurance, all aligned to deliver products on time and with the expected level of quality to satisfy the customer.

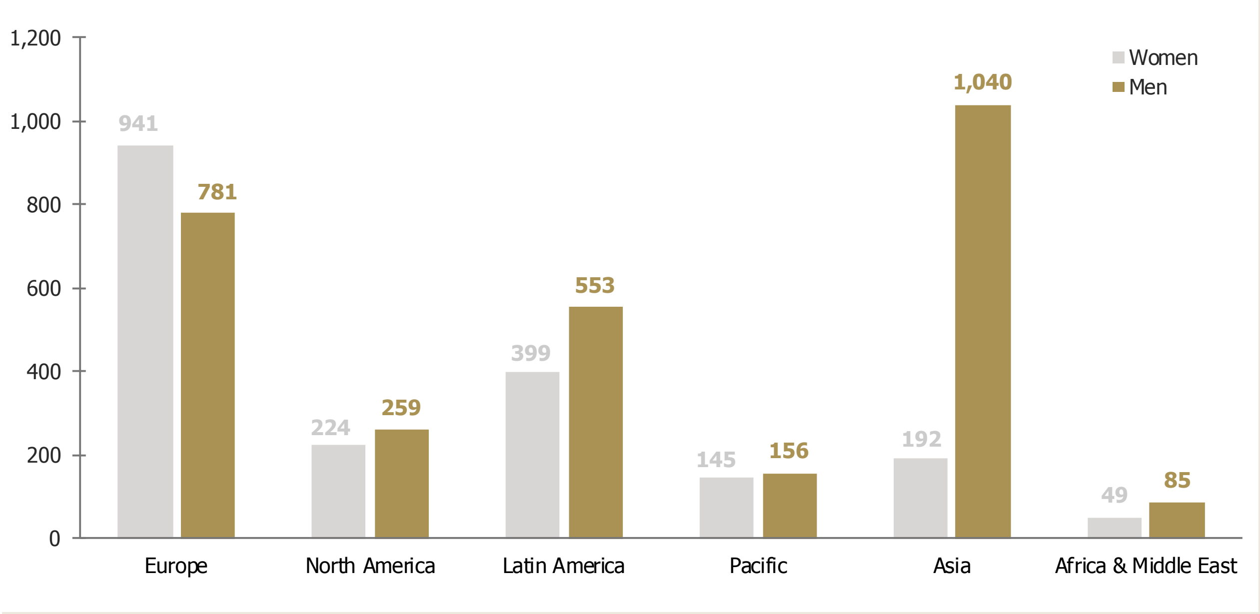
HUMAN RESOURCES

Group workforce

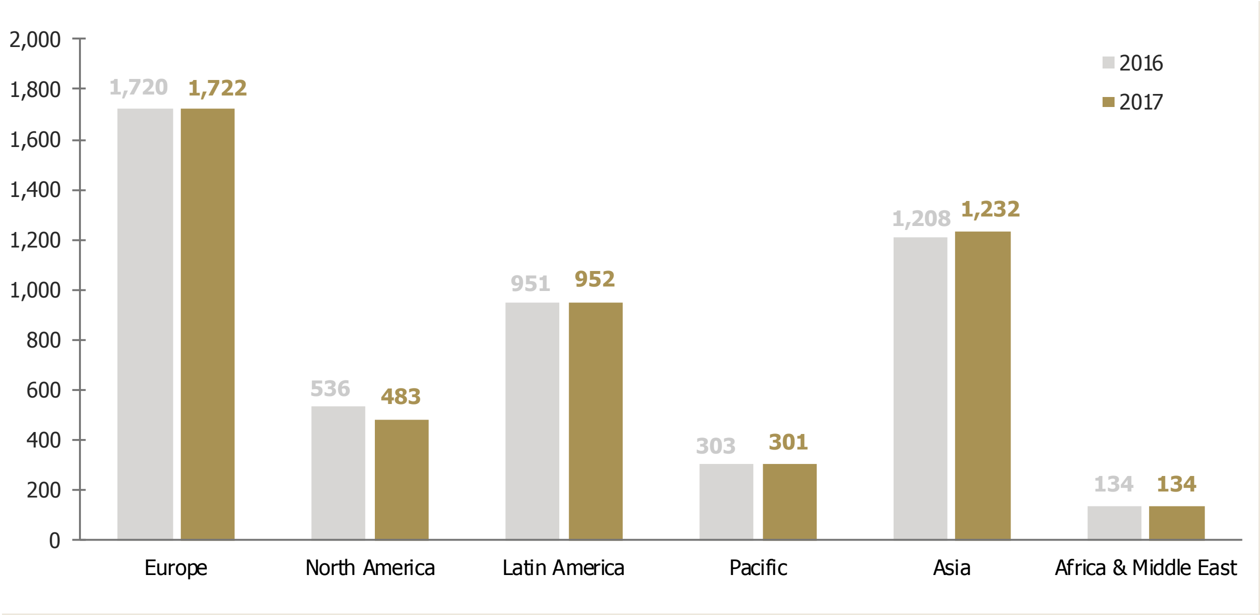
As of the end of December 2017, Virbac had 4,824 employees in 37 countries: 1,950 women men (40.4%) and 2,874 men (59.6%).
35.7% of Group employees are in Europe, of which 1,391 are in France, or 28.8%.

The workforce as of December 31, 2017 has reduced by 0.6% compared with that as of December 31, 2016. The greatest reduction was in the North American region.

Breakdown of Group employees by type



Changes to Group employee numbers by region



Changes to employee numbers by function

	2017		2016	
Production	1,772	36.7%	1,797	37.0%
Administration	584	12.1%	597	12.3%
Commercial & marketing	2,019	41.9%	1,999	41.2%
Research & development	449	9.3%	459	9.5%
Total	**4,824**	**100.0%**	**4,852**	**100.0%**

Strategy

The success of Virbac is directly linked to the engagement of its employees, a engagement which stems from the role played by those at the heart of the company when major decisions are taken.
The challenge is continuous for a company which has to change its method of operating in line with globalization, market changes and new technologies, while keeping to its customer proximity model. In such an environment, the human resources strategy plays a major part in the company's strategy, the ambition being to support change in organizations and business lines, as well as in the specific needs of populations, by building a strong partnership with managers and all employees.
Encouragement in professional and geographic internal mobility, personalization of development plans, a pay policy taking account of internal and external equity and mobility policies enabling motivating prospects for professional and personal development to be offered to employees.

In respect of performance assessment, a digital collaborative tool has been rolled out in all subsidiaries, thus enabling practices within the Group to be aligned and the quality of exchanges between managers and employees to be improved. Virbac is therefore intensifying its desire for its employees to play a key part in their performance and development, while responding to business issues.

Virbac also continues to play close attention to the opinion of its employees and looks to them to define the focal points for improvement so as to unite employees around strong values and to thus increase the engagement and motivation of all. The ability to work together across the board and at a global level is turning out to be a sizeable issue in the realization of more and more ambitious common goals.

To capitalize on the women and men and to retain their engagement, to provide for the development and transfer of know-how and skills and to support the transformation of organizations and the Group are the key tasks for the players in human resources.

Recruitment and mobility

2017 has been a new dynamic year in terms of recruitment for Virbac, mainly in France for the European area, in India for Asia and in the various countries in the Latin American area, with almost 700 recruitments worldwide.
All organizations (sales, marketing, industrial operations, research and development, quality, regulatory affairs, support functions) were involved.
Applications come from a variety of sources, including more than 25% through internal mobility.

Internal and international mobility is encouraged within the Group. Therefore, an international mobility policy has been defined and disseminated widely to enable everyone to be aware of the associated conditions (type of contract, support of the employee and his family in geographic mobility, training, etc.). Moreover, job offers are published more and more widely on the Intranet site and encourage all employees are encouraged to look at them. Generally, priority is given to internal employees. For certain positions, only internal mobility is anticipated.
The main goal of all of these future career development measures in the Group is to retain employees worldwide and foster transversality through sharing of inter-cultural and inter-professional experiences, in addition to securing key positions by leveraging skills and knowledge transfer internally.

Training and development

In 2017, Virbac continued its role as a worldwide learning company.
First and foremost, by widening the roll-out of the development plan to several subsidiaries (France, Australia, Mexico, United States, 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 for some of them about participating in workshops.

Secondly, the Group has continued to develop online or modular training courses to enrich the following academies:

- the innovation campus, motivation of a community and resources aimed at Innovation experts worldwide;
- the Virbac business school, roll-out of career paths aimed at the 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 employees in the Group;
- 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.

Furthermore, specific personalized training projects geared toward themes as diverse as business relations management, multicultural cooperation, project management, management and professional effectiveness and empowerment were spearheaded worldwide, just like individualized support through coaching and personalized monitoring.

New initiatives in some of our subsidiaries, such as in Northern Europe, leading discussion groups for managers, or even a Lean Office training project with the implementation of a Kaizen approach in Brazil or thoughts about succession plans in Australia and in Mexico are also worthy of note.
India has rolled out a training program focused on sales techniques, enabling sales agents to develop their capabilities and improve their performance in this area.

e-Perf

In 2016, the annual performance appraisal meeting format was reviewed and standardized at Group level.
In 2017, a new stage was reached with the implementation of e-Perf, a key initiative for the digitization of human resources.
e-Perf is a collaborative tool which allows managers and employees to produce job descriptions and complete annual appraisals and objectives online.
e-Perf is a simple, structured tool which retains the format and processes implemented in 2016 and provides the benefits of digitization: time-savings, online archiving and therefore easy access to documents and the alignment of definitions with the content of the annual appraisals.
e-Perf also enables multiple entries and automatic print-outs to be avoided and facilitates the transfer of documents between manager and employee, in particular in the case of remote management.
Employees also have the option of completing their self-assessment online and of sharing it with their manager before the meeting so as to improve the quality of the discussion.
The digitization of the Perf processes is no substitute for the face-to-face meeting, which remains a favored and undisputed opportunity in the supervision and support of employees, but aims to improve the quality of discussions as a result of better preparation.
This tool was developed internally, in close partnership between the HR team and the India and France IT teams and to better respond to requirements; it was developed in fourteen languages as a result of the active contribution of partners within each subsidiary and rolled out in 31 countries.

Compensation

The internal grading system has continued to be rolled out in 2017, with Uruguay, Vietnam, New Zealand and South Africa.
With four new roll-outs, this brings to eleven the number of countries having this tool, which enables internal equity to be better managed, as well as to have a rational approach in respect of external competition and also to put together policies on compensation and corporate benefits.
Grading should also enable development plans to be implemented linked to levels of responsibility.

Other local initiatives came on board in 2017, such as the development of a salary increase matrix in Australia, combining the notions of job proficiency, performance and market positioning: this tool assists managers in proposing the relevant salary increases.
In South Africa, the variable pay scheme for the senior management team was reviewed to bring it in line with organizational requirements and to be both competitive and motivating for the employees in question.
Another initiative in Vietnam: the roll-out of a new Corporate benefits policy, this initiative results from the outcome of a pay investigation and aims to reward employees thanks to a package which is more in line with market practices.

In the United States, a new policy pertaining to parental leave, as well as a training support tool have been rolled out during the year.

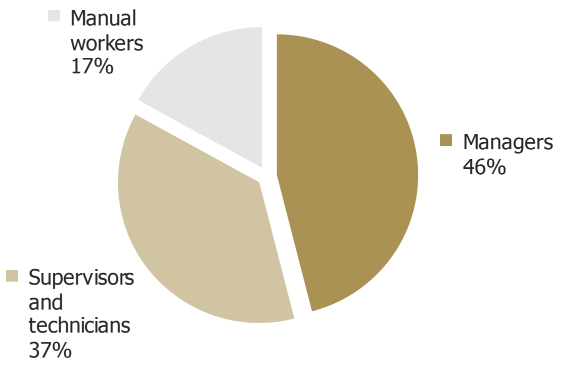
In France, following the roll-out in 2016 of the Perf blended path (a career path rolled out at Group level), new workshops pertaining to pay were developed internally and rolled out to new managers. The aim of these workshops is above all the sharing and adoption of pay policies and associated processes and also to develop managers' skills in terms of salary decision-making.

Virbac in France

Workforce

Virbac has 1,391 employees in France.
This figure includes fixed-term contracts as well as internship and professionalization contracts.

With 56% women and 44% men, the workforce breaks down as follows in terms of socioprofessional classification:



Changes to the workforce

In 2017, with 126 hirings and 133 departures, the balance of personnel hiring/departures was negative (-7 people) in France.

Compensation

In 2017, gross compensation amounted to €67,086,064 and social contributions to €30,857,027. The average annual gross salary of €50,571 is up 2.82% compared with 2016.

Other employee benefits

In 2017, the allowance paid by the company amounted to €656,000.

Training

Training expenses in France this year amounted to €2,193,090, accounting for 3.27% of payroll.

Working time

All employees are covered by a working time reduction agreement (*RTT*). The reference period is annual (from June 1 to May 31), 1,567 hours (completed for managers of a contingent of 130 hours), coupled with time reduction days and articulated differently according to different establishments and/or categories. For managers, classified in the organization as "autonomous" in achieving their tasks, a fixed annual basis capped at 213 days is applied.
An agreement on part-time allows a maximum of 6% of the workforce to be eligible for a reduction to 4/5 or 90% of working time.
In 2016, three new agreements pertaining to working time were signed with social partners: one agreement pertaining to the structure of working time by team leaders, another pertaining to the on-call scheme and the third pertaining to remote working, the last two agreements having been applied from January 2017.
The remote working agreement responds to employees' expectations and corresponds to changes in respect of the method of operation and cooperation.
This roll-out has been a real success from the point of view of the employees in question such as managers, and enables employees to achieve a better work-life balance if they so wish, by working partly at home.

Workplace safety

This area, which is a Group priority, has, year after year, become a true company culture, after a historic record in 2016, the 2017 frequency rate, as with the severity rate, stabilized with 6.49 and 0.37 respectively over 2017.

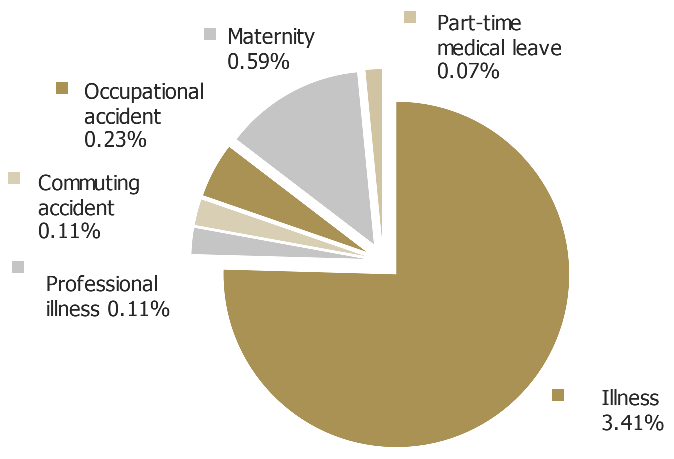
To boost and also reinforce the safety culture, a Group project was set up with a multi-year action plan. Therefore, all managers in the industrial organization have been trained (i.e. almost 100 people). An Intranet tool has also been developed internally, enabling all employees to access all types of documents about people, facilities and products.
Although the regulations on stress in the workplace have again changed and still in line with the 2012 and 2015 action plans designed in partnership with the *CHSCT* (Committee on hygiene, safety and working conditions), only 38 people (out of close to 1,500 employees in France) are affected by one of the ten criteria mentioned in the regulations, seven of which were in the first half of the year. At the end of 2017, Virbac is only affected by two stress factors: "carrying the burden" and "changing successive teams", the factors of "stressful positions" and "repetitive work" having been eliminated.

Concerning the subject of psychosocial risks, different departments with the support of the HR teams and the parity group "well-being at work", moving towards a global approach for the quality of life at work, have worked on and broken down the actions on the following themes:

- analysis by the HR/Manager of individual situations of imbalance in the workload or working conditions raised during annual meetings;
- development within a company in the Group of an internal charter "live better together";
- increase in the number of workplace social assistant hotlines;
- training of all managers involved in industrial operations "to support their employees";
- training of a new *CHSCT* contact for the *RPS*;
- dissemination in all organizations in France of the good practices drawn up by senior management on subjects such as meetings, emails, additional tasks, "working together";
- signing of a company agreement on the right to log-off;
- successful implementation of the remote working agreement.

Absenteeism

Absenteeism within the company amounted to 4.52%, and is broken down as follows:



Employee representative bodies

The works council and employee representatives

Members of the works council as well as employee representatives were re-elected to the Economic and social unit (ESU) in 2017 for a four-year term. The majority of members are affiliated with the General confederation of labor or the French democratic confederation of labor and some do not belong to a union.
The works council of the ESU comprises eight full members, eight alternate members and two union representatives. Ordinary meetings are held on a monthly basis.
To date, twenty-two employee representatives are present at the Carros facilities (eleven full members and eleven alternate members). There are two of them at the Virbac Distribution site in Wissous (one full member and one alternate member), two of them at the Bio Véto Test site in La Seyne sur Mer (one full member and one alternate member) and two of them at the Magny-en-Vexin site (one full member and one alternate member). There is no employee representative at the Virbac Nutrition site in Vauvert following a lack of applicants at the last union elections.
The shared electronic communication platform set up in Carros facilitates dialogue between employee representatives and the human resources department.

The Committees on hygiene, safety and working conditions (*CHSCT*)

The three *CHSCT*'s within the ESU were renewed in 2017, whose members were appointed for a two-year term. The *CHSCT* covering the companies in the Group located in Carros, i.e. Virbac, Virbac France and Alfamed, as well as the related companies Bio Véto Test located in la Seyne-sur-Mer and Virbac Distribution located in Wissous comprises seven representatives.
Within the Magny-en-Vexin site belonging to Virbac SA, the *CHSCT* comprises two representatives. Regarding Virbac Nutrition, there is one representative on its *CHSCT*.
Ordinary meetings are held at least once every quarter.

Union delegates and representatives
Six union delegates have been appointed by the unions (three by the *CGT* and three by the *CFDT*) and are present in France. Two union representatives have been appointed to the Works Council (one by the *CGT* and one by the *CFDT*) and one union representative has been appointed by the *CGT* to the *CHSCT*.

Disabled workers

At the beginning of 2017, a new company agreement was signed for three years with social partners, renewing Virbac's commitment in favor of the employment of people with disabilities.
The aim of this new agreement is to focus our efforts on actions aimed at promoting the recruitment of people with disabilities so as to take our disabled workers employment rate from 4.5% to 5%.
The main focal points of the new agreement are as follows:

- to recruit and increase the number of workers with disabilities;
- to develop the accommodation of students and interns with disabilities;
- to optimize the use of the protected area (*ESAT*, adapted companies, etc.);
- to continue the actions relating to communication and awareness of disabilities, in particular with our managers;
- to develop the number of disabled ambassadors internally;
- to keep our disabled employees in a job.

In this context, Virbac has planned to allocate over the course of the next three years a budget greater than the amount of its compulsory contribution.

For 2017, the actions implemented have promoted:

- the recruitment of workers or students with disabilities. To achieve this, partnership agreements were set up with local recruiters, in particular Cap employment, but also with interim companies specializing in the employment of people with disabilities. Virbac is also taking part in a better professional integration of pupils and students with disabilities through an agreement signed with the State and universities. In parallel, the adapted company Aktisea, which has been a partner of Virbac for several years, was given the task of recruiting people or students with disabilities, in line with our business lines and our requirements;
- internal communication with the recruitment and training of new disabled ambassadors, the training of managers for the integration and monitoring of people with disabilities, raising awareness in management assistants, in particular on the subject of sub-contracting;
- keeping our "disabled workers" in a job through a specific report on activities and skills, adaptation of workstations and working hours;
- furthermore, use of the protected sector was consolidated and maintained over the course of the year.

Virbac will continue and intensify these actions in 2018.

Optional and compulsory profit-sharing and company savings plan

Optional profit-sharing agreement
A new three-year profit-sharing agreement was signed in 2017.
This agreement is applicable to all companies that form the ESU in France: Virbac, Virbac France, Alfamed, Virbac Distribution, Virbac Nutrition and Bio Véto Test.

This agreement, which correlates with the results of the company, is based on two profitability ratios for calculating the profit-sharing amount to be distributed:

- a profitability ratio that looks at the consolidated net profit (group share) attributable to equity holders of the parent over consolidated revenue;
- a profitability ratio that looks at the Virbac group consolidated operating profit from ordinary activities over consolidated revenue.

The combination of these two ratios in order to calculate the profit-share has the twin goals of:

- allocating employees a profit-share that is in line with the company's financial performance (ratio based on net profit);
- rewarding the collective contribution of employees (ratio based on operating profit from ordinary activities).

For this agreement, the beneficiaries are employees with at least three months of service in the Group as of December 31 of the financial year to which the calculation relates.

Compulsory profit sharing in company net profit
The profit-sharing agreement entered into in 2008 constitutes a profit-sharing agreement between Virbac, Virbac France, Alfamed, Virbac Distribution, Virbac Nutrition and Bio Véto Test.

Each Group company contributes to building up an overall reserve for the total amount of its own reserve, calculated using the legally prescribed formula. The beneficiaries are employees with at least three months of service in the Group as of December 31 of the financial year to which the calculation relates. The share may be allocated to three funds: the frozen current account, the employee savings plan and/or the collective retirement savings plan (Perco).

Employee savings plans
The sums paid in under the various profit-sharing agreements or voluntary payments may be invested in mutual funds. An employee savings plan has been established for employees of the ESU made up by Virbac, Virbac Distribution, Virbac France, Alfamed and Bio Véto Test; another employee savings plan also exists for employees of Virbac Nutrition.

The Perco, managed by *Generali Épargne Salariale*, allows employees to build up a diversified savings portfolio for their retirement. Within the context of the 2017 mandatory annual negotiations (MAN) and to contribute and encourage employees to open a pension plan, the savings contribution in the Perco was changed from 50% to 60%.
Up until 2014, it was possible to fund the Perco with amounts secured through employee profit-sharing, incentives or voluntary payments.
Since 2016, leave days which have not been taken may also be paid into the Perco, up to a limit of ten days a year.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

In accordance with Order No. 2017-1162 of July 12, 2017, as well as Decree No. 2017-1174 of July 18, 2017 on various measures to simplify and clarify the obligations of information for which companies are responsible, the description of internal control and risk management systems are now included in the management report. This report has been drawn up based on contributions from several departments, in particular the Financial Affairs, Legal and Human Resources departments as well as the Group Risk Management department, and has been reviewed by the executive board which has confirmed the validity of its content. The entire report was subsequently communicated to the statutory auditors and to the audit committee for review before final approval by the supervisory board.

This report was approved by the supervisory board at its meeting on March 13, 2018.

Definition and aims of internal control and risk management

Framework

The Group has drawn on the reference framework and its application guide, first published in January 2007 and updated on July 22, 2010 by the AMF (French financial markets authority), in order to define its internal control and risk management framework so as to structure its approach. In accordance with a recommendation from AMF report 2010-15 dated December 7, 2010, the Virbac group decided to present the different information requested pursuant to the plan specified in the reference framework.

Scope

The scope of the internal control and risk management systems includes the parent company and the companies included in the Group's consolidated accounts.
The list of subsidiaries is given on page 182 in note A38 of this report.

Objectives and principles of the internal control and risk management system

The risk management system sets out to identify, prioritize, process and manage the Group's key risk exposures.
In this capacity, the risk management system assists in:

- creating and preserving the Group's value, assets and reputation;
- providing a secure basis for decision-making in support of strategic, operational and financial objectives;
- deploying an organizational culture of risk by engaging all players.

Internal control sets out to ensure that:

- economic and financial objectives are achieved in compliance with applicable laws and regulations;
- the orientations determined by the executive board are implemented;
- the company's capital is developed and its assets are protected;
- the integration of acquired companies is carried out in accordance with Group rules;
- and that the Group's financial and accounting information depicts a true and fair view.

The internal control and overall risk management system must promote and secure the Group's industrial and economic development by helping to prevent and control the risks to which it is exposed, all within an environment of control which is suited to its business areas and their respective issues.

In line with the fixed objectives, the internal control and risk management system of the Virbac group is based on the following structuring elements:

- appropriate and sustainable organization;
- internal distribution of reliable and targeted information;
- implementation of this system;
- suitable control activities that help to prepare and process accounting and financial information;
- continuous management and formalization of the areas of improvement.

Limits
An internal control system can only provide reasonable assurance and never an absolute one as regards overall risk control and limitation of obstacles to achieving the Group's objectives. The probability of actually achieving these objectives is subject to the limits inherent in any internal control system, whether potential failings in the decision-making process are concerned, or the need for reviewing the cost/profit ratio before implementing controls, or the malfunctions that may occur on account of a failure or human error.

An appropriate and sustainable organization

System components
The control environment which is essential for the internal control system, for good risk management and for the application of procedures, is based on a specific organization of behavioral and human aspects.

Organization
The internal control organization is based first of all on key factors that are anchored deep within the company's culture and which have formed the basis of its success, such as taking the initiative, placing trust in the Group's workers and providing them with a sense of responsibility. The operational organization of internal control is structured around three levels: Group, areas and subsidiaries. Each level is directly involved and is given responsibility for designing and implementing the control in accordance with the level of centralization desired by the executive board. At each of these three levels the internal control is broken down into specific organizational procedures, delegation of responsibilities, raising awareness and training of staff which are consistent with the Group's general framework. It requires heavy involvement on the part of each operational or functional manager by expecting them to adopt the policies and procedures defined at Group level, play a role in implementing and complying with them and finalize them via measures that are adapted to the special nature of the business activities or the areas under their responsibility.
The control system implemented within the Group is also based on a stronger governance structure, which guarantees that decisions are transparent and traceable, while still preserving the principles of subsidiarity and decentralization that are viewed as essential and necessary for optimum management of industrial and commercial activities in the Group.

Delegations of powers
The subsidiaries are almost all directly or indirectly wholly owned by the Virbac group. Special attention is paid to the composition of the boards of directors at the Virbac subsidiaries. Each appointment or change of a director must be validated by the members of the Virbac executive board.

For companies which are not wholly owned, the rules of governance are defined and governed by shareholders' agreements.

Code of conduct
Since June 2015, the Group's core commitments in the industries in which it operates have been incorporated into a Code of conduct. This document replaces the code of ethics adopted in 2004. More comprehensive and more responsive to the priorities of the Group, this document, written in sixteen languages and available on the Intranet, is distributed to all employees. The code of conduct includes the Group's fundamental principles regarding business conduct, safeguarding assets, corporate approach to privacy and social responsibility. This document formalizes the ethical values and operating principles of the company. In publishing its Code of conduct, the Group undertakes to adhere and ensure adherence by its partners and suppliers to the regulations and standards that apply to its activities, as well as in the areas of finance, competition and in the social sphere.

Reference documents
The Virbac group has provided employees with other reference documents describing tangible rules applicable to specific areas covered by the Code of conduct. These documents are available on the Intranet and are listed below.

- **Supplier charter**

The supplier charter aims to define the rules governing the relationship between the Virbac group and its suppliers, as well as the guiding principles the Group expects to see applied by its suppliers in the conduct of their business.

- **Group anti-bribery policy**

The Group anti-bribery policy describes the appropriate conduct governing relations between the Group (or its employees) and third parties, either in the public or private sector. It specifies, among other things, the conditions under which it is possible to offer or accept gifts and invitations. In 2016, the Group implemented a new anti-bribery policy. All of the general managers of the Group, the members of Comex, as well as the members of the executive board, signed a commitment to comply and ensure compliance with this policy.

- **Market abuse prevention policy**

With the entry into force on July 3, 2016 of European Regulation 596/2014 of April 16, 2014 on market abuse, of act 2016-819 of June 21, 2016 on reforming the sanctions system for dealing with market abuse and of act 2016-1691 of December 9, 2016 on transparency, the fight against corruption and modernizing the economy, the Group implemented a market abuse prevention policy (thereby replacing its stock market charter of ethics). One of the aims of this policy is to increase employee awareness of the notion of insider information and sensitive information, the obligations of employees who have access to insider or unreleased sensitive information (negative window period), sanctions incurred for breaches of confidentiality related to the holding of this type of information.

- **Group ethics charter**

In keeping with regulations and the focus of providing safe and effective products, the Group, like any pharmaceutical company, must resort to animal testing in very specific cases: when they are necessary and if, at this stage, there is no other alternative method available that has been approved by the authorities. However, the Group will give preference to all alternative methods available and actively encourages any initiatives to replace, reduce, or improve animal testing. To ensure implementation of these founding principles, the Group has developed an ethical charter that applies to all of the Group's colleagues as well as external partners.

- **Group social networking principles**

This document describes company-wide rules governing social networking for personal use.

Procedures and standards governing activities

Group policies have been defined by the functional departments for all processes supplying the financial statements, in particular sales, purchases and stock and property management. These departments lay down Group policies which define the organization, responsibilities and particular operating and reporting principles in the respective area of expertise under their responsibility. These policies are then broken down into specific procedures for monitoring, rule validation, authorization and accounting.

As an example, the Group has implemented the following policies:

- a purchasing policy which determines the rules, aims and best practices related to purchasing and ethics;
- a policy for securing payment methods which defines the methods that must be implemented in order to limit the risks of fraud;
- a policy for protecting individuals aimed at providing the same level of protection to all Group employees, whether they are expatriates, local or on special assignments;
- a safety and environmental policy which lays down the rules of conduct for a permanent reduction in the risks inherent in any industrial activity;
- an investment policy, which is validated by the executive board when the strategic plans and then the budgets are drawn up. Any major investment foreseen in these budgets is still subject to a further validation by the Group Industrial Operations department or by the executive board. Any change that may occur during the financial year relating to projects that have been budgeted is subject to special prior authorization.

In parallel with this body of procedures in general internal bylaws, the Group complies with the different frames of reference that apply within the pharmaceutical industry. These texts outline the management operations for each stage, whether at the research and development method level or at the level of drug and vaccine manufacturing standards, packaging, distribution, sales and marketing or promotion.

Human resources management policy

Human resources management plays a part in the Virbac internal control system by allowing the Group to ensure that its employees have a suitable skills level in relation to the roles and responsibilities entrusted to them, and that they are aware of their responsibilities and their limits, in addition to being aware of and complying with Group rules.

- **Recruitment and development policy**

The Group recruits in all countries and for all jobs in order to support its growth. The Human Resources department defines standards and verifies practices in order to ensure the consistency and relevance of the recruitment process.
In parallel, an employee performance and development management process known as Perf (covering performance, evaluation, compensation and training) has been deployed; it is made up of several different parts, which include setting individual objectives and annual achievements assessed by line managers with the situation examined on an individual basis.
Within the annual performance committee, the executive board shares the assessments, remuneration and professional development possibilities of the 60 key individuals in the Group, as well as the potential top performers identified through the Perf process.

- **Remuneration policy**

Compensation is reviewed annually. The review covers the base salary as individual and collective bonuses. The salary review is carried out in accordance with an overall policy aimed at strengthening the competitiveness, consistency and development of compensation within the Group. The aim is also to remunerate individual performance pursuant to objective criteria and criteria shared across all jobs. The bonus practices applicable in the Group are otherwise consistent and are based mainly on comparable criteria in terms of value and type.

Main players

Supervisory board and its special committees

The supervisory board operates constant control over the Group management led by the executive board. Within this framework, it is informed in particular by the executive board about the internal control systems set up in the Group.
The board has set up two special committees to help in its task: the compensation committee and the audit committee. The members of these committees are shown on pages 6 and 7 of the annual report.

The role of the compensation committee is to establish and review the overall remuneration policy for members of the executive board, taking the Afep-Medef Code recommendations into consideration.

To comply with the latest recommendations of this Code, details of the individual remuneration of members of the executive board are given in the management report on pages 114 to 123, in the form of summary tables and remuneration tables based on the presentation indicated in the Code.
Moreover, in accordance with the new measures specified in the Afep-Medef Code, shareholders are consulted each year on aspects of Executive Board remuneration due or assigned for the fiscal year ended.

The audit committee is responsible for:

- ensuring monitoring of the financial reporting process and, if applicable, makes recommendations for guaranteeing its integrity;
- ensuring the existence and efficiency of internal control and risk management as well as, if applicable, internal audit systems in respect of the procedures for the reporting and processing of accounting and financial information, without its independence being undermined;
- making a recommendation about the statutory auditors put forward for appointment by the shareholders' meeting. This recommendation to the supervisory board is developed in accordance with the provisions of article 16 of (EU) Regulation 537/2014. It also makes a recommendation to this body when renewal of the terms of office for the statutory auditors is being considered in accordance with the conditions set forth in article L823-3-1;
- monitoring the performance by the statutory auditors of their duties. It takes into account the findings and conclusions of the Audit office control board following audits;
- ensuring compliance by the statutory auditors with the independence requirements defined in Book VII, Part II, Chapter II, section 2 of the French commercial code. Where appropriate, it takes the action needed to enforce paragraph 3 of article 4 of the aforementioned (EU) Regulation 537/2014 and ensures compliance with the requirements referred to in article 6 of the same regulation;
- approval for the provision by the statutory auditors of non-prohibited services other than certifying financial accounts;
- reporting on the performance of their duties to the supervisory board. It also reports on results of the certification assignment conducted on the financial statements, on how this assignment contributed to the integrity of the financial information and on the role it plays in this process. It provides prompt notification of any problems encountered.

Executive board
The executive board has operational and functional responsibility in all Group activities for implementing the strategy that has been previously discussed in the strategic committee and approved by the supervisory board. In particular, it is responsible for the effective implementation of internal control and risk management systems within the Group. In this capacity, the executive board is directly involved in the Group's risk map updating (identification and prioritization) phases. Furthermore, the results of each mapping conducted within a subsidiary are reported to the executive board.
The members of the executive board are shown on pages 6 and 7 of the annual report.
Responsibilities are distributed among its members as described below.

The chairman of the executive board is responsible for supervising and coordinating the activities of all executive board members. He performs all the legal functions of a company head and takes responsibility accordingly. He represents the company and acts on its behalf in all circumstances and particularly before the courts. In the Company's internal organization, he supervises the global sales and marketing operations, human resources, communications, the HSE function and the board office.

The general manager holds the position of qualified person for Virbac in line with articles L5142-1 *et seq* of the French public health code. In the Company's internal organization, he supervises innovation, industrial and quality assurance, business development, corporate sourcing, public affairs and the CreA function.

The director of Financial Affairs is responsible for the Group's financial policy and supervises the finance, legal, IT systems and risk management functions.

The special projects director ensures the communication and development of Virbac's reputation through the actions of the Virbac corporate foundation, of which he is chairman.
The mission of the Virbac corporate foundation is first of all to raise awareness, educate and inform the public about respect for and responsibility towards animals; and secondly, to support programs that place animal health at the center of a healthy ecosystem by protecting and promoting healthcare for pets or wild animals in their natural habitat, implementing educational or awareness-raising campaigns among local communities and rolling out animal health initiatives that protect the environment and human health. The foundation fulfills its objectives by developing initiatives and partnerships with health professionals, veterinary practices, regional and local authorities and French and international institutions.

Strategic committee
The strategic committee is chaired by the chairman of the executive board and comprises the following departments, represented as follows:

- executive board members;
- area directors: Europe, North America, Latin America, Apisa, and the director of the Aquaculture division;
- Corporate Human Resources;
- Industrial and Corporate Quality Assurance department;
- Corporate Product Innovation;
- Group Legal department;
- Corporate Sourcing;
- Corporate Business Development department;
- Group Information Systems department;
- Corporate Communications department;
- Global Marketing and Business Optimization department.

The strategic committee helps draw up and implement the Group's major strategic decisions that are presented and approved by the supervisory board: strategy by business, job and major project. In this capacity, the members of the strategic committee are actively involved in providing the Group with major risk map updates on a regular basis.

French executive committee
The French executive committee is chaired by the chairman of the executive board and comprises the following departments, represented as follows:

- executive board members;
- Corporate Human Resources;
- French Industrial Operations department;
- Industrial and Corporate Quality Assurance department;
- Corporate Quality Assurance department;
- Corporate Product Innovation;
- Corporate Communications department;
- Group Information Systems department;
- Europe department;
- Virbac France;
- Group Pharmaceutical R&D department;
- Group Biology R&D department;
- Corporate Sourcing;
- Group Legal department;
- Creations and Regulatory Affairs department;
- Global Marketing and Business Optimization department.

The French executive committee is primarily responsible for decision-making, coordination and reporting on all issues affecting the group of French companies and represents a platform from which to disseminate information to the various departments.

Operational departments
In accordance with the operational decentralization principles within the Group, the managers of each business activity have the necessary powers for organizing, directing, managing and delegating the operations for which they are responsible.
Each activity favors the organization which is best suited to its markets, taking into account its particular sales, industrial and geographic features. The managers are responsible for adopting internal control systems consistent with their organizations as well as with Group principles and rules. For example, for subsidiaries whose risk management system has been deployed, each director is in charge of monitoring its subsidiary's risks. The same goes for each regional director with the various mappings being conducted in the area.

Functional departments
The central functional departments (Finance, Legal, Human Resources, Product Innovation, Communications, Information Systems, Sourcing, and Health, Safety and Environment) have a dual task: organization and control of Group operations falling within their respective skills area and technical assistance with operational activities in these areas where required. As for the risk management system, the operational departments are in charge of coordinating all actions related to Group-wide risk identification.
The presence of the central functions and their organization play a significant role in Group internal control systems. The managers of these functions exercise, in particular, functional authority over all managers who carry out tasks falling within their skills area in the operational activities.

Risk Management department
Since its creation at the end of 2009, this department has become a full participant in the Group risk management and internal control system. Reporting directly to the chief financial officer (member of the executive board) with a dotted line (functional reporting) to the executive board, the Risk Management director is responsible for defining and implementing risk management systems. He coordinates risk analysis, makes a contribution across the organization and contributes in sharing best practices between Group entities and departments, thereby helping to develop a risk management culture across the Group. His roles and responsibilities are shown in detail on pages 89 and 90 of the annual report.

Internal distribution of reliable and targeted information

Information and communication are connected with the information flows which support the internal control procedures, from the orientations expressed by management through to action plans. They contribute to the control environment being implemented, as well as to the distribution of an internal control culture and the promotion of relevant control activities that play a part in risk control.
There are different aims:

- informing all Group employees and making them aware of the implementation of best practices;
- sharing experiences so as to promote the use of these best practices, including internal control and risk management systems.

Special communication tools deployed by the Group encourage the achievement of these aims. The in-house publication Action presents Virbac's general direction, its organization, activities and projects. Other tools such as the intranet allow Group policies and procedures to be distributed. Virbac also strives to provide each of its newly recruited managers with a view over the entire Group and its organization, main business areas and strategy. Induction sessions for new recruits, either organized at head office or locally, are part of this effort. Finally, in addition to the training sessions organized by the operational divisions, Group seminars allow employees to improve certain professional skills (finance, marketing, human resources, project management, etc.) and encourage an exchange of best practices.

The information and the communication channels also rely on the information systems. The Group Information Systems department is responsible for all Group information systems. It is made up of departments that are the direct responsibility of the Group Information Systems department and of decentralized departments within the operational divisions. The role of Group departments is to define information system policies, to coordinate the processes for managing the information systems function and to manage global IT infrastructure and services in line with Group priorities. The decentralized departments develop and manage the specific applications within their divisions, as well as the dedicated IT infrastructure and services.

Upward and downward information channels have been defined so as to allow the timely transmission of relevant and reliable information.
In terms of information feedback, accounting and financial information is processed in accordance with processes and with collaborative reporting and control tools (collaborative reporting and consolidation software shared throughout the Group under the authority of the Financial Affairs department).

For downward information flows, resolutions from the decision-making bodies are relayed via the relevant departments. Any change in the regulatory framework relating to any matter whatsoever is communicated to the relevant entities and departments in an appropriate manner.
Finally, communication aimed at stakeholders is governed by the appropriate systems for the sake of guaranteeing the quality of the information.
In addition, the Group distributed a crisis management procedure whose objective is, as far as possible, to anticipate the potential occurrence of any crises through deployment of management and alert principles covering all Group areas and activities.

Implementation of the risk management system

Aims

The Group Risk Management department was set up at the end of 2009 in order to strengthen the Group's ability to forecast, analyze and prioritize risks of any kind and to ensure the suitability of the Group's development in relation to these risks.
This department has structured its methodology framework in line with market standards and best practices, notably the AMF reference framework on risk management and internal control.

The aims of the Risk Management department are based on the following areas:

- know and anticipate: ensure that there is constant monitoring of Group risks in order to guarantee that none are forgotten or underestimated and to forecast any development in their nature or intensity;
- organize: ensure that the main risks identified are actually taken into account by the organization, at the most appropriate level within the Group. Numerous operational risks are managed by the subsidiaries; head office takes charge of other risks which require special skills or that have an essentially cross-organizational or strategic component;
- control: ensure that the organizations and methods in place are effective in reducing the risks identified;
- train: gradually develop a risk management culture among all relevant managers and do so through appropriate training in France and internationally;
- inform: notify the executive board of any changes in the situation.

Regular structured analysis of the main Group risks

The risk management system is based on the internal control environment and is part of a continuous process for identifying, assessing and managing risk factors that are likely to have an impact on the aims being achieved and the opportunities that could improve performance. Providing an awareness of the responsibilities related to identifying, assessing and managing risks should be spread out through all appropriate levels of the organization.
A formal and more accurate report of the main risks for the Group and the methods of management and control of these is shown in the chapter on "Risk Factors" on pages 93 *et seq* of the annual report.

Thanks to a structured process aimed at understanding and analyzing the main risks for the Group, Virbac is able to assess the adequacy of the existing internal control systems, implement relevant action plans for their improvement and, more generally, to provide increased protection for the Group's enterprise value as regards compliance with applicable laws and regulations.

Risk management system

The risk management system is based on a clearly defined risk management process and organization:

- the organization is the responsibility of the Risk Management department, which is supported by three committees (the executive board, the strategic committee and the French executive committee) which validate the risk management policy and the processes used to identify, assess and address risks. The organization also includes "risk owners", whose role is to define and oversee the action plans for the Group's major risks;
- the risk management process in place since 2010 is based on:
  - identifying risks: by regularly updating the map of the Group's major risks, the Group's main exposures can be assessed;
  - assessing risks: senior managers play an active role in assessing and prioritizing the risks identified. These managers have extensive experience in the animal health sector and the company itself, which represents an asset with regard to ascertaining the impact, the occurrence and the management of each risk;
  - addressing risks: each risk classified as a major risk has been analyzed and prioritized. A risk owner has been appointed for each major risk. The risk owners are mainly the senior managers who are members of the three committees referred to above. Their role is to design and implement action plans in coordination with the different operational and functional organizations, in order to limit the company's exposure to the risks for which they are responsible;
  - monitoring action plans: the Risk Management department coordinates the whole process in partnership with the risk owners.

For Virbac, risk management forms part of a continuous improvement cycle of the internal control system by becoming engrained in company processes and consistently taking the fundamental issues into account that can be found in the organization, whether operational, legal, regulatory or related to governance.

Suitable control activities that aid in the process of preparing and processing accounting and financial information

This system not only covers the processes for preparing financial information, but also all the upstream operational processes that help to produce this information. Internal control in all its forms, but especially that related to finance and operations, is essential for Virbac. The Group's ongoing aim is to maintain the balance between the decentralization required for its activities, better operational and financial control and the dissemination of skills and best practices.

Dedicated financial organization

The control system and the procedures for producing accounting and financial information are consistent within the Group. This system is made up of a Group cross-functional accounting organization, uniform accounting standards, one single consolidated reporting system and quality control of the financial and accounting information produced.

Accounting and financial operations are managed by the Group Financial Affairs department. Its central organization includes:

- the accounting and consolidation department, which is responsible for preparing and presenting the Virbac company's financial statements and the Group's consolidated accounts. It is also responsible for monitoring tax affairs within the Group;
- a financial projects and studies department, which is responsible for providing financial support to acquisition initiatives, in addition to monitoring and managing the transfer pricing policy;
- the Management Control department, which is responsible for preparing and consolidating budget data and for monthly management reporting, which includes an analysis of the Group's results in relation both to budgetary goals and the previous year;
- the Group Treasury and Financing department which is responsible mainly for coordinating and monitoring the reporting related to the Group's borrowings and financial result. With regard to exposure to exchange rate risks in particular, the guidelines of the Financial Affairs department forbid speculation and only allow for the hedging of positions that, whether current or future, are certain.

The financial directors of each subsidiary exercise a key role on account of the decentralized organization of the accounting and finance functions. They are mainly responsible for ensuring that all internal accounting and finance control procedures are applied correctly on the ground. Each subsidiary financial director reports functionally to an area financial controller who operates at the area level. The controller reports functionally to the Group chief financial officer.

Suitable tools: procedures and reference frameworks

The accounting and finance rules set out in the special instructions drafted by the Group Financial Affairs department apply to all operational and legal entities in the Group. In compliance with the IFRS (International Financial Reporting Standards) adopted in the European Union, these rules include the following factors:

- a reminder of the general accounting principles and instructions that must be followed;
- a detailed chart of accounts;
- a confirmation of the Group accounting methods applicable for the most significant items and/or transactions;
- control procedures for the largest account categories, and in particular the main reconciliations to be carried out for controlling the information produced;
- rules defining the framework of the management information known as Financial handbook;
- rules to be followed in order to manage cash flow requirements and financing thereof, investments of cash surpluses, hedging of exchange rate risks.

These documents are updated on a regular basis, upon each change or application of new accounting standards, under the responsibility of the Group Accounting and Consolidation department. Virbac has set up a reporting system, which has been deployed in all entities within the Group, in order to ensure the quality and reliability of its financial information. It is supplied via the local accounting data, either by an interface, by drawing the required data from the ERP (Enterprise Resource Planning) financial modules available to these entities, or by manual entry.

Special procedures have been defined for off-balance sheet commitments. These latter items stem essentially from guarantees provided by the company. The provision of securities, deposits and guarantees is subject to the following controls:

- for the parent company, special authorizations from the supervisory board whenever such guarantees exceed the annual authorization limits given to the executive board;
- for the subsidiaries, material off-balance sheet commitments must be reviewed in advance by the parent company.

Formal processes

The financial processes implemented contribute to the quality and reliability of the accounting and financial information.

Accounting and consolidation process

Information is generated via the half-yearly and annual consolidation process supervised by a dedicated unit within the Financial Affairs department and underpinned by accounting principles applicable to all subsidiaries, thereby ensuring consistency of methodology.

Budgetary and management reporting process

Management Control coordinates the monthly budgetary consolidation and reporting process within the Group, using information provided by the different operational departments and the branches. Concordance between the management information from reporting and the accounting data constitutes the key principle of control for ensuring the reliability of accounting and financial information. The management reporting system is used to monitor the monthly results and the main management indicators and to compare them with the budget and with the results from the previous financial year. The management indicators are explained and analyzed by Management Control in collaboration with the local financial directors.
Each month, the executive board examines the summaries from the management reporting, analyzes the significant variations and decides on any corrective actions to be implemented where necessary.

Treasury process

A process for establishing an annual treasury plan was also implemented across the Group, making it possible to control and consolidate the forecasting of cash movements of subsidiaries, a sign of the accuracy of sales and expenditure forecasts and of working capital requirement management: customer collection, stock management and supplier payment terms.
A policy of pooling excess cash and financing requirements daily in the euro zone means that the Group's net positions can be reduced and the management of its deposits or financings optimized. Outside Europe, a policy of cash pooling was also implemented in order to limit counterparty risks and to optimize the use of lines of credit.

Items likely to have an impact in the event of a public offer

Pursuant to article L225-100-3 of the French commercial code, the items likely to have an impact in the event of a public offer, i.e. the existence of a double voting right granted to all shares registered in the name of the same shareholder for at least two years, are set out in the annual report on page 126.
Thus Virbac's main shareholder, the Dick family group, holds 49.7% of shares and 65.8% of voting rights.

Management of systems and areas for improvement

Actions to monitor and improve systems

The Virbac group is implementing continuous improvement actions for its risk management and internal control systems under the supervision of the executive board and the French executive committee, as well as under the supervision of the audit committee and the supervisory board.

Supervisory board

The role of the supervisory board and its special committees is described on page 86 of the annual report.

Executive board

The executive board is responsible for defining and managing the approach to internal control and risk management, relying on the operational departments to implement these measures (see pages 87-88 of the annual report). The functional departments carry out investigations into operations in their respective areas through their network of experts or via regular audits (see page 88 of the annual report).

STATUTORY AUDITORS

All the accounting and financial elements prepared by the consolidated subsidiaries are subject to at least a limited audit during half-yearly closing for the most significant entities, and to an audit carried out by external auditors when the year closes. The audit tasks in the different countries are given to the members of the Group's network of statutory auditors. They certify the regularity, sincerity and fair view presented by the consolidated accounts and the individual statutory accounts. They are informed of the key factors in the financial year ahead in the process of preparing the financial statements and they present a summary of their work to the Group accounting and financial managers and to the audit committee at the half-yearly stage and when the year closes.

Financial communication

The importance and increasing role of communication and the need to deliver comprehensive, quality financial information have led the Virbac group to acquire the functions and skills required to present this information and to control risks to the corporate image.

Annual report and periodic financial information

The Financial Affairs department is responsible for preparing the annual report and periodic financial information, working closely with the Corporate Communications department, which involves, in particular:

- defining and validating information in the annual document, the half-year report and periodic financial announcements;
- supervising the work carried out by the annual report steering committee;
- distributing financial information;
- applying the stock market regulations regarding financial communication and managing relations with the AMF.

Press releases

The Corporate Communications department is responsible for media activities which could have an impact on the image, reputation and integrity of the Virbac brand name. To achieve this, it works very closely with the Financial Affairs department, in particular in activities and by distributing information which could have an impact on Virbac's share price.

RISK FACTORS

Like any organization, the Virbac group is prompted to take risks, look for opportunities and create value. The issue of the Group's general risk management mechanism lies in its ability to identify risks, whether they are recurrent or emerging, and to control them over period.
Throughout 2017, the Group continued its efforts with the roll-out of its general risk management process through reliance on its risk management information system that was implemented in 2014.

Generally speaking, each risk identified is described in detail and assigned to a risk owner in charge of providing follow-up as well as defining and managing the implementation of adequate control measures.

The organization and methods for how the tool was implemented within the Group are presented in detail in the preceding paragraph of the management report.

As part of it major risk mapping update performed in 2015, Virbac has conducted a review of risks that could have a significant adverse effect on its business, its financial situation or its profit and considers that so far there are no significant risks other than those shown in this report.
However, certain risks not detailed here or not identified to date may potentially affect the Group's results, objectives, image or share price.

Risks related to the Group's business activities and strategy

The animal health market has undergone significant changes over recent years which have given rise to new challenges for the animal health sector which the Group has taken into account in its strategy (by market and by species).

Risks related to innovation process (research, development and licensing) and product registration

Risk factors
The field of the veterinary pharmaceutical industry is highly competitive, and every year, in order to meet changing market needs, maintain its market share and ensure its development, Virbac devotes significant resources to research and development.

In 2017, Virbac committed 8.4% of its revenue to R&D. The R&D process usually extends over several years and has various stages for testing, among other things, the efficacy and safety of products. In each of these stages, there is a risk that the objectives are not met and that a project where large amounts were invested is abandoned, including at an advanced stage of development.
Once the research and development phase is complete, Virbac, as a veterinary pharmaceutical company, must obtain, where necessary, all the administrative authorizations required, the MA, to market its products. This phase is often long and complex, and the Group has no guarantee of success. Indeed, the filing of a registration dossier with the appropriate authority provides no automatic guarantee that the authorization to market the product will be granted. Such authorization may be only partial, i.e. limited to certain countries or indications. Once a marketing authorization has been obtained, products are subject to ongoing controls and their marketing may potentially be restricted, or they may be withdrawn from the market.
Consequently, the current investments in respect of the development and launch of future products may involve costs that will not necessarily generate additional revenue for Virbac.

Along with in-house R&D projects which are the subject of extremely defined processes and regular monitoring of the various projects underway, the Group also pursues a policy of acquisition of licenses that allows it to have access to new products ready to be marketed or projects under development that it oversees to completion. In the same way as with in-house R&D projects, there is always a risk that these projects will not be successful or that the commercial potential will prove to be less attractive than expected, possibly resulting in these assets being impaired.

Risk management mechanisms
Virbac seeks to limit these risks by first employing stringent selection criteria for the research and development projects in which it invests (likelihood of success, as measured by a combination of technical, regulatory and marketing factors, of over 50%). Similarly, Virbac uses in-depth research to target the products for which licenses must be granted. Finally, Virbac relies on the expertise of its Regulatory Affairs department which is responsible for filing, monitoring and renewing marketing authorizations.
The animal health market is highly regulated and Virbac displays a very strong commitment to compliance by putting in place all necessary means to achieve it.

Risks associated with product compliance

Risk factors
As for the previous risk, the Group may also be exposed to a temporary or permanent suspension of the operation of its products since the latter would present, in the opinion of the competent authorities, a critical deviation from the regulations in force concerning them.

Risk management mechanisms
The Virbac group strives to ensure that its factories and manufacturing processes meet the highest level of compliance with existing benchmarks (Good manufacturing practices and others). A quality management mechanism is defined and rolled out in all of the group's manufacturing facilities worldwide. This mechanism helps to flag and correct any identified deviation between a manufactured product and its regulatory framework. This product quality system is defined and controlled by the group through the Quality Assurance department, which ensures proper implementation of the system by conducting its own audits. It also provides follow-up on action plans related to recommendations it may be called upon to make.
In parallel with this recurring process, three years ago the Group began a strategic project aimed at securing the major projects within the Group.
This project continued throughout 2017 and will continue in 2018, in order to finalize the improvement measures identified and currently being implemented.

Risks associated with product liability

Risk factors
Virbac product liability may be questioned if adverse side effects from drugs occur (not detected during clinical trials prior to MA) or if any default in quality should occur. The consequences of such events could be the recall of marketed batches, or loss, temporary or permanent, of the MA. If Virbac's liability were admitted in large claims, the Group's financial position could be greatly affected, as well as its reputation. Drug recall costs would be also added in the event of a quality problem.

Risk management mechanisms
Virbac constantly strengthens its pharmacovigilance procedures and its quality checks on all products marketed by the Group. In the context of pharmacovigilance procedures, the Group conducts a systematic review and regular analysis of the safety profile of its products to ensure the safe use of drugs by monitoring the side effects attributable thereto.
Moreover, Virbac has product liability insurance that applies to all subsidiaries.

Risks associated with the distribution channels

Risk factors
Virbac operates in a large number of countries, either through its subsidiaries or through distributors in those countries in which the Group has no subsidiary. Distribution channels are many and their characteristics depend on the country of marketing. However, the Group's products are primarily distributed through wholesalers and purchasing groups which supply veterinarians. Despite the supervision of these relationships by contracts that are regularly revised, this distribution mode could create for the Group some dependency or insufficient control of its presence and its development.
Moreover, in certain countries the animal health sector has shown for some years now a trend towards the concentration of distributors and veterinarians in large clinics. Likewise, new distribution channels, such as the Internet, for example, have appeared. Virbac remains vigilant about these developments and about the impact they may have on its revenue and its margins.

Risk management mechanisms
To reduce its dependence on distributors and reduce the effects of potential consolidation, Virbac has implemented a policy of securing its margins and consolidating its market positions. This policy involves systematically studying the possibility of bringing distribution in-house whenever sales are of a sufficient size in a given market. Virbac then opts for the most appropriate solution, either acquiring its distributor or establishing a new distribution business.
In more general terms, the Group strives to constantly adapt its marketing strategy in order to limit associated risks, and to take advantage of the opportunities which arise from these changes.

Risks related to increased competition

Risk factors
The animal health sector has become increasingly competitive. Virbac products are sold in competitive markets in terms of pricing, financial conditions and product quality.
The Group often faces strong competitors larger than itself or with greater resources. A consolidation trend has emerged in the past few years as some laboratories joined forces (by merger or acquisition) and major pharmaceutical laboratories partially or completely entered the animal health market. New forms of competition can also be seen, such as the verticalization of activities among certain large distributors, local development of innovative players in niche markets, or even new strategic partnerships between smaller market players. These developments could alter the Group's competitive environment, thereby impacting volumes and/or prices.

Risk management mechanisms
Virbac analyzes and constantly monitors the movements of its competitors across all markets and has a policy of external growth through acquisitions and/or partnerships, enabling it particularly to participate in the on-going consolidation in the sector.
Furthermore, the Group remains on the lookout for opportunities that could represent mergers between major players (divestment of businesses).

Risks related to the external growth policy of the Group

Risk factors
Since its inception, Virbac has pursued an active external growth policy that has led it to be present today in many countries and to have a wide range of products. The Group aims to continue this policy in the future to bolster its geographic presence and product offerings.
This choice of growth through acquisition entails financial and operational risks, especially related to the valuation of assets and liabilities and the integration of personnel, activities and products purchased.
These acquisitions involve, in particular, the following uncertainties:

- the assumptions of future profitability taken into account in valuations that could not be verified;
- the Group may not successfully integrate acquired companies and their product ranges.

This external growth can sometimes take the form of a partnership (joint venture) whereby the Group does not directly or solely engage in managing the operations of the businesses in which it invested. This situation may result in governance issues if the various shareholders are not on the same page when it comes to strategic objectives.

Risk management mechanisms
Virbac has defined a rigorous process for mergers and acquisitions to cover the analysis of potential targets and the integration of acquired companies:

- applying strict criteria of investment profitability;
- establishing expert, multidisciplinary teams, supported where necessary by outside consultants, in charge of implementing in-depth due diligence.

This process requires the approval of the executive board and/or the supervisory board prior to any acquisition.
The Group now has experience gained from past acquisitions which allows it to understand a wide variety of situations related to this type of partnership.

Risks associated with the ability to attract and retain key talent

Risk factors
In France, the key skills sought for core functions (Industry/Quality Assurance/R&D) are in high demand throughout the pharmaceutical, human and veterinary medicine industries. In addition to competition amongst employers, the geographical location of the head office can represent a limitation to hiring, given the limited pool for spousal employment, coupled with the high cost-of-living in the region, particularly for real estate.
Meanwhile, in emerging countries, the job market is very dynamic, and Virbac's size and reputation cannot always attract the best.

Risk management mechanisms
The ability to identify, recruit, integrate, develop and retain the key talent it needs in order to achieve its development plan is a major challenge for the Group, not to mention a priority for the Human Resources department, which liaises with the main functional and operational departments in question.
With that in mind, the HR talent management strategy consists of repeatedly and continually pointing out the dynamic and competitive nature of the Group from a standpoint of career development and compensation, while stepping up its presence in schools and universities, as well as partnerships with major employment stakeholders in the industry.
So as to reinforce this strategy, over the last few years, Virbac has developed an employer offering which formalizes internal and external communication in the Group as an employer. Virbac will now have a strong employer message to support its growth both in France and abroad by making retention of key talent a Group priority.

Country risk

Risk factors
Virbac is an international group, which may have to operate in countries with certain geopolitical and economic instability and in which the Group has production units.

Risk management mechanisms
The Group remains vigilant however, and closely follows the level of political or economic instability in certain countries to anticipate possible response or prevention methods if the level were to reach a magnitude that could have a major impact on employees, assets or the operations of Virbac.
Additionally, the Group uses Coface hedging, the leading French insurance company specializing in export credit insurance to secure its operations in certain regions.

Industrial and environmental risks

Because of its activities carried out in various strategic sites worldwide, Virbac is subject to industrial and environmental risks which could result in significant additional operating costs and liability in case of fire or explosion.
The ultimate risk would be temporary or permanent closure of a site for non-compliance with certain rules or following a major incident.
However, Virbac grants particular attention to industrial risk prevention and environmental protection, in line with its social and environmental policy.
The responsibility for industrial risk management falls mainly to the line managers, who monitor compliance with regulations and standards in this field by implementing operating procedures, quality systems and a series of security measures, as defined and dictated by the Group, in cooperation with its insurers.
More information regarding the industrial and environmental risk factors related to the Group's activities can be found in the sustainable development report on pages 30 *et seq*.

Risks related to the use of hazardous materials

Risk factors
As part of its veterinary medicine manufacturing business, Virbac uses substances that present health, fire and/ or explosion, air pollution and spillage risks during the various phases of the production and marketing processes (R&D, manufacturing, storage and transport). These risks could, should they materialize, cause damage to persons, property and the environment.

Risk management mechanisms
To limit these risks, the Group complies with the safety measures prescribed by the laws and regulations in force, implements good manufacturing and laboratory practices, and ensures its employees are trained. Its manufacturing sites and research and development facilities are also regularly inspected by regulatory authorities.

Risk of business interruption due to equipment or strategic facilities losses or downtime

Risk factors
Like any industrial activity, Virbac production sites are exposed to the possibility of unforeseen incidents that could result in the temporary suspension of production or permanent closure of the site.
These potential incidents are of various types: fire, machine breakdown, explosion, natural disaster, contamination, malicious acts or storage of hazardous materials.
Furthermore, considering the specific nature of the pharmaceutical industry, a national health authority may be called upon in certain situations to impose an administrative business suspension. This may affect the Group's ability to achieve its goals depending on the potential length of such a suspension.

Risk management mechanisms
Virbac has developed a process to ensure safety in its industrial facilities. The probability of such events occurring and any related potential impact on the Group's production and its profits are therefore limited by the following measures:

- buildings are in compliance with regulatory safety requirements (e.g. standardized fire detection systems on the sites);
- annual audits of facilities are performed;
- insurers make preventive visits and audits;
- ongoing investments are made to improve and secure production-related operations activities.

In 2013, the Group set up a new structure by creating a Corporate Industrial and Quality Assurance department with the aim of developing and making the production tool at Group level durable over time, on the one hand to comply with all applicable local regulation and on the other, to create conditions for greater flexibility and synergy with the different production sites within the Group. On another note, in the past two years, the Group has significantly enhanced its industrial and quality assurance processes at the St. Louis site in the United States. Finally, Virbac has taken out operating loss insurance, which also covers it for losses which take place with its suppliers.

HSE risks (Health, safety and environment)

Risk factors
As part of its activities, Virbac is subject to a set of regulations related to health, safety and environmental issues.
The majority of the production sites in France are subject to operating regulations issued by the supervisory authorities. These regulations include requirements that all sites must meet regarding environmental matters, including waste management, the volume and quality of water discharges, and safety and risk prevention rules.
The operating regulations to which the company sites are subject are at declaration or authorization level. No site is subject to regulation of the European Seveso directive.
Failure to comply with these regulations could result in fines and financial burden and potentially lead to the closure of a site by the administrative authorities.
Meanwhile, given the nature of its activity, the Group may have an impact on the environment even if it does not cause visual, noise or odor pollution.
Finally, given the nature of Virbac's industrial activities, the possibility of an accident occurring at work (either conventional or related to the risk of contamination by products) cannot be ruled out even if the danger level of such activities must be considered relative to other industries deemed to be more dangerous.

Risk management mechanisms
Protecting the environment and the safety of its employees are key priorities for the Group.
Virbac pays special attention to ensure the compliance of its different sites with existing regulations. The Group has an HSE department whose mission is to guide and assist the operational departments in developing and maintaining an adequate level of protection for people and the environment.

In tangible terms, the exposure of employees is covered by specific measures presented on pages 45 to 47 of the sustainable development report:

- defining a clear and precise safety organization;
- establishing a prevention policy and a continuous improvement approach.

For this purpose, the Group has pursued the implementation of tools and means of support for all teams thanks to:

- the Reflex Prevention approach (awareness-raising and training of personnel in work safety);
- the analysis of accidents at work as a performance indicator;
- medical evaluation before each recruitment (for instance in the United States).

Finally, HSE problems are taken into account during the due diligence of acquisition of new sites.
Information related to the HSE topic is provided on page 30 *et seq.* of the sustainable development report.

Risks associated with the effects of climate change

The Virbac group has identified no significant financial risk associated with the short-term effects of climate change.
Currently, only three subsidiaries are more exposed in their activity to the effects of the climate. These are South Africa, India and Australia: long periods of drought, or alternatively floods, could impact the financial situation of their customers (mainly the breeders), resulting in repercussions on the food producing animals' activity of these subsidiaries.

Legal risks

Virbac attaches special importance to legal risk management, particularly given the complexity and growing intensity of the competitive and regulatory environment and growth of the Group. The legal department oversees the prevention and management of legal risks in conjunction with the Group's other departments and operational teams.

Risks related to the maintenance of intellectual property rights

Risk factors
The Group's success rests largely on its ability to obtain and effectively protect its intellectual property rights and, in particular, its brands, its registration files, formulae, technology and its trademarks.

There is a dual risk incurred by the Company: the risk of a competitor attacking or exploiting its intellectual property rights, and the risk of being sued for infringement by third party rights holders.

Risk management mechanisms
The protection of the Group's intellectual property relies on two departments working in close collaboration.
Within the R&D department, the patents team is responsible namely for:

- drafting and filing patent applications related to innovative techniques or products;
- monitoring the competition in order to guard against abusive use of rights by a third party;
- analyzing third party patents from the development phase onwards of new products in order to avoid infringement on the part of Virbac.

The legal department oversees, across the Group, the selection, registration and protection of the various brands and registered domain names, opposes third-party brands that could be infringing on the Group's rights and manages all disputes related to intellectual property.

Risks related to regulatory changes

Risk factors
Regulatory risks arise from Virbac's exposure to changes in laws and regulations, particularly those regarding public health policies. Any changes in legislation may impact the profits and financial position of the Group.
Virbac must obtain and retain marketing authorizations required for the manufacture and sale of its products. Given the Group's international presence, those regulatory authorizations are issued by authorities or agencies in several countries. Withdrawal of a previous authorization or not obtaining authorization for a new product may have an adverse effect on operating profits.
It should be noted that the pharmaceutical industry is subject to increased attention from authorities and the public, which results in the regular issuance of tougher rules which govern it.

Risk management mechanisms
Each functional and operational department in the Group is responsible for implementing an ongoing monitoring mechanism in order to identify or anticipate any regulatory change which could impact the Group's activities.
Where appropriate, each department may be required to rely on local experts in those countries where the Virbac group distributes its products.
By way of example, a Group regulatory and public affairs department provides permanent monitoring of the pharmaceutical regulations to which the Group is subject.

Risk of legal action

Risk factors
Virbac operates on a worldwide basis. As it undertakes its activities, the Group may become involved in disputes, legal, arbitration or administrative proceedings and Group actions anywhere in the world. All significant disputes are routinely assessed and managed by the Legal department, with the assistance, where necessary, of external consultants.

Risk management mechanisms
The Group considers that the provisions recorded in the accounts in respect of these disputes are sufficient to cover the exposed financial risk if convicted.

As of the date of this annual report and to our knowledge, there is no current legal proceeding in which Virbac would be threatened that could have significant effects on the financial position or profitability of the Group.

Operational risks

By their very nature, the different activities of the Group encompassing the entire value chain in the sector expose the Group to varied operational risks. The Industrial Operations and Corporate Quality Assurance department, as well as Corporate Sourcing, contribute to securing the associated risks.

Risks of dependence on third parties for supply or manufacturing of certain products

Risk factors
The majority of raw materials and active ingredients forming the composition of products manufactured by Virbac are provided by third parties.
In certain cases, the Group also uses finishers or industrial partners who have expertise in or are masters in particular technologies.
But there are, for certain supplies or certain technologies, situations where diversification is difficult if not impossible, which could then result in a risk of shortages or price pressures. These single-sourcing cases are structural and characteristic of the pharmaceutical industry.

Risk management mechanisms
The selection of suppliers is performed according to strict criteria and, to the extent possible, Virbac diversifies its sources by referencing multiple vendors, while ensuring that these sources have sufficient quality and reliability characteristics. To limit these risks, the Group takes a broad approach to identifying as many diversified suppliers as possible, and may in certain cases secure its supply chain by acquiring the technologies and capacities it lacks and that create too high a dependency.

Whatever the solution adopted, the Group systematically ensures upstream the sustainability of the source.
In addition, Virbac has regularly updated mapping of its major suppliers, including contract reviews and an analysis of possible alternative sources.

Risks related to safety and reliability of information systems

Risk factors
The Group's business is based in part on highly integrated information systems. Failure of these systems could directly impact Virbac's business and profit. Other risk factors may be envisaged such as intrusion, piracy, theft of knowledge, know-how or confidential information, system shut-down of one or more systems following a computer failure, obsolescence of a part of the IT system (application, server, etc.) as well as regulatory developments particularly linked to the Internet (licenses and copyright, personal data, etc.).

Risk management mechanisms
The Group Information Systems department (DSI) ensures the ongoing security of the information systems and networks. The areas covered are:

- organization and general security of information systems;
- physical security (intrusion, accidents);
- networks (local, remote, internet);
- the availability of applications and data.

The DSI regularly develops and updates all measures to preserve the confidentiality of data, protect information systems against intrusion and minimize the risk of interruption of service (backup, redundancy and server backup procedures, disaster recovery plan, and so forth).
In addition, an IT systems-use code is applied to all Group employees.

Financial Risks

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

Market risks

Currency Exchange risks

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

■ **Risk management mechanisms**
The Group's policy is to hedge foreign currency risk on transactions when the extent of exposure and the risk of currency fluctuations are high. Accordingly, it uses various instruments available on the market and generally employs foreign exchange forwards or options. The details associated with this risk are presented in note A31 of the consolidated accounts.

Interest rate risks

■ **Risk factors**
The Group's income statement may be impacted by the interest rate risk. In fact, unfavorable rate changes can thus have a negative impact on the Group's financing costs and future cash flows.
The exposure of the Group to the interest rate risk arises from the fact that the Group's debt consists mainly of credit lines and variable rate loans; the cost of debt can therefore increase if interest rates rise.

■ **Risk management mechanisms**
To manage these risks and optimize the cost of its debt, the Group monitors developments and market rate expectations and limits its exposure by establishing interest rate hedges, with instruments available on the market such as caps or swaps of interest rates (fixed rate) not exceeding the length and value of its actual commitments. The details associated with this risk are presented in note A31 of the consolidated accounts.

Liquidity risk

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

■ **Risk management mechanisms**
The policy of pooling surplus cash and funding needs in all areas helps to refine the Group's net position and to optimize the management of investments and funding requirements, ensuring Virbac's ability to meet its financial commitments and maintain an optimal level of availability commensurate with its size and needs.
In respect of its specific review of the liquidity risk, the Group regularly carries out a detailed review of its liabilities, thus ensuring compliance with its financial covenant (debt covenant).
The financial ratio calculated as of December 31, 2017 was 4.23, thus complying with the covenant, not exceeding 4.75 (more flexible level for 2017).
For 2018 and to give itself more flexibility, Virbac applied for and obtained relaxation in the financial covenant compliance clause from its banking partners. The level, which will be measured throughout this fiscal year, was the subject of an amendment and an upwards revision. It should be below 5.0 at the end of June 2018 (compared with 5.5 at the end of June 2017) and below 4.25 at the end of December 2018 (compared with 4.75 at the end of December 2017).
As of 2019, they will return to the initial commitment levels of 4.25 at the end of June and 3.75 at the end of December.
With regard to its prospects, the Company's cash and financial resources are sufficient to fund its cash requirements.

Other financial risks

Fraud risks

■ **Risk factors**
The Group could still be the victim of internal or external fraud that could lead to financial losses and affect the Group's reputation.

■ **Risk management mechanisms**
Virbac seeks to strengthen internal control and attaches particular importance to raising its teams' awareness of these issues. The Group and, in particular, the corporate functions regularly give strong guidance and directions in this matter. Segregation of duties, as well as a central, regional and local management control mechanism and the appointment of regional controllers help strengthen control and reduce the probability of such practices occurring. Upon acquiring new companies, the latter are integrated into these mechanisms designed to prevent unethical practices.
Virbac has proceeded with training and roll-out of best practices processes that are intended to, among other things, prevent the risk of fraud.
Virbac's code of conduct underscores the Group's commitment to pursue its activities in accordance with the law and ethics, and also defines the nature of the relationships Virbac wishes to have with its partners.

Credit risk

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

■ **Risk management mechanisms**
The Group limits the negative consequences of this type of risk thanks to the very high fragmentation and dispersal of its customers throughout all of the countries in which it operates. Based on the regulation in force, the Treasury department recommends applications, ratings, credit-insurance limits, maximum payment periods and sets credit limits for customers to be applied by the Group's operational entities. The Treasury and Financing department manages and controls these credit aspects for the French entities for which it is directly responsible and recommends the same practices via guidelines and best practices for the Group. Furthermore, there is a credit insurance group framework contract for which any subsidiary is or may be eligible when it comes to this kind of risk. The details associated with this risk are presented in note A31 of the consolidated accounts.

Counterparty risk

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

■ **Risk management mechanisms**
The Group pays particular attention to the choice of banking entities it uses, and is even more critical when it comes to investing available cash.
However, Virbac considers that it has low exposure to counter-party risk given the quality of its major counter-parties. In fact, investments are only made with first-class banking entities. The details associated with this risk are presented in note A30 of the consolidated accounts.

Hedge accounting

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

■ **Risk management mechanisms**
The Group only engages in hedging transactions designed to hedge actual or certain exposure; it does not create speculative risk.
Nevertheless, due to the constraints imposed by the documentation of hedging relationships, the Group has elected to only classify derivatives it holds on the balance sheet date as hedges for accounting purposes where the impact on the consolidated accounts is truly material and where the hedging relationship can be demonstrated.

Insurance and risk coverage

General coverage policy

The Group's insurance policy is underpinned by a risk prevention and protection approach specific to Virbac's activities.
Virbac regularly reviews its insurable risks and financial coverage with the assistance of an international broker who is part of an integrated network. In this regard, all contracts have been harmonized at group level, and the parent company provides assistance and support to the subsidiaries as part of its international insurance programs for the establishment of local insurance policies.
The broker ensures coordination and control of these programs in conjunction with its local contacts.
Insurable risks are covered by Group insurance policies with a level of coverage that the Group deems appropriate given its circumstances, barring any wholly unforeseeable events.

Insurance programs

The international damage and operational losses insurance program, as well as the general third-party liability and product liability international insurance program, cover the entire Group.
A single group-wide international transport insurance program covers all goods transported across the globe under the responsibility of Virbac or its subsidiaries.
The Group uses leading insurers for all its insurance programs. The coverage levels were set on the basis of the Group's risk profile. Despite unequal local resources, this centralization of risks provides a better level of protection for all group entities, while realizing economies of scale.
Property, buildings and equipment are insured against damage based on full replacement value, purchase price or production cost of merchandise and operating losses based on the loss of gross margin.
The Group's main production facilities are subject to an inspection and prevention program conducted by the leading insurance company's Risk Studies and Prevention department as part of the damage and operational losses program.
The Group does not have a captive insurance or reinsurance company.

SUSTAINABLE DEVELOPMENT

The full sustainable development report (pages 8 to 60) sets out the Group's values and guiding principles with regard to social, economic and environmental matters. This report provides information related to climate change, pursuant to the Law on energy transition for growth.

2018 OUTLOOK

Given the slower than expected business recovery in the United States, and thanks to the performance the Group is forecasting to be strong in the other regions, a "low-single-digit" increase in revenue at constant rates is expected in 2018 compared with 2017.

For the entire year, the Group anticipates the ratio of operating profit from ordinary activities before depreciation of intangible assets arising from acquisitions to revenue, at constant exchange rates, will increase by around 0.5 point compared with 2017.

From a financial standpoint, tight control of invested capital should allow further debt relief, which is expected to hover around €30 million for the year. Furthermore, as part of its funding policy, the Group strengthened its liquidity through establishment of a medium-to-long-term line of credit of up to $90 million. This new line thus completes the RCF (Revolving credit facility) line of €420 million, signed in 2015, with the historical banking pool, bilateral lines and outstanding Schuldschein loans. Similarly, in order to afford itself greater flexibility, the Group obtained a relaxation of its financial covenant (net debt/Ebitda) with its bankers for 2018. They were set at 5.0 at the end of June 2018 versus 5.5 at the end of June 2017, and at 4.25 at the end of December 2018, versus 4.75 at the end of December 2017. As of 2019, they will return to the initial commitment levels of 4.25 at the end of June and 3.75 at the end of December.
Virbac exercised the option of extending by two years the maturity date of its RCF (Revolving credit facility) of €420 million with its pool of banks, thereby extending this term financing to 2022 (2020 prior to the extension).

PROVISIONAL TIMETABLE FOR FINANCIAL COMMUNICATION

The provisional timetable for 2018 is as follows:

- January 16, 2018 after the close of trading: communication of 2017 annual revenue;
- March 14, 2018 after the close of trading: communication of 2017 annual profit;
- April 12, 2018 after the close of trading: communication of revenue for the first quarter of 2018;
- June 20, 2018: annual shareholders' meeting;
- July 17, 2018 after the close of trading: communication of revenues for the second quarter of 2018;
- September 14, 2018 after the close of trading: communication of the profits of the first half of 2018;
- October 11, 2018 after the close of trading: communication of revenues for the third quarter of 2018;
- January 17, 2019 after the close of trading: communication of 2018 annual revenue.

FEES OF THE STATUTORY AUDITORS AND MEMBERS OF THEIR NETWORKS BORNE BY THE GROUP

As of December 31, 2017

in € thousand	Deloitte					Novances - David & Associés Nexia network				
	Audit		Network		Total	Audit		Network		Total
Issuer	141.5	100%	-	-%	**141.5**	54.9	100%	-	-%	**54.9**
Consolidated subsidiaries	-	-%	776.5	100%	**776.5**	-	-%	22.9	100%	**22.9**
Audit and limited review of the individual and consolidated accounts	**141.5**	**85%**	**776.5**	**94%**	**918.0**	**54.9**	**100%**	**22.9**	**100%**	**77.8**
Issuer	25.3	100%	-	-%	**25.3**	-	-%	-	-%	**-**
Consolidated subsidiaries	-	-%	46.0	100%	**46.0**	-	-%	-	-%	**-**
Other services	**25.3**	**15%**	**46.0**	**6%**	**71.3**	**-**	**-%**	**-**	**-%**	**-**
Total fees	166.8	100%	822.5	100%	989.3	54.9	100%	22.9	100%	77.8

As of December 31, 2016

in € thousand	Deloitte					Novances - David & Associés Nexia network				
	Audit		Network		Total	Audit		Network		Total
Issuer	143.5	100%	-	-%	**143.5**	54.1	100%	-	-%	**54.1**
Consolidated subsidiaries	-	-%	784.1	100%	**784.1**	-	-%	22.7	100%	**22.7**
Audit and limited review of the individual and consolidated accounts	**143.5**	**88%**	**784.1**	**94%**	**927.6**	**54.1**	**100%**	**22.7**	**100%**	**76.8**
Issuer	19.6	100%	-	-%	**19.6**	-	-%	-	-%	**-**
Consolidated subsidiaries	-	-%	47.7	100%	**47.7**	-	-%	-	-%	**-**
Other services	**19.6**	**12%**	**47.7**	**6%**	**67.3**	**-**	**-%**	**-**	**-%**	**-**
Total fees	163.1	100%	831.8	100%	994.9	54.1	100%	22.7	100%	76.8

Report on corporate governance

CORPORATE GOVERNANCE

Article L225-68 of the French commercial code

This report was submitted to the audit committee and its recommendations were taken into account and unanimously adopted by the supervisory board at its meeting on March 13, 2018.
The content of this report is based on an analysis of the Group's position and organization primarily carried out through a series of meetings with Virbac's executive board.

The report refers to the recommendations of the corporate governance code for listed companies drawn up and consolidated by Afep-Medef (the Afep-Medef Code), which was adopted by the supervisory board as its code of reference. The Afep-Medef Code can be consulted online at the following address: www.medef.com.
In accordance with recommendations from the *AMF* (French financial markets authority), a summary table on pages 108 and 109 lists the measures of the Afep-Medef Code that the company has decided not to implement and gives the reasons for this.

Preparation and organization of the work of the supervisory board

Responsibilities and membership of the supervisory board

The mode of governance chosen by the company, i.e. an executive board and a supervisory board, allows a clear distinction to be made between the management of the company and the supervision of the company.
The supervisory board is responsible for supervising the management activities of the executive board. It exercises its supervisory powers by meeting every quarter to examine in particular the company's and Group's performance indicators and the annual and interim financial statements presented to it by the executive board. Where necessary, it carries out its responsibilities by obtaining information from the statutory auditors. It also reviews in more detail any proposed acquisitions based on analyses drawn up by the executive board.

The supervisory board has six members, three of whom are independent, i.e. Philippe Capron, Olivier Bohuon and the company Galix Conseils, represented by Grita Loebsack.

At its meeting on March 13, 2018, the supervisory board reviewed the independence criteria for its three members based on the criteria of the Afep-Medef Code, namely:

- is not and has not been over the previous five years an employee or executive director of the company or an employee or director of its parent company or a company that the latter consolidates;
- is not an executive director of a company in which the company directly or indirectly holds a directorship or in which an employee designated as such or an executive director of the company (currently or having been within the last five years) holds a directorship;
- is not a customer, supplier, corporate banker, investment banker:
  - of significance to the company or its group;
  - or for which the company or its group represents a significant part of the business;
- does not have close family ties with a corporate officer;
- has not been an auditor for the company over the previous five years;
- has not been a director of the company for more than twelve years.

The supervisory board noted that Philippe Capron reached 12 years seniority in August 2016, but considers that, based on the seniority criteria, a member of this supervisory board with more than 12 years of seniority does not automatically lose independence.

Indeed, the supervisory board considers:

- that the seniority criterion of even more than twelve years, may provide a member of the supervisory board with an increased capacity to question the executive board, along with a greater degree of independence. It was in this ability that the supervisory board was asked to make a case by case assessment of the independence of its members;
- that it is important that members of the supervisory board have a good understanding of the Group, based on hindsight and reasoned judgment concerning the Group's major strategic directions and the ability to gain perspective based on decisions made and actions taken in the past;
- that the leadership functions exercised by members of the supervisory board in companies other than Virbac strengthen their authority and constitute a guarantee of the independence of their judgment.

In particular, the supervisory board discussed whether significant ties existed between the members considered to be independent and the company or one of the Group’s companies.

The supervisory board noted that none of these members has a direct or indirect business relationship with the company or the Group and, in particular, that none of these members is a customer, supplier, corporate banker or investment banker of the company or Group and that none of these members had established any particular interest or special relationship with the Group or its officers.

Consequently the supervisory board declared the three above-mentioned members of supervisory board meet all the independence criteria of the Afep-Medef Code, with the exception of seniority, but decided not to retain the seniority criterion of more than twelve years, as this criterion would automatically mean the loss of Philippe Capron's independence status, and thus confirmed the independence of the three above-mentioned members.

The supervisory board is gender-balanced and made up of three women, including the chairwoman, and three men. The members of the supervisory board have a variety of skills related to their professional experience. Its members are aged between 24 and 59. Five members of the supervisory board are French and one is German.

As regards the diversity of its composition, the supervisory board's policy aims to maintain the current level of diversity, and particularly the diversity of its members' skills.

Lastly, it should be noted that no members of the supervisory board combine their terms of office with an employment contract with the Virbac group.

The offices held by supervisory board members are listed on pages 110 and 111 of the annual report.

Meetings of the supervisory board

The statutory auditors are invited to all supervisory board meetings. The documents, technical material and information necessary for the performance of the duties of board members relating to items on the agenda are sent out, by express delivery, as early as possible prior to the meeting. Supervisory board meetings are generally held at Virbac's head office.
Discussions are led by the chairwoman of the supervisory board. If the chairwoman is unable to attend, the vice-chairwoman exercises the role of chairwoman, as determined by law. Minutes of supervisory board meetings are drawn up at the end of each meeting and submitted for the approval of supervisory board members at the subsequent meeting. In accordance with the articles of association, the supervisory board meets at least once a quarter. During the past financial year, the supervisory board met four times. All the members of the supervisory board attended all the board's meetings. Supervisory board members also met informally several times during the year for informal work and discussion sessions. During the 2017 financial year meetings, the supervisory board notably reviewed the annual and interim financial statements, quarterly revenue, the budget, the reports by the executive board on the Group's business activities, profits, performance and outlook as well as developments in each of the Group's major operational areas and its strategic outlook and plans and proposed acquisitions. Depending on the content of the meetings, all or some of the members of the executive board were present, as well as the Group's area directors or functional directors on an *ad hoc* basis.

The supervisory board's rules of procedures and operating methods

At its March 13, 2009 meeting, the supervisory board approved its internal rules of procedures covering its membership, operation, responsibilities, the board's reporting procedures as well as the membership, operation and responsibilities of the special committees.

The supervisory board's internal rules of procedures do not stipulate any cases of specific prior authorization by the supervisory board in relation to decisions made by the executive board. Indeed, the company considers that it is preferable to limit itself to prior authorizations that are expressly stipulated by law, given that the role of the supervisory board is to supervise the management of the executive board without taking part in it.
Nevertheless, the company does submit all operations involving significant acquisitions and disposals as well as, more generally, any significant strategic operations, to the supervisory board for approval.

In December 2015, the supervisory board carried out a formal review of its assessment, in accordance with the recommendations of the Afep-Medef Code, which stipulates such a review every three years. Prior to the meeting, an assessment questionnaire was sent to each member of the supervisory board. At a specific meeting, the members of the supervisory board talked about their answers, exercising their freedom of expression.
The assessment finds that the board's composition and operation as well as the attendance and contributions of each of its members are entirely satisfactory. The supervisory board is a long-term commitment, which promotes dialogue and trust throughout the board and with the executive board.
The supervisory board provided recommendations and suggestions in order to improve its operations and information.

Special committees

■ Compensation committee

The compensation committee is chaired by the chairwoman of the supervisory board. The company considered it preferable for the compensation committee to be chaired by a member of the supervisory board who represents the family majority shareholder. It should be noted that because of the division between the executive board and the supervisory board, the compensation committee acts independently of the executive board members whose compensation it discusses.
The compensation committee has met three times during 2017.
All the members of the compensation committee attended these meetings.

At this meeting, the topics covered were:

- review of executive board member performance in 2016 in relation to their variable compensation;
- 2017 compensation of executive board members;
- review of compensation paid to the Group's key management.
- the financial conditions relating to the term of office of the new chairman of the executive board as of December 20, 2017 as well as the other conditions relating to its exercise and termination.

Audit committee

The audit committee, chaired by Philippe Capron, an independent member of the supervisory board, met four times during 2017 with the chairman of the executive board, the chief financial officer and the statutory auditors in attendance. All the members of the audit committee attended all the meetings.

At the end of the statutory auditors' term of office, the audit committee, in conjunction with the Financial Affairs department, makes a recommendation about the statutory auditors put forward for appointment by the shareholders' meeting. This recommendation to the supervisory board is drawn up in accordance with the provisions of Article 16 of (EU) Regulation 537/2014.

To avoid lengthening the period of time between the closure of the accounts by the executive board and the control by the supervisory board, and due to the location of the company's head office near Nice, the audit committee's meeting to review the accounts is held the day before the supervisory board's meeting to close the annual accounts and on the same day for the interim financial accounts. However, documents relating to the accounts, including a summary document prepared by the statutory auditors and any comments they may have, are always given to the members of the audit committee and to the other members of the supervisory board several days before the audit committee meeting is held.

The audit committee receives a regular presentation from the Risk Management director on exposure to risks. Where relevant, significant off-balance sheet commitments are brought to the committee’s attention. The audit committee may also turn to external experts.

During 2017, the audit committee examined the 2016 annual financial statements and the 2017 interim financial statements.

It checked the financial information and decided upon the accounting treatment for the financial year's major transactions, submitted either by the statutory auditors or by the members of the executive board. It also noted the efforts made by the executive board to ensure the establishment and effectiveness of internal control procedures, to identify risks and implement the measures considered necessary to manage them.

Absence of selection or appointments committee

The supervisory board does not believe it necessary to set up a selection or appointments committee. This decision is based on the following considerations:

- the size of the company and the stability of its management bodies;
- the small size of the supervisory board;
- all members of the supervisory board wish to be directly involved in the definition of the composition of the managing bodies.

Preparation and organization of the executive board’s work

Executive board membership

Since December 20, 2017 the executive board has been composed of four members. The supervisory board of December 20, 2017 renewed the positions of all the executive board's members, with the exception of Éric Marée, who claimed his right to retire. The renewal was made for a new three-year term. Sébastien Huron was also appointed as the new chairman of the executive board, replacing Éric Marée.

The supervisory board approved the new assignment of functions and missions to the executive board members as follows:

- Sébastien Huron is the executive board chairman, supervising global marketing and commercial operations, human resources, communications, Environment, health and safety (EHS) and the board office.
- Christian Karst holds the position of qualified person and acts as general manager as well as executive vice-president Corporate Development. He supervises innovation, the Group Industrial operations and Corporate Quality Assurance department; business development, Corporate Sourcing, public affairs and the CreA function.
- Habib Ramdani is the chief financial officer and is responsible for Group financial policy. He supervises financial and legal duties as well as information systems and risk management.
- Jean-Pierre Dick is head of special projects. He ensures the communication and development of Virbac’s corporate reputation through the actions of the Virbac corporate foundation, which he chairs.

Executive board meetings

Executive board members meet, as required by the law, in order to report quarterly to the supervisory board and whenever business so requires. In 2017, the executive board held ten formal meetings.

Special procedures regarding shareholder participation at shareholders' meetings

Shareholders' meetings are called and deliberate in the legally required manner. Meetings are either held at the head office or at any other place specified in the meeting notice. Meetings are chaired by the chairwoman of the supervisory board. The roles of scrutineers are filled by the two members of the shareholders' meeting with the highest numbers of votes and who accept this position. The meeting's board appoints the secretary, who needs not be a shareholder.

The main powers of the ordinary shareholders' meeting consist of the right to approve or reject the parent statutory accounts and the consolidated accounts, to allocate profits, pay out dividend, appoint or dismiss supervisory board members and appoint the statutory auditors. The ordinary shareholders' meeting also has an advisory vote on the compensation of the chairman and members of the executive board. Decisions by the ordinary shareholders' meeting are made by a majority of the votes of shareholders present or represented.

The extraordinary shareholders' meeting may make decisions such as amending the articles of association, authorizing financial transactions that may change the share capital, approving or rejecting mergers or spin-offs and granting or refusing shares subscription or purchase options plans or performance-related stock grants. Decisions by the extraordinary shareholders' meeting are made by a majority of two thirds of the votes of the shareholders present or represented.

Irrespective of the number of shares he or she owns, any shareholder is entitled to attend the shareholders' meeting or to be represented there by another shareholder, a spouse, the partner with whom he or she has entered into a civil solidarity pact under French law as well as by any other individual person or legal entity of his or her choice, or alternatively to vote by mail. Legal entity shareholders attend general shareholders' meetings through their legal representatives or any person they appoint for the purposes thereof. In accordance with the law, the entitlement of shareholders to attend in person, by proxy or by mail at shareholders' meetings is subject to the registration of the shares in the name of the shareholder or in the name of the intermediary acting on his behalf, on the second business day prior to the meeting, at midnight Paris time, either in the registered share accounts administered for the company by its agent or in the bearer share accounts held by the authorized banking or financial intermediary, acting as security custodian.

The registration of shares in the bearer share accounts held by the authorized intermediary must be confirmed by a certificate issued by the latter, attached to the postal voting or proxy form or admission card request filled out in the name of the shareholder or on behalf of the shareholder represented by the registered intermediary. To be valid, postal voting or proxy forms must have been effectively received at the company's registered office or the location specified in the meeting notice at the latest three days prior to the date set for the shareholders' meeting, except where a shorter period is specified in the meeting notice.

Each shareholder is entitled to exercise as many votes as the shares they hold or represent without limitation. Nevertheless, a double voting right is granted to all fully paid-up shares that have been registered in the name of the same shareholder for at least two years.

TABLE SUMMARIZING EXCEPTIONS TO RECOMMENDATIONS GIVEN IN THE AFEP-MEDEF CODE

Afep-Medef Code (the "Code") Recommendations	Company practices and justifications	Reference
The supervisory board's internal rules of procedures (Article 3.2 of the code) The internal bylaws of the board of directors should specify the cases in which prior approval by the board of directors is required	The company considered it preferable to limit itself to prior approvals that are expressly stipulated by law, given that the role of the supervisory board is to supervise the management of the executive board without taking part in it. Nevertheless, the company does submit all operations involving significant acquisitions and disposals as well as, more generally, any significant strategic operations, to the supervisory board for approval.	page 105
Member of the supervisory board deemed to be independent (Article 8.5.6 of the code) The loss of independent (director) status occurs on the twelve-year anniversary date	Philippe Capron reached twelve years seniority in August 2016. The supervisory board considers that the seniority criterion of more than twelve years for a member of the supervisory board does not automatically lead to the loss of independence of said supervisory board member. Indeed, the supervisory board considers: · that the seniority criterion of even more than twelve years, may provide a member of the supervisory board with an increased capacity to question the executive board, along with a greater degree of independence. It was in this capacity that the supervisory board was asked to make a case by case assessment of the independence of its members, it being specified; · that it is important that members of the supervisory board have a good understanding of the Group, based on hindsight and reasoned judgment concerning the Group's major strategic directions and the ability to gain perspective based on decisions made and actions taken in the past; · that the leadership functions exercised by members of the supervisory board in companies other than Virbac strengthen their authority and constitute a guarantee of the independence of their judgment.	page 104
Creation of an appointments committee (Article 16 of the code)	The company has not followed this recommendation, firstly because of the size of the company and the stability of its management bodies, and secondly because all supervisory board members wish to be directly involved in the definition of the composition of the managing bodies.	page 106
Compensation committee chaired by an independent member (Article 17.1 of the code)	The company considered it preferable for the compensation committee to be chaired by a member of the supervisory board who represents the family majority shareholder. It should be noted that because of the division between the executive board and the supervisory board, the committee acts independently of executive corporate officers whose compensation it discusses.	page 105
Director's fees for attending supervisory board meetings (Article 20.1 of the code) Rules for distribution of directors' fees: compensation should be primarily variable	The company did not follow this recommendation. In fact, the company does not consider linking payment of directors' fees to attendance at supervisory board meetings in a weighted fashion to be desirable, since the involvement of supervisory board members in the company's supervisory activities is not limited to their participation in formal periodic supervisory board debates. The length of supervisory board meetings, which last an entire day, and the high attendance rates of its members amply confirm that the regular attendance of supervisory board members is ensured without having recourse to a complex mechanism for the allocation of directors' fees. For information purposes, it should be noted that the supervisory board decided to allocate a higher level of compensation to Philippe Capron in respect of his role as chairman of the audit committee.	page 113

Performance-related stock grants (Article 24.3.3 of the Code) 1. Specify the percentage of performance-related stock grants that may be awarded to executive directors depending on each company's situation (size, sector, etc.) 2. Link the acquisition of performance-related stock grants to performance conditions to be met over a period of several years running	1. The performances looked at are not linked to the performance of other companies or a benchmark sector because there are very few reliable comparisons, most companies with operations similar to those of Virbac being either unlisted or divisions of major listed pharmaceutical groups. 2. It is specified that the performance conditions to be met for the acquisition of shares are measured in relation to the consolidated operating profit and the Group's consolidated net debt at the close of the second full financial year following the plan's start date. Therefore, these components consider the Group's performance over more than two financial years, but performance is not evaluated periodically throughout the plan, as specified by the code.	page 114
Severance pay (Article 24.5.1 of the Code) Reference period for assessment of performance criteria	The fulfillment of the termination benefits performance criteria is assessed against the two half-year periods that precede the director’s departure, and not a minimum of two years, as stipulated in the Code. However, the amount of benefits is substantially lower than the limit of two years of compensation provided for under the Code and the performance criteria are demanding (operating profit from ordinary activities to revenue ratio higher than or equal to 7%).	page 116
Non-competition payment (article 23.5 of the code) The non-competition payment should not exceed the two-year compensation upper limit (annual fixed + variable compensation). Where severance pay is also paid, the cumulation of the two benefits may not exceed this upper limit	The sum of the executive board chairman’s non-competition and severance payments exceeds the two-year fixed and variable compensation upper limit set out in the Code. The non-competition payment was concluded in return for the non-competition commitment by the executive board's chairman, which aims to prevent him from leaving the company to join a competing group. The amount of the non-competition payment was determined in order to take into account, in the light of the chairman's age, the constraint which it may constitute for him.	page 116
Supplementary pension schemes (Article 23.2.6 of the Code) The group of potential beneficiaries must be materially broader than the sole executive directors	The company did not follow this recommendation. Virbac's policy is to only grant supplementary pensions to executive board members for three reasons: firstly, the supplementary pensions granted this way are of a controlled size and subject to the potential beneficiaries meeting several conditions, and secondly, it is preferable to avoid extending the category of beneficiaries due to the growing tax burden of this scheme, and lastly Virbac has established a well-balanced social policy for all employees in terms of welfare, voluntary profit sharing and savings (company savings plan, collective retirement savings plan, employer's contribution, etc.). In addition, the company goes beyond the Afep-Medef Code recommendations as regards the increase in potential rights, since they only represent a limited percentage of the beneficiary’s compensation, including the variable portion.	page 115

GOVERNING, MANAGEMENT AND MONITORING BODIES

Supervisory board

It has six members, three of whom are independent (in accordance with the criteria of the Afep-Medef corporate governance code described in the report of the chairwoman of the supervisory board): Philippe Capron, Olivier Bohuon and the company Galix Conseils, represented by Grita Loebsack.

Marie-Hélène Dick
Chairwoman of Virbac's supervisory board.
French.
Date of first appointment: 1998.
Current term ends: 2019.
Aged 53, a doctor of veterinary medicine and holder of an MBA from the HEC business school, Marie-Hélène Dick was appointed chairwoman of Virbac's supervisory board in April 2006.
Other positions held:

- chairwoman and general manager of Okelen, SA (France);
- permanent representative of Okelen, chairing Panmedica, SAS (France);
- chairwoman of the board of directors of Panpharma, SA (France).
- associate manager of the société civile immobilière Ilouet (France);
- officer of the Panpharma Australia Pty Limited company (Australia);
- officer of the Panpharma UK Limited company (United Kingdom);
- co-manager of the société civile immobilière Samakeur MH (France);
- manager of Investec, a non-trading company (France).

Number of shares held as of December 31, 2017: 1,635.

Pierre Madelpuech
A member of Virbac's supervisory board, acting as vice-president of the supervisory board, appointed by decision (cooptation) of the supervisory board of September 5, 2017, as a replacement of the Asergi company, which resigned.
Permanent representative of Asergi, a member of Virbac's supervisory board until September 5, 2017.
French.
Date of first appointment: 1995 (individually) and 2005 (as permanent representative of Asergi).
Current term ends: 2018.
Aged 57, Pierre Madelpuech is an Ensam engineering graduate and holds an MBA from the HEC business school.
Other positions held:

- manager of Asergi, SARL (France);
- director of Panpharma, SA (France);
- director of Okelen, SA (France);
- general manager of Panmedica, SAS (France);
- manager of Arteis Développement, SARL (France);
- general manager of RPG, SAS (France);
- associate manager of the société civile immobilière Igresa (France);
- manager of Art'Pro, SARL (France);
- manager of Crearef, SARL (France);
- manager of Crea Négoce, SARL (France);
- manager of Color'I, SARL (France);
- manager of P2LM (France);
- chairman of Fra Angelico, SASU (France).

Number of shares held as of December 31, 2017: 40.

Jeanine Dick
Member of Virbac's supervisory board, acting as vice-president of the supervisory board until September 5, 2017, the date of her resignation.
French.
Date of first appointment: 1992.
Aged 81, widow of the founder Pierre-Richard Dick, Jeanine Dick was chairwoman of Virbac's supervisory board for a number of years.
Other positions held: none
Number of shares held as of December 31, 2017: 8,020.

Solène Madelpuech:
A member of Virbac's supervisory board, appointed by decision (cooptation) of the supervisory board of September 5, 2017, as a replacement of Jeanine Dick, who resigned.
French.
24 years-old, she graduated with a Bachelor of Business and Management from the Warwick Business School and a Master's in Management from the London Business School.
Other positions held:
- co-manager of the société civile immobilière Samakeur MH (France);
- Member of the supervisory board of Investec, a non-trading company (France).

Number of shares held as of December 31, 2017: 10.

Philippe Capron
Member of Virbac's supervisory board.
French.
Date of first appointment: 2004.
Current term ends: 2019.
Aged 59 and a graduate of the HEC business school and the Institut d'Etudes Politiques de Paris, Philippe Capron is an alumnus of the ENA and was a finance inspector.
Other positions held in the Veolia Group:
- director of Transdev Group (France);
- director of Veolia Energie International (France);
- delegate director for the founding members of Fondation d'Entreprise Veolia Environnement (corporate foundation) (France);
- chairman of the board of directors of Veolia Environnement Services RE (France);
- Member of the supervisory board of Veolia Eau – Compagnie Générale des Eaux (France);
- director of the Institut Veolia (France);
- director of Veolia Environnement UK Ltd (United Kingdom);
- chairman of the board of directors of Veolia North America Inc (United States);
- deputy CEO of Veolia Environnement (France).
- director of the Econocom Group SA/NV (Belgium).

Number of shares held as of December 31, 2017: 442.

Olivier Bohuon
Member of Virbac's supervisory board.
French.
Date of first appointment: 2011.
Current term ends: 2020.
Aged 57, doctorate in pharmacy and MBA graduate of the HEC business school, Olivier Bohuon is a member of the National Pharmacy Academy and the Academy of Technologies.
Other positions held:
- director of the Smith&Nephew Plc company (United Kingdom);
- director of the company HealthCare Promise Investments partners SA (Luxembourg).
- director of the Shire PLC company (Ireland).

Number of shares held as of December 31, 2017: 45.

Grita Loebsack
Permanent representative of Galix Conseils, she was appointed by decision (cooptation) of the supervisory board of December 20, 2017 following her resignation for personal reasons.
Member of Virbac's supervisory board until December 20, 2017, the date of her resignation.
German.
Date of first appointment: 2014.
Current term ends: 2018
Aged 47, with a London School of Economics degree and an MBA at INSEAD.
Other positions held:
- director of the company Kicks Kosmetikkedjan AB (Sweden) ;

Number of shares held as of December 31, 2017: 0.

Non-voting advisor

The company Xavier Yon Consulting Unipessoal Lda, non-voting advisor, appointed by decision (cooptation) of the supervisory board of December 20, 2017, as a replacement of the company XYC, which resigned.
The company Xavier Yon Consulting Unipessoal Lda is represented by Xavier Yon, 77 years-old, a graduate of the Faculté des Sciences de Paris and the Harvard Business School, formerly president and CEO of Laboratoires Galderma, Yon has been a member of the supervisory board, either personally or as a legal representative of the XYC company, from 2004 until the end of 2013.
Current term ends: 2017.

Policy of staggered terms for supervisory board members

Since 2014, the terms of its members have been staggered in order to comply with the recommendations of the Afep-Medef Code.

Executive board

Éric Marée

Chairman of Virbac's executive board until December 20, 2017, the date he retired.
Aged 65, a graduate of the HEC business school and with an MBA from Cornell University, Eric Marée joined Virbac in October 1999 and has been chairman of the executive board since December of that year.
Other positions held in Virbac subsidiaries until he left the Group on December 20, 2017:

- chairman of Interlab, SAS (France);
- chairman of Virbac Corporation (United States);
- director of Virbac Limited (United Kingdom);

Number of shares held as of December 20, 2017: 9,460.

Sébastien Huron

Chairman of Virbac's executive board since December 20, 2017.
Aged 47, a veterinarian, Sébastien Huron joined the Virbac Group in 2006. He has been a member of the executive board since December 2012.

- manager of the société civile immobilière P.A.T.H (France).

Other terms performed at subsidiaries of Virbac:

- chairman of Bio Véto Test, SAS (France);
- director of Virbac Corporation (United States);
- chairman of Virbac Hellas S.A. (Greece);
- chairman of Animedica SA (Greece);
- director of Virbac Animal Health India Private Limited (India);
- director of Holding Salud Animal SA (Chile);
- director of Bioanimal Corp. S.A. (Chile);
- director of Productos Quimicos Ehlinger S.A. (Chile).

Current term ends: December 2020.
Number of shares held as of December 31, 2017: 945.

Christian Karst

Member of the executive board of Virbac.
Aged 59, a doctor of veterinary medicine, Christian Karst joined Virbac in 1984. He has been a member of the executive board since December 1996 and general manager since September 9, 2013.
Other positions held:

- manager of Karst, a non-trading property investment company (France).

Other terms performed at subsidiaries of Virbac:

- director of Virbac Limited (United Kingdom);
- director of Holding Salud Animal SA (Chile);
- director of Bioanimal Corp. S.A. (Chile);
- director of Productos Quimicos Ehlinger S.A. (Chile);
- director of the Asia Pharma Limited company (Hong Kong).

Current term ends: December 2020.
Number of shares held as of December 31, 2017: 5,825.

Habib Ramdani

Member of the executive board of Virbac.
Aged 42, Habib Ramdani, a graduate of the École Centrale de Paris, was appointed deputy director of Financial Affairs effective February 1, 2016 and subsequently director of financial affairs effective April 1, 2016.
Other positions held:

- director of the Asia Pharma Limited company (Hong Kong);
- director of Interlab, SAS (France) since late December 2017;
- permanent representative of Virbac, director of Virbac Chile Spa (Chile);
- permanent representative of Virbac, director of Virbac Patagonia Limitada (Chile);

Current term ends: December 2020.
Number of shares held as of December 31, 2017: none

Jean-Pierre Dick
Member of the executive board of Virbac.
Aged 52, Jean-Pierre Dick is a doctor of veterinary medicine and holds an MBA from the HEC business school. He has been a member of the executive board since December 1996.
Other positions held:
- chairman of the Virbac corporate foundation (France);
- manager of Absolute Dreamer SARL + (France);
- joint manager of Terre Du Large, a nontrading property investment company.
- co-manager of the société civile immobilière Samakeur JP (France);

Current term ends: December 2020.
Number of shares held as of December 31, 2017: 880.

COMPENSATION OF THE MEMBERS OF THE SUPERVISORY BOARD AND THE NON-VOTING ADVISOR IN RESPECT OF FINANCIAL YEAR 2017

Payment policy for directors' fees to members of the supervisory board

According to the Afep-Medef Code, directors' fees should be distributed taking into account directors' effective participation in the board and in the committees, and should be primarily variable.
The company does not deem it necessary that this recommendation from the Afep-Medef Code be applied. In fact, the company does not consider linking payment of directors' fees to attendance at supervisory board meetings in a weighted fashion to be desirable, since the involvement of supervisory board members in the company's supervisory activities is not limited to their participation in formal periodic supervisory board debates. The length of supervisory board meetings, which last an entire day, and the high attendance rates of its members amply confirm that the regular attendance of supervisory board members is ensured without having recourse to a complex mechanism for the allocation of directors' fees. For information purposes, it should be noted that the supervisory board decided to allocate a higher level of compensation to Philippe Capron in respect of his role as chairman of the audit committee.
A summary table on pages 108 and 109 lists the provisions of the Afep-Medef Code not adopted by the company and explains the reasons for this.
In accordance with the provisions of the 2016-1691 act of December 9, 2016, the parts of this compensation policy will be the subject of a vote at Virbac's next shareholder's meeting.

Table of attendance fees and other compensation received by members of the supervisory board and the non-voting advisor

The table below presents the attendance fees and other compensation due to members of the supervisory board according to the Afep-Medef recommendations.

in €	Amount due in respect of 2017		Amount due in respect of 2016	
	Compensation	Directors' fees	Compensation	Directors' fees
Marie-Hélène Dick	95,000	21,000	95,000	21,000
Jeanine Dick	-	4,000	-	12,000
Pierre Madelpuech	-	6,000	-	21,000
Philippe Capron	-	24,000	-	24,000
Olivier Bohuon	-	21,000	-	21,000
Company Asergi	-	6,000	-	-
Grita Loebsack	-	21,000	-	21,000
Solène Madelpuech	-	17,000	-	-
Non-voting advisor, company XYC represented by Xavier Yon	-	21,000	-	21,000
Total	**95,000**	**141,000**	**95,000**	**141,000**

COMPENSATION OF THE MEMBERS OF THE EXECUTIVE BOARD IN RESPECT OF FINANCIAL 2017

Policy on compensation paid to members of the executive board

The supervisory board, through its compensation committee, establishes the policy on compensation paid to members of the executive board, on the basis of the recommendations of the Afep-Medef Code currently in force.

The supervisory board ensures that the compensation is comprehensive, balanced among its various components, consistent and easy to understand.
The supervisory board also ensures that the compensation is aligned with market practices and the interests of shareholders, while taking into account the reality of the tasks performed and the company's corporate interest.

It is pointed out that, in accordance with the provisions of law 2016-1691 of December 9, 2016, all parts of the executive board member compensation policy will be voted on at Virbac's next shareholder's meeting.

Fixed compensation

The fixed compensation of executive board members reflects the responsibilities, experience and assigned tasks. It changes annually. Annual change is slight and in compliance with the consistency principle set out in the Afep-Medef Code.

Variable compensation

Each executive board member has a variable compensation target that is a percentage of his fixed compensation and that is consistent with the company's compensation practices.

The board sets out the criteria for determining the variable compensation of executive board members as well as the targets. It ensures that the criteria and targets are aligned with Virbac's strategic key issues and annual priorities. It gives precedence to quantitative criteria over qualitative criteria which, when they exist, account for a limited portion of the variable compensation. Finally, the supervisory board is careful to ensure that the criteria are easy to understand and simple.

The main financial criteria used by the supervisory board are:

- growth of the Group revenues;
- growth in the Group's operating profit from ordinary activities;
- changes in liquidity indicators (i.e. inventory control).

The amount attributable to each member of the executive board shall be based on the achievement of the objectives of the forthcoming financial year to be defined by the supervisory board meeting which is held each year in March of that year, based on an opinion issued by the compensation committee.

The level of achievement of the objectives for a given financial year shall be determined by a decision of the supervisory board based on the opinion of the compensation committee, and it shall be the subject of a vote in the shareholders' meeting, which will be called upon to decide on the approval of the statements for this same financial year.

Long-term compensation

Since 2006, the executive board, as authorized by the shareholders' meeting, has paid certain Virbac executives and those of its subsidiaries long-term compensation in the form of performance-related stock grants. The goal of these compensation mechanisms is not only to encourage executives to plan their work for the longer term, but also to bring their interests into line with the company's corporate interest and the interest of shareholders.

The supervisory board, by way of resolution, grants the executive board the authority to award bonus performance-related stock grants while setting out the general framework. Thus, the supervisory board limits the total number of performance-related stock grants that may be awarded to employees as well as to members of the executive board.

The executive board, as authorized by the shareholder's meeting, determines who the recipient executives will be and the number of performance-related stock grants to be distributed by ensuring that the award is in proportion to the fixed and variable portion. The executive board ensures that the awards are contingent on the achievement of targets aligned with the company's strategic key issues.

The procedures regarding the retention period for managers are: 35% of the shares vested to the chairman of the executive board and 25% for other corporate officers may not be sold while they work for the Group. This restriction will nonetheless be lifted where the corporate officers have established a Virbac share portfolio representing two years' target annual compensation (target gross salary and bonus), except for the chairman for whom this amount is set at three years' target compensation.

These awards are contingent on the achievement of a performance target. Moreover, the performances looked at are not linked to the performance of other companies or a benchmark sector because there are very few reliable comparisons, most companies with operations similar to those of Virbac being either unlisted or divisions of major listed pharmaceutical groups.

It should be pointed out that the performance conditions to be met for the acquisition of performance-related stock grants are measured against the internal objectives of consolidated operating profit and the Group's consolidated net debt at the close of the second full financial year following the plan's start date. Therefore, these components consider the group's performance over more than two financial years, but performance is not evaluated periodically throughout the plan, as specified by the code.
If the target is met, all of the shares in question are vested. If the target is not met, but the target is at least equal to 95%, half of the shares in question are vested. The other half of the shares are vested on a prorated basis according to the percentage of target met between 95% and 100%. For some plans, if 95% of the target is not met at the end of the second year, but rather at least 80% of the target is met at the end of the third year, half of the projected shares shall be vested.

Exceptions to the Afep-Medef Code recommendations on the performance-related stock grants that were not used by the company are explained in a table on pages 108 and 109 of the report.

Other benefits

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

Company vehicle.
Executive board members receive a company vehicle, in accordance with the policy defined by the compensation committee.

Health insurance plan, maternity benefits, pension and retirement:
Executive board members and the chairman of the executive board have the same health insurance, maternity benefits and pension and retirement plans as those provided to the company's executives, under the same contribution and benefit conditions as those defined for the other company executives.

Unemployment insurance plan
The chairman of the executive board is covered by the private GSC (Garantie Sociale des Chefs d'Entreprise [Unemployment Insurance for Corporate Directors]) in accordance with conditions defined by the supervisory board.
The other executive board members have the same unemployment insurance plan as that provided to the company's employees.

Supplementary pension plan of the executive board members
The members of the executive board and the chairman benefit from a supplementary defined benefit pension plan (12.5% of the reference salary and 22% in the event of service with the company exceeding 30 years) whose conditions of allocation are as follows:

- over ten years service in the Group (including nine years as a member of the executive board or 15 years for a benefit of 22% of the reference salary);
- at least 60 years-old;
- finished his/her career in the Group.

The reference period corresponds to the five years prior to the executive board member turning 60.
The supervisory board does not wish to apply one of the recommendations of the Afep-Medef Code regarding the supplementary pension scheme, which recommends that the group of beneficiaries must be materially broader than the sole executive directors. Virbac's policy is to only grant supplementary pensions to executive board members for three reasons:

- firstly, the supplementary pensions granted this way are of a controlled amount and subject to the potential beneficiaries meeting several conditions:
- secondly, expanding the category of beneficiaries is not deemed desirable based on the growing tax weight within this mechanism;
- finally, Virbac has established a well-balanced social policy for all employees in terms of welfare, voluntary profit sharing and savings (company savings plan, collective retirement savings plan, employer contribution, etc.).

In addition, the company goes beyond the Afep-Medef recommendations as regards the amount and the increase in potential rights, since they only represent 12.5% of the benchmark amount for seniority of between 10 and 30 years and are limited to 22% for seniority of more than 30 years.

The supervisory board of December 20, 2017 renewed the positions of all the executive board's members (with the exception of Éric Marée, who claimed his right to retire) for a new period of three years and it appointed Sébastien Huron as the new chairman of the executive board as a replacement to Éric Marée.
In accordance with the law, the supervisory board, in its December 20, 2017 and March 13, 2018 meetings, renewed the commitments made by the company for 2018 related to the supplementary defined benefit pension plan for the members of the executive board and it determined the necessary performance requirements.
The calculation of the annual contribution shall be based on the fixed and variable gross compensation amounts subject to an operating profit from ordinary activities to revenue ratio higher than or equal to 7% for the year in question.

A specific resolution for each member of the executive board will be presented at the next shareholders' meeting in order to renew the commitments relating to the defined benefit pension plan, taken up in their favor by the company for the year 2018.

Forced retirement severance pay

The new chairman of the executive board and the general manager benefit from the commitments made by the company in case of termination of their duties.

The supervisory board in its December 20, 2017 and March 13, 2018 meetings has granted to the new chairman of the executive board and it has renewed to the benefit of the general manager the commitments made by the company in case of termination of their duties (severance pay) as chairman of the executive board or as general manager. The supervisory board also determined the performance conditions required for the payment of the termination benefits.

It stated that:

- the commitments made by the company in the event of termination of office of its directors were adopted by the general shareholders' meeting of June 24, 2015. They correspond to the conditions renewed by the supervisory board at its meeting of March 13, 2015 and approved by the general shareholders' meeting of June 24, 2015, i.e. termination benefits can only be paid if the departure is imposed by the company. They will not be paid in the event of resignation, retirement or gross misconduct by the corporate officers concerned.
- The fulfillment of the termination benefits performance criteria is assessed against the two half-year periods or four half-year periods according to the specific case, that precede the director's departure, and not a minimum of two years, as stipulated in the Code. However, the amount of benefits is substantially lower than the limit of two years of compensation provided for under the Code and the performance criteria are demanding (operating profit from ordinary activities to revenue ratio higher than or equal to 7%).

A specific resolution for each of the beneficiaries will be presented at the next shareholders' meeting, in order to renew the commitments relating to the defined benefit pension plan, taken up in their favor by the company for the year 2018.

Non-competition payments

The supervisory board, based on a suggestion from the compensation committee, has required that the new chairman of the executive board have a non-competition commitment in the event of departure in return for which a non-competition indemnity was set out.

A summary table on pages 109 and 109 lists the provisions of the Afep-Medef Code not adopted by the company and explains the reasons for this.

Draft resolutions relating to the compensation policy submitted to be voted on at Virbac's next shareholder's meeting.

Twentieth resolution:

Remuneration policy for members of the supervisory board: approval of the principles and criteria for determining, distributing and allocating the total compensation and benefits in kind attributable to the members of the supervisory board

Having reviewed the report provided by Article L225-82-2 of the French Commercial Code, the shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, approves the principles and criteria for determining, distributing and allocating the elements comprising the total compensation and benefits in kind and attributable, due to their mandate, to the members of the supervisory board.

Twenty-first resolution:

Remuneration policy for the members of the executive board: approval of the principles and criteria for the determination, distribution and allocation of fixed, variable and exceptional elements comprising total compensation and benefits in kind attributable to members of the executive board

Having reviewed the report provided for in Article L225-82-2 of the French Commercial Code, the shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, approves the principles and criteria for determining, distributing and allocating the fixed, variable and exceptional components comprising the total compensation and benefits in kind and attributable, due to their mandate, to members of the executive board.

These draft resolutions will also be included in the information for voting and draft resolutions, pages 224 to 241 of the annual report.

Compensation paid to members of the executive board

In accordance with Afep-Medef recommendations, a summary of all types of compensation granted to members of the executive board is presented below and detailed in the following tables. The following tables present the details for each of the executive board members.

Summary of the gross amounts due for 2017

in €	Compensation due in respect of 2017	Value of stock options granted in 2017	Value of stock grants awarded for 2017[1]	Total compensation
Éric Marée	443,560	-	-	**443,560**
Sébastien Huron	310,705	-	-	**310,705**
Christian Karst	332,207	-	-	**332,207**
Habib Ramdani	211,501	-	-	**211,501**
Jean-Pierre Dick	41,840	-	-	**41,840**
Total	**1,339,813**	**-**	**-**	**1,339,813**

[1] Based on the method used for the consolidated accounts.

Summary of the gross amounts due for 2016

in €	Compensation due in respect of 2016	Value of stock options granted in 2016	Value of stock grants awarded for 2016[1]	Total compensation
Éric Marée	480,644	-	-	**480,644**
Sébastien Huron	318,051	-	185,050	**503,101**
Christian Karst	370,111	-	185,050	**555,161**
Michel Garaudet[2]	80,801	-	-	**80,801**
Habib Ramdani[3]	147,716	-	74,020	**221,736**
Jean-Pierre Dick	55,554	-	-	**55,554**
Total	**1,452,877**	**-**	**444,120**	**1,896,997**

[1] Based on the method used for the consolidated accounts.
[2] Until April 30, 2016, the date he retired.
[3] As of June 23, the date he joined the executive board.

Gross compensation Éric Marée

in €	Financial year 2017		Financial year 2016	
	Value due in respect of the period	Value paid out during the period	Value due in respect of the period	Value paid out during the period
Fixed compensation	370,000	370,000	340,472	340,472
Variable compensation	26,964	62,556	62,556	50,000
Extraordinary compensation	-	-	-	-
Directors' fees	45,000	45,000	74,528	74,528
Benefits in kind	1,596	1,596	3,088	3,088
Total	**443,560**	**479,152**	**480,644**	**468,088**

Calculation criteria for the variable portion

For the financial year 2017, the allocation criteria for the variable portion of Éric Marée's compensation were fixed as follows:

- growth of the Group's revenue, representing 40% of the target variable portion;
- growth in the Group's operating profit from ordinary activities before depreciation and research & development costs as well as regulatory and licensing costs, accounting for 30% of the target variable portion;
- generation of cash (30%) of which 10% regards free cash flow, 10% regards the stock, 5% is for complying with the June covenant and 5% for complying with the December 2017 covenant.

For the financial year 2017, the maximum potential variable portion of Éric Marée's compensation represents, as a percentage of his fixed compensation (including directors' fees paid by Group subsidiaries): 51.98%.

For the 2017 financial year, Éric Marée should be paid the following variable compensation: €26,964, representing 6.50% of his fixed compensation (including directors' fees paid by Group subsidiaries):
The payment of the variable compensation is subject to the approval by the next ordinary shareholders' meeting of the compensation elements in compliance with the provisions of Article L225-100, of the French commercial code.

Gross compensation Sébastien Huron

	Financial year 2017		Financial year 2016	
in €	Value due in respect of the period	Value paid out during the period	Value due in respect of the period	Value paid out during the period
Fixed compensation	265,000	265,000	245,000	245,000
Variable compensation	18,125	46,575	46,575	50,000
Extraordinary compensation	-	-	-	-
Directors' fees	25,000	25,000	25,000	25,000
Benefits in kind	2,580	2,580	1,476	1,476
Total	**310,705**	**339,155**	**318,051**	**321,476**

Calculation criteria for the variable portion

For the financial year 2017, the allocation criteria for the variable portion of Sébastien Huron's compensation was fixed as follows:

- growth of the Group's revenue, representing 40% of the target variable portion;
- growth in the Group's operating profit from ordinary activities before depreciation and research & development costs as well as regulatory and licensing costs, accounting for 30% of the target variable portion;
- generation of cash (30%) of which 10% regards free cash flow, 10% regards the stock, 5% is for complying with the June covenant and 5% for complying with the December 2017 covenant.

For the financial year 2017, the maximum potential variable portion of Sébastien Huron's compensation represents, as a percentage of his fixed compensation (including directors' fees paid by Group subsidiaries): 50.00%

For the 2017 financial year, Sébastien Huron should be paid the following variable compensation: €18,125, representing 6.25% of his fixed compensation (including directors' fees paid by Group subsidiaries):
The payment of the variable compensation is subject to the approval by the next ordinary shareholders' meeting of the compensation elements in compliance with the provisions of Article L225-100, of the French commercial code.

Unemployment insurance plan

The chairman of the executive board is covered by the private GSC (Garantie Sociale des Chefs d'Entreprise [Unemployment Insurance for Corporate Directors]) plan, which is based on the 70-for-one-year formula, in accordance with this organization's general conditions, and whose contributions will be entirely paid by the company, but will be claimed as a benefit in kind for the chairman of the executive board. The amount of the annual contributions over time shall not exceed €15,000.

Supplementary pension plan

Sébastien Huron, the new chairman of the executive board, continued to benefit, under the same conditions as those prevailing in previous years, from the supplementary defined benefit pension plan (Article 39) of the executive board members, whose contributions will continue to be paid by the company.
However, in order to meet the new requirements of the Macron Law of August 6, 2015, the amount of the annual contribution the company must pay due to the rights acquired by the new chairman of the executive board for a given financial year will be subject to compliance with the following provisions:

- contribution capped at 3% of the amount of his gross fixed and variable gross compensation due for said financial year;

- payment of the contribution subject to compliance with the following condition: operating profit from ordinary activities/revenue excluding taxes greater than or equal to 7% in the year in question;

- the determination of the achievement of this objective and the impact on the contribution under this supplementary insurance scheme of the members of the executive board will be carried out by the supervisory board, and it will be submitted to shareholders for approval at the shareholders’ meeting called to approve the financial statements for the financial year in question.

Forced retirement severance pay

Sébastien Huron, the new chairman of the executive board, will, in the event of a non-voluntary departure from his duties as chairman of the executive board, benefit from a severance pay whose amount will be determined according to the following objectives:

- to the extent where the Group's operating profit from ordinary activities to net revenue ratio would be higher than or equal to 7% on average for the two last fiscal semesters closed (for example: for a departure in August in year N: the period taken into account to calculate the ratio is from July 1st of year N-1 to June 30 of year N), the pay due will be equal to €700,000;
- to the extent where the Group's operating profit from ordinary activities to net revenue ratio would be lower than 7% on average for the two last fiscal semesters closed but higher than or equal to 4% on average for the last four fiscal semesters closed (for example: for a departure in May in year N: the period taken into account to calculate the ratio is from January 1st of year N-2 to December 31 of year N-1), the pay due will be equal to €550,000;
- to the extent where the Group's operating profit from ordinary activities to net revenue ratio would be lower than 4% on average for the last four fiscal semesters closed (for example: for a departure in May in year N: the period taken into account to calculate the ratio is from January 1st of year N-2 to December 31 of year N-1), no pay will be due.

In addition, the conditions for payment or non-payment of this severance pay are as follows:

- the severance pay may only be paid in the event of a forced departure, initiated by the company, including in the context of a non-renewal of the term of office at its end date, or of a renewal of the term of office under conditions that are less favorable than those applicable before the renewal (with regard to his fixed compensation and the percentage of his target variable compensation and his severance pay in case of forced departure) causing a departure from the company;
- it will not be owed in the event of resignation, full pension retirement, retirement once the age limit for being a chairman of the executive board is reached or in the event of dismissal for gross negligence. It will also not be due in the event of a change regarding the office of the new chairman of the executive board, following a change in the mode of governance of the company with the setting up of a non-executive chairman and an executive general manager, if Sébastien Huron is appointed executive general manager without any change to the compensation conditions and other conditions applicable prior to the change of the mode of governance.

Non-competition payments

The chairman of the executive board shall not work directly or indirectly for or exercise any corporate office mandate or otherwise exercise any activity in any group or company directly or indirectly engaging in research, development, manufacture and/or marketing of animal health products, in countries where Virbac has a subsidiary or stake.

This non-competition obligation shall apply until the end of a period of eighteen months after the effective cessation of his corporate mandate within the company and will result in a non-competition payment.

The company's supervisory board reserves the right to refrain from imposing on the new chairman of the executive board compliance with this non-competition clause upon termination of his corporate mandate, but this waiver may not take place or be exercised by the supervisory board before the sixtieth birthday of the chairman of the executive board and notice shall be given by registered letter with acknowledgment of receipt or through any other written means to the chairman of the executive board within a maximum period of three months from the announcement of this resignation in the event of resignation initiated by him, or immediately in the other cases, at the time of the effective termination of the mandate. In the event of renunciation of the non-competition clause under these provisions, no compensation shall be payable. In all other cases, the compensation will be due throughout the eighteen-month period.

In consideration of the non-competition obligation, Sébastien Huron, will receive each month, during the entire competition ban period, a payment in an amount equal to 80% of his gross fixed monthly compensation received for the company's last financial year-end (including directors’ fees and any other compensation related to his functions with the Virbac group). This payment will be limited, for this 18-month period, to a maximum gross amount of €500,000.

Gross compensation Christian Karst

in €	Financial year 2017		Financial year 2016	
	Value due in respect of the period	Value paid out during the period	Value due in respect of the period	Value paid out during the period
Fixed compensation	265,000	265,000	265,000	265,000
Variable compensation	19,375	57,200	57,200	50,000
Extraordinary compensation	-	-	-	-
Directors' fees	45,000	45,000	45,000	45,000
Benefits in kind	2,832	2,832	2,911	2,911
Total	**332,207**	**370,032**	**370,111**	**362,911**

Calculation criteria for the variable portion

For the financial year 2017, the allocation criteria for the variable portion of the compensation of Christian Karst were fixed as follows:

- growth of the Group's revenue, representing 40% of the target variable portion;
- growth in the Group's operating profit from ordinary activities before depreciation and research & development costs as well as regulatory and licensing costs, accounting for 30% of the target variable portion;
- generation of cash (30%) of which 10% regards free cash flow, 10% regards the stock, 5% is for complying with the June covenant and 5% for complying with the December 2017 covenant.

For the financial year 2017, the maximum potential variable portion of Christian Karst's compensation represents, as a percentage of his fixed compensation (including directors' fees paid by Group subsidiaries): 50.00%.

For the financial year 2017, Christian Karst should be paid the following variable compensation: €19,375, representing 6.25% of his fixed compensation (including directors' fees paid by Group subsidiaries):
The payment of the variable compensation is subject to the approval by the next ordinary shareholders' meeting of the compensation elements in compliance with the provisions of Article L225-100, of the French commercial code.

Supplementary pension plan

Christian Karst continued to benefit, under the same conditions as those prevailing in previous years, from the supplementary defined benefit pension plan (Article 39) of the executive board members, whose contributions will continue to be paid by the company.
However, in order to meet the new requirements of the Macron Law of August 6, 2015, the amount of the annual contribution the company must pay due to the rights acquired by the new chairman of the executive board for a given financial year will be subject to compliance with the following provisions:

- contribution capped at 3% of the amount of his fixed and variable gross compensation due for said financial year;
- payment of the contribution subject to compliance with the following condition: operating profit from ordinary activities/revenue excluding taxes greater than or equal to 7% in the year in question;
- the determination of the achievement of this objective and the impact on the contribution under this supplementary insurance scheme of the members of the executive board will be carried out by the supervisory board, and it will be submitted to shareholders for approval at the shareholders' meeting called to approve the financial statements for the financial year in question.

Forced retirement severance pay

Christian Karst, general manager, will, in the event of a non-voluntary departure from his general manager duties, benefit from a severance pay totaling €326,000.

The fulfillment of the termination benefits performance criteria is assessed against the two half-year periods that precede the director's departure, and not a minimum of two years, as stipulated in the Code. However, the amount of benefits is substantially lower than the limit of two years of compensation provided for under the Code.
The performance conditions are demanding: operating profit from ordinary activities to revenue ratio higher than or equal to 7% on average for the two last fiscal semesters closed preceding the departure of the officer.

Gross compensation Habib Ramdani

	Financial year 2017		Financial year 2016	
in €	Value due in respect of the period	Value paid out during the period	Value due in respect of the period	Value paid out during the period
Fixed compensation	203,000	203,000	109,016	109,016
Variable compensation	7,613	38,700	38,700	-
Extraordinary compensation	-	-	-	-
Directors' fees	-	-	-	-
Benefits in kind	888	888	-	-
Total	**211,501**	**242,588**	**147,716**	**109,016**

[1] As of June 23, the date he joined the executive board.

Calculation criteria for the variable portion

For the financial year 2017, the allocation criteria for the variable portion of the compensation of Habib Ramdani were fixed as follows:

- growth of the Group's revenue, representing 40% of the target variable portion;
- growth in the Group's operating profit from ordinary activities before depreciation and research & development costs as well as regulatory and licensing costs, accounting for 30% of the target variable portion;
- generation of cash (30%) of which 10% regards free cash flow, 10% regards the stock, 5% is for complying with the June covenant and 5% for complying with the December 2017 covenant.

In respect of the financial year 2017, the maximum potential variable portion of Habib Ramdani's compensation accounted for, as a percentage of his respective fixed compensation: 30.00%.

For the financial year 2017, Habib Ramdani should be paid the following variable compensation: €7,613, accounting for 3.75% of his fixed compensation.
The payment of the variable compensation is subject to the approval by the next ordinary shareholders' meeting of the compensation elements in compliance with the provisions of Article L225-100 of the French commercial code.

Supplementary pension plan

Habib Ramdani will continue to benefit, under the same conditions as those prevailing in previous years, from the supplementary defined benefit pension plan (Article 39) of the executive board members, whose contributions will continue to be paid by the company.
However, in order to meet the new requirements of the Macron Law of August 6, 2015, the amount of the annual contribution the company must pay due to the rights acquired by the new chairman of the executive board for a given financial year will be subject to compliance with the following provisions:

- contribution capped at 3% of the amount of his fixed and variable gross compensation due for said financial year;
- payment of the contribution subject to compliance with the following condition: operating profit from ordinary activities/revenue excluding taxes greater than or equal to 7% in the year in question;
- the determination of the achievement of this objective and the impact on the contribution under this supplementary insurance scheme of the members of the executive board will be carried out by the supervisory board, and it will be submitted to shareholders for approval at the shareholders' meeting called to approve the financial statements for the financial year in question.

Gross compensation Jean-Pierre Dick

	Financial year 2017		Financial year 2016	
in €	Value due in respect of the period	Value paid out during the period	Value due in respect of the period	Value paid out during the period
Fixed compensation	41,000	41,000	41,000	41,000
Variable compensation	-	13,773	13,773	-
Extraordinary compensation	-	-	-	-
Directors' fees	-	-	-	-
Benefits in kind	840	840	781	781
Total	**41,840**	**55,613**	**55,554**	**41,781**

Calculation criteria for the variable portion

For the financial year 2017, the allocation criteria for the variable portion of the compensation of Jean-Pierre Dick board were fixed as follows:

- growth of the Group's revenue, representing 15% of the potential variable portion;
- growth in the Group's operating profit from ordinary activities before depreciation and research & development costs as well as regulatory and licensing costs, representing 15%;
- the brand's reputation rate representing 35%;
- complying with the customer relations program, representing 35%.

In respect of the financial year 2017, the maximum potential variable portion of Jean-Pierre Dick's compensation accounted for, as a percentage of his respective fixed compensation: 42.68%.

For the financial year 2017, Jean-Pierre Dick shall not be paid any variable compensation:

Supplementary pension plan

Jean-Pierre Dick will continue to benefit, under the same conditions as those prevailing in previous years, from the supplementary defined benefit pension plan (Article 39) of the executive board members, whose contributions will continue to be paid by the company.

However, in order to meet the new requirements of the Macron Law of August 6, 2015, the amount of the annual contribution the company must pay due to the rights acquired by the new chairman of the executive board for a given financial year will be subject to compliance with the following provisions:

- contribution capped at 3% of the amount of his fixed and variable gross compensation due for said financial year;
- payment of the contribution subject to compliance with the following condition: operating profit from ordinary activities/revenue excluding taxes greater than or equal to 7% in the year in question;
- the determination of the achievement of this objective and the impact on the contribution under this supplementary insurance scheme of the members of the executive board will be carried out by the supervisory board, and it will be submitted to shareholders for approval at the shareholders' meeting called to approve the financial statements for the financial year in question.

Gross compensation Michel Garaudet

in €	Financial year 2017		Financial year 2016	
	Value due in respect of the period	Value paid out during the period	Value due in respect of the period	Value paid out during the period
Fixed compensation	-	-	65,016	65,016
Variable compensation	-	-	-	50,000
Extraordinary compensation	-	-	-	-
Directors' fees	-	-	14,952	14,952
Benefits in kind	-	-	833	833
Total	**-**	**-**	**80,801**	**130,801**

[1] Until April 30, 2016, the date he retired.

Michel Garaudet also collected in 2016 a retirement benefit that amounted to €60,125.

Shares subscription or purchase options

The company has no shares subscription or purchase options plan.

Performance-related stock grants

Allocated performance-related stock grants

Due to the non-achievement of objectives, the 2012 performance-related stock grants plan, which initially matured in 2014, and for which the supervisory board had decided to extend the deadline to December 31, 2016, was not allocated.

During 2017, with the executive board having estimated that the December 31, 2018 objectives relating to the 2016 performance-related stock grants plan would not be attainable, it leveraged certain regulatory provisions so as to extend by one year the duration of the plan, consequently postponing the performance indicator to be attained on

December 31, 2019. With this new outlook, and keeping in mind the financial forecasts, the Group estimates the actual expense to be 50% of the original amount.
It should be noted that:
- throughout the financial years 2013, 2014 and 2015, no performance-related stock grants were allocated;
- throughout the financial years 2014, 2015, 2016 and 2017, no performance-related stock grants were allocated under the 2011 and 2012 plans

Performance-related stock grants plan awarded to executive board members

The table below, based on a five-year history (2013 to 2017), presents the only plan in effect as of December 31, 2017: 2016 plan granted as of September 15, 2016.

	Number of stock options granted	Value of stock grants[1]	Acquisition date	Availability date[2]
Sébastien Huron	1,000	€185,050	2019	2021
Christian Karst	1,000	€185,050	2019	2021
Habib Ramdani	400	€74,020	2019	2021
Total	**2,400**	**€444,120**		

[1] Based on the method used for the consolidated accounts
[2] Except for a portion, refer to the paragraph "performance-related stock grants awarded."

The June 24, 2016 shareholders' meeting adopted a resolution to extend for a new thirty-eight month period the possibility of allocating company performance-related stock grants, in compliance with the provisions of article L225-197-1 *et seq.*, of the French commercial code.
This resolution allows for performance-related stock grants to be awarded to managers or comparable employees, or certain categories thereof, as well as to the corporate officers referred to in article L225-197-1 of the French Commercial Code, both for Virbac and the companies that are either directly or indirectly associated with it according to Article L225-197-2 of the French Commercial Code.
The total number of performance-related stock grants awarded may not represent over 1.0% of Virbac's capital. It is also pointed out that the number of performance-related stock grants awarded to the members of the executive board, during the term of the authorization, may not exceed 0.5% of the capital as of the day of the award. The allocation is made with no dilution, the company purchasing the number of required shares on the market.
Similar to the prior authorization, the bonus performance-related stock grants will only be definitive at the end of a vesting period of at least two years, with the shares thus held also having to be retained for at least two years from the end of the vesting period. The executive board will determine the identity of the beneficiaries as well as the terms and grant criteria for the shares that will be linked to the improvement in the Group's performance levels.

The executive board members have undertaken not to resort to hedging transactions for their risk of performance-related stock grants, until the end of the share lock-in period set by the supervisory board.

The chairman and executive board members have also agreed to retain 35% of the performance-related stock grants for the chairman of the executive board and 25% of the performance-related stock grants awarded for the other executive board members, as long as they are carrying out activity within the Group. This restriction will nonetheless be lifted where the corporate officers have established a Virbac share portfolio representing two years' target annual compensation (target gross salary and bonus), except for the chairman for whom this amount is set at three years' target annual compensation.

It will be proposed to the next shareholders' meeting of June 20, 2018 to adopt a resolution to renew the authorization for a further period of three years, under the same conditions. For more details, see pages 224 to 241.

Multi-year variable compensation

Members of the executive board receive no multi-annual variable compensation.

Contracts, plans and compensation

Corporate managing officers	Employment contract	Supplementary pension plan if conditions fulfilled	Compensation or other benefits due or likely to be due following the term or due to change in function	Compensation due to a non-competition clause
Éric Marée				
Position : chairman of the executive board[1] Term start date : December 2014 Term end date : December 2017	No	Yes	Yes[3]	Yes[3]
Sébastien Huron				
Position : chairman of the executive board[2] Term start date : December 2014 Term end date : December 2020	No	Yes	Yes	Yes
Christian Karst				
Position : member of the executive board and general manager Term start date : December 2014 Term end date : December 2020	Yes	Yes	Yes	No
Habib Ramdani				
Position : member of the executive board Term start date : June 2016 Term end date : December 2020	Yes	Yes	No	No
Jean-Pierre Dick				
Position : member of the executive board Term start date : December 2014 Term end date : December 2020	Suspended	Yes	No	No

[1] Éric Marée's term of office as executive board chairman ended on December 20, 2017.
[2] Sébastien Huron's term of office as executive board chairman started on December 20, 2017.
[3] Clauses that were not activated at Éric Marée's departure.

TRADING IN COMPANY SHARES

Pursuant to the provisions of Articles L621-18-2 of the French monetary and financial code and 223-26 of the general regulations of the *AMF*, we hereby present a summary of the transactions carried out during the past financial year by managers and related parties in respect of which the Group was notified.

By managers and related parties

No movements were declared in 2017.

By members of the supervisory board and related parties

No movements were declared in 2017.

SHARE CAPITAL STRUCTURE

As of December 31, 2017

	Shares	Voting rights	Capital	Voting rights
Dick family group	4,200,966	8,401,127	49.67%	65.81%
Company savings plan	68,337	136,674	0.81%	1.07%
Public	4,151,436	4,227,241	49.08%	33.12%
Treasury shares	37,261	-	0.44%	-
Total	**8,458,000**	**12,765,042**	**100.00%**	**100.00%**

As of December 31, 2016

	Shares	Voting rights	Capital	Voting rights
Dick family group	4,200,966	8,401,127	49.67%	65.75%
Company savings plan	73,333	146,666	0.87%	1.15%
Public	4,154,733	4,229,275	49.12%	33.10%
Treasury shares	28,968	-	0.34%	-
Total	**8,458,000**	**12,777,068**	**100.00%**	**100.00%**

Delegation granted by the shareholders' meeting concerning capital increases

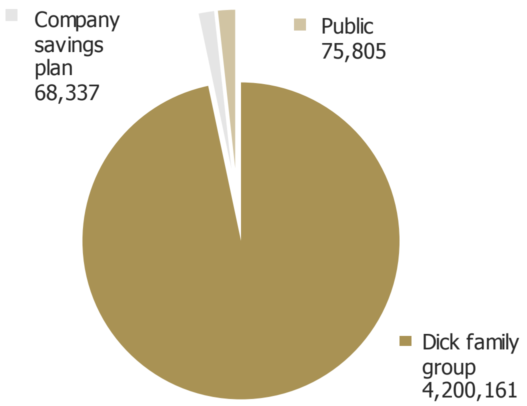
There is no delegation of authority granted by the shareholders' meeting in the area of capital increases; the company did not experience any capital increase.

Information likely to have an impact in the event of a public offering

Pursuant to Article L225-100-3 of the French commercial code, it should be noted that certain shares have special control rights.

Treasury shares (37,261) carry no voting rights.

A double voting right is granted to all shareholders holding their registered shares for at least two years. The following shares carry double voting rights:



Thresholds crossed

As of November 15, 2017, the Ameriprise Financial Group had 125,426 shares, or 1.483% of the total number of shares and 0.980% of voting rights.

STOCK MARKET DATA

in €	2013	2014	2015	2016	2017
Highest share price	189.80	184.10	257.95	223.80	177.30
Lowest share price	136.20	139.90	153.60	127.00	102.10
Average share price	156.97	166.44	205.43	162.29	141.43
Closing share price	155.30	174.30	219.80	167.20	123.50

Shareholder structure and stock market performance

Virbac provides clear, consistent and transparent information to its individual and institutional shareholders and their advisors (financial analysts).

This information is relayed by means of financial announcements published in the French media, press releases published on financial websites and the AMF website, and publication of Group quarterly revenue figures and half year financial results as required by law.

Employee holdings in share capital

Pursuant to Article L225-102 of the French Commercial Code, the employees of the company and companies associated with them owned 68,337 Virbac shares, representing a share capital of 0.81%, which were held through an employee savings plan and registered performance-related stock grants as of December 31, 2017.

Relations with individual investors

The virbac.com website has a financial information section that is regularly updated.
It allows Group financial information to be obtained and downloaded: press releases, annual and half year financial statements and annual reports. Internet users may also email questions pertaining to Group financial matters to finances@virbac.com.
Since 2007, in accordance with the obligations of the transparency directive and the general regulation of the AMF, the Investors tab contains of all the information required by the directive.

Relations with institutional investors

Leaders are heavily involved in communicating with the investors and analysts they meet over the course of the year, primarily in the Paris and London markets.
Analyst meetings and conference calls are arranged to coincide with the publication of results, acquisitions or other major events for the Group.
The Financial Affairs department is available to answer any questions investors and analysts may have regarding the Group's strategy, products, published results or major events.

OBSERVATIONS OF THE SUPERVISORY BOARD

The executive board presented the financial statements and management report for the financial year ending December 31, 2017 to the supervisory board which duly acquainted itself therewith.

The Group's consolidated revenue of €861.9 million decreased by 1.1% compared to 2016, 0.5% at equivalent rates and scope.

The adjusted operating profit from ordinary activities (restated to reflect the impact of the depreciation of intangible assets resulting from acquisition transactions) decreased by 3.0% compared to the previous fiscal year, dropping from €82.9 million at the end of 2016 to €80.3 million as of December 31, 2017. The negative contribution of the United States to the Group's operating profit as well as the increase in research and development costs for the year explain the majority of this change.

The Group's net result was a loss of €2.6 million in 2017, compared to a profit of €34.6 million in the previous year, a decrease at real rates of €37.2 million, mainly related to the impairment of the deferred tax asset regarding the US reportable tax losses from fiscal years 2015 to 2017 (€21.4 million). This impairment is explained, in application of the IAS12 standard, in particular by the existence of a history of recent and unused fiscal losses. The decrease in net profit is also explained to a lesser extent by the impairment of the assets associated with the leishmaniosis vaccine, for an amount of €5 million, following the arrival of a new player.

The Group's net debt as of December 31, 2017 decreased to €460.0 million, i.e. 105.4% of the equity attributable to the parent company's owners.

The share price, closing at €123.50 at the end of 2017, went down 26.1% compared with January 1, 2017.

At the shareholders’ meeting a proposal will be made not to distribute a dividend for the financial year 2017. The willingness to re-balance the financial situation by reducing debt accounts for the absence of a dividend payment for 2017.

The supervisory board currently consists of six members, three of which are independent, and 50% of members are women. Solène Madelpuech, belonging to the third generation of the majority shareholder family, was co-opted in place of Jeanine Dick, the founder's widow, who resigned.
The supervisory board meeting on December 20, 2017 appointed Sébastien Huron, 47, as chairman of the executive board, replacing Éric Marée who claimed his retirement rights. The supervisory board would like to warmly thank Éric Marée for his role as chairman of the executive board for 18 years and his contribution to the development, growth and reputation of the Virbac group despite the difficulties encountered during his last term of office. During these 18 years, he profoundly transformed the company which went on to become a French, European and global player, capable of "shaping the future of animal health and welfare." Through his training as a veterinarian, his excellent knowledge of the challenges of the global animal health market, his energy, his leadership qualities and his perfect operational knowledge of Virbac for eleven years, including four at the executive board, Sébastien Huron has all the assets needed to meet future challenges, namely to return as quickly as possible to former levels of profitability and to continue the development of the Group for the long term. Additionally, the supervisory board renewed, for a period of three years, the other members of the executive board, namely Christian Karst, Habib Ramdani and Jean-Pierre Dick.

The supervisory board would like to thank the members of the executive board, the management teams and all Virbac's employees throughout the world for the work they have accomplished in a difficult context, as well as the shareholders for their loyalty to the Group.

Consolidated accounts

CONSOLIDATED FINANCIAL STATEMENTS

Statement of financial position

in € thousand	Notes	2017	2016
Goodwill	A1-A3	303,048	342,368
Intangible assets	A2-A3	314,297	354,380
Tangible assets	A4	238,848	246,818
Other financial assets	A5	9,825	10,530
Share in companies accounted for by the equity method	A6	3,161	2,513
Deferred tax assets	A7	7,522	27,041
Non-current assets		**876,700**	**983,650**
Inventories and work in progress	A8	184,758	197,908
Trade receivables	A9	112,976	129,197
Other financial assets	A5	1,441	81
Other receivables	A10	53,079	57,870
Cash and cash equivalents	A11	48,378	48,454
Assets classified as held for sale	A12	-	-
Current assets		**400,631**	**433,511**
Assets		**1,277,332**	**1,417,161**
Share capital		10,573	10,573
Reserves attributable to the owners of the parent company		425,774	463,055
Equity attributable to the owners of the parent company	A13	**436,346**	**473,628**
Non-controlling interests		42,497	47,159
Equity		**478,843**	**520,787**
Deferred tax liabilities	A7	38,990	43,661
Provisions for employee benefits	A14	17,782	18,016
Other provisions	A15	3,010	2,558
Other financial liabilities	A16	409,634	438,460
Other payables	A17	571	583
Non-current liabilities		**469,988**	**503,278**
Other provisions	A15	2,240	2,197
Trade payables	A18	108,733	105,261
Other financial liabilities	A16	98,756	157,057
Other payables	A17	118,771	128,580
Current liabilities		**328,501**	**393,096**
Liabilities		**1,277,332**	**1,417,161**

Income statement

in € thousand	Notes	2017	2016	*Change*
Revenue from ordinary activities	**A19**	**861,882**	**871,828**	*-1.1%*
Purchases consumed	**A20**	-303,438	-300,152	
External costs	**A21**	-179,029	-181,927	
Personnel costs		-263,116	-269,714	
Taxes and duties		-11,992	-11,345	
Depreciations and provisions	**A22**	-26,514	-26,997	
Other operating income and expenses	**A23**	2,549	1,167	
Current operating profit before depreciation of assets arising from acquisitions[1]		**80,341**	**82,860**	*-3.0%*
Depreciations of intangible assets arising from acquisitions	**A22**	-15,946	-16,468	
Operating profit from ordinary activities		**64,396**	**66,392**	*-3.0%*
Other non-current income and expenses	**A24**	-6,348	2,621	
Operating result		**58,048**	**69,013**	*-15.9%*
Financial income and expenses	**A25**	-17,811	-16,453	
Profit before tax		**40,237**	**52,560**	*-23.4%*
Income tax	**A26**	-39,243	-14,987	
Including non-current tax expense		*-21,379*	-	
Share from companies' result accounted for by the equity method		765	294	
Net result from ordinary activities[2]	**A27**	**29,485**	**35,246**	*-16.3%*
Result for the period		**1,759**	**37,867**	*-95.4%*
attributable to the owners of the parent company		-2,575	34,646	*-107.4%*
attributable to the non-controlling interests		4,334	3,221	*34.5%*
Profit attributable to the owners of the parent company, per share	**A28**	-€0.31	€4.11	*-107.4%*
Profit attributable to the owners of the parent company, diluted per share	**A28**	-€0.31	€4.11	*-107.4%*

[1] In order to provide a clearer picture of its economic performance, the Group has, since 2015, isolated the impact of the depreciation of intangible assets resulting from acquisition transactions. This turned out to have a material effect considering the latest external growth that took place through acquisitions. Therefore, the income statement shows a current operating profit, before depreciation of assets arising from acquisitions.

[2] Since 2017, the Group discloses a "Net result from ordinary activities" that equates to net profit restated for the following items:

- the line "Other non-current income and expenses";
- non-current tax, which includes the tax impact of "Other non-current income and expenses", as well as all non-recurring tax income and expenses.

For 2017, non-recurrent tax expense applies to the impairment to the deferred tax asset of Virbac USA that amounts to €21.4 million (see note A27).

Comprehensive income statement

in € thousand	2017	2016	*Change*
Result for the period	**1,759**	**37,867**	***-95.4%***
Conversion gains and losses	-34,149	10,348	
Effective portion of gains and losses on hedging instruments	454	414	
Items subsequently reclassifiable to profit and loss (before tax)	**-33,695**	**10,762**	***-413.1%***
Actuarial gains and losses	-165	-1,682	
Items not subsequently reclassifiable to profit and loss (before tax)	**-165**	**-1,682**	***-90.2%***
Other items of comprehensive income (before tax)	**-33,860**	**9,081**	***-472.9%***
Tax on items subsequently reclassifiable to profit and loss	-160	-139	
Tax on items not subsequently reclassifiable to profit and loss	-262	576	
Withholding tax on distributions *	-	-5,126	
Comprehensive income	**-32,524**	**42,258**	***-177.0%***
attributable to the owners of the parent company	-34,708	35,106	*-198.9%*
attributable to the non-controlling interests	2,184	7,152	*-69.5%*

2017 translation differences cause a heavy drop of the Group equity. These are linked to the variation of currencies and their taking into account according to the rules of the consolidation, as it is indicated in the paragraph "Conversion of the financial statements".

The withholding tax recognized in 2016 for an amount of more than €5 million corresponds to a tax on distributions that Virbac has borne, in one of its subsidiaries, as part of the distributions made in order to move towards Virbac SA available cash.

Statement of change in equity

in € thousand	Share capital	Share premiums	Reserves	Conversion reserves	Result for the period	Equity attributable to the owners of the parent company	Non-controlling interests	Equity
Equity as at 12/31/2015	**10,573**	**6,534**	**408,886**	**3,012**	**9,405**	**438,410**	**43,880**	**482,290**
2015 allocation of net income	-	-	9,405	-	-9,405	**-**	-	**-**
Distribution of dividends	-	-		-	-	**-**	-3,873	**-3,873**
Treasury shares	-	-	205	-	-	**205**	-	**205**
Changes in scope	-	-	-	-	-	**-**	-	**-**
Other variations	-	-	-93	-	-	**-93**	-	**-93**
Comprehensive income	-	-	-5,957	6,417	34,646	**35,106**	7,152	**42,258**
Equity as at 12/31/2016	**10,573**	**6,534**	**412,446**	**9,429**	**34,646**	**473,628**	**47,159**	**520,787**
2016 allocation of net income	-	-	34,646	-	-34,646	**-**	-	**-**
Distribution of dividends	-	-		-	-	**-**	-6,845	**-6,845**
Treasury shares	-	-	-789	-	-	**-789**	-	**-789**
Changes in scope	-	-	-22	-	-	**-22**	-	**-22**
Other variations	-	-	-1,763	-	-	**-1,763**	-	**-1,763**
Comprehensive income	-	-	-133	-32,000	-2,575	**-34,708**	2,184	**-32,524**
Equity as at 12/31/2017	**10,573**	**6,534**	**444,385**	**-22,571**	**-2,575**	**436,346**	**42,497**	**478,843**

The ordinary shareholders' meeting of June 23, 2017 decided not to pay a dividend for the financial year 2016.
The other changes relate primarily to entries recorded by a subsidiary in 2017, in order to make a correction for receivables that should have been recorded in the previous financial years.

Cash position statement

in € thousand	Notes	2017	2016
Result for the period		**1,759**	**37,867**
Elimination of share from companies' profit accounted for by the equity method	**A6**	-765	-294
Elimination of depreciations and provisions	**A14-A22**	43,455	44,070
Elimination of deferred tax change	**A7**	14,350	-7,745
Elimination of gains and losses on disposals	**A23**	208	-47
Other income and expenses with no cash impact		3,460	-2,092
Cash flow		**62,467**	**71,759**
Effect of net change in inventories	**A8**	1,041	-11,650
Effect of net change in trade receivables	**A9**	9,986	23,710
Effect of net change in trade payables	**A18**	8,416	-10,292
Effect of net change in other receivables and payables	**A10-A17**	5,960	49,866
Effect of change in working capital requirements		**25,403**	**51,634**
Net financial interests paid	**A25**	19,936	19,056
Net cash flow generated by operating activities		**107,806**	**142,449**
Acquisitions of intangible assets	**A2-A18**	-6,705	-5,653
Acquisitions of tangible assets	**A4-A18**	-31,537	-34,380
Disposals of intangible and tangible assets	**A23**	283	314
Change in financial assets	**A5**	-4,282	-2,618
Change in debts relative to acquisitions		-	-
Acquisitions of subsidiaries or activities		-	-696
Disposals of subsidiaries or activities		-	-
Withholding tax on distributions	**A17**	-	-5,126
Dividends received		-	-
Net cash flow allocated to investing activities		**-42,241**	**-48,159**
Dividends paid to the owners of the parent company		-	
Dividends paid to the non-controlling interests		-5,159	-3,873
Change in treasury shares		-1,041	-4
Increase/decrease of capital		-	-
Cash investments	**A5**	-	673
Debt issuance	**A16**	239,008	104,612
Repayments of debt	**A16**	-281,815	-177,274
Net financial interests paid	**A25**	-19,936	-19,056
Net cash flow from financing activities		**-68,943**	**-94,922**
Change in cash position		**-3,378**	**-632**

Statement of change in cash position

in € thousand	2017	2016
Cash and cash equivalents	48,454	51,163
Bank overdraft	-9,158	-12,098
Accrued interests not yet matured	-36	-54
Opening net cash position	**39,260**	**39,011**
Cash and cash equivalents	48,378	48,454
Bank overdraft	-16,689	-9,158
Accrued interests not yet matured	-40	-36
Closing net cash position	**31,649**	**39,260**
Impact of currency conversion adjustments	-4,233	881
Impact of changes in scope	-	-
Net change in cash position	**-3,378**	**-632**

NOTES TO THE CONSOLIDATED ACCOUNTS

General information note

Virbac is an independent, global pharmaceutical laboratory exclusively dedicated to animal health and markets a full range of products designed for companion animals and food producing animals.

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

Virbac is a public limited company under French law with an executive board and a supervisory board. Its trading name is "Virbac". The company was established in 1968 in Carros.
The joint ordinary and extraordinary shareholders' meeting held on June 17, 2014, which adopted the resolution on revamping the articles of association, the company's lifetime was extended to 99 years, *i.e.* until June 17, 2113.
The head office is located at 1ère avenue 2065m LID, 06516 Carros. The company is registered in the Grasse Trade and companies register under the number 417350311 RCS Grasse.

The 2017 consolidated accounts were approved by the executive board on February 26, 2018. They will be submitted for approval to the shareholders' general meeting on June 20, 2018; the meeting has the power to have the statements amended.

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

Significant events over the period

Sébastien Huron was appointed chairman of the Virbac group executive board on December 21, 2017
At its annual shareholders' meeting held on June 23, Virbac announced that Éric Marée, chairman of the executive board for the past 17 years, had informed the supervisory board of his wish not to serve another term once the current term ends on December 20, 2017 and is therefore retiring. Sébastien Huron was appointed chairman of the executive board of the Virbac group, by the supervisory board that met on December 21, 2017.

Recognition of a licensing income
In March 2014, a Group subsidiary signed a contract granting an exclusive license over technology it owns to a third-party company. As such, the co-contracting party is entitled to develop, produce, formulate and acquire the necessary approvals to distribute and sell products derived from the use of this technology. An analysis of the contractual conditions prompted the Group to defer recognition of the corresponding income.
With licensing proceeds of $3.15 million being definitively achieved as of July 31, 2017, it was recognized under income from ordinary operations for the financial year.

Setting up new funding with the EIB (European Investment Bank)
This new source of funding amounting to $90 million, obtained by Virbac under advantageous conditions and for maturities of seven to eleven years, strengthens the Group's financing and improves its level of liquidity. In particular, it is intended to support Virbac's research and development programs and investments.

Announcing a plan to restructure the American subsidiary
On October 30, 2017, Virbac USA announced a staff reduction plan. This restructuring, resulting in a structure cost adjustment, was decided upon in response to the fallout from the production stoppage at the St. Louis facility and, in particular, a slower than expected resumption of business.
This restructuring plan amounts to a total cost of $1.5 million, of which $0.4 million was paid in 2017, while the remainder resulted in a provision for charges as of December 31, 2017.
The total cost of restructuring amounts to $1.5 million (€1.3 million). It appears on the line "Other non-current income and expenses".

Significant events after the closing date

The Court of Cassation rules in favor of Virbac
On January 31, 2018, the Court of Cassation partially quashed the judgment handed down on May 13, 2015 by the Lyon Court of Appeal in the case against Virbac in France brought forth by one of its main competitors (Fiproline case).
Virbac will give notice of the ruling in order to get reimbursed the approximately €2 million paid out following the Court of Appeal's ruling, with a new case very likely to be brought before the Court of Appeal for a fresh ruling.
This judgment made in 2018 had no accounting consequences in 2017.

Scope

The consolidated financial statements as of December 31, 2017 include the financial statements of the companies that Virbac controls indirectly or directly in law or in fact. The list of consolidated companies is provided in note A38.
At the end of the 2017 financial year, a joint venture was started in Algeria with a local partner in order to boost sales in this market. This joint venture did not generate any business in 2017.
There has been no other change to the scope of the consolidation.

Main accounting principles applied

The Virbac group's consolidated accounts were drawn up in line with the international accounting standards as adopted by the European Union (accounting basis available on the ec.europa.eu website). The international accounting standards include the IFRS (International financial reporting standards), the IAS (International accounting standards) and their interpretations, SIC (Standards interpretations committee) and IFRIC (International financial reporting interpretations committee).

For the presentation of the consolidated accounts for the 2017 financial year, the Group applied all standards and interpretations in force Europe-wide, applicable to financial years beginning on or after January 1, 2017. These standards and interpretations are as follows:

- amendments to IAS 7, "Statement of cash flows, information related to financing activities";
- amendments to IAS 12, "Recognition of deferred income tax assets for unrealized losses";

On the reporting date of these consolidated accounts, the following standards and interpretations were submitted by the IASB (International accounting standards board) and adopted by the European Union. These standards went into effect after January 1, 2017, but were available for early adoption.

In late May 2014, the IASB released the IFRS (International financial reporting standards) standard 15 "Revenue from contracts with customers". This standard will replace, as of January 1, 2018, standards IAS 18 "Revenue from ordinary activities", and IAS 11 "Construction contracts".

IFRS 15 includes new income recognition principles, in particular for identification of performance obligations or transaction price allocation for multiple-element arrangements, and it changes the analyses on revenue generated by licensing contracts or the inclusion of variable income. It also includes new attached information requirements.
Virbac began its IFRS 15 standard implementation project with a diagnostic phase during which the various categories of contracts entered into with customers, representative of Virbac's business, were analyzed in the main countries. Once the diagnostic was completed, the company had not identified any significant change in relation to how these contracts are currently treated based on IAS 18 and therefore does not anticipate a significant impact in its 2018 accounts related to the application of this new standard.

In July 2014, the IASB published the IFRS 9 standard "Financial Instruments". This standard will replace, as of January 1, 2018, the current standards for the presentation of financial instruments (IAS 32) and the recognition and measurement of financial instruments (IAS 39). IFRS 9 was structured around three main themes: classification and valuation, impairment and hedge accounting. Approved by the European Union, this standard shall be obligatorily applicable to financial years beginning on or after January 1, 2018. Given the nature of its operations, Virbac does not anticipate any major changes with the exception of the "fair value through other comprehensive income" option, that could be used for certain equities classified under IAS 39 as available-for-sale assets. Furthermore, analyses are ongoing regarding implementation of the new credit-risk recognition model (based on "expected credit losses") especially when it comes to trade receivables. At this stage, impact is being evaluated.
Virbac is considering applying the IFRS 9 standard on January 1, 2018.

In January 2016, the IASB published standard IFRS 16 "Leases", which aligns single lessee accounting with that of finance leases (*i.e.* recording future lease payments as a liability and the right of use as an asset on the balance sheet). Implementation of this standard will also result in a change in how the expense for lease payments is recognized in the income statement (*i.e.* allowance for depreciation and interest expense) and in the cash position table (the amount used for debt repayment will be recorded as cash flow from financing activities and the amount allocated to the asset side of the balance sheet will be recorded as cash flow from investment activities). The standard shall be applicable for financial years beginning on or after January 1, 2019. The Group has hired an IFRS consultant to assist in the implementation of IFRS 16 conversion and the impact analysis of this standard. At this stage, analysis of the impacts of this standard is ongoing.

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

- annual improvements (2014-2016 cycle), "Annual improvements to IFRS standards applicable to financial years beginning on or after January 1, 2017";
- amendments to IFRS 2, "Classification and Assessment of Share-based Payment Transactions";
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration";
- IFRIC 23 "Uncertainty over Income Tax Treatments";
- Amendments to IFRS 4 "Linkages between IFRS 4 and IFRS 9";
- Amendments to IAS 40 "Investment Property Transfers".

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

Consolidation rules

Consolidation methods

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

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

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

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

All companies have been consolidated based on the financial statements as of December 31, 2017.

Conversion of the financial statements

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

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

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

Elimination of inter-company transactions

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

Accounting principles and methods

Goodwill

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

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

For the purposes of these tests, the asset values are grouped by CGU (Cash generating unit). In the case of goodwill, the related assets held by the legal entity are typically the smallest identifiable group of cash-flow-generating assets. The legal entity is therefore used as a CGU. In the implementation of goodwill impairment tests, the Group uses an approach based on estimated future cash flow (estimation of value in use). This approach consists of calculating the value in use of the CGU by discounting estimated future cash flows. When the value in use of the CGU is less than its net carrying amount, an impairment loss in respect of goodwill is recognized to reduce the net carrying amount of the assets of the CGU to their recoverable amount, which is defined as the higher of the net fair value and the value in use.
The future cash flows used for the impairment tests are calculated based on estimates (business plans) projected over a five-year horizon. This horizon was extended to thirteen years as part of Virbac USA's asset impairment test in order to be aligned with the tax depreciation period for intangible assets acquired in 2015.
All of the business plans are validated by the subsidiaries' general management as well as by the Group's Finance Affairs department. The executive board formally validates the most significant CGU business plans.
For cash flow forecasts, the perpetual growth rates used, which depend on products and market growth expectations, and the discount rates based on the weighted average cost of capital after tax method, are presented in note A3.
Valuations carried out during the goodwill impairment tests are sensitive to the assumptions used in regards not only to the selling price and future costs, but also to the discount and infinite growth rates. Sensitivity calculations for measuring the Group's exposure to significant variations in these assumptions are performed.

Intangible assets

In accordance with the criteria stipulated in IAS 38, an intangible asset is recognized as an asset in the statement of financial position where it is likely that future economic benefits attributable to the asset will flow to the Group.
Intangible assets are valued at the historical acquisition cost, including acquisition costs, plus any internal costs of the staff that contributed to the realization of the intangible asset.
The amount of intangible assets is reduced by accumulated depreciation and, if applicable, accumulated impairment losses.

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

- concessions, patents, licenses and marketing authorizations (MA): depreciated over their useful lives;
- standard software (office tools, etc.): depreciated over a period of three or four years;
- ERP: depreciated over a period of five to ten years.

During the useful life of an intangible asset, it may seem that the estimation of its useful life has become inadequate. In addition to what is stated in IAS 38, the duration and method of depreciation of this asset is re-examined and if the expected useful life of the asset is different from previous estimations, the amortization period is consequently modified.
Research and development costs are capitalized from the moment they satisfy the criteria set out in IAS 38. Within the framework of the Group's activities, the main development costs are associated with the products that may only be exploited with MA. The Group considers that until the date when this marketing authorization is obtained, all IAS 38 criteria are not fulfilled and the related costs are posted as expenses.

In accordance with the provisions set forth in IAS 36 “Impairment of assets”, the potential impairment loss of intangible assets is examined each year. In the case of assets with indefinite useful lives, the tests are carried out during the second half of the year, regardless of whether there is any indication of impairment, and consistently whenever events or new circumstances indicate an impairment loss for assets with defined useful lives.
For the purposes of this testing, the Group takes account of sales generated by the intangible asset acquired. When carrying out intangible asset impairment tests, the Group takes an approach based on estimated future cash flows (estimate of value in use).
The future cash flows used for the impairment tests are calculated based on estimates (business plans) projected over a five-year horizon. All of the business plans are validated by the subsidiaries' general management as well as by the Group's Finance Affairs department. The executive board formally validates the most significant CGU business plans. For cash flow forecasts, the perpetual growth rates used, which depend on the products and market growth expectations, and the discount rates based on the weighted average cost of capital after tax method, are presented in note A3.
Valuations carried out during the goodwill impairment tests are sensitive to the assumptions used in regards not only to the selling price and future costs, but also to the discount and infinite growth rates. Sensitivity calculations for measuring the Group's exposure to significant variations in these assumptions are performed.

Tangible assets

In accordance with IAS 16, tangible assets are valued at their historical acquisition cost, including acquisition fees, or at their initial manufacturing cost, plus, if applicable, the internal costs of contributing staff directly resulting in the construction of a tangible asset.
In accordance with IAS 23 revised, loan costs are incorporated into the acquisition costs of eligible assets. In accordance with IAS 17, the goods acquired through capital leases are tangible when the lease contracts have transferred to the Group almost all risks and advantages inherent to the ownership of these goods.
The amount of the tangible assets is reduced by any accumulated depreciation and, if applicable, accumulated impairment losses.

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

Tangible assets are depreciated over their estimated useful lives, namely:

- buildings:
  - structure: 40 years;
  - components: ten to 20 years;
- materials and industrial equipment:
  - structure: 20 years;
  - components: five to ten years;
  - computer equipment: three or four years;
- other tangible assets: five to ten years.

Financial assets

The Group's other financial assets include mainly loans (especially loans to personnel), other fixed asset receivables and other operating receivables.
They are recognized and posted at the initial loan amount. A provision is recorded, if applicable, where there is a risk of non-recovery.

Other financial assets at fair value

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

Inventories and work in progress

Inventories and work in progress are accounted for at the lowest value of the cost and the net realizable value.
The cost of inventories includes all acquisition costs, transformation costs and other costs incurred to bring the inventories to their current location and condition. The acquisition costs of inventories include the purchase price, customs fees and other non-retrievable taxes, as well as transport and handling costs and other costs directly attributable to their acquisition. The rebates and other similar items are deducted from this cost.
Inventories in raw materials and supplies are evaluated in accordance with the "weighted average cost method".
Inventories in trading goods are also evaluated in accordance with the "weighted average cost method". The acquisition cost of raw material inventories includes all additional purchase costs.
The manufacturing work in progress and the finished products are valued at their actual manufacturing cost including direct and indirect production costs.
Finished products are valued in each subsidiary at the price invoiced by the Group's selling company, plus distribution costs; the margin included in these inventories is cancelled in the consolidated accounts taking into account the complete average production cost stated for the Group's selling company.
Spare parts are part of rotating inventories and the inventory at closing is valued based on the last purchase price.

An impairment loss is recorded in order to return the inventories to their net realizable value, when the products become out-of-date or unusable or even, according to sales forecasts for these products, assessed according to the market.

Trade receivables

Trade receivables are classified as current assets to the extent that they form part of the Group's normal operating cycle.
Trade receivables are recognized and recorded at the initial invoice total, minus provisions for depreciation. An estimation of the total bad debt is made when it becomes unlikely that the full amount will be recovered. Bad debts are written off when identified as such.
Receivables assigned as part of a factoring contract without recourse are subject to a substantial factoring contract analysis based on the criteria set out in IAS 39. These receivables are deconsolidated, if applicable.

Cash and cash equivalents

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

Treasury shares

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

Conversion reserves

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

Reserves

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

Non-controlling interests

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

Derivative instruments and hedge accounting

The Group holds derivative financial instruments solely for the purpose of reducing its exposure to rate or exchange risks on balance sheet items and its firm or highly probable commitments.
Virbac uses hedge accounting to offset the impact of the hedged item and of the hedging instrument in the income statement, on a quasi-systematic basis, when the following conditions are met:

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

Other financial liabilities

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

Retirement plans, severance pay and other post-employment benefits

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

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

Other provisions

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

Taxation

The Group's subsidiaries record their tax impact depending on the fiscal regulations applicable locally. The parent company and its main French subsidiaries are part of a fiscally integrated group. Under the terms of the tax consolidation agreement, each consolidated company is required to account for tax as if it were taxed separately. The income or expense of tax consolidation is recognized in the parent company's accounts.
The Group recognizes deferred taxes on temporary differences between the carrying amount and the tax base of an asset or liability. Tax assets and liabilities are not discounted.
In accordance with IAS 12, which under certain conditions authorizes the offsetting of debts and tax loans, the deferred tax assets and liabilities have been offset by fiscal entity. In situations where a net deferred tax asset is recognizable, it is recognized in accordance with IAS 12 only if there are strong indications that it may be charged against future taxable profits.

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

IFRS 5 states that an activity is considered abandoned when the classification criteria of an asset being held with a view to sale have been fulfilled or when the Group ceases the activity. An asset is classified as held for sale if its carrying amount will be mainly recovered through sale rather than through continued use.
As of December 31, 2017, no asset was classified as held for sale.

Revenue from ordinary activities

Revenue from ordinary activities comprises the value before tax of the goods and services sold by the integrated companies as part of their normal operations, after elimination of intra-group sales.
Revenue is recognized on the date on which the majority of the risks and advantages inherent to ownership are transferred, generally when the customer physically receives the product. Revenue is measured at fair value of the consideration received or to be received, that is net of commercial discounts or rebates.
Some expenses, the amount of which is proportional to sales and that meet the definition of income from ordinary activities, are recognized as a deduction from Group revenue.
Financial discounts and provisions for returns are also recognized as a deduction from revenue.
The Group measures its provisions for deferred discounts granted to customers based on its contractual or implicit commitments identified at the reporting date.

Personnel costs

Personnel costs especially include the cost of retirement plans. In accordance with IAS 19 revised, actuarial differences are posted as other comprehensive income.
They also include optional and compulsory profit-sharing.

Taxes and duties

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

Operating profit

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

Operating expenses include:

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

Operating items also include tax credits that may be characterized as public subsidies and that meet the IAS 20 criteria (apply primarily to the research tax credit and business competitiveness tax credit).

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

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

Other non-current income and expenses
Other non-current income and expenses are non-recurring income and expenses, or income and expenses resulting from one-time decisions or operations for an unusual amount. They are presented on a separate line in the income statement in order to make it easier to read and understand current operational performance.
This mainly includes the following items which, where appropriate, are described in a note to the consolidated financial statements (note A24):

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

Net result from ordinary activities

The net result from activities corresponds to the net result restated of the following items:

- the line "Other non-current income and expenses";
- non-current tax, which includes the tax impact of "Other non-current income and expenses", as well as non-recurring tax income and expenses.

Financial income and expenses

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

Earnings per share

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

Main sources of uncertainty relating to estimations

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

Acquisition prices

Some acquisition contracts relating to business combinations or the purchase of intangible assets, include a clause likely to change the price of the acquisition, depending on the objectives associated with financial income, the obtaining of marketing authorization, or results of efficacy testing.
In this case, the Group should estimate the acquisition price at the close of the fiscal year, based on the most realistic assumptions as regards for achieving these objectives.

Goodwill and other intangible assets

The Group has intangible assets that were purchased or acquired through business combinations, in addition to the resulting goodwill. As indicated in the "Accounting principles and methods" section, the Group performs at least one test annually on impairment of goodwill and intangible assets based on a valuation of future cash flows.
The evaluations made at the time of these tests are sensitive to assumptions relating to the sale price and future costs, but also in terms of discount rates and growth rates. These sensitivity calculations making it possible to measure the Group's exposure to significant variations in growth rates into infinity have been performed.

The Group may be prompted in the future to write down certain fixed assets in the event of deteriorating earning prospects for these assets or if there is an impairment loss for one of these assets.
As of December 31, 2017, the net total goodwill was €303,048 thousand and the value of the intangible assets was €314,297 thousand.

Deferred taxes

Deferred tax assets are recognized on deductible temporary differences between tax and accounting values of assets and liabilities. Deferred tax assets, in particular those relating to carried forward tax losses, are recognized only if it is likely that the Group will have sufficient future taxable income, which is based on a significant assumption.
At each balance sheet date, the Group has to analyze the origin of losses for each of the tax entities in question and re-measure the amount of deferred tax assets based on the likelihood of making sufficient taxable profits in the future.

Provisions for pension schemes and other post-employment benefits

As indicated in note A14, the Group has established retirement plans as well as other post-employment benefits.
The corresponding commitments were calculated using actuarial methods that take account of assumptions such as the benchmark salary for scheme beneficiaries and the likelihood of the persons in question being able to benefit from the scheme, and the discount rate. These assumptions are updated at each year-end. Actuarial differences are immediately recognized in other comprehensive income.
The net amount of commitment relating to employee benefits was €17,782 thousand as of December 31, 2017.

Other provisions

The other provisions deal essentially with miscellaneous commercial and social liabilities and disputes.
No provisions are established if the company considers that the liability is contingent (as defined by IAS 37).
As of December 31, 2017, the amount of other provisions was €5,250 thousand.

A1. Goodwill

Change in goodwill by CGU

in € thousand	Gross value as at 12/31/2016	Impairment value as at 12/31/2016	Book value as at 12/31/2016	Increases	Sales	Impair-ment of value	Conversion gains and losses	Book value as at 12/31/2017
Italy	1,585	-	**1,585**	-	-	-	-	**1,585**
Denmark	4,643	-	**4,643**	-	-	-	-	**4,643**
Leishmaniosis vaccine	5,421		**5,421**	-	-	-5,000	-	**421**
Greece	1,358	-	**1,358**	-	-	-	-	**1,358**
Colombia	1,968	-	**1,968**	-	-	-	-187	**1,781**
India	15,816	-	**15,816**	-	-	-	-978	**14,838**
United States	244,274	-3,890	**240,384**	-	-	-	-28,907	**211,477**
Australia	3,432	-342	**3,091**	-	-	-	-90	**3,001**
Peptech	3,308	-	**3,308**	442	-	-	-179	**3,571**
New Zealand	16,753	-169	**16,584**	-	-	-	-1,658	**14,926**
Chile	33,292	-	**33,292**	-	-	-	-1,406	**31,886**
Uruguay	4,513	-	**4,513**	-	-	-	-546	**3,967**
SBC	7,865	-	**7,865**	-	-	-	-782	**7,083**
Other CGUs	4,283	-1,743	**2,540**	-	-	-	-29	**2,511**
Goodwill	**348,511**	**-6,144**	**342,368**	**442**	**-**	**-5,000**	**-34,763**	**303,048**

The acquisition of the Peptech company in Australia in 2012 was treated in accordance with IFRS 3. In 2017, the amount of goodwill was adjusted by €442 thousand to compensate for the deferred liability tax recognized on the acquisition date. This correction follows a technical interpretation issued in 2017 invalidating a previously accepted method for acquisitions treated in accordance with IFRS 3.
The €5 million goodwill impairment on the Leishmaniosis vaccine follows the performance of impairment tests (see note A3).
Changes in the foreign exchange rate resulted in a €34.8 million decrease in this item.

A2. Intangible assets

Changes in intangible assets

in € thousand	Concessions, patents, licences and brands – Indefinite life	Concessions, patents, licences and brands – Finite life	Other intangible assets	Intangible assets in progress	Intangible assets
Gross value as at 12/31/2016	**177,102**	**245,535**	**51,176**	**9,476**	**483,289**
Acquisitions and other increases	235	837	1,957	3,610	**6,639**
Disposals and other decreases	-1	-96	-601	-	**-698**
Changes in scope	-	-	-	-	**-**
Transfers	72	98	3,773	-1,738	**2,205**
Conversion gains and losses	-13,044	-21,017	-886	-676	**-35,622**
Gross value as at 12/31/2017	**164,363**	**225,358**	**55,419**	**10,673**	**455,813**
Depreciation as at 12/31/2016	**-219**	**-84,512**	**-43,888**	**-291**	**-128,909**
Depreciation expense	-	-16,901	-3,118	-	**-20,018**
Impairment losses (net of reversals)	52	-152	-3	-120	**-223**
Disposals and other decreases	-	28	601	-	**629**
Changes in scope	-	-	-	-	**-**
Transfers	-	-	-14	-	**-14**
Conversion gains and losses	1	6,318	694	7	**7,020**
Depreciation as at 12/31/2017	**-166**	**-95,219**	**-45,727**	**-404**	**-141,516**
Net value as at 12/31/2016	**176,883**	**161,023**	**7,288**	**9,185**	**354,380**
Net value as at 12/31/2017	**164,197**	**130,139**	**9,692**	**10,269**	**314,297**

The other intangible assets relate essentially to computer projects, in many of the Group's subsidiaries. They all have definite useful lives. The increase in the item "Other intangible assets" is primarily due to computer investments at Virbac SA.
Changes in the item "Intangible assets in progress" relate primarily to computer projects as well as an investment in a licensing agreement with a CRO (Contract research organization) as part of a development project.
In addition to depreciation, the significant decrease in the item Concessions, patents, licenses and brands is entirely related to exchange rate changes.

Concessions, patents, licenses and brands

The item "'Concessions, patents, licenses and brands" includes:

- rights relating to the patents, know-how and MA necessary for the Group's production activities and commercialization procedures;
- trademarks;
- distribution rights, customer files and other rights to intangible assets.

It is made up primarily of intangible assets from acquisitions, which are treated in accordance with IAS 38, as well as assets acquired as part of external growth transactions, as defined by IFRS 3.

As of December 31, 2017, this item comprised the following:

in € thousand	Acquisition date	Brands	Patents and know-how	Marketing authorizations and registration rights	Customers lists and others	Total
United States: Sentinel	2016	41,774	27,402	44,601	12,490	**126,268**
SBC	2016	-	3,776	1,919	-	**5,696**
Uruguay: Santa Elena	2013	3,269	9,064	-	-	**12,332**
Australia: Axon	2013	938	1,379	-	-	**2,318**
Australia: Fort Dodge	2010	1,576	469	-	-	**2,045**
New Zealand	2012	3,146	881	-	3,046	**7,073**
Centrovet	2012	21,677	39,315	-	10,583	**71,574**
Multimin	2011-2012	3,447	5,727	-	-	**9,174**
Peptech	2011	1,009	71	-	-	**1,080**
Colombia: Synthesis	2011	1,727	-	866	-	**2,593**
Schering-Plough Europe	2008	4,879	311	5,446	-	**10,635**
India: GSK	2006	11,759	-	-	-	**11,759**
Leishmaniosis vaccine	2003	-	1,901	15,827	-	**17,728**
Others		7,108	1,864	4,093	997	**14,062**
Total intangible assets		**102,310**	**92,159**	**72,751**	**27,116**	**294,336**

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

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

As at December 31, 2017

in € thousand	Intangible assets with indefinite life	Intangible assets with finite life	Total
Brands	102,310	-	**102,310**
Patents and know-how	43,013	49,146	**92,159**
Marketing authorizations and registration rights	18,863	53,888	**72,751**
Customers lists and others	12	27,104	**27,116**
Total intangible assets	**164,197**	**130,139**	**294,336**

As at December 31, 2016

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

No brands are classified as intangible assets with finite useful lives. Therefore, no trademarks are depreciated.

A3. Impairment of assets

At the 2017 year-end, Virbac conducted intangible asset impairment tests. These involve comparing their net carrying amount, including acquisition goodwill, to the recoverable amount of each CGU (cash generating unit).

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

The CGUs are homogeneous groups of assets whose continued use generates cash inflows that are substantially independent of cash inflows generated by other groups of assets.
The net carrying amount of the CGUs includes acquisition goodwill, tangible and intangible assets as well as other assets and liabilities that can be directly assigned to the CGUs and that contribute directly to the generation of future cash flows.

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

Future cash flows are cash flows net of tax, and are valued based on cash flow forecasts consistent with the budget and the latest mid-term estimates (business plans).
All of the business plans are validated by the subsidiaries' general management as well as by the Group's Finance Affairs department. The executive board formally validates the most significant CGU business plans.

Beyond the future cash flow forecasting horizon set at five years for all CGUs tested with the exception of the United States (thirteen years, so as to be aligned with the tax depreciation period for intangible assets acquired in 2015), an infinite growth rate is applied to the terminal value.

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

The discount rate used for these calculations is based on the Group's weighted average cost of capital, amounting to 7.5% for 2017. This rate was increased by 2.0 points for some CGUs, *i.e.* a rate of 9.5% (in particular for Chile), in order to take into account risks inherent to some markets. This discount rate is a post-tax rate applied to post-tax cash flows.

As of December 31, 2017, the tests resulted in the recognition of a goodwill impairment of €5 million on the Leishmaniosis vaccine CGU.

Sensitivity tests

The Group performed tests for sensitivity to key value in use assumptions as they pertain to all of the tested CGU's. Changes in assumptions are as follows:

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

Both changes in key assumptions would not involve any impairment of tested assets, except on the Chilean CGU, which would require an impairment of €20.6 million in the event of a 2.0 point increase in the discount rate and an impairment of €6.1 million in the event of a 2.0 point decrease in the infinite growth rate.

Moreover, for the five most significant CGUs (which accounted for 80% of the gross value of intangible assets and goodwill as of December 31, 2017), Virbac conducted sensitivity tests relating to a change in the Ebit revenue ratio after taxes. Only the Chilean CGU would require an impairment of €10.1 million in the event the rate decreases by 4.0 points.

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

For the major CGU's, the results of the break-even point are presented below.

in € thousand	Net book value of CGU as at 12/31/2017	Discount rate, combined into a zero perpetual growth rate, from which impairment is established
United States	421,271	9.3%
SBC	17,456	15.2%
Uruguay: Santa Elena	29,529	19.6%
Australia	35,664	34.5%
New Zealand	28,469	20.5%
Centrovet	167,806	8.6%
Multimin	11,933	47.9%
Peptech	7,897	125.1%
Colombia	7,068	41.4%
Schering-Plough Europe	12,562	17.1%
India: GSK	48,701	36.2%
Leishmaniosis vaccine[1]	26,811	6.0%

[1] The net carrying amount of the Leishmaniosis vaccine CGU presented here equates to the value before the recognition of the impairment amounting to €5 million.

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

A4. Tangible assets

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

As of December 31, 2017, the gross value of goods acquired under capital lease agreements and recognized under tangible assets, in accordance with IAS 17, amounted to €14,743 thousand (including €9,783 thousand in assets at the Centrovet production facility in Chile, and €4,264 thousand in Virbac IT equipment).

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

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

in € thousand	Land	Buildings	Technical facilities, materials and industrial equipment	Other tangible assets	Tangible assets in progress	Tangible assets
Gross value as at 12/31/2016	**20,902**	**175,345**	**172,344**	**33,280**	**45,905**	**447,776**
Acquisitions and other increases	-	2,451	5,493	1,886	19,209	**29,040**
Disposals and other decreases	-65	-2,033	-1,529	-2,745	-6	**-6,378**
Changes in scope	-	-	-	-	-	**-**
Transfers	-	7,119	13,748	1,331	-23,571	**-1,373**
Conversion gains and losses	-1,237	-5,637	-6,458	-1,779	-3,628	**-18,739**
Gross value as at 12/31/2017	**19,600**	**177,245**	**183,598**	**31,973**	**37,909**	**450,326**
Depreciation as at 12/31/2016	**-**	**-85,322**	**-94,237**	**-21,400**	**-**	**-200,958**
Depreciation expense	-	-7,288	-11,319	-3,800	-	**-22,406**
Impairment losses (net of reversals)	-	-4	-36	-11	-52	**-103**
Disposals and other decreases	-	1,899	1,458	2,599	-	**5,956**
Changes in scope	-	-	-	-	-	**-**
Transfers	-	-	-	378	-	**378**
Conversion gains and losses	-	1,758	2,781	1,114	3	**5,655**
Impairment as at 12/31/2017	**-**	**-88,956**	**-101,353**	**-21,120**	**-49**	**-211,478**
Net value as at 12/31/2016	**20,902**	**90,023**	**78,107**	**11,880**	**45,905**	**246,818**
Net value as at 12/31/2017	**19,600**	**88,288**	**82,245**	**10,854**	**37,859**	**238,847**

At Virbac USA, investments continued in preparation for the resumption of manufacturing by Virbac of products of the Sentinel line (€2.5 million). Divestments were made at Virbac USA, following a tangible asset inventory count amounting to a gross value of $1.7 million.
Productive investments were made in Carros (including more than €2 million incurred in bringing buildings up to code). During the same period, divestments were made at Virbac USA, following a tangible asset inventory count amounting to a gross value of €2.9 million.

Commissioning of these various investments are shown on the line "Transfers".
In addition to depreciations, the decrease in the net asset value is related to the currency exchange effect, amounting to €13.1 million.

A5. Other financial assets

Change in other financial assets

in € thousand	2016	Increases	Decreases	Changes in scope	Transfers	Conversion gains and losses	2017
Loans and other financial receivables	**3,332**	5,304	-1,282	-	1,436	-340	**8,451**
Currency and interest rate derivatives	**7,150**	-	-5,821	-	-	-	**1,329**
Restricted cash	**43**	-	-	-	-	-3	**40**
Other	**5**	-	-	-	-	-	**5**
Other financial assets, non-current	**10,530**	**5,304**	**-7,102**	**-**	**1,436**	**-343**	**9,825**
Loans and other financial receivables	**81**	20	-	-	-	-4	**97**
Currency and interest rate derivatives	**-**	1,344	-	-	-	-	**1,344**
Restricted cash	**-**	-	-	-	-	-	**-**
Other	**-**	-	-	-	-	-	**-**
Other financial assets, current	**81**	**1,364**	**-**	**-**	**-**	**-4**	**1,441**
Other financial assets	**10,611**	**6,668**	**-7,102**	**-**	**1,436**	**-346**	**11,266**

Changes in the line "Loans and other long-term receivables" are related to entries recorded as factoring contract holdbacks.
The change in value of €5.8 million related to currency and interest rate derivatives is primarily related to the decrease in the CLP hedge market value. The original hedge that matured in December 2017 showed a mark-to-market of €5.4 million. This hedge was renewed in December 2017 based on a traded price close to the price in effect on 12/31/2017 (mark-to-market = 0).

Other financial assets classified according to their maturity

As at December 31, 2017

in € thousand	Payments			Total
	less than 1 year	from 1 to 5 years	more than 5 years	
Loans and other financial receivables	97	8,451	-	**8,548**
Currency and interest rate derivatives	1,344	1,329	-	**2,673**
Restricted cash	-	40	-	**40**
Other	-	-	5	**5**
Other financial assets	**1,441**	**9,820**	**5**	**11,266**

As at December 31, 2016

in € thousand	Payments			Total
	less than 1 year	from 1 to 5 years	more than 5 years	
Loans and other financial receivables	81	3,332	-	**3,413**
Currency and interest rate derivatives	-	7,150	-	**7,150**
Restricted cash	-	43	-	**43**
Other	-	-	5	**5**
Other financial assets	**81**	**10,525**	**5**	**10,611**

A6. Information about IFRS 12

Information about non-controlling interests

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

- Holding Salud Animal SA;
- Centro Veterinario y Agricola Limitada;
- Farquimica SpA;
- Bioanimal Corp SpA;
- Productos Quimicos Ehlinger;
- Centrovet Inc.;
- Centrovet Argentina;
- Inversiones HSA Limitada;
- Rentista de Capitales Takumi Limitada.

The share of non-controlling interests in the group stands at 49%. Equity allocated to minority interests amounted to €42,309 thousand, including €4,334 thousand in profit for the period.

The table below provides a summary of the financial position of the HSA sub-group as of December 31, 2017.

	in CLP thousand	in € thousand
Goodwill	23,563,558	31,885
Intangible assets	53,547,473	72,458
Tangible assets	20,898,528	28,279
Non-current assets	**98,009,559**	**132,623**
Inventories and work in progress	11,460,564	15,508
Trade receivables	17,456,407	23,621
Other financial assets	3,830,173	5,183
Cash and cash equivalents	2,125,243	2,876
Current assets	**34,872,387**	**47,188**
Assets	**132,881,946**	**179,811**
Equity	**87,375,019**	**118,233**
Non-current financial liabilities	6,382	9
Other non-current liabilities	15,912,041	21,532
Non-current liabilities	**15,918,423**	**21,540**
Current financial liabilities	19,444,258	26,311
Other current liabilities	10,144,247	13,727
Current liabilities	**29,588,505**	**40,038**
Liabilities	**132,881,946**	**179,811**

The net increase in cash position during the financial year amounted to €1,781 thousand.

The dividends paid out by the HSA Group in 2017 totaled €11,013 thousand (including €5,265 thousand paid out to owners of non-controlling interests).

The table below provides a summarized income statement of the HSA sub-group for 2017.

	in CLP thousand	in € thousand
Revenue from ordinary activities	**48,158,358**	**65,775**
Other income and expenses	-39,951,017	-54,566
Operating result	**8,207,341**	**11,210**
Financial income and expenses	642,545	878
Profit before tax	**8,849,886**	**12,087**
Income tax	-2,376,983	-3,247
Result for the period	**6,472,904**	**8,841**

Information about equity-accounted companies

in € thousand	Company's individual accounts using equity method				Consolidated financial statements	
	Balance sheet total	Equity	Sales	Result	Share of equity	Share of result
AVF Animal Health Co Ltd	NA	NA	-	-	2,943	765
GPM Virbac	NA	NA	-	-	218	-
Share in companies accounted for by the equity method					**3,161**	**765**

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

A7. Deferred taxes

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

The impact of future changes in tax rates was taken into consideration when calculating the deferred tax expense. This includes tax hikes in Chile (27% beginning in 2018), as well as tax cuts passed in 2017 in France (gradually dropping to 25% in 2022) and in the United States (the federal tax rate drops from 35% to 21% beginning in 2018).

Variation in deferred taxes

in € thousand	2016	Variations	Changes in scope	Transfers	Conversion gains and losses	2017
Deferred tax assets	**54,783**	-31,965	-	-295	-1,769	**20,754**
Deferred tax liabilities	**71,403**	-17,455	-	949	-2,675	**52,222**
Deferred tax offset	**-16,620**	**-14,510**	**-**	**-1,244**	**906**	**-31,468**

The variation in deferred taxes shown above excludes deferred taxes on the effective share of the profits and losses on hedging instruments, which totaled -€139 thousand over the 2017 year.

Deferred taxes broken down by type

As at December 31, 2017

in € thousand	Deferred tax assets
Internal margin on inventories	7,888
Retirement and end of career severance commitments	5,112
Tax loss carryforwards	250
Sales adjustments (IAS 18)	1,180
Inventory adjustments (IAS 2)	651
Other non-deductible provisions	1,543
Other charges with deferred deduction	4,131
Total by type	**20,754**
Impact of compensation by fiscal entity	-13,232
Deferred net tax assets	**7,522**

in € thousand	Deferred tax liabilities
Adjustments on intangible assets	38,817
Adjustments on tangible assets	2,385
Adjustments on fiscal provisions	8,680
Activation of expenses linked to acquisitions	785
Leases adjustments	1,430
Other income taxed in advance	123
Total by type	**52,222**
Impact of compensation by fiscal entity	-13,232
Deferred net tax liabilities	**38,990**

Deferred tax asset use horizon

The table below indicates the loss use horizon and other charges for deferred deduction:

in € thousand	Deferred tax assets as at 12/31/2017	less than 1 year	from 1 to 5 years	more than 5 years
Tax loss carryforwards in France	**250**	250	-	-
Deferred tax on other charges with deferred deduction in Chile	**970**	970	-	-
Deferred tax on retirement and end of career severance commitments	**5,112**	-	669	4,443
Deferred tax on other bases	**14,422**	14,305	117	-
Total deferred tax assets	**20,754**	**15,525**	**787**	**4,443**

The net deferred tax assets on loss carryforwards of Virbac USA at December 31, 2017 have been written down in full, so it does not contribute to the total DTA balance sheet (see note A27).

A8. Inventories and work in progress

in € thousand	Raw materials and supplies	Work in progress	Finished products and goods for resale	Inventories and work in progress
Gross value as at 12/31/2016	**88,106**	**13,155**	**112,274**	**213,535**
Variations	-8,306	243	7,685	**-378**
Changes in scope	-	-	-	**-**
Transfers	-	-	-	**-**
Conversion gains and losses	-5,105	-116	-8,097	**-13,318**
Gross value as at 12/31/2017	**74,695**	**13,282**	**111,861**	**199,839**
Depreciation as at 12/31/2016	**-8,039**	**-1,431**	**-6,158**	**-15,627**
Allowances	-2,050	-539	-5,978	**-8,567**
Reversals	2,912	1,431	3,562	**7,904**
Changes in scope	-	-	-	**-**
Transfers	660	-	-660	**-**
Conversion gains and losses	616	-	593	**1,209**
Depreciation as at 12/31/2017	**-5,900**	**-539**	**-8,642**	**-15,080**
Net value as at 12/31/2016	**80,067**	**11,724**	**106,117**	**197,908**
Net value as at 12/31/2017	**68,795**	**12,743**	**103,220**	**184,758**

In the United States, inventories dropped considerably at Virbac USA during the 2017 financial year (-€16.2 million at constant rates). This decrease at Virbac USA is largely offset by inventory growths in other regions, in line with the growth in activity.
Foreign currency translation adjustments resulted in a significant decrease in the inventory's net value (more than €12 million).

A9. Trade receivables

in € thousand	Trade receivables
Gross value as at 12/31/2016	**133,932**
Variations	**-11,125**
Changes in scope	**-**
Transfers	**-4**
Conversion gains and losses	**-6,328**
Gross value as at 12/31/2017	**116,475**
Depreciation as at 12/31/2016	**-4,735**
Allowances	**-664**
Reversals	**1,803**
Changes in scope	**-**
Transfers	**4**
Conversion gains and losses	**92**
Depreciation as at 12/31/2017	**-3,499**
Net value as at 12/31/2016	**129,197**
Net value as at 12/31/2017	**112,976**

Factoring contracts were further introduced in 2017, with a new contract in Australia. Receivables assigned as part of these factoring contracts were deconsolidated. Total deconsolidated receivables as of December 31, 2017, in the Group's various entities, amounted to €47.8 million (compared to €27.6 million as of December 31, 2016).
Foreign currency translation adjustments also contributed to a decrease in this item.
The credit risk from trade receivables and other receivables is presented in note A31.

A10. Other receivables

in € thousand	2016	Variations	Changes in scope	Transfers	Conversion gains and losses	2017
Income tax receivables	**3,545**	-1,669	-	14	-76	**1,815**
Social receivables	**526**	31	-	-	-25	**532**
Other receivables to the State	**27,117**	1,663	-	-487	-563	**27,730**
Advances and prepayments on orders	**3,147**	-598	-	-	-154	**2,395**
Depreciation on various other receivables	**-**	-	-	-	-	**-**
Prepaid expenses	**5,635**	236	-	1	-278	**5,593**
Other various receivables	**17,900**	-66	-	-1,835	-985	**15,013**
Other receivables	**57,870**	**-404**	**-**	**-2,308**	**-2,080**	**53,078**

The main events in 2017 which explain the variation are:

- the repayment by French tax authorities of prepayment of overpaid tax in 2016 (€1.4 million);
- the transfer to a financial institution of research tax credit receivables from financial year 2016, amounting to €7.6 million.

The research tax credit receivables are presented in “Other receivables to the State”.

The amount of the competitiveness and employment tax credit recorded in France over the 2017 financial year totaled €1,635 thousand.

A11. Cash and cash equivalents

in € thousand	2016	Variations	Changes in scope	Transfers	Conversion gains and losses	2017
Available funds	**46,130**	-6,459	-	-2,395	-3,877	**33,399**
Marketable securities	**2,324**	13,216	-	-	-561	**14,979**
Cash and cash equivalents	**48,455**	**6,757**	**-**	**-**	**-4,438**	**48,378**
Bank overdraft	**-9,158**	-10,130	-	2,395	204	**-16,689**
Accrued interests not yet matured	**-36**	-4	-	-	-	**-40**
Overdraft	**-9,194**	**-10,134**	**-**	**-**	**204**	**-16,729**
Net cash position	**39,260**	**-3,378**	**-**	**-**	**-4,234**	**31,649**

The increase in marketable securities related mainly to a Group subsidiary, which invested €12,892 thousand at the 2017 year-end.

A12. Assets classified as held for sale

During the 2017 financial year, as in 2016, no asset was classified as held for sale.

A13. Equity

in € thousand	2017	2016
Capital	10,573	10,573
Premiums linked to capital	6,534	6,534
Legal reserve	1,089	1,089
Other reserves and retained earnings	344,846	297,167
Consolidation reserves	102,265	117,576
Conversion reserves	-22,571	9,429
Actuarial gains and losses	-3,814	-3,386
Result for the period	-2,575	34,646
Equity attributable to the owners of the parent company	**436,346**	**473,628**
Other reserves and retained earnings	45,573	49,197
Conversion reserves	-7,410	-5,260
Result for the period	4,334	3,222
Non-controlling interests	**42,497**	**47,159**
Equity	**478,843**	**520,787**

Capital management policy

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

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

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

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

Treasury shares

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

Shares with double voting rights

Double voting rights are granted to all shareholders whose shares have been registered in their name for at least two years. Of the 8,458,000 shares making up the share capital, 4,348,036 have double voting rights.

Share buyback program

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

As of December 31, 2017, Virbac held 37,261 treasury shares acquired on the market for a total of €4,730,434 excluding fees, for an average price of €126.95 per share.

During the financial year, the company bought 39,704 treasury shares (at an average price of €138.97) and sold 31,411 treasury shares (at an average price of €142.51) as part of the market-making contract. In 2017, no share was purchased or sold as part of performance-related stock grants.
As of December 31, 2017, treasury shares accounted for 0.44% of Virbac's capital. They are earmarked for market-making and performance-related stock grants, in accordance with the fourteenth resolution adopted by the shareholders' meeting of June 23, 2017.

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

- ensuring liquidity or supporting the market price via an independent investment services provider pursuant to a liquidity agreement in accordance with a code of ethics recognized by the French financial markets authority (*AMF*);
- allocating performance-related stock grants;
- reducing the company's share capital by cancelling all or part of the shares purchased, subject to the adoption by the ordinary shareholder's meeting of the resolution for authorizing a reduction in the share capital by cancelling repurchased shares.

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

A14. Employee benefits

The commitments related to employee benefit schemes are calculated using the projected unit credit method. Future commitments are subject to a provision for expenses.
Where a commitment is pre-financed by payments into a fund, the provision corresponds to the difference between the total commitment at the closing date and the amount of the hedging asset. The hedging asset is made up of the amount of the fund plus the investment income and any contributions paid during the year.
The Group has been applying the revised IAS 19 standard since January 1, 2012.

in € thousand	2016	Allowances	Reversals	Transfers	Equity	Conversion gains and losses	2017
France	**6,948**	**438**	-276	-	421	-	**7,531**
Italy	**788**	**96**	-20	-	-7	-	**857**
Germany	**566**	**-**	-13	-	-	-	**554**
Greece	**140**	**15**	-	-	-	-	**155**
Mexico	**93**	**95**	-95	-	-	-7	**86**
Korea	**201**	**139**	-195	-	-22	-1	**121**
Taiwan	**639**	**68**	-14	-	13	-30	**676**
Thailand	**207**	**37**	-33	-	-	-7	**203**
Uruguay	**521**	**316**	-365	-	-	-52	**420**
Retirement and severance pay allowances	**10,104**	**1,204**	**-1,010**	**-**	**404**	**-98**	**10,603**
France	**2,657**	-	-517		242	-	**2,382**
Japan	**1,772**	249	-	-	-113	-160	**1,748**
Defined benefit retirement plans	**4,429**	**249**	**-517**	**-**	**129**	**-160**	**4,131**
South Africa	**1,137**	121	-40	-	-166	-28	**1,024**
Medical cover	**1,137**	**121**	**-40**	**-**	**-166**	**-28**	**1,024**
India	**590**	358	-320	-	-202	-32	**393**
Allowances for absence	**590**	**358**	**-320**	**-**	**-202**	**-32**	**393**
Australia	**1,565**	205	-260	-	-	-74	**1,436**
Austria	**143**	4	-	-	-	-	**147**
Spain	**48**	-	-	-	-	-	**48**
Other long term benefits	**1,756**	**209**	**-260**	**-**	**-**	**-74**	**1,631**
Provisions for employee benefits	**18,016**	**2,140**	**-2,147**	**-**	**165**	**-392**	**17,782**

The main equity impacts are in France, due to the updated pay raise rate.

Main commitments

The main employee benefit plans are in France, Australia, Japan and South Africa. As of December 31, 2017, they contributed 56%, 8%, 10% and 6% of provisions for employee benefit plans respectively.

Retirement and severance pay allowances

France

In accordance with the collective agreement, the Group's French companies pay their employees an allowance on their retirement based on their salary and seniority.
The rights vested are as follows:

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

Defined-benefit retirement plans

France

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

- an eligibility criterion: being a member of the executive board and being at least 60 years of age on the date of retirement;
- an allowance rate which differs according to two criteria:
  - if the recipient has been employed by the Group for less than ten years or if the recipient has been a member of the executive board for less than nine years, the allowance rate is 0%;
  - if the recipient has been employed by the Group for between ten and 30 years and if the recipient has been a member of the executive board for between nine and fifteen years, the allowance rate is 12.5%;
  - if the recipient has been employed by the Group for more than 30 years or if the recipient has been a member of the executive board for more than fifteen years, the allowance rate is 22%.

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

Japan

The scheme results in payments in the form of capital.
The eligibility conditions are as follows:

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

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

Medical coverage

South Africa

The program implemented by Virbac South Africa stipulates that the company is responsible for handling the contributions paid by retired employees who wish to enroll in voluntary medical insurance.
The eligibility condition is that the employee must have joined the company before April 30, 1995.

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

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

Long-service leave

Australia

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

- if the employee is dismissed after five to ten years' service, he/she is entitled to his/her proportionate share of the acquired rights;
- if the employee leaves the company for any other reason after five to ten years of service, they have no entitlements;
- if the employee leaves the company, for whatever reason, after ten years of service, he/she is entitled to his/her proportionate share of the acquired rights.

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

Calculation parameters of the main personnel benefits schemes in the Group

Assumptions as at December 31, 2017

	Discount rate	Future salary growth
France	1.30%	2.0%
South Africa	9.70%	NA
Japan	0.30%	3.00%
India	7.80%	7.00%

Assumptions as at December 31, 2016

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

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

A 0.5 point increase or decrease in the discount rate would entail, respectively, a reduction in the provision for employee benefits of around €687 thousand or an increase of approximately €733 thousand recognized with a balancing entry in other comprehensive income.
Also, a 0.5 point increase or decrease in the future growth rate of salaries would entail, respectively, an increase in the provision for employee benefits of around €580 thousand or a reduction of approximately €542 thousand recognized with a balancing entry in other comprehensive income.

Allowance for the year

in € thousand	2017 allowance
Cost of services rendered	1,875
Financial cost	359
Expected return on assets	-95
Change of scheme	-
Immediate recognition of actuarial (gains)/losses in the year	-
Administrative costs recognized in expenses	1
Net cost/(net gain) recognized in income	**2,140**

Employer contributions (including benefits paid directly by the employer) in 2017 totaled €581 thousand and are estimated to reach €843 thousand for 2018.

Movements of amounts recognized in the statement of financial position

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

in € thousand	Actuarial liability
Present value as at January 1, 2017	**21,725**
Benefits paid by employer	-1,566
Benefits paid by funds	-1,903
Cost of services rendered and financial cost	2,235
Termination/end of contract	-
Actuarial (gains)/losses due to demographic assumptions	-131
Actuarial (gains)/losses due to financial assumptions	262
Actuarial experience (gains)/losses	33
Change of scheme	-
Other variations	-
Transfers	-
Conversion gains and losses	-493
Present value as at December 31, 2017	**20,162**

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

in € thousand	Hedging assets
Fair value as at January 1, 2017	**3,709**
Contributions paid	581
Benefits paid by funds	-1,903
Interest income	95
Actuarial gains/(losses)	-1
Tax on premiums paid	-1
Conversion gains and losses	-100
Fair value as at December 31, 2017	**2,380**

in € thousand	Employee benefits
Fair value of hedging assets	-2,380
Present value of actuarial liability	20,162
(Assets)/Liabilities recognized in provisions as at December 31, 2017	**17,782**

in € thousand	Employee benefits
Provision to liabilities as at January 1, 2017	**18,016**
Charge/(gain) recognised in income - allowance	2,140
Amount recognized in equity	165
Employer contributions/Benefits paid - reversal	-2,147
Conversion gains and losses	-392
Provision to liabilities as at December 31, 2017	**17,782**

A15. Other provisions

in € thousand	2016	Allowances	Reversals	Changes in scope	Transfers	Conversion gains and losses	2017
Trade disputes and industrial tribunals	**2,032**	512	-989	-	68	-22	**1,601**
Fiscal disputes	**126**	900	-50	-	-	-12	**964**
Various risks and charges	**401**	346	-300	-	-	-	**446**
Other non-current provisions	**2,558**	**1,758**	**-1,339**	**-**	**68**	**-35**	**3,011**
Trade disputes and industrial tribunals	**576**	762	-64	-	-	-61	**1,213**
Fiscal disputes	**-**	-	-	-	-	-	**-**
Various risks and charges	**1,621**	1,007	-1,413	-	-68	-120	**1,027**
Other current provisions	**2,197**	**1,769**	**-1,478**	**-**	**-68**	**-181**	**2,240**
Other provisions	**4,755**	**3,527**	**-2,816**	**-**	**-**	**-215**	**5,251**

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

A16. Other financial liabilities

Change in other financial liabilities

in € thousand	2016	Increase	Decrease	Changes in scope	Transfers	Conversion gains and losses	2017
Loans	**430,709**	211,080	-180,487	-	-15,762	-38,133	**407,406**
Bank overdrafts	**-**	-	-	-	-	-	**-**
Accrued interests not yet matured	**-**	-	-	-	-	-	**-**
Debt relating to leasing contracts	**3,036**	73	-153	-	-1,500	-86	**1,371**
Employee profit sharing	**4**	-	-2	-	-	-	**3**
Currency and interest rate derivatives	**4,711**	-	-3,850	-	-	-6	**854**
Other	**-**	-	-	-	-	-	**-**
Other non-current financial liabilities	**438,460**	**211,153**	**-184,492**	**-**	**-17,262**	**-38,225**	**409,634**
Loans	**144,515**	27,623	-97,761	-	9,324	-5,371	**78,330**
Bank overdrafts	**9,158**	10,130	-	-	-2,395	-204	**16,689**
Accrued interests not yet matured	**36**	4	-	-	-	-	**40**
Debt relating to leasing contracts	**3,286**	-16	-3,398	-	2,746	-138	**2,481**
Employee profit sharing	**61**	247	-14	-	-	-28	**267**
Currency and interest rate derivatives	**-**	949	-	-	-	-	**949**
Other	**-**	-	-	-	-	-	**-**
Other current financial liabilities	**157,057**	**38,938**	**-101,173**	**-**	**9,674**	**-5,740**	**98,757**
Other financial liabilities	**595,517**	**250,091**	**-285,665**	**-**	**-7,588**	**-43,965**	**508,390**

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

- a syndicated loan of €420 million, drawn in Euros and dollars, contracted with a pool of banks and repayable in full upon maturity in April 2020, with the option to extend the term to April 2022;
- market-based contracts (*Schuldschein*) consisting of four installments, with maturities of five, seven and ten years, at variable and fixed rates;
- a $90 million financing contract with the European investment bank (EIB), for a seven-year term, of which one half is repayable in full and the other half is payable over eleven years.

Virbac also received bilateral loans and BPI financing.

As of December 31, 2017, the position of the funding instruments was as follows:

- the syndicated loan was drawn for amounts of €108 million and $161 million;
- the market-based contracts amounted to €15 million and $15.5 million;
- the bilateral loans and BPI and EIB financing amounted to €77.5 million and $90 million.

These funding instruments include a financial covenant compliance clause that requires the borrower to adhere to the following financial ratios based on the consolidated accounts and reflecting net consolidated debt for the period considered on the consolidated Ebitda (Earnings before interest, taxes, depreciation and amortization) for the same test period.

At December 31, 2017, the ratio of net debt to Ebitda is below the maximum amount set by the covenant clause at 4.75.

Consolidated net debt refers to the sum of other current and non-current financial liabilities, namely the following items: loans, bank loans, accrued interest liabilities, debts related to finance leases, profit sharing, interest rate and foreign exchange derivatives, and others; less the amount of the following items: cash and cash equivalents, term deposits, and foreign exchange and interest rate derivatives as shown in the consolidated accounts.
Consolidated Ebitda refers to net operating income for the period under review, plus depreciations and provisions, net of reversals and dividends received from non-consolidated subsidiaries.

The company's financing capacity is sufficient to fund its cash requirements.

Other financial liabilities classified according to their maturity

As at December 31, 2017

in € thousand	Payments			Total
	less than 1 year	from 1 to 5 years	more than 5 years	
Loans	78,330	320,846	86,560	**485,736**
Bank overdrafts	16,689	-	-	**16,689**
Accrued interests not yet matured	40	-	-	**40**
Debt relating to leasing contracts	2,481	1,371	-	**3,851**
Employee profit sharing	267	3	-	**270**
Currency and interest rate derivatives	949	854	-	**1,803**
Other	-	-	-	**-**
Other financial liabilities	**98,757**	**323,074**	**86,560**	**508,390**

As at December 31, 2016

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

Information related to financial activities

in € thousand	2016	Cash flows: Debt issuance	Cash flows: Repayments of debt	Other flows: Fair Value	Other flows: Transfers	Other flows: Conversion gains and losses	2017
Non-current financial liabilities	**430,709**	211,080	-180,487	-	-15,762	-38,133	**407,406**
Current financial liabilities	**144,515**	27,623	-97,761	-	9,324	-5,371	**78,330**
Debt relating to leasing contracts	**6,322**	58	-3,551	-	1,246	-223	**3,851**
Employee profit sharing	**66**	247	-15	-	-	-28	**270**
Currency and interest rate derivatives	**4,711**	-	-	-2,901	-	-6	**1,803**
Other financial liabilities	**586,322**	**239,008**	**-281,815**	**-2,901**	**-5,192**	**-43,761**	**491,661**

A17. Other payables

in € thousand	2016	Variations	Changes in scope	Transfers	Conversion gains and losses	2017
Income tax payables	**-**	-	-	-	-	**-**
Social payables	**-**	-	-	-	-	**-**
Other fiscal payables	**-**	-	-	-	-	**-**
Advances and prepayments on orders	**-**	-	-	-	-	**-**
Prepaid income	**584**	-195	-	-	-54	**335**
Various other payables	**-**	250	-	-	-14	**237**
Other non-current payables	**584**	**55**	**-**	**-**	**-67**	**572**
Income tax payables	**8,252**	206	-	-	-425	**8,032**
Social payables	**40,381**	412	-	1,607	-1,319	**41,080**
Other fiscal payables	**11,048**	176	-	118	-398	**10,944**
Advances and prepayments on orders	**165**	-	-	-	-14	**152**
Prepaid income	**2,808**	-2,051	-	-	-52	**705**
Various other payables	**65,925**	76	-	-6,049	-2,094	**57,858**
Other current payables	**128,580**	**-1,182**	**-**	**-4,325**	**-4,302**	**118,771**
Other payables	**129,164**	**-1,127**	**-**	**-4,325**	**-4,369**	**119,343**

The change in the item “Prepaid income” refers to income received on the licensing contract indicated in the financial year's other events.
“Transfers” relate to reclassifications to social payables (same column) or to trade payables (see note A18).

A18. Trade payables

in € thousand	2016	Variations	Changes in scope	Transfers	Conversion gains and losses	2017
Current trade payables	**99,131**	6,532	-	4,602	-4,594	**105,670**
Payables of intangible assets	**1,732**	-65	-	-	-239	**1,428**
Payables of tangible assets	**4,398**	-2,497	-	100	-366	**1,635**
Trade payables	**105,261**	**3,969**	**-**	**4,702**	**-5,199**	**108,733**

The "Transfers" column indicates reclassifications from the item "Other liabilities" (see note A17).

A19. Revenue from ordinary activities

in € thousand	2017	2016	*Change*
Sales of finished goods and merchandise	963,983	978,894	*-1.5%*
Services	188	341	*-44.9%*
Additional income from activity	4,211	1,740	*142.1%*
Royalties paid	342	327	*4.5%*
Gross sales	**968,724**	**981,301**	***-1.3%***
Discounts, rebates and refunds on sales	-87,707	-88,059	*-0.4%*
Expenses deducted from sales	-15,240	-16,352	*-6.8%*
Financial discounts	-3,871	-4,072	*-4.9%*
Provision for returns	-24	-990	*-97.6%*
Expenses deducted from sales	**-106,843**	**-109,473**	***-2.4%***
Revenue from ordinary activities	**861,882**	**871,828**	***-1.1%***

In 2017, the Group registered consolidated revenue of €861,9 million, a slight decline of -1.1% and -0.5% at actual exchange rates and constant rates respectively, compared to last year.

From a regional perspective, in the United States, sales over the entire year decreased by -22.6% (-20.2% at constant exchange rates).
Outside of the United States, the Group posted growth of +3.4% (+3.6% at constant exchange rates). In Europe, there has been slight growth at constant exchange rates (+0.8%), boosted by the performance of the United Kingdom, Italy, Poland and Belgium, despite an overall downturn in the vaccine and external parasiticide ranges.
In the rest of the world, organic growth continues to be strong in many emerging countries, in particular Brazil, Mexico, China and Chile, as well as India, which returned to two-digit growth in the second half of the year after the effects of the coming into force of the new VAT in mid 2017, as well as demonetization at the end of 2016. The Pacific region showed a slight decline over the year primarily as a result of a decision to discontinue products in New Zealand.
Foreign exchange effects had a negative impact on revenue of €5.3 million.

The expenses presented within the revenue are mainly made up of the following elements:

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

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

A20. Purchases consumed

in € thousand	2017	2016	*Change*
Inventoried purchases	-273,464	-285,653	*-4.3%*
Non-inventoried purchases	-24,871	-24,359	*2.1%*
Supplementary charges on purchases	-4,248	-3,108	*36.7%*
Discounts, rebates and refunds obtained	185	1,318	*-86.0%*
Purchases	**-302,397**	**-311,802**	***-3.0%***
Change in gross inventories	-378	10,190	*-103.7%*
Allowances for depreciation of inventories	-8,567	-6,622	*29.4%*
Reversals of depreciation of inventories	7,904	8,082	*-2.2%*
Net variation in inventories	**-1,041**	**11,650**	***-108.9%***
Purchases consumed	**-303,438**	**-300,152**	***1.1%***

A21. External costs

Within this item, external research and development costs recognized during the 2017 financial year totaled €14,318 thousand compared to €11,119 thousand in 2016.

Operating lease contracts as of December 31, 2017

	Rents for the period	Minimum future lease payments as per contracts			
in € thousand		less than 1 year	from 1 to 3 years	from 3 to 5 years	more than 5 years
Lands and buildings	-4,954	-5,160	-8,295	-3,496	-3,328
Industrial equipment	-1,437	-209	-391	-101	-54
IT equipment	-536	-29	-117	-29	-29
Office equipment and furniture	-894	-107	-188	-22	-27
Transport equipment	-4,952	-3,310	-3,041	-774	-220
Lease payments	**-12,772**	**-8,817**	**-12,032**	**-4,422**	**-3,657**

A22. Depreciation, impairment and provisions

in € thousand	2017	2016	*Change*
Allowances for depreciation of intangible assets[1]	-4,073	-4,783	*-14.8%*
Allowances for impairment of intangible assets	-292	-19	*1411.6%*
Allowances for depreciation of tangible assets	-22,406	-21,914	*2.2%*
Allowances for impairment of tangible assets	-687	-649	*5.9%*
Reversals of depreciation of intangible assets	-	-	-
Reversals of impairment of intangible assets	69	69	*0.0%*
Reversals of depreciation of tangible assets	-	-	-
Reversals of impairment of tangible assets	584	624	*-100.0%*
Depreciation and impairment	**-26,806**	**-26,671**	***0.5%***
Allowances of provisions for risks and charges	-2,525	-3,118	*-19.0%*
Reversals of provisions for risks and charges	2,816	2,793	*0.9%*
Provisions	**292**	**-326**	***-189.5%***
Impairment and provisions	**-26,514**	**-26,997**	***-1.8%***

[1] Excluding allowances for depreciation of intangible assets resulting from acquisitions.

Allowances for depreciation of assets arising from acquisitions break down as follows:

in € thousand	2017	2015
United States: Sentinel	-10,073	-10,629
SBC	-72	-69
Uruguay: Santa Elena	-143	-147
Australia: Axon	-134	-133
New Zealand	-632	-637
Centrovet	-2,551	-2,495
Multimin	-575	-596
Peptech	-169	-168
Colombia: Synthesis	-115	-113
Schering-Plough Europe	-1,481	-1,481
Total depreciations of intangible assets arising from acquisitions	**-15,946**	**-16,468**

The decrease in allowances between 2017 and 2016 is primarily due to the exchange rate effect.

A23. Other operating income and expenses

in € thousand	2017	2016	*Change*
Royalties paid	-3,999	-4,087	*-2.1%*
Grants received (including research tax credit)	7,984	7,276	*9.7%*
Allowances for depreciation of receivables	-664	-175	*280.0%*
Reversals of depreciation of receivables	1,803	160	*1030.0%*
Bad debts	-1,474	-247	*496.0%*
Net book value on disposed assets	-491	-266	*84.4%*
Income from disposals of assets	283	314	*-9.8%*
Other operating income and expenses	-893	-1,807	*-50.6%*
Other current income and expenses	**2,549**	**1,167**	***118.3%***

The amount of research tax credits posted as subsidies for the financial year ending December 31, 2017 was €7,927 thousand.

A24. Other non-current income and expenses

As of December 31, 2017, this item breaks down as follows:

in € thousand	2017
Impairment of goodwill held by BVT on Leishmaniosis vaccine	-5,000
Restructuring costs of Virbac Corporation	-1,348
Other non-current income and expenses	**-6,348**

Following the emergence of a new player on the Leishmaniosis vaccine market, tests conducted as of December 31, 2017 resulted in the recognition of a goodwill impairment of €5 million on the Leishmaniosis vaccine CGU (see note A3).
On October 30, 2017, Virbac USA announced a staff reduction plan, so as to keep structure in line with activity. This restructuring plan amounts to a total cost of $1.5 million (€1.3 million), which is presented on this line.

A25. Financial income and expenses

in € thousand	2017	2016	*Change*
Gross cost of financial debt	-20,313	-20,150	*0.8%*
Income from cash and cash equivalents	377	1,095	*-65.6%*
Net cost of financial debt	**-19,936**	**-19,056**	***4.6%***
Foreign exchange gains and losses	4,155	9,219	*-54.9%*
Changes in foreign currency derivatives and interest rate	-2,029	-6,523	*-68.9%*
Other financial charges	-134	-344	*-61.0%*
Other financial income	134	252	*-46.8%*
Other financial income and expenses	**2,126**	**2,603**	***-18.3%***
Financial income and expenses	**-17,811**	**-16,453**	***8.3%***

There was a positive exchange rate impact of €4 million, down by more than half of what it was in 2016, reflecting mainly the impact of the CLP impairment, foreign currency translation adjustments on the Chilean subsidiary's CLP loan.
The impact of the revaluation of financial instruments in accordance with IAS 32 & IAS 39 generated a charge of €2 million over 2017 on currency hedging instruments totaling €2.5 million (CLP and USD) and income on interest rate instruments amounting to €0.4 million.

A26. Income tax

in € thousand	2017 Base	2017 Tax	2016 Base	2016 Tax
Profit before tax	**40,237**		**52,560**	
Adjustment for tax credits	-9,563		-8,543	
Adjustment of non-recurring items	44,684		-2,446	
Profit before tax, after adjustments	**75,358**		**41,570**	
Tax currently payable for French companies		-661		-545
Tax currently payable for foreign companies		-24,232		-22,188
Tax currently payable		**-24,893**		**-22,733**
Deferred tax for French companies		3,119		2,087
Deferred tax for foreign companies		-17,470		5,658
Deferred tax		**-14,350**		**7,745**
Tax accounted for		**-39,243**		**-14,987**
Restatement of adjustments on tax currently payable		226		877
Restatement of adjustments on deferred tax		-1,517		27
Depreciation of deferred tax assets		15,167		-
Tax after restatements		**-25,367**		**-14,084**
Effective tax rate		*33.66%*		*33.88%*
Theoretical tax rate		*34.43%*		*34.43%*
Theoretical tax		**-25,946**		**-14,313**
Difference between theoretical tax and recorded tax		**13,297**		**675**

The theoretical tax rate considered by the Group is the corporate tax rate in effect in France (including the additional contribution of 3.3%).
The tax burden of the period is heavily impacted by the impairment of th deferred tax asset generated by the tax losses of fiscal years 2015 to 2017 into Virbac USA' accounts.

The deferred tax receivable corresponding to cumulative losses not used in the accounts of Virbac USA at December 31, 2017 amounted to $24.2 million compared to $17.2 million at the beginning of the financial year. The calculation of the deferred tax asset of Virbac USA at December 31, 2017 takes into account the effects of the tax reform passed at the end of 2017 in the United States. In fact, the lowering of the federal tax rate impacts, on the one hand, the amount of the receivable at the opening and the calculation of the additional tax claim for losses in the 2017 fiscal year.
However, given that this tax receivable has been written down in full, the tax reform in the United States has no impact in the 2017 consolidated financial statements.

Indeed, IAS 12 addresses the existence of a history of recent and unused tax losses as a strong indication that future taxable profits may not be usable. After an in-depth analysis of the application criteria of the standard, Virbac decided to write down all the deferred tax assets as at December 31, 2017 at Virbac USA.

Restated profit before tax

The profit before tax, after adjustments is arrived at based on the pre-tax income, to which items that contribute to the tax base were added or from which said items were subtracted, albeit without any impact on the tax expense. This is necessary to determine the effective tax rate for the 2017 financial year. These adjustments are as follows:

Adjustment for tax credits

These are the main tax credits factored into the operating profit from ordinary activities in accordance with IAS 20. The amount represents the research tax credit and the competitiveness and employment tax credit for French entities as well as a tax credit in Chile.

Adjustment for tax bases related to non-recurring items

This amount includes:

- accounting expenses or income without any tax impact, including goodwill impairment (€5 million), permanent differences between entities in France and those abroad (€3.3 million);
- as well as Virbac USA's tax deficit for the 2017 financial year, given that the tax saving related to tax losses to carry forward is cancelled by the impairment of the deferred tax asset.

Tax after restatements

Adjustments for the tax expense are as follows:

Neutralizing the adjustments for the deferred tax expense

This amount represents tax expenses or income without any accounting basis. It is:

- the effect of tax reforms in France and other countries on the deferred tax bases at the beginning of the financial year;
- the change in the bases or rates of deferred tax assets and liabilities at the beginning of the financial year (change in estimates).

Impairment of deferred tax assets at the beginning of the financial year

It is the impairment of Virbac USA's deferred tax asset at the beginning of the financial year ($17.2 million).

A27. Bridge from net result to net result from ordinary activities

As at December 31, 2017

in € thousand	Net result IFRS 2017	Impairment of assets	Restructuring costs	Other items	Non-current tax expense	Net result from ordinary activities 2017
Revenue from ordinary activities	**861,882**					**861,882**
Current operating profit before depreciation of assets arising from acquisitions	**80,341**					**80,341**
Depreciations of intangible assets arising from acquisitions	-15,946					-15,946
Operating profit from ordinary activities	**64,396**					**64,396**
Other non-current income and expenses	-6,348	5,000	1,348			-
Operating result	**58,048**					**64,396**
Financial income and expenses	-17,811					-17,811
Profit before tax	**40,237**					**46,585**
Income tax	-39,243				21,379	-17,864
Share from companies' result accounted for by the equity method	765					765
Result for the period	**1,759**					**29,485**

Net profit from ordinary activities equates to net profit restated for the following items:

- the line “Other non-current income and expenses”;
- non-current tax, which includes the tax impact of “Other non-current income and expenses”, as well as all non-recurring tax income and expenses.

For 2017, the non-recurring charge corresponds to the write-down of the deferred tax receivable on loss-making losses in Virbac USA, which amounts to $24.2 million.

As at December 31, 2016

in € thousand	Net result IFRS 2016	Impairment of assets	Restructuring costs	Other items	Non-current tax expense	Net result from ordinary activities 2016
Revenue from ordinary activities	**871,828**					**871,828**
Current operating profit before depreciation of assets arising from acquisitions	**82,860**					**82,860**
Depreciations of intangible assets arising from acquisitions	-16,468					-16,468
Operating profit from ordinary activities	**66,392**					**66,392**
Other non-current income and expenses	2,621			-2,621		-
Operating result	**69,013**					**66,392**
Financial income and expenses	-16,453					-16,453
Profit before tax	**52,560**					**49,939**
Income tax	-14,987					-14,987
Share from companies' result accounted for by the equity method	294					294
Result for the period	**37,867**					**35,246**

A28. Earnings per share

	2017	2016
Profit attributable to the owners of the parent company	**-€2,574,782**	**€34,645,749**
Total number of shares	8,458,000	8,458,000
Impact of dilutive instruments	-	-
Number of treasury shares	37,261	28,968
Outstanding shares	8,420,739	8,429,032
Profit attributable to the owners of the parent company, per share	**-€0.31**	**€4.11**
Profit attributable to the owners of the parent company, diluted per share	**-€0.31**	**€4.11**

A29. Operating segments

In accordance with IFRS 8, the Group provides industry information as used internally by the chief operating officer. The level of the Group's segment information is the geographic sector. The breakdown by geographic area covers seven sectors, according to the place of establishment of Group assets:

- France;
- Europe (excluding France);
- Latin America;
- North America;
- Asia;
- Pacific;
- Africa & Middle East.

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

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

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

As at December 31, 2017

in € thousand	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
Revenue from ordinary activities	130,900	215,914	146,547	117,381	142,140	84,750	24,250	**861,882**
Current operating profit before depreciations of assets aring from acquisitions	11,092	14,338	21,780	-14,470	24,865	18,350	4,386	**80,341**
Profit attributable to the owners of the parent company	6,141	10,476	6,939	-56,255	16,581	10,507	3,036	**-2,575**
Non-controlling interests	2	-	4,332	-	-	-	-	**4,334**
Consolidated profit	**6,143**	**10,476**	**11,271**	**-56,255**	**16,581**	**10,507**	**3,036**	**1,759**

in € thousand	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
Assets by geographic area	249,825	69,616	266,255	469,491	110,834	98,960	12,352	**1,277,332**
Intangible investment	3,891	154	328	1,260	88	904	14	**6,639**
Tangible investment	10,817	155	4,155	10,481	2,217	1,141	74	**29,040**

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

As at December 31, 2016

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

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

A30. Financial assets and liabilities

Breakdown of assets and liabilities measured at fair value

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

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

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

Financial assets

As at December 31, 2017

in € thousand	Assets available for sale	Loans and receivables	Financial assets at fair value through income	Financial assets at fair value through equity	Total	Fair value hierarchy
Non-current derivative financial instruments	-	-	0	1,329	**1,329**	2
Other non-current financial assets	-	8,496	-	-	**8,496**	-
Trade receivables	-	112,976	-	-	**112,976**	-
Other receivables*	-	45,671	-	-	**45,671**	-
Current derivative financial instruments	-	-	969	375	**1,344**	2
Other current financial assets	-	97	-	-	**97**	-
Cash and cash equivalents	-	33,399	14,979	-	**48,378**	1
Financial assets	**-**	**200,639**	**15,948**	**1,704**	**218,291**	

* excluding prepaid expenses and income tax receivables.

As at December 31, 2016

in € thousand	Assets available for sale	Loans and receivables	Financial assets at fair value through income	Financial assets at fair value through equity	Total	Fair value hierarchy
Non-current derivative financial instruments	-	-	6,342	808	**7,150**	2
Other non-current financial assets	-	3,380	-	-	**3,380**	-
Trade receivables	-	129,197	-	-	**129,197**	-
Other receivables*	-	48,690	-	-	**48,690**	-
Current derivative financial instruments	-	-	-	-	**0**	-
Other current financial assets	-	81	-	-	**81**	-
Cash and cash equivalents	-	46,130	2,324	-	**48,455**	1
Financial assets	**-**	**227,479**	**8,666**	**808**	**236,952**	

* excluding prepaid expenses and income tax receivables.

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

At the end of 2017, Virbac had no assets in this category.

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

- **Loans and other long-term financial receivables**

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

- **Trade receivables**

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

- **Current receivables**

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

- **Cash and cash equivalents**

These are mainly bank account deposits and cash on hand.

Financial assets at fair value through income statement
Interest or exchange rate derivative instruments designated as fair value hedges and financial derivatives not designated as hedges are classified as financial assets at fair value through the income statement.
This category also includes marketable securities acquired by Virbac for sale or redemption in the short term. They are measured at fair value at the balance sheet date, and any fair value changes are recognized in income. The fair values of marketable securities are mainly determined with reference to the market price (buying or selling price as applicable).

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

Financial liabilities

As at December 31, 2017

in € thousand	Loans and debts	Financial liabilities at fair value through income	Financial liabilities at fair value through equity	Total	Fair value hierarchy
Non-current derivative financial instruments	-	-	854	**854**	2
Other non-current financial liabilities	408,780	-	-	**408,780**	-
Trade payables	108,733	-	-	**108,733**	-
Other payables*	110,271	-	-	**110,271**	-
Current derivative financial instruments	-	744	205	**949**	2
Bank overdrafts and accrued interests not yet matured	16,689	40	-	**16,731**	2
Other current financial liabilities	81,078	-	-	**81,078**	-
Financial liabilities	**725,550**	**784**	**1,059**	**727,394**	

* excluding prepaid income and income tax debt.

As at December 31, 2016

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

* excluding prepaid income and income tax debt.

As of December 31, 2017, the gross cost of financial debt amounted to €20,313 thousand. As of December 31, 2016, it was €20,150 thousand.

A31. Risk management associated with financial assets and liabilities

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

The Group holds derivative financial instruments solely for the purpose of reducing its exposure to interest rate and exchange rate risks on balance sheet items and its firm or highly probable commitments.
When it comes to cash flow hedging, based on backing and maturities, these hedgings can occur and affect profit in the current-year or that in subsequent years.

Credit risk

- **Risk factors**

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

As of December 31, 2017, the Group's maximum exposure to credit risk was €112,976 thousand, which represents the amount of trade receivables as presented in the Group’s consolidated accounts.
The risk on sales between Group companies is not material, to the extent that Virbac ensures that its subsidiaries have the necessary financial structure to honor their debts.

- **Risk management mechanisms**

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

As regards cash flow hedging, it is anticipated that cash flows will occur and affect profit in the current year and profit in subsequent years.

The following statements provide a breakdown of trade receivables:

As at December 31, 2017

in € thousand	Receivables due	Receivables overdue for				Impaired	Total
		< 3 months	3-6 months	6-12 months	> 12 months		
France	20,049	241	4	-	-	487	**20,781**
Europe (excluding France)	20,621	1,899	186	5	0	2,074	**24,786**
Latin America	27,932	7,071	153	115	16	824	**36,111**
North America	9,976	-	-	-	23	3	**10,002**
Asia	13,858	936	527	29	-	110	**15,460**
Pacific	6,702	129	7	-	-	-	**6,838**
Africa & Middle East	2,322	173	-	-	-	2	**2,497**
Trade receivables	**101,461**	**10,448**	**877**	**150**	**39**	**3,500**	**116,476**

As at December 31, 2016

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

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

Counter-party risk

- **Risk factors**

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

- **Risk management mechanisms**

The Group pays particular attention to the choice of banking entities it uses, and is even more critical when it comes to investing available cash.
However, Virbac considers that it has low exposure to counter-party risk given the quality of its major counter-parties. In fact, investments are only made with first-class banking entities.

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

Liquidity risk

- **Risk factors**

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

- **Risk management mechanisms**

The policy of centralizing cash surpluses and financing needs of all the zones makes it possible to refine the Group's net positions and to optimize the management of investments or financings, thus ensuring Virbac's ability to cope with its financial commitments and to maintain an optimal level of availability compatible with its size and needs.
As part of its specific review of liquidity risk, the Group regularly conducts a detailed review of its outstanding loans, thus ensuring compliance with its financial ratio (debt covenant).
The financial ratio calculated as at December 31, 2017 was 4.28, thus respecting the covenant, which should not exceed 4.75 (level settled for 2017).
For 2018 and in order to give itself more flexibility, Virbac asked for and obtained a relaxation of the covenant compliance clause from its banking partners. The level to be measured during this fiscal year has been amended and revised upwards. It should now be below 5 at the end of June 2018 (vs 5.5 at the end of June 2017) and below 4.25 at the end of December 2018 (vs. 4.75 at the end of December 2017). From 2019, they will return to the initial commitment levels of 4.25 at the end of June and 3.75 at the end of December.

In respect of the outlook, the cash and the financing resources of the company are covering its cash requirements.

Risk of fraud

- **Risk factors**

The Group may experience cases of internal or external fraud that could lead to financial losses and affect the Group's reputation.

■ **Risk management devices**

Virbac strives to strengthen internal control and attaches particular importance to raising the awareness of its teams on these issues. The Group and in particular the central functions regularly issue strong guidelines and indications in this area. Segregation of duties and a central, regional and local management control mechanism and the appointment of regional supervisors help to reinforce control and reduce the likelihood of such practices occurring. As soon as new companies are acquired, they are integrated into these systems for preventing unethical practices.
Virbac is part of a process of training and deployment of good practices that are intended, among other things, to prevent the risk of fraud.
The Virbac code of conduct notably marks the Group's commitment to carrying out its activities in compliance with the law and ethics and also defines the nature of the relationships that Virbac wishes to have with its partners.

Market risks

Exchange rate risk

■ **Risk factors**

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

Virbac carries out transactions in currencies other than the euro (its reference currency). The exchange rate risk is monitored using a client risk summary generated by the IT system (ERP). The items are updated based on *ad hoc* reports.
The majority of the Group's exchange rate risk is centralized on the parent company, which invoices its subsidiaries in their local currency. In the case of sales to countries with exotic currencies, the invoices are denominated in euros or American dollars.
Taking into account the purchases and sales in other currencies, the Group is exposed to exchange rate risks mainly for the following currencies: American dollar, pound sterling, Swiss franc and various currencies in Asia, the Pacific and Latin America.
Given the Group's exchange rate risk exposure, currency fluctuations have a significant impact on its income statement both in terms of conversion risk and transaction risk.

■ **Risk management mechanisms**

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

The Group hedges most of its significant and certain foreign exchange positions (receivables, debts, dividends, loans within the Group), a portion of position estimates, as well as future sales and purchases.
Accordingly, it uses various instruments available on the market and generally employs foreign exchange forwards or options.

in € thousand	2017	2016
Fair value hedges	217	-
Cash flow hedges	80	-83
Net investment hedges	-	-
Derivatives not qualifying for hedges	7	-1,183
Derivative financial exchange instruments	**304**	**-1,266**

The derivative instruments held at closure do not all qualify for hedging in the consolidated accounts. In such a case, value variations directly impact the profit for the period.

Interest rate risk

■ **Risk factors**

The Group's income statement may be impacted by the interest rate risk. In fact, unfavorable rate changes can also have a negative impact on the Group's financing costs and future cash flows.
The exposure of the Group to the interest rate risk arises from the fact that the Group's debt consists mainly of credit lines and variable rate loans; the cost of debt can therefore increase if interest rates rise.
The exposure to rate risks for the Virbac group is primarily the result of variable rate credit lines established up to a maximum of €573 million. These lines are indexed to the Euribor and USD Libor rates.
Borrowing in the United States is indexed to the USD Libor rate.
The local loan in Colombia to finance the acquisition of the Synthesis assets is indexed on the DTF (*Depositos termino fijo*).
The local loan in Mexico to finance the construction of new facilities is indexed on the TIIE (*Tasa de interes interbancaria de equilibrio*).

The current amount on the credit lines is the following:

in € thousand	2017 Average real interest rate	2017 Book value	2016 Average real interest rate	2016 Book value
Vietnam	3.600%	73	-	-
Chile	2.223%	25,114	1.689%	26,086
Mexico	8.886%	2,675	7.426%	2,818
Uruguay	5.050%	2,915	5.238%	3,878
France	2.239%	51,398	2.760%	71,140
Colombia	-	-	8.910%	727
Fixed rate debt		**82,176**		**104,649**
Vietnam	2.170%	481	-	-
France	2.084%	373,637	1.920%	429,458
United States	2.538%	21,679	1.531%	28,460
Mexico	9.135%	1,681	9.553%	3,318
Uruguay	-	-	-	-
Colombia	8.245%	493	10.422%	529
New Zealand	4.580%	3,633	4.467%	4,401
Australia	2.810%	1,955	2.740%	4,111
Other	-	-	-	298
Variable rate debt		**403,559**		**470,575**
Bank overdrafts	-	16,689	-	9,158
Loans and bank overdrafts*		**502,425**		**584,382**

* excluding debt relating to the capital leasing contracts.

Interest rate derivatives are shown below, at market value:

in € thousand	2017	2016
Fair value hedges	-	-
Cash flow hedges	565	-353
Net investment hedges	-	-
Derivatives not qualifying for hedges	-	4,058
Derivative financial rate instruments	**565**	**3,705**

■ Risk management mechanisms

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

Specific impacts from hedging exchange rate and interest rate risks

■ Risk factors

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

■ Risk management mechanisms

The Group only engages in hedging transactions designed to hedge actual or certain exposure; it does not create speculative risk.
Financial derivatives are designated as hedges when the hedging relationship can be demonstrated and documented.
The exchange rate derivatives used for cash flow hedging generally mature within no more than a year.

The interest rate derivatives are intended to hedge credit lines and loans. Their maturities are backed by the hedged item.

As of December 31, 2017, the unrealized gains and losses in equity for the period accounted for a net profit of €763 thousand. The ineffective share recorded as profit for this cash flow hedging reflected an expense of €610 thousand.

in € thousand	Nominal		Positive fair value		Negative fair value	
	2017	2016	2017	2016	2017	2016
Forward exchange contract	63,200	61,084	1,169	797	847	1,889
OTC options exchange	22,301	15,444	76	217	92	392
Exchange instruments	**85,501**	**76,528**	**1,245**	**1,014**	**939**	**2,281**
Swap rate	133,073	153,301	1,002	402	138	300
Interest rate options	91,720	128,071	110	325	392	779
Cross currency swap	44,423	63,742	314	5,409	333	1,350
Interest rate instruments	**269,216**	**345,115**	**1,426**	**6,135**	**863**	**2,429**
Derivative financial instruments	**354,717**	**421,643**	**2,671**	**7,149**	**1,802**	**4,710**

Supply risks

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

As far as possible, Virbac diversifies its sources of supply by approving several suppliers, while ensuring that these various sources embody the characteristics of sufficient quality and reliability.

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

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

A32. Composition of Virbac share capital

	2016	Increase	Decrease	2017
Number of authorised shares	**8,458,000**	-	-	**8,458,000**
Number of shares issued and fully paid	**8,458,000**	-	-	**8,458,000**
Number of shares issued and not fully paid	**-**	-	-	**-**
Outstanding shares	**8,429,032**	31,411	-39,704	**8,420,739**
Treasury shares	**28,968**	39,704	-31,411	**37,261**
Nominal value of shares	**€1.25**	-	-	**€1.25**
Virbac share capital	**€10,572,500**	**-**	**-**	**€10,572,500**

A33. Performance-related stock grant plans

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

Fair value of performance-related stock grant plans

The expense recognized for the performance-related stock grants in the 2017 consolidated accounts only reflects the 2016 plan. In accordance with IFRS 2, this plan was valued in Virbac's consolidated accounts based on the allocated shares' fair value on their allocation date, which was €2,248,358, equating to 12,150 shares valued at €185.05 each. This amount was initially spread over the vesting period of 27.5 months, which was extended by 12 months in

2017 taking into account the financial forecasts and the specific provisions of the plan. In addition, the Group estimates today the actual charge at 50% of the initial amount. As a result, the expense recognized under the 2016 plan has been adjusted to € 297 thousand in the 2017 consolidated financial statements.

A34. Dividends

In 2017, the company did not distribute any dividends.
A proposal will be submitted at the general shareholders' meeting to the effect that no dividend should be paid out for the 2017 financial year.

A35. Workforce

Evolution of workforce by geographic area

	2017	2016	*Change*
France	1,391	1,398	*-0.5%*
Europe (excluding France)	331	322	*2.8%*
Latin America	952	951	*0.1%*
North America	483	536	*-9.9%*
Asia	1,232	1,208	*2.0%*
Pacific	301	303	*-0.7%*
Africa & Middle East	134	134	*0.0%*
Workforce	**4,824**	**4,852**	***-0.6%***

Distribution of workforce by position

	2017		2016	
Production	1,772	*36.7%*	1,837	*37.9%*
Administration	584	*12.1%*	542	*11.2%*
Commercial	2,019	*41.9%*	1,933	*39.8%*
Research & Development	449	*9.3%*	540	*11.1%*
Workforce	**4,824**	***100.0%***	**4,852**	***100.0%***

A36. Information on related parties

Compensation of supervisory board members

	2017		2016	
	Compensation	Directors' fees	Compensation	Directors' fees
Marie-Hélène Dick	€95,000	€21,000	€95,000	€21,000
Jeanine Dick	-	€12,000	-	€12,000
Pierre Madelpuech	-	€21,000	-	€21,000
Philippe Capron	-	€24,000	-	€24,000
Olivier Bohuon	-	€21,000	-	€21,000
Grita Loebsack	-	€21,000	-	€21,000
Non-voting advisor Company XYC represented by Xavier Yon	-	€21,000	-	€21,000
Total	**€95,000**	**€141,000**	**€95,000**	**€141,000**

Compensation of executive board members

As at December 31, 2017 - Gross amount due

	Fixed compensation (including benefits in kind)	Compensation linked to terms of office for administrators in Group companies	Variable compensation	Total compensation
Éric Marée	€371,596	€45,000	€26,964	**€443,560**
Christian Karst	€267,832	€45,000	€19,375	**€332,207**
Habib Ramdani	€203,888	-	€7,613	**€211,501**
Sébastien Huron	€267,580	€25,000	€18,125	**€310,705**
Jean-Pierre Dick	€41,840	-	-	**€41,840**
Total	**€1,152,736**	**€115,000**	**€72,077**	**€1,339,813**

As at December 31, 2016 - Gross amount due

	Fixed compensation (including benefits in kind)	Compensation linked to terms of office for administrators in Group companies	Variable compensation	Total compensation
Éric Marée	€343,560	€74,528	€62,556	**€480,644**
Christian Karst	€267,911	€45,000	€57,200	**€370,111**
Michel Garaudet[1]	€65,849	€14,952	-	**€80,801**
Habib Ramdani[2]	€109,016	-	€38,700	**€147,716**
Sébastien Huron	€246,476	€25,000	€46,575	**€318,051**
Jean-Pierre Dick	€41,781	-	€13,773	**€55,554**
Total	**€1,074,593**	**€159,480**	**€218,804**	**€1,452,877**

[1] Until April 30, 2016, date of her retirement
[2] From June 23rd, date of his entry in the executive board

Compensation paid for the 2017 financial year represents fixed compensation paid in 2017, compensation paid in 2017 in relation to terms of office for directors in Group companies, variable compensation paid in 2018 in relation to 2017 and benefits in kind granted in 2017 (company car).

Calculation criteria for the variable portion

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

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

- growth of revenue from ordinary activities;
- growth in operating profit from ordinary activities;
- inventory control;
- the Group's cash and debt management;
- significant acquisitions, for the Group, of companies or products (in terms of size, financial contribution, strategic importance);
- brand recognition and customer relationships program compliance.

Other benefits

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

- **Company vehicle**

Executive board members receive a company vehicle, in accordance with the policy defined by the compensation committee.

- **Health insurance plan, maternity benefits, pension and retirement**

Executive board members and the chairman of the executive board have the same health insurance, maternity benefits and pension and retirement plans as those provided to the company's executives, under the same contribution and benefit conditions as those defined for the other company executives.

- **Unemployment insurance plan**

The chairman of the executive board is covered by the private Unemployment insurance for corporate directors' (*GSC*) plan, which is based on the 70-for-one-year formula, in accordance with this organization's general conditions, and whose contributions will be entirely paid by the company, but will be claimed as a benefit in kind for the chairman of the executive board. The amount of the annual contributions over time shall not exceed €15,000.

The other executive board members have the same unemployment insurance plan as that provided to the company's employees.

Additional pension plan

All executive board members have a supplementary defined benefit pension plan (12.5% of the reference salary and 22% in the event of service with the company exceeding 30 years), the allocation of which is contingent on the following criteria:

- over ten years service in the Group (including nine years as a member of the executive board or 15 years for a benefit equaling 22% of the reference salary);
- at least 60 years old;
- finished his/her career in the Group.

The provision related to defined contribution pension plans amounted to €2,351,000 as of December 31, 2017 compared to €2,657,000 at the 2016 year-end. A change of €517,000 was recognized in the income statement, and a change of -€242,000 was recorded under other comprehensive income.

Forced retirement severance pay

Éric Marée, who stepped down as chairman of the executive board on December 20, 2017 in order to retire, did not receive any severance pay.

The new chairman of the executive board, Sébastien Huron, shall benefit from commitments made by the company in the event of the termination of his office by virtue of a decision made by the supervisory board on December 20, 2017.
In the event of the forced termination of the office of the chairman of the executive board, the chairman of the executive board shall receive severance pay, the amount of which will be subject to the achievement of the Group's operating profit from ordinary activities to net revenue from ordinary activities ratio over the last two and/or last four half-year ends and may range from between 0 and €700,000.

The commitments made by the company in the event of the termination of the office held by Christian Karst, member of the executive board and general manager, were renewed by the supervisory board on March 13, 2018. The severance would amount to €326,000.
The fulfillment of the severance pay performance criteria may be assessed against the two half-year periods that precede the director’s departure, and not a minimum of two years, as stipulated in the Code. However, the amount of this severance pay is substantially lower than the limit of two years of compensation provided under the Code and the performance criteria are demanding (operating profit from ordinary activities to revenue from ordinary activities ratio higher than or equal to 7%).

Severance pay shall not be paid out in the event of a forced departure initiated by the company. It will not be owed in the event of resignation, full pension retirement, retirement once the age limit for being a member of the executive board is reached or in the event of dismissal for gross negligence.
These commitments will be subject to the approval of the next shareholders' meeting on June 20, 2018.

Non-competition payments

Sébastien Huron agreed to a non-competition commitment in the event he leaves office, in consideration of which a non-competition payment is scheduled.
In consideration of the non-competition obligation, Sébastien Huron will receive each month, during the entire competition ban period, a payment in an amount equal to 80% of his gross fixed monthly compensation received for the company's last year-end (including attendance fees and any other compensation related to his functions with the Virbac group). This payment will be limited, for this 18-month period, to a maximum gross amount of €500,000.

Performance-related stock grant plans

Since 2006, the Virbac executive board, in accordance with authorization from the shareholders' meeting, has allocated performance-related stock grants to certain Virbac executives and its subsidiaries. These allocations are subject to meeting a performance target linked to the profitability and net debt of the Group.

The performance-related stock grant plans granted to members of the executive board for the past five financial years are as follows:

	Number of shares 2016 plan
Christian Karst	1,000
Sébastien Huron	1,000
Habib Ramdani	400
Total	**2,400**

Throughout the 2013, 2014 and 2015 financial years, no performance-related stock grants were allocated.

Partnership

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

This sponsorship contract has expired at the end of December 2017 and has not been renewed.
An amount of €1.2 million was recognized in expenses in the 2017 financial year as part of this contract.

A37. Off-balance sheet commitments

■ **Bonds or guarantees granted by Virbac or some of its subsidiaries.**
The status of the major bonds and guarantees granted is presented below:

in € thousand	Guarantee provided with	Validity limit date	2017	2016
PP Manufacturing Corporation	NDNE 9/90 Corporate Center LLC	30/09/2026	4,646	1,971
Virbac Uruguay	Banco de la Republica Oriental del Uruguay	-	4,858	5,527
Virbac RSA	Nedbank	Annual renewal	-	-
Guarantees given			**9,503**	**7,498**

■ **Contingent liabilities**

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

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

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

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

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

A38. Scope of consolidation

Company name	Locality	Country	2017		2016	
			Control	Consolidation	Control	Consolidation
France						
Virbac (parent company)	Carros	France	100.00%	Full	100.00%	Full
Interlab	Carros	France	100.00%	Full	100.00%	Full
Virbac France	Carros	France	100.00%	Full	100.00%	Full
Virbac Distribution	Wissous	France	100.00%	Full	100.00%	Full
Virbac Nutrition	Vauvert	France	100.00%	Full	100.00%	Full
Bio Véto Test	La Seyne sur Mer	France	100.00%	Full	100.00%	Full
Alfamed	Carros	France	99.70%	Full	99.70%	Full
Europe (excluding France)						
Virbac Belgium SA	Wavre	Belgium	100.00%	Full	100.00%	Full
Virbac Nederland BV *	Barneveld	Netherlands	100.00%	Full	100.00%	Full
Virbac (Switzerland) AG	Glattbrugg	Switzerland	100.00%	Full	100.00%	Full
Virbac Ltd	Bury St. Edmunds	United Kingdom	100.00%	Full	100.00%	Full
Virbac SRL	Milan	Italy	100.00%	Full	100.00%	Full
Virbac Danmark A/S	Kolding	Denmark	100.00%	Full	100.00%	Full
Virbac Pharma Handelsgesellshaft mbH	Bad Oldesloe	Germany	100.00%	Full	100.00%	Full
Virbac Tierarzneimittel GmbH	Bad Oldesloe	Germany	100.00%	Full	100.00%	Full
Virbac SP zoo	Warsaw	Poland	100.00%	Full	100.00%	Full
Virbac Hungary Kft	Budapest	Hungary	100.00%	Full	- %	-
Virbac Hellas SA	Agios Stefanos	Greece	100.00%	Full	100.00%	Full
Animedica SA	Agios Stefanos	Greece	100.00%	Full	100.00%	Full
Virbac España SA	Barcelona	Spain	100.00%	Full	100.00%	Full
Virbac Österreich GmbH	Vienna	Austria	100.00%	Full	100.00%	Full
Virbac de Portugal Laboratorios Lda	Almerim	Portugal	100.00%	Full	100.00%	Full
North America						
Virbac Corporation *	Fort Worth	United States	100.00%	Full	100.00%	Full
PP Manufacturing Corporation	Framingham	United States	100.00%	Full	100.00%	Full

* Pre-consolidated level

Company name	Locality	Country	2017		2016	
			Control	Consolidation	Control	Consolidation
Latin America						
Virbac do Brasil Industria e Comercio Ltda	São Paulo	Brazil	100.00%	Full	100.00%	Full
Virbac Mexico SA de CV	Guadalajara	Mexico	100.00%	Full	100.00%	Full
Laboratorios Virbac Mexico SA de CV	Guadalajara	Mexico	100.00%	Full	100.00%	Full
Inmobiliara Virbac Mexico SA de CV	Guadalajara	Mexico	-	-	100.00%	Full
Virbac Colombia Ltda	Bogota	Colombia	100.00%	Full	100.00%	Full
Laboratorios Virbac Costa Rica SA	San José	Costa Rica	100.00%	Full	100.00%	Full
Virbac Chile SpA	Santiago	Chile	100.00%	Full	100.00%	Full
Virbac Patagonia Ltda	Santiago	Chile	100.00%	Full	100.00%	Full
Holding Salud Animal SA	Santiago	Chile	51.00%	Full	51.00%	Full
Centro Veterinario y Agricola Limitada	Santiago	Chile	51.00%	Full	51.00%	Full
Farquimica SpA	Santiago	Chile	51.00%	Full	51.00%	Full
Bioanimal Corp SpA	Santiago	Chile	51.00%	Full	51.00%	Full
Productos Quimico Ehlinger	Santiago	Chile	51.00%	Full	51.00%	Full
Centrovet Inc	Allegheny	United States	51.00%	Full	51.00%	Full
Centrovet Argentina	Buenos Aires	Argentina	51.00%	Full	51.00%	Full
Inversiones HSA Ltda	Santiago	Chile	51.00%	Full	51.00%	Full
Rentista de capitales Takumi Ltda	Santiago	Chile	51.00%	Full	51.00%	Full
Virbac Uruguay SA	Montevideo	Uruguay	99.17%	Full	99.17%	Full
Virbac Latam Spa	Santiago	Chile	100.00%	Full	100.00%	Full
Asia						
Virbac Trading (Shanghai) Co. Ltd	Shanghai	China	100.00%	Full	100.00%	Full
Virbac H.K. Trading Limited	Hong Kong	Hong Kong	100.00%	Full	100.00%	Full
Asia Pharma Ltd	Hong Kong	Hong Kong	100.00%	Full	100.00%	Full
Virbac Korea Co. Ltd	Seoul	South Korea	100.00%	Full	100.00%	Full
Virbac (Thailand) Co. Ltd	Bangkok	Thailand	100.00%	Full	100.00%	Full
Virbac Taiwan Co. Ltd	Taipei	Taiwan	100.00%	Full	100.00%	Full
Virbac Philippines Inc.	Taguig City	Philippines	100.00%	Full	100.00%	Full
Virbac Japan Co. Ltd	Osaka	Japan	100.00%	Full	100.00%	Full
Virbac Asia Pacific Co. Ltd	Bangkok	Thailand	100.00%	Full	100.00%	Full
Virbac Vietnam Co. Ltd	Ho Chi Minh Ville	Vietnam	100.00%	Full	100.00%	Full
Virbac Animal Health India Private Limited	Mumbai	India	100.00%	Full	100.00%	Full
SBC Virbac Limited	Hong Kong	Hong Kong	100.00%	Full	100.00%	Full
SBC Virbac Biotech Limited	Tapei	Taiwan	100.00%	Full	100.00%	Full
AVF Animal Health Co Ltd Hong-Kong	Hong Kong	Hong Kong	50.00%	Equity method	50.00%	Equity method
AVF Chemical Industrial Co Ltd Hong Kong	Hong Kong	Hong Kong	50.00%	Equity method	50.00%	Equity method
AVF Chemical Industrial Co Ltd China	Jinan (Shandong)	China	50.00%	Equity method	50.00%	Equity method
Pacific						
Virbac (Australia) Pty Ltd *	Milperra	Australia	100.00%	Full	100.00%	Full
Virbac New Zealand Limited	Hamilton	New Zealand	100.00%	Full	100.00%	Full
Africa & Middle East						
Virbac RSA (Proprietary) Ltd *	Centurion	South Africa	100.00%	Full	100.00%	Full
GPM Algeria	Constantine	Algeria	42.85%	Equity method		

* Pre-consolidated level

Statutory auditors' report on the consolidated financial statements

Year ended December 31, 2017

To the Virbac annual general meeting,

OPINION

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying consolidated financial statements of Virbac for the year ended December 31, 2017.
In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as of December 31, 2017 and of the results of its operations for the year then ended in accordance with International financial reporting standards as adopted by the European Union.
The audit opinion expressed above is consistent with our report to the audit committee.

BASIS FOR OPINION

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Our responsibilities under those standards are further described in the "*Statutory auditors' responsibilities for the audit of the consolidated financial statements*" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in article 5(1) of regulation (EU) No 537/2014 or in the French code of ethics (*Code de déontologie*) for statutory auditors.

JUSTIFICATION OF ASSESSMENTS - KEY AUDIT MATTERS

In accordance with the requirements of articles L.823-9 and R.823-7 of the French commercial code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

Key audit matter: measurement of goodwill and indefinite-life intangible assets

As of December 31, 2017, goodwill and indefinite-life intangible assets are recorded in the Group's consolidated balance sheet in the amount of €303.0 million and €164.2 million, respectively.

Goodwill and indefinite-life intangible assets of the Group's U.S. subsidiary (Virbac USA) are valued at €211.5 million and €45.9 million, respectively, while those of the Chilean subsidiary (Centrovet) are valued at €31.9 million (goodwill, group share excluding minority interests) and €52.6 million, respectively and those relating to the Leishmaniosis vaccine are valued at €0.4 million (goodwill after impairment of €5.0 million recognized in 2017) and €15.8 million, respectively.

Indefinite-life intangible assets mainly consist of trademarks, patents, know-how, marketing authorizations, registration fees and customers lists.

These assets were allocated to cash-generating units (CGU), defined at legal entity level.

At least once annually or whenever there is indication of loss in value, management verifies that the value in use of these assets (based on discounted estimated future cash flows) exceeds their net carrying amount in order to ensure they do not present a risk of loss in value. Impairment testing methods implemented and a breakdown of the assumptions adopted are presented in the "Goodwill" and "Intangible assets" sections of the "Accounting principles and methods" note and Note A3, "Impairment of assets" to the consolidated financial statements.

Impairment tests performed by management on the assets of each CGU require management to make significant judgments and assumptions, notably concerning:
- forecast future cash flows and particularly forecast sales and future costs;
- discount rates and long-term growth rates used to forecast these flows.

Accordingly, a change in these assumptions is likely to modify the value in use of these assets.

We considered the measurement of goodwill and indefinite-life intangible assets to be a key audit matter due to the inherent uncertainties surrounding the realization of forecasts underlying the calculation of value in use and also due to their materiality in the consolidated financial statements.

Our response

We obtained the most recent business plans from management and impairment tests for each CGU. Using this information, we performed a critical review of the implementation of this methodology and the following procedures:

- we assessed the reasonableness of the key assumptions adopted for:
  - determining cash flows with respect to the economic and financial context in each country. We also analyzed the consistency of these cash flow forecasts with the most recent management estimates, as presented to the management board in planning process, being precised that the management board approves the main business plans;
  - the long-term growth rate underlying these flows, substantiating it with external market analyses.
- we assessed the discount rate adopted by management, comparing it with our own estimated rate, prepared with the assistance of our valuation specialists;
- we sample tested the calculations and the consistency of the impairment testing structure based on procedures performed by our valuation specialists;
- we compared forecasts adopted for prior periods with the corresponding actual results to assess the attainment of past objectives;
- we sample tested the arithmetical accuracy of the impairment tests performed by the company;
- we obtained and reviewed sensitivity tests performed by management;
- we also performed our own sensitivity tests to confirm that only an unreasonable change in assumptions could require the recognition of a significant impairment of these assets;
- we assessed the appropriateness of the disclosures in aforementioned notes to the consolidated financial statements.

Key audit matter: Recoverability of deferred tax assets relating to tax loss carryforwards

As of December 31, 2017, deferred tax assets are recorded in the balance sheet in the amount of €20.8 million. Deferred tax assets resulting from the capitalization of tax loss carryforwards total €0.3 million as of December 31, 2017, compared with €15.4 million as of December 31, 2016.

As disclosed in Note A26, "Income tax" to the consolidated financial statements, this decrease in amount is mainly due to the impairment recognized in 2017 on deferred tax assets relating to tax loss carryforwards of the Group's U.S. subsidiary. This position is primarily supported by a history of recent unused tax losses, which constitutes, pursuant to IAS 12, a strong indication that future taxable profits may not be available.

Deferred tax assets relating to loss carryforwards are recognized solely when it is probable that the entity will have sufficient taxable income in the future to utilize these tax loss carryforwards. The ability of Group entities to recover their deferred tax assets relating to loss carryforwards is assessed by management at each reporting date taking into account future taxable income forecasts. These forecasts are recorded in a business plan based on assumptions founded on management judgment.
We considered the recoverability of deferred tax assets relating to tax loss carryforwards to be a key audit matter due to the uncertainty surrounding the recovery of the deferred tax assets of this subsidiary as of December 31, 2017 and the judgment exercised by management in this respect. The recoverable nature of capitalized tax losses requires the performance of an analysis demonstrating the availability of future taxable income, notably with respect to recent taxable income (losses) of the subsidiary and its ability to attain the objectives defined in the business plan.

Our response

With the assistance of our tax specialists in the United States and France, our audit approach consisted in assessing the usability of its current tax loss carryforwards in the future, pursuant to IAS12.

To assess future taxable profits, we considered the reliability of the preparation process for the business plan based on which we assessed the probability that the subsidiary will recover its deferred tax assets, by:
- analyzing any recent tax losses, representing a strong indication that future taxable profits may not be available;
- comparing forecast results for prior years with actual results for the periods concerned;

- verifying the consistency of assumptions adopted in the business plan underlying deferred tax valuations with those adopted in the business plan used for impairment testing goodwill and indefinite-life intangible assets;
- analyzing the results of the normative approach produced by the company, comprising a presentation of the subsidiary's results adjusted for any non-recurring and temporary impacts on its financial position;
- performing a critical review of assumptions adopted by management to produce forecast results after the business plan period, notably by considering their consistency with economic data for the subsidiary's sector and information gathered during meetings with management members;
- analyzing tax regulation provisions applicable in the United States concerning the recognition of deferred tax assets in respect of tax losses.

We also verified the appropriateness of the disclosures in Notes A7, "Deferred taxes", A26, "Income taxes", section "Taxation" of the "Accounting policies and methods" and section "Deferred tax" of the "Main sources of uncertainty to estimations" note to the consolidated financial statements.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

SPECIFIC VERIFICATION CONCERNING THE GROUP PRESENTED IN THE MANAGEMENT REPORT

As required by French law, we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the executive board's management report.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Appointment of the statutory auditors

We were appointed statutory auditors of Virbac SA by the Shareholders' Meeting of June 29, 1999 for Novances-David & Associés and June 30, 2004 for Deloitte & Associés.

As of December 31, 2017, Novances-David & Associés and Deloitte & Associés were in the 19^{th} year and 14^{th} year of total uninterrupted engagement, respectively.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International financial reporting standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the company or to cease operations.

The audit committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the executive board.

STATUTORY AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in article L.823-10-1 of the French commercial code (*Code de commerce*), our statutory audit does not include assurance on the viability of the company or the quality of management of the affairs of the company.
As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for this opinion The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;
- assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of this audit report. However, future events or conditions may cause the company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the audit committee

We submit a report to the audit committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the audit committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the audit committee with the declaration provided for in article 6 of regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by articles L.822-10 to L.822-14 of the French commercial code (*Code de commerce*) and in the French code of ethics (*Code de déontologie*) for statutory auditors. Where appropriate, we discuss with the audit committee the risks that may reasonably be thought to bear on our independence, and the related safeguards

Nice and Marseille, April 6, 2018
The statutory auditors

Novances-David & Associés
Jean-Pierre Giraud

Deloitte & Associés
Vincent Gros

Statutory accounts

FINANCIAL STATEMENTS

Balance sheet - Assets

in € thousand	Notes	Gross amount	Depreciation and provisions	2017 Net amount	2016 Net amount
Concessions, patents, licenses and brands		48,868	30,694	18,174	20,554
Other intangible assets		50,098	38,888	11,210	10,088
Intangible assets	**B1**	**98,966**	**69,582**	**29,384**	**30,641**
Land		1,790	-	1,790	1,790
Buildings		102,604	61,715	40,889	42,952
Technical facilities, materials and industrial equipment		102,389	64,428	37,961	39,534
Other tangible assets		4,564	3,428	1,136	669
Prepayments on assets and assets in progress		8,195	-	8,195	5,562
Tangible assets	**B2**	**219,542**	**129,571**	**89,971**	**90,507**
Shares in companies and other receivables		454,472	-	454,472	283,635
Other long-term securities		-	-	-	-
Loans		191,749	-	191,749	423,282
Other financial assets		1,785	-	1,785	1,084
Financial assets	**B3**	**648,006**	**-**	**648,006**	**708,001**
Total fixed assets		**966,514**	**199,153**	**767,361**	**829,149**
Raw materials		24,467	2,046	22,421	25,558
Work in progress		11,848	539	11,309	10,650
Semi-finished and finished goods		10,834	246	10,588	8,810
Inventories and work in progress	**B4**	**47,149**	**2,831**	**44,318**	**45,018**
Trade receivables and related accounts		61,360	464	60,896	64,522
Employee-related receivables		55	-	55	65
Income tax receivables		6,643	-	6,643	8,427
Other social and State receivables		6,132	-	6,132	4,240
Other receivables		86,440		86,440	47,756
Current receivables	**B5**	**160,630**	**464**	**160,166**	**125,010**
Advances and prepayment on orders		567	-	567	1,032
Marketable securities	**B6**	5,194	129	5,065	5,446
Available funds	**B7**	9,021	-	9,021	598
Cash and cash equivalents		**14,782**	**129**	**14,653**	**7,076**
Prepaid expenses		2,605	-	2,605	1,869
Deferred charges		906	-	906	1,272
Unrealized foreign exchange losses		16,478	-	16,478	17,966
Accruals and other assets	**B8**	**19,989**	**-**	**19,989**	**21,107**
Total assets		**1,209,064**	**202,577**	**1,006,487**	**1,027,361**

Balance sheet - Liabilities

in € thousand	Notes	2017	2016
Share capital		10,573	10,573
Share premium and paid-in capital		6,534	6,534
Legal reserve		1,089	1,089
Regulated reserves		36,287	36,287
Other reserves		36,396	36,396
Retained earnings		272,363	224,685
Result for the period		34,535	47,678
Investment grants		71	-
Regulated provisions		31,005	29,856
Equity	**B9**	**428,853**	**393,098**
Government loans		-	-
Other equity		**-**	**-**
Provisions for contingencies		10,243	10,187
Provisions for foreign exchange losses		3,975	2,245
Provisions for litigations		-	-
Provisions for liabilities and charges	**B10**	**14,218**	**12,432**
Bonds		-	-
Bank borrowings		427,441	502,620
Bank overdrafts - current		15,881	5,542
Bank overdrafts - other		-	-
Other borrowings and financial liabilities		27	47
Related borrowings and financial liabilities		25,714	27,658
Financial liabilities	**B5 & B11**	**469,063**	**535,867**
Trade payables and related accounts		50,413	46,672
Employee-related payables		10,448	10,304
Social payables		10,209	9,751
Income tax payables		-	-
Value added tax		179	-
Other social and State payables		2,834	2,469
Payables to fixed assets suppliers and related accounts		-	3
Other payables		1,012	1,004
Current liabilities	**B5**	**75,095**	**70,203**
Prepaid income		-	-
Unrealized foreign exchange gains	B8	19,258	15,762
Accruals and other liabilities	**B12**	**19,258**	**15,762**
Total liabilities		**1,006,487**	**1,027,361**

Income statement

in € thousand	Notes	2017	2016	*Variation*
Sales of goods and services		264,201	256,691	
Net sales	**R1**	**264,201**	**256,691**	*2.9%*
Production transferred to inventory		1,670	-121	
Capitalization of expenses		1,099	-	
Government grants		-	-	
Reversals of provisions and depreciations, expense transfers		6,561	3,534	
Other operating income		4,433	990	
Operating income	**R2**	**13,763**	**4,403**	*212.6%*
Purchases of goods		-28,501	-25,728	
Purchases of raw materials and other supplies		-59,930	-58,943	
Change in inventories (raw materials and supplies)		-2,705	1,867	
Other purchases and external expenses		-77,147	-76,698	
Taxes and other contributions		-5,936	-6,055	
Wages and salaries		-58,060	-57,131	
Social contributions		-27,353	-27,095	
Depreciations and provisions of fixed assets		-16,544	-17,067	
Provisions for current assets		-3,292	-3,202	
Provisions for risks and charges		-546	-2,267	
Other operating expenses		-5,552	-2,874	
Operating expenses	**R2**	**-285,566**	**-275,194**	*3.8%*
Net operating income		**-7,602**	**-14,100**	*-46.1%*
Dividends received		33,124	35,463	
Other interest receivable and similar income		18,595	18,112	
Reversals of provisions and expense transfers		2,245	3,941	
Foreign exchange gains		75,598	50,221	
Net income on the disposals of marketable securities		-	-	
Financial income	**R3**	**129,562**	**107,736**	*20.3%*
Depreciations and provisions		-4,104	-2,245	
Other interest paid and similar expenses		-16,739	-16,865	
Foreign exchange losses		-74,023	-49,508	
Net expenses on the disposals of marketable securities		-3	-	
Financial expenses	**R3**	**-94,869**	**-68,618**	*38.3%*
Net financial income		**34,693**	**39,118**	*-11.3%*
Profit before tax		**27,091**	**25,018**	*8.3%*
Non-recurring income from operations		166	672	
Non-recurring income from capital transactions		190	17,420	
Reversals of provisions and expense transfers		5,115	5,608	
Non-recurring income	**R4**	**5,471**	**23,701**	*-76.9%*
Non-recurring expenses from operations		-96	-272	
Non-recurring expenses from capital transactions		-545	-377	
Depreciations and provisions		-7,120	-7,836	
Non-recurring expenses	**R4**	**-7,761**	**-8,484**	*-8.5%*
Net non-recurring income		**-2,290**	**15,217**	*-115.0%*
Employee profit-sharing		45	-489	
Income tax	**R5**	9,689	7,933	
Result for the period		**34,535**	**47,678**	*-27.6%*

Cash flow statement

in € thousand	2017	2016
Result for the period	**34,535**	**47,678**
Elimination of depreciations and provisions	19,566	19,332
Elimination of gains and losses on disposals	142	-17,107
Other income and expenses with no cash impact	-505	-450
Cash flow	**53,738**	**49,453**
Effect of net change in inventories	699	376
Effect of net change in trade receivables	3,626	4,223
Effect of net change in trade payables	3,738	-4,308
Effect of net change in other receivables and payables	-34,493	-426
Effect of change in working capital requirements	**-26,430**	**-135**
Net cash flow generated by operating activities	**27,308**	**49,318**
Acquisitions of intangible assets	-3,889	-4,003
Acquisitions of tangible assets	-10,620	-9,310
Acquisitions of financial assets	-267,791	-19,127
Disposals of intangible and tangible assets	327,825	24,061
Net flow allocated to investing activities	**45,525**	**-8,379**
Dividends paid to the owners of the parent company	-	-
Increase/decrease in capital	-	-
Merger premium	-	-
Other increases related to merger	-	-
Investment grants	70	-
Other equity	-	-
Issuance/repayments of debt	-75,201	-37,940
Net cash from financing activities	**-75,131**	**-37,940**
Change in cash position	**-2,298**	**2,999**

Statement of change in cash position

in € thousand	2017	2016
Marketables securities	-382	-24
Available funds	8,423	273
Change in cash position assets	**8,041**	**249**
Bank overdrafts - current	-10,339	2,750
Change in cash position liabilities	**-10,339**	**2,750**
Net change in cash position	**-2,298**	**2,999**

APPENDICES TO THE STATUTORY ACCOUNTS

Significant events of the financial year

A new chairman of the executive board, Sébastien Huron, was appointed on December 21, 2017, following the voluntary retirement of Éric Marée.
At the end of the year, new funding was obtained from the European investment bank (EIB) amounting to $90 million. Obtained by Virbac under advantageous conditions, it strengthens the Group's financing and improves its level of liquidity.
The loan initially granted to the US subsidiary Virbac United States in 2014 in the amount of $350 million was partially reduced in December 2017 by $200 million by the contribution of the receivable corresponding to a capital increase of Virbac United States via the company Interlab, the shareholder.
Within the context of this transaction, Virbac also increased the capital of its subsidiary, Interlab, in the amount of €170 million.
New accounting regulations on foreign exchange transactions, mainly affecting the revaluations of currency transactions, were implemented over the 2017 financial year, in accordance with the ANC 2015-05 regulation (Accounting standards authority). These new accounting methods are addressed in various sections of the Appendix (see page 194, then note B8, B12, R2 and A3).

Events subsequent to the financial year-end

On January 31, 2018, the Court of cassation partially quashed the judgment handed down on May 13, 2015 by the Lyon Court of appeal in the case against Virbac in France brought forth by one of its main competitors. Virbac will give notice of the ruling with a view to being reimbursed the approximately €2 million paid out following the Court of appeal's ruling, with a new case very likely to be brought before the Court of appeal for a fresh ruling.

Accounting rules and methods

The accounts for the financial year ended December 31, 2017 have been prepared and presented in accordance with the accounting rules, in compliance with the principles provided for by articles 120-1 et *seq*. of the 2014 General accounting plan (GAP). The basic method used for the evaluation of the items recorded in the accounts is the historic costs method. The accounting conventions have been applied in compliance with the provisions of the French commercial code, the accounts decree of November 29, 1983 and ANC regulation 2014-03 pertaining to the rewriting of the 2014 General accounting plan applicable to the financial year-end, amended by ANC regulation 2015-06 of November 23, 2015. Regulation 2015-05 of July 2, 2015 which supplements ANC regulation 2014-03 was applied from the 2017 financial year.
These new provisions relate to forward financial instruments and to hedging transactions constituting a change of accounting method, the impacts of which are shown in notes B8 and B12.

Intangible assets

This section includes the business goodwill, marketing authorizations, patents, licenses acquired by the company and the costs of filling external trademarks which are registered and appear under assets in the balance sheet for their original value inasmuch as these trademarks are exploited. These fixed assets are valued at the historic acquisition cost, which corresponds to the acquisition price and the acquisition costs or at the actual production cost in the case of assets produced internally. The loan costs associated with the acquisition or the production of the assets are not capitalized. The patents, licenses and concessions are depreciated on a straight-line basis over their economic useful lives when they can be estimated.
The potential impairment of intangible assets not being depreciated is examined at least once a year. An impairment test is carried out irrespective of any indication of a loss in value. It combines a fair market value approach (estimate of fair value) and a future cash flow approach (estimate of value in use). Cashflows are calculated on the basis of five-year estimates. The discount rate used for these calculations is 7.5%.

The other intangible assets include, in particular, computer software:

- standard office software is amortized on a straight-line basis, as soon as it is capitalized, over four years, which corresponds to its economic useful life;
- expenditure items relating to information technology projects that, in addition to license acquisition costs, include significant consultancy expenditures are recorded as assets as and when they are incurred. These information technology projects are depreciated on a straight-line basis, starting as soon as the information system is operational.

Research and development costs are fully booked as expenses.

Depreciation period of intangible assets	
Trademarks	non-depreciable
Patents, licences and know-how	between 10 and 15 years
Marketing authorisations	between 10 and 15 years
Distribution rights	contract duration
Softwares	4 years
Movex ERP software	between 7 and 14 years
Other intangible assets	between 4 and 10 years

Tangible assets

Tangible assets are recorded at cost and include acquisition costs. The loan costs associated with the acquisition or the production of the assets are not capitalized.

The company proceeds as following:

- breakdown by components (buildings and fittings);
- breakdown by components of the industrial equipment with a gross value over €50,000;
- definition of depreciation schedules according to useful lives.

The depreciation periods applied correspond to the economic useful lives summarized in the table below.
Furthermore, the company continues to use the useful lives defined by the tax authorities and, where possible, applies the declining balance depreciation method. The differences resulting from the application of specific fiscal depreciation methods and periods, including the declining balance, are recorded as non-recurring depreciations.

Depreciation period of tangible assets	
Buildings	between 10 and 40 years
Facilities	between 10 and 20 years
Equipments	between 5 and 20 years
Other tangible assets	between 4 and 10 years

Financial assets

Shares in company

Shares in company basically correspond to capital investments in the subsidiaries and are recorded at cost, excluding incidental expenses. Incidental acquisition costs booked as expenses in the financial year are fiscally restated and their deduction is spread over five years.
At the end of each financial year, a provision may be made to reflect the impairment of the value of a subsidiary's securities. The company conducts an impairment test at each year-end. A provision is formed when the value-in-use of the securities is less than the net book value on the balance sheet.
The value-in-use takes account of the following factors:

- share of the equity in the subsidiary;
- cashflow forecasts, discounted at 7.5% (depending on countries' profitability prospects);
- the EBIT (Earning before income tax) growth rate over the three year business forecasts.

Other financial assets

The loans to subsidiaries are recorded at historic cost. A provision for impairment is recorded when there is an objective indication of loss of value, resulting from an event occurring after the asset's initial recognition.

Operating assets

Inventories of raw materials are stated at the weighted average cost, the acquisition cost including all incidental acquisition costs. A provision for impairment is made when the products have expired or are unusable or if there is a probability that these products will not be used before their use-by date. The manufacturing work in progress and the finished products are valued at their actual manufacturing cost, including direct and indirect production costs. A provision for impairment of finished products is applied when the realizable value or the prospects for sale of these products - assessed according to the market - appear lower than the gross inventory value.
An inventory of spare parts is also valued at the closure of the financial year. An impairment loss may be recognized on the equipment according to the age of the parts and the probability of use.

Receivables and payables

Receivables and payables are valued at their nominal value. Where applicable, receivables are entered at a loss in value by means of a provision to reflect any difficulties in recovering outstanding amounts.
Sales are recorded at the time of transfer of ownership, which normally occurs at the time of delivery of the asset. Trade receivables assigned through the factoring program are classified on the balance sheet in reduction of trade receivables.

Marketable securities

Marketable securities are recorded at their acquisition cost. The unrealized gains on portfolio securities are not recognized in the financial year's accounting results. A provision for impairment of the securities is recorded, where applicable, if their realizable value falls below their acquisition cost.
As regards undertakings for collective investment in transferable securities (UCITS), the realizable value corresponds to the market value at the closing date. Treasury shares are valued at acquisition cost. As regards plans for the allocation of performance-related stock grants, a provision is made for the vesting period.

Available funds

Foreign currency liquidity is converted into euros based on the latest exchange rate, and these foreign exchange gains and losses are included in the profit for the financial year.

Unrealized foreign exchange gains and losses

Unrealized foreign exchange gains and losses are a result of the recognition of payables and receivables in currencies outside the Eurozone at closing date.
Unrealized losses result in a provision for foreign exchange losses when the exchange rate has not been definitively hedged by forward transactions or by de facto hedges. Unrealized gains do not contribute to the profit of the financial year.

Derivative financial instruments

As a result of its activity and its international presence, the company is exposed to exchange rate variations.
Hedging instruments are negotiated to cover transactions recorded on the balance sheet, as well as highly probable future transactions. These hedges are held with the sole aim of reducing exposure to rate and exchange risks. Unrealized gains and losses on derivative financial instruments linked to exchange rate changes are recorded on the balance sheet as a translation difference so as to comply with the principle of symmetry with the hedged item. Gains and losses obtained from hedging derivatives are recorded in profit in the same section as the hedged item. In accordance with Article 628-11 of ANC regulation 2015-05, the effects of hedging are classified in operating profit in respect of the operational flows (account 656100 for foreign exchange losses, account 756100 for foreign exchange gains) and in financial result in respect of financial flows (account 666100 for foreign exchange losses, account 766100 for foreign exchange gains). The gains and losses made on hedging derivatives on highly probable forward transactions are recognized in profit only when the hedged item itself impacts on the profit. The premium for an option comprises the hedging cost. It is recorded in the financial result or in the starting value on the balance sheet of the hedged item, only at the end of the hedge.
The swap point comprises the hedging cost, for forward transactions; it is recorded on a symmetrical basis with the hedged item. It is not spread in the income statement if the hedge reduces almost all of the risk.

Provisions

They are intended to cover known costs and litigation (foreign exchange risks, supplementary retirement plans for managers, end-of-career allowances for staff, commercial disputes) as well as general economic risks that are based on an assessment (regulatory or fiscal product risks, potential litigations).

Employee benefits

- **Defined-contribution retirement plans**

The benefits associated with defined contribution retirement plans are recorded in expenses as incurred.

- **Defined benefit retirement plans**

The Group's liabilities arising from defined benefit retirement plans are determined using the projected unit credit actuarial method. These liabilities are measured on each balance sheet date. The method used to calculate the liabilities is based on a number of actuarial assumptions. The discount rate is determined by reference to the iBoxx Corporate AA10+ rate of return on high-grade private bonds (AA rated companies). The Group's liabilities are recognized as a debt on the balance sheet for the fund's net amount, which was constituted with an insurer. The actuarial gains and losses are immediately recognized on the income statement.

Operating income

Sales are recorded as follows:

- sales of assets are recorded at the delivery of the assets and the transfer of the property title;
- transactions involving service provisions are recorded over the period during which the services were provided.

Financial income and expenses

Financial income is generated mainly by dividends received from subsidiaries and investment income from available cash flow. The unrealized gains on monetary investments in UCITS are not recorded in the accounting results of the financial year, but only upon sale of the securities. A provision for impairment of the securities may be recognized when justified by the subsidiary's financial position (see note B3).

Income tax

As regards income taxes, Virbac and all of its French subsidiaries (Virbac France, Alfamed, Interlab, Virbac Distribution, Virbac Nutrition, Bio Veto Test) come under the tax integration system instituted by Article 68 of the December 30, 1987 law. Each company recognizes as cost the tax relating to its own profits, and retains the right to incur further losses in the future.
As the sole company liable for taxes, Virbac records the debt or receivable *vis-à-vis* the Tax office for the tax-consolidated group.

B1. Intangible assets

in € thousand	2016	Increases	Decreases	Transfers	2017
Trademarks and filing fees for trademarks	5,332	-	-	-	5,332
Patents and licenses	16,227	56	-	-	16,283
Marketing authorizations (AMM)	26,310	-	-	-	26,310
Domain names	4	-	-	-	4
Distribution rights	898	-	-	-	898
Goodwill	442	-	-	-	442
Other intangible assets	40	-	-	-	40
Softwares	41,606	1,605	-	1,637	44,848
Advances, prepayments on intangible assets and assets in progress	4,217	2,229	-	-1,637	4,809
Gross value	**95,076**	**3,890**	**-**	**-**	**98,966**
Depreciation	-64,216	-5,096	-	-	-69,312
Provisions	-219	-120	69	-	-270
Depreciation and provisions	**-64,435**	**-5,216**	**69**	**-**	**-69,582**
Net value	**30,641**	**-1,326**	**69**	**-**	**29,384**

The main patents, licenses and marketing authorizations (MA) are as follows (gross values):

- the Alpha Laval patent at €2,479 thousand;
- the FeLV patent at €2,628 thousand;
- the Alizine patent at €2,592 thousand;
- the Antigenics patent at €3,394 thousand;
- the Oridan patent at €3 million;
- the Doxycycline 50% marketing authorization at €690 thousand (net value after impairment and depreciation);
- the Schering-Plough marketing authorization at €18,334 thousand;
- the Virbamec, Equimax and Eraquell marketing authorizations at €4 million;
- the Cyclosporin marketing authorization at €1.5 million;
- the Suramox and Stabox marketing authorizations at €463 thousand.

The business goodwill (Alizine) acquired for a value of €442 thousand on October 19, 1998 has been fully depreciated since December 31, 2008.

Regarding the computer programs, upgrades were made to the various systems in the financial year, including the commissioning:

- of the time to market project for €604 thousand;
- of a new version of the MIS (Management information system) for €292 thousand;
- of a new human resources management module for €151 thousand.

Other IT projects were recorded in assets under construction for the year for a total value of €732 thousand.
Staff costs to be capitalized were recorded as of December 31, 2017 in assets under construction on IT projects, for a value of €1,099 thousand.

B2. Tangible assets

in € thousand	2016	Increases	Decreases	Transfers	2017
Land	1,790	-	-	-	1,790
Buildings	102,006	2,346	-2,019	271	102,604
Equipment and tools	98,566	3,432	-877	1,268	102,389
Other tangible assets	3,910	646	-16	24	4,564
Tangible assets in progress	2,098	3,594	-	-1,086	4,606
Pending invoices for fixed assets	2,549	77	-	-	2,626
Advances and prepayment orders	915	525	-	-477	963
Gross value	**211,834**	**10,620**	**-2,912**	**-**	**219,542**
Land	-	-	-	-	-
Buildings	-59,054	-4,547	1,886	-	-61,715
Equipment and tools	-59,032	-6,814	1,418	-	-64,428
Other tangible assets	-3,242	-202	16	-	-3,428
Tangible assets in progress	-	-	-	-	-
Pending invoices for fixed assets	-	-	-	-	-
Advances and prepayment orders	-	-	-	-	-
Depreciation and provisions	**-121,328**	**-11,563**	**3,320**	**-**	**-129,571**
Land	1,790	-	-	-	1,790
Buildings	42,952	-2,201	-133	271	40,889
Equipment and tools	39,534	-3,382	541	1,268	37,961
Other tangible assets	668	444	-	24	1,136
Tangible assets in progress	2,098	3,594	-	-1,086	4,606
Pending invoices for fixed assets	2,549	77	-	-	2,626
Advances and prepayment orders	915	525	-	-477	963
Net value	**90,506**	**-943**	**408**	**-**	**89,971**

Investments were made during the 2017 financial year on different sites, with the following in particular:
- work to upgrade the air-conditioning at VB3 for €404 thousand;
- work to refurbish the galenic research laboratories for €937 thousand;
- work to upgrade the hallways at VBD for €225 thousand;
- various refurbishment works in the new premises at VB17 for €223 thousand.

Equipment was purchased or commissioned, such as, for example:
- the air-conditioning for VB3 for €532 thousand;
- a new device for closing vials (injectable) for €994 thousand;
- a cold room at Bio3 for €176 thousand;
- production line equipment for €466 thousand;
- energy-saving equipment for €168 thousand.

A provision for impairment of equipment has been recognized since 2012. In the financial statements as of December 31, 2017, this impairment amounted to €476 thousand for decommissioned filtration systems and to €144 thousand for unused equipment. The impact of the adjustment of this provision on the result for the 2017 financial year is €37 thousand (expense), taking into account depreciation recognized elsewhere.

B3. Financial Assets

in € thousand	2016	Increases	Decreases	Transfers	2017
Long-term investments	283,635	170,221	-	-	453,856
Related account receivable	-	616	-	-	616
Other equity securities	-	-	-	-	-
Loans and other financial assets	424,366	96,954	-327,786	-	193,534
Gross value	**708,001**	**267,791**	**-327,786**	**-**	**648,006**
Impairment of financial assets	-	-	-	-	-
Provisions	**-**	**-**	**-**	**-**	**-**
Net value	**708,001**	**267,791**	**-327,786**	**-**	**648,006**

Equity investments

In 2017, Virbac created a new subsidiary in Algeria, GMP Virbac, the 42.85% shareholding in which amounts to €240,000. At the end of the financial year, Interlab received a capital increase in an amount of €170 million.

in € thousand	2017
Interlab	169,981
GPM Virbac	240
Capital increases, acquisitions and start-ups	**170,221**

Other financial assets

The ordinary shareholders' meeting of June 23, 2017 authorized Virbac company to buy back treasury shares in accordance with article L225-209 of the French commercial code and in line with the terms of the buyback plan set out in the prospectus published, by its professional distributor and on the company's website on May 30, 2017. Given the objectives set in the buyback program, the treasury shares have been classified as marketable securities.

The line item "Loans and other financial assets" includes mainly loans to subsidiaries and sub-subsidiaries, *i.e.*:

- €63,007 thousand to Virbac Chile;
- €3,113 thousand to SBC Virbac (Hong-Kong);
- €834 thousand to Virbac Uruguay;
- €116,735 thousand (or $140 million) to Virbac United States;
- €6,796 thousand to SBC Virbac Biotech (Taiwan).

The loan granted to Virbac New Zealand for a value as of December 31, 2016 of €6,315 thousand was repaid in full during the 2017 financial year, that of Virbac United States was reduced by $200 million at the end of the year.
These loans, granted in local currencies, were the subject of currency hedges in their entirety, with the exception of the Virbac Chile loan, which was partially hedged for an amount of CLP 32,595 million out of a total amount of CLP 46,563 million and that of Virbac United States, which was not hedged but which was the subject of a *de facto* hedge matched by the US dollar loan of the same amount and the same repayment dates.

B4. Inventories and work in progress

in € thousand	2017 Gross	2016 Gross	Change in inventories of raw materials and other supplies	Change in inventories of work-in-progress and finished goods
Raw materials and supplies	24,467	27,172	2,705	-
Work-in-progress	11,849	12,081	-	-232
Finished goods	10,834	8,932	-	1,902
Inventories and work-in-progress	**47,150**	**48,185**	**2,705**	**1,670**

As of December 31, 2017, provisions for inventory depreciation amounted to:

- raw materials: €2,046 thousand;
- manufacturing work-in-progress: €539 thousand;
- finished goods: €246 thousand.

The company has not recognized impairment for the inventory of spare parts.

B5. Receivables and payables

in € thousand	2017 Gross amounts	Due in less than one year	Due from 1 to 5 years	Due in more than 5 years
Receivable related to long-term investments	616	616	-	-
Loans	191,749	7,935	137,120	46,694
Other financial assets	1,785	-	1,785	-
Total fixed assets	**194,150**	**8,551**	**138,905**	**46,694**
Accounts receivable and related accounts*	61,360	61,360	-	-
Other receivables	99,269	99,269	-	-
Prepaid expenses	2,604	2,604	-	-
Current assets	**163,233**	**163,233**	**-**	**-**
Total receivables	**357,383**	**171,784**	**138,905**	**46,694**
Bank loans	427,441	22,893	319,754	84,794
Current bank overdrafts	15,881	15,881	-	-
Bank overdraft	-	-	-	-
Loans and miscellaneous financial debts	27	27	-	-
Owed to subsidiaries (current accounts)	25,714	25,714	-	-
Borrowings	**469,063**	**64,515**	**319,754**	**84,794**
Accounts payable and related accounts**	49,107	49,107	-	-
Tax and social payables	23,669	23,669	-	-
Payables to fixed assets suppliers and related accounts	1,305	1,305	-	-
Other payables	1,012	1,012	-	-
Prepaid income	-	-	-	-
Operating liabilities	**75,093**	**75,093**	**-**	**-**
Total payables	**544,156**	**139,608**	**319,754**	**84,794**

*including assignment of receivables (factoring): €1,989 thousand
**of which bills of exchange payable: none

As of 31 December, 2017, the amount of receivables assigned amounted to €1,989 thousand (classified as a reduction of trade receivables) and the on-going funding to €1,780 thousand. The impairment provision for trade receivables recognized amounted to €464 thousand.

B6. Marketable securities

As of December 31, 2017, this item includes SICAV for €464 thousand, the treasury shares of the 2016 performance plan for an amount of €1.5 million, as well as those of the liquidity contract for €2,136 thousand and those of the previous performance-related grants for a total value of €1,094 thousand.

in € thousand	2016	Increases	Decreases	Transfers	2017
SICAV	**1,538**	-	-1,074	-	**464**
Treasury shares (liquidity contract)	**1,314**	822	-	-	**2,136**
Performance-related stock grants	**1,500**	-	-	-	**1,500**
Treasury shares pending (cancelled plans)	**1,094**	-	-	-	**1,094**
Marketable securities	**5,446**	**822**	**-1,074**	**-**	**5,194**

As of December 31, 2017, Virbac is recording an insignificant unrealized capital gain on SICAV (€2 thousand). Concerning treasury shares, provision has been made for an unrealized capital loss realized on the liquidity contract, as well as on the treasury shares for former performance-related grants, for a value of €104 thousand. The probable cost resulting from the allocation of performance-related stock grants is taken into account and spread over the period of acquisition of the rights, in the form of a provision (see note B10).

B7. Available funds

As of December 31, 2017, available funds consisted only of the credit balances in the bank account which amounted to €438 thousand and to financial instruments in the amount of €8,583 thousand (in accordance with the new accounting rules ANC 2015-05).

B8. Accruals and deferred income

Prepaid expenses

They are mainly made up of various external expenses and the purchase of goods that can be stored over the 2017 financial year.

Deferred charges

The deferred charges consist of the loan issuance fees spread over the redemption term of the loans.

Conversion losses

They correspond to unrealized foreign exchange losses in the amount of €16,478 thousand compensated for the portion covered by unrealized gains obtained on financial derivatives, enabling the principle of symmetry to be complied with and recorded in liabilities (section: Deferred charges and prepaid expenses) in the amount of €8,965 thousand in account 478700. A provision for the amount of the unhedged financial risk was booked for a value of €3,975 thousand as of December 31, 2017. This is linked in the main to currency loans made to subsidiaries. The "Other hedges (natural)" item includes a US dollar loan granted to the US subsidiary naturally hedged by a bank draft in the same currency.

in € thousand	Trade receivables and payables	Financial receivables and payables	Derivative financial instruments	Total
Unrealized foreign exchange losses	1,306	14,347	825	**16,478**
Change in value of financial instruments	-308	-8,657		**-8,965**
Others hedges (natural)	-	-2,713		**-2,713**
Provision for foreign exchange losses	998	2,977		**3,975**

B9. Equity

Share capital

As of December 31, 2017, the €10,572,500 in share capital consisted of 8,458,000 shares with a nominal value of €1.25.

Statement of change in equity

As of December 31, 2017, Virbac held 37,261 treasury shares acquired on the market for a total of €4,730 thousand excluding fees, for an average price of €126.95 per share. During the financial year, the company bought 39,704 treasury shares and sold 31,411 as part of the market-making contract. The ordinary shareholders' meeting of June 23, 2017 decided not to pay dividends. The entire profit for the previous financial year was allocated to retained earnings.

	Prior to appropriation of results	2016 allocation of net income	After allocation of net income	Increases	Decreases	2017
Number of shares as of December 31	**8,458,000**	-	8,458,000	-	-	**8,458,000**
Number of dividend-bearing shares	**8,458,000**	-	8,458,000	-	-	**8,458,000**

in € thousand	Prior to appropriation of results	2016 allocation of net income	After allocation of net income	Increases	Decreases	2017
Share capital	**10,573**	-	10,573	-	-	**10,573**
Share and merger premiums	**6,534**	-	6,534	-	-	**6,534**
Financial year results	**47,678**	-47,678	-	34,535	-	**34,535**
Legal reserve	**1,089**	-	1,089	-	-	**1,089**
Regulated reserves	**36,287**	-	36,287	-	-	**36,287**
Other reserves	**36,396**	-	36,396	-	-	**36,396**
Amount carried forward	**224,685**	47,678	272,363	-	-	**272,363**
Distribution of dividends	**-**	-	-	-	-	**-**
Investment grants	**-**	-	-	72	-2	**70**
Regulated provisions	**29,856**	-	29,856	4,927	-3,778	**31,005**
Equity	**393,098**	**-**	**393,098**	**39,534**	**-3,780**	**428,852**

Regulated provisions

This line item consists only of exceptional depreciation arising from different tax depreciation lengths and methods.

B10. Provisions

The entries recognized in this line item are as follows:

in € thousand	2016	Allowances	Reversals of amounts used	Reversals of amounts not used	2017
Retirement and severance pay allowances	5,507	426	-	-	5,933
Provisions for supplementary pensions schemes	2,656	-	-275	-	2,381
Provisions for foreign exchange losses	2,245	3,975	-2,245	-	3,975
Provisions for stock grants	209	112	-	-	321
Provisions for risks and charges	1,815	1,459	-1,666	-	1,608
Provisions for risks and charges	**12,432**	**5,972**	**-4,186**	**-**	**14,218**
Impairment of fixed assets	803	740	-653	-	890
Impairment of current assets	3,315	3,292	-3,312	-	3,295
Provisions for impairment	**4,118**	**4,032**	**-3,965**	**-**	**4,185**
Provisions	**16,550**	**10,004**	**-8,151**	**-**	**18,403**

During the financial year, the company recognized €426 thousand in end-of-career allowances required by the law and the collective agreement.

The calculation of the allowances factors in remuneration, the employees' years of service and the following criteria:
- vesting:
  - executive personnel: 12% per year of service;
  - non-executive personnel: 10% per year of service;
- discount rate: 1.3%;
- rate of social contributions: 47.0%;
- employee turnover rate: determined based on the employees' category, age and years of service;
- life expectancy: determined based on the Insee TD-TV 13-15 mortality table.

Other criteria:

	Executive personnel	Non-executive
Retirement age	65 years	62 years
Salary adjustment rate	2,0%	2,0%

The allowances are calculated based on a retrospective actuarial method. It factors in the changes made by the 2007 Finance act for social security *i.e.* the impact that the retirement of employees aged less than 65 years of age will have in terms of social contributions. Actuarial differences are immediately recognized in profit. The amount of charges for defined-contribution pension schemes recorded was €5,256 thousand in the financial year 2017.
In addition, the company recognized a provision for complementary retirement benefits for members of the executive board as a defined-benefit scheme set up in 2003. For the 2017 financial year, a reversal of provisions was made for an amount of €275 thousand. Payments have already been made for the previous financial years in respect of the pre-financing of the scheme. In the 2017 financial year, an additional payment was made in the amount of €172 thousand. These amounts are managed by an insurance company and are covered by risk-free investments. The value relating to the hedging asset is nil as of December 31, 2017.
The company has also made a staggered provision for the probable cost of allocating performance-related stock grants to certain employees and managers. This year, the provision recorded in the accounts amounts to €113 thousand. The vesting period initially set at December 31, 2018 has been pushed back to December 31, 2019.
The other provisions for risks and charges specifically include a provision of €50 thousand for commercial disputes, a provision of €127 thousand for industrial disputes, a provision of €100 thousand for disputes following reimbursement of the *Schuldschein* contract and a provision of €900 thousand for miscellaneous risks.
The provision for impairment of tangible assets mainly involves unused or decommissioned equipment in the amount of €620 thousand (see note B2). Impaired current assets correspond to inventories and work in progress in the amount of €2,831 thousand and to trade receivables in the amount of €464 thousand.

B11. Financial liabilities

The main features of Virbac's three funding instruments are as follows:
- a syndicated loan of €420 million, drawn in euros and dollars, contracted with a pool of banks and repayable in full upon maturity in April 2020, with the option to extend the term to April 2022;
- market-based contracts (*Schuldschein*) consisting of four installments, with maturities of five, seven and ten years, at variable and fixed rates;
- a $90 million financing contract with the European investment bank (EIB), for a seven-year term, of which one half is repayable *in fine* and the other half is payable over eleven years.

Virbac also received bilateral loans and Public investment bank (PIB) financing.

As of December 31, 2017, the position of the funding instruments was as follows:
- the syndicated loan was drawn for amounts of €108 million and $161 million;
- the market-based contracts amounted to €15 million and $15.5 million;
- the bilateral loans and PIB and EIB financing amounted to €77.5 million and $90 million.

These funding instruments include a financial covenant compliance clause that requires the borrower to adhere to the following financial ratios based on the consolidated accounts and reflecting net consolidated debt for the period in question on the consolidated Ebitda (Earnings before interest, taxes, depreciation and amortization) for the same test period.
As of December 31, 2017, the net debt ratio on Ebitda was below the maximum amount set out by the covenant clause at 4.75.
Consolidated net debt refers to the sum of other current and non-current financial liabilities, namely the following items: loans, bank loans, accrued interest liabilities, debts related to finance leases, participation, interest rate and foreign exchange derivatives, and others; less the amount of the following items: cash and cash equivalents, term deposits, and foreign exchange and interest rate derivatives as shown in the consolidated accounts.
Consolidated Ebitda refers to operating profit for the period under review, plus the allowance for depreciations and provisions, net of reversals and dividends received from non-consolidated subsidiaries.
The company's financing capacity is sufficient to fund its cash requirements.

B12. Accruals and deferred income

Prepaid income

No prepaid income was recognized in the 2017 financial year.

Conversion gains

These correspond to unrealized foreign exchange gains following the revaluation of currency receivables and payables at the closing price for €19,258 thousand. These gains are offset by unrealized exchange losses in the amount of €825 thousand obtained on financial derivatives, enabling the principle of symmetry to be complied with and recorded in the assets (section: Accruals and deferred income) in account 478600.

in € thousand	Trade receivables and payables	Financial receivables and payables	Derivative financial instruments	Total
Unrealized foreign exchange gains	48	10,245	8,965	**19,258**
Change in value of financial instruments	-41	-784		**-825**
Net conversion gains	7	9,461		**9,468**

R1. Sales

Breakdown of revenue between French and export sales

in € thousand	2017	2016
France	68,154	66,780
Export	196,047	189,911
Sales	**264,201**	**256,691**

Breakdown of revenue by type

in € thousand	2017	2016
Sales of finished goods and merchandise	249,459	241,330
Services	14,742	15,361
Sales	**264,201**	**256,691**

R2. Operating income and expenses

Research and development costs

Research and development costs are booked as expenses during the financial year. As of December 31, 2017, subcontracted research and development costs amounted to €8,482 thousand.

Competitiveness and employment tax credit

During the 2017 financial year, Virbac recognized €1,419 thousand in CICE tax credits minus personnel expense following the recommendation of the accounting standards board ANC.
The CICE for the years 2014 to 2017 of the integrated tax group were pre-financed with a bank for an overall value of €5,661 thousand.
The loan monies were used to fund expenses incurred by Virbac strengthening its Carros sites in 2017:

- tangible investments:
  - €6,562 thousand for production;
  - €2,815 thousand for R&D equipment;
- personnel:
  - creation of 22 permanent contracts;
  - creation of 14 temporary contracts.

Foreign exchange differences

In accordance with the ANC 2015-05 regulation, implemented over the 2017 financial year, the impacts of hedging have been recognized in operating profit for the operational flows and in financial result for the financial flows. The impact of the balance of foreign exchange differences re-categorized in operations over the 2017 financial year amounts to €543 thousand:

- foreign exchange in the amount of €3,687 thousand booked in accounts 756;
- foreign exchange in the amount of €3,144 thousand booked in accounts 656.

R3. Financial income and expenses

The financial result is down €4.4 million (-11.3%), mainly due to the lower dividends received (€-2.3 million compared with 2016), and to an increase in the provision for foreign exchange losses of €1.7 million compared with 2016. As stated in the previous paragraph, in 2017, foreign exchange differences relating to operating transactions are no longer recognized in the financial result but in operating profit.

Financial expenses

in € thousand	2017	2016
Provisions for foreign exchange losses	-3,975	-2,245
Provisions for impairment of securities	-129	-
Allowances for amortization and provisions	**-4,104**	**-2,245**
Interest, loans and credit lines	-16,330	-16,339
Other financial charges	-412	-527
Foreign exchange losses	-74,023	-49,508
Other interest paid and similar expenses	**-90,765**	**-66,374**
Financial expenses	**-94,869**	**-68,619**

Financial income

in € thousand	2017	2016
Income from investments	33,124	35,463
Reversal of provisions	2,245	3,941
Foreign exchange gains	75,598	50,221
Net income from sales of marketable securities	-	-
Income from various receivables	18,595	18,111
Financial income	**129,562**	**107,736**

R4. Non-recurring expenses and income

Non-recurring income amounts to a loss of €2.3 million, down €17.5 million from 2016, mainly due to the redemption in 2016 by a subsidiary of its own shares, generating a net capital gain of €17 million over the preceding financial year. Special depreciation allowances also impacts net non-recurring income with a net allowance (charge) of €1,148 thousand.

Non-recurring expenses

in € thousand	2017	2016
Net values of fixed asset disposals	-545	-377
Tax penalties	-54	-51
Other non-recurring	-42	-220
Allowances for regulated provisions	-4,927	-5,841
Allowances for provisions for risks and charges	-1,453	-1,411
Allowances for other provisions	-740	-584
Non-recurring expenses	**-7,761**	**-8,484**

Non-recurring income

in € thousand	2017	2016
Income from disposal of fixed assets	190	17,420
Reversals of regulated provisions	3,779	4,315
Reversals of provisions for risks and charges	684	587
Reversals of provisions for extraordinary impairments	653	693
Transfers of extraordinary expenses	-	13
Miscellaneous income	165	673
Non-recurring income	**5,471**	**23,701**

R5. Income tax

As of December 31, 2017, the tax savings realized by Virbac as a result of tax losses incurred by consolidated subsidiaries and which may return if the affiliates become profitable again amounted to €17 thousand. As of December 31, 2017, a €7,566 thousand research tax credit and a €33 thousand corporate sponsorship tax credit were recognized. If Virbac had been taxed separately, it would have only recognized a total tax income equivalent to €7,601 thousand of tax credits. As a result of tax consolidation, Virbac this year recognized a tax savings of €1,858 thousand.

Increases and decreases of the future tax burden

The 2018 Finance Law provides for a reduction in income tax. The impact for Virbac will have an effect on 2019 with a rate reduced to 25.83% versus 34.43% as of today. Given this reduction and the prospects for use, tax relief and tax increases from 2019 are calculated at the rate of 25.83%.

in € thousand		2017		2016
Tax rate	**34,43%**	**25.83%**	**34,43%**	**28.92%**
Special depreciation allowances	1,134	7,158	2,428	6,595
Increases related to timing differences		**8,292**		**9,023**
Solidarity contribution	144	-	137	-
Unrealized gains on investments of cash	1	-	-	-
Unrealized foreign exchange gains	2,325	-	14	-
Retirement obligations	-	2,148	-	2,361
Corporate sponsorship tax credit	73	-	104	-
Other provisions	54	98	169	110
Total decreases by tax rate	**2,597**	**2,246**	**424**	**2,471**
Total decreases related to timing differences		**4,843**		**2,895**
Tax carry forwards	-	-7,421	-	-7,761
Items to be charged to the tax		**-7,421**		**-7,761**

Exceptional tax evaluations and profit

Tax rate 34.43%

in € thousand	Gross	2017 Taxes	Net
Financial year results	**24,846**	**9,689**	**34,535**
Special depreciation allowances	1,148	-395	753
Other regulated provisions	-	-	-
Exceptional evaluations (allowances and reversals)	**1,148**	**-395**	**753**
Net income excluding exceptional tax evaluations	**25,994**	**9,294**	**35,288**

Tax rate 34.43%

in € thousand	Gross	2016 Taxes	Net
Financial year results	**39,745**	**7,933**	**47,678**
Special depreciation allowances	1,526	-525	1,001
Other regulated provisions	-	-	-
Exceptional evaluations (allowances and reversals)	**1,526**	**-525**	**1,001**
Net income excluding exceptional tax evaluations	**41,271**	**7,408**	**48,679**

Breakdown of the 2017 income tax

in € thousand	Profit before taxes	Tax owed	Net income after taxes
Operating profit from ordinary activities	27,136	1,732	**28,868**
Non-recurring result	-2,290	356	**-1,934**
Miscellaneous tax credits	-	7,601	**7,601**
Net income for accounting purposes	**24,846**	**9,689**	**34,535**

A1. Lease finance and operating lease transactions

Operating lease agreements

Virbac signed operating lease agreements for computers. As of December 31, 2017, the commitment in terms of capital amounted to €2,058 thousand.

A2. Off-balance sheet commitments

in € thousand	2017	2016
Securities, deposits, letters of comfort and guarantees	39,843	59,102
- of which extended to related companies	39,843	59,102
Commitments given	**39,843**	**59,102**
Forward exchange contracts	61,958	59,044
OTC options exchange	21,017	15,444
Swap rate	133,073	153,301
Interest rate options	261,216	128,071
Crossed currencies swap	44,423	63,742
Reciprocal commitments	**521,687**	**419,602**
Real property finance leases	-	-
Finance leases	2,058	2,625
Others commitments	**2,058**	**2,625**

Contingent liabilities

No provision is made when the company considers the liability to be contingent.
For example, this request made by one of the Group's competitors at the end of 2016 seeking compensation for alleged damages resulting from damage to the reputation of one of its trademarks and infringement of that trademark.
In this case, Virbac considers the application to be legally unfounded and disproportionate in terms of the amount claimed as compensation for the damage. It is therefore a contingent liability for which the significant outflow of resources is unlikely.

A3. Exposure to market risks and derivative financial instruments

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

Credit risk

The following statements show the breakdown of third-party receivables (excluding pending invoices and credit notes) as of December 31, 2017:

in € thousand	Trade receivables Due between	Receivables overdue for < 30 days	 < 60 days	 <90 days	 >120 days	Trade receivable Impaired	Total
Third-party trade receivables	3,568	61	73		429	-	**4,131**

As of December 31, 2017, the Group's highest exposure to credit risk was €62,539 thousand, which represents the trade receivables as presented in the Group's consolidated financial statements. The risk on trade receivables between Group companies or €56,418 thousand is not relevant because Virbac ensures that its subsidiaries have the necessary financial structure to honor their liabilities. As regards third-party receivables, the Group considers the counterparty risk to be immaterial because it has set up a mechanism to track past due receivables, making it possible to minimize bad debt. Since 2016, Virbac set up a factoring contract. As of December 31, 2017, the amount of receivables assigned amounted to €1,989 thousand (classified as a reduction of trade receivables) and current funding was €1,781 thousand.

Risk factors

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

Risk management mechanisms

The Group limits the negative consequences of this type of risk thanks to the very high fragmentation and dispersal of its customers throughout all of the countries in which it operates. Based on the regulation in force, the Treasury department recommends applications, ratings, credit-insurance limits, maximum payment periods and sets credit limits for customers to be applied by the Group's operational entities. The Treasury and Financing department manages and controls these credit aspects for the French entities for which it is directly responsible and recommends the same practices via guidelines and best practices for the Group. Furthermore, there is a credit insurance group framework contract to which any subsidiary is or may be eligible when it comes to this kind of risk.

Counter-party risk

Risk factors

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

Risk management mechanisms

The Group pays particular attention to the choice of banking entities it uses, and is even more critical when it comes to investing available cash.
However, Virbac considers that it has low exposure to counterparty risk given the quality of its major counterparties. In fact, investments are only made with first-class banking entities.

Liquidity risk

Risk factors

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

Risk management mechanisms

The policy of pooling surplus cash and funding needs in all areas helps to refine the Group's net position and to optimize the management of investments and funding requirements, ensuring Virbac's ability to meet its financial commitments and maintain an optimal level of availability commensurate with its size and needs.
In respect of its specific review of the liquidity risk, the Group regularly carries out a detailed review of its liabilities, thus ensuring compliance with its financial covenant (debt covenant).
The financial ratio calculated as of December 31, 2017 was 4.28, thus complying with the covenant, not exceeding 4.75 (more flexible level for 2017). For 2018 and to give itself more flexibility, Virbac applied for and obtained flexibility in the financial covenant compliance clause from its banking partners. The level, which will be measured throughout this financial year, was the subject of an amendment and an upwards revision. It should be below 5.0 at the end of June 2018 (compared with 5.5 at the end of June 2017) and below 4.25 at the end of December 2018 (compared with 4.75 at the end of December 2017). As of 2019, they will return to the initial commitment levels of 4.25 at the end of June and 3.75 at the end of December.
With regard to its prospects, the Company's cash and financial resources are sufficient to fund its cash requirements.

Market risk

Exchange rate risk

Risk factors

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

Risk management mechanisms

The risk management policy consists of hedging the operational transaction currency risk using derivatives. The Group applies a centralized foreign exchange risk management policy for currency trading transactions by the most exposed subsidiaries in the Group having no local regulatory restrictions. On the basis of the annual currency budgets reported by the subsidiaries, the Group cash position covers the net exposure and provides internal exchange guarantees to each centralized entity. The company uses future, firm or optional purchase and sale hedging derivatives.

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

in € thousand	2017	2016
Fair value hedges	217	-
Cash flow hedges	80	14
Net investment hedges	-	-
Derivatives not qualifying for hedge	7	2,902
Exchange derivatives	**304**	**2,916**

Interest rate risk

Risk factors

The Group's income statement may be impacted by the interest rate risk. In fact, unfavorable rate changes can thus have a negative impact on the Group's financing costs and future cash flows. The exposure to interest rate risk arises from the fact that the Group's debt consists mainly of credit lines and variable rate loans, the cost of debt can therefore increase if interest rates rise.

Risk management mechanisms

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

in € thousand	2017	2016
Fair value hedges	-	-
Cash flow hedges	565	-353
Net investment hedges	-	-
Derivatives not qualifying for hedge	-	4,058
Rate derivatives	**565**	**3,705**

Specific impacts from hedging exchange and interest rate risks

The exchange rate derivatives used for cash flow hedging generally mature within a year. The derivative financial interest rate instruments are used to hedge the credit lines or loans and therefore have a maturity beyond several years, compatible with the hedged cash. All derivatives held by the company as of December 31, 2017 qualified for hedge. Virbac therefore does not hold any isolated open position instrument.

en k€	Nominal 2017	Nominal 2016	Positive fair value 2017	Positive fair value 2016	Negative fair value 2017	Negative fair value 2016
Forward exchange contracts	63,200	59,044	1,169	797	847	1,765
OTC options exchange	22,301	15,444	76	217	92	392
Exchange instruments	**85,501**	**74,488**	**1,245**	**1,014**	**939**	**2,157**
Swap rate	133,073	153,301	1,002	402	138	300
Interest rate options	91,720	128,071	110	325	392	779
Cross currency Swaps	44,423	63,742	314	5,409	333	1,350
Interest rate instruments	**269,216**	**345,114**	**1,426**	**6,136**	**863**	**2,429**
Derivative financial instruments	**354,717**	**419,602**	**2,671**	**7,150**	**1,802**	**4,586**

The company may deal with hedges with asymmetrical vanilla tunnel optimization. These derivatives are risk-free and are always coupled with commercial currency transactions recorded on the balance sheet or highly probable forward transactions.

Supply risks

All the raw materials and certain active ingredients used to manufacture Virbac's products are supplied by third parties. In certain cases, the Group also uses finishers or industrial partners who have expertise in or are masters in particular technologies. As far as possible, Virbac diversifies its sources of supply by approving several suppliers, while ensuring that these various sources embody the characteristics of sufficient quality and reliability. Nevertheless, there are certain supplies or certain technology situations where diversification is practically impossible, which can result in a disruption to the supply or pressure on prices.
To limit these risks, the Group widens its approach to identify as many diversified suppliers as possible, and may in certain cases secure its supply chain by acquiring the technologies and capacities it lacks and that create too high a dependency. An example of this was the acquisition by the company of the intellectual property and industrial facilities to produce the protein used to make the leading cat vaccine.

A4. Average workforce

	2017	2016
Executives	507	512
Supervisors and technicians	423	410
Workers	202	212
Employees	19	28
Apprentices	19	16
Workforce	**1,170**	**1,178**

A5. Information relating to the Professional training account

The management of the Professional training account (*Compte professionnel de formation*) system is outsourced to the Deposits and consignments fund (*Caisse de dépôt et consignation*).

A6. Breakdown of accrued expenses and income

Breakdown of accrued expenses

in € thousand	2017	2016
Accrued interest on employee profit-sharing	1	1
Accrued interest on credit line	3,189	3,433
Loans and financial debts	**3,190**	**3,434**
Provisions for pending invoices	18,573	19,202
Provisions for representation offices	72	18
Unrealized exchange differences	1,306	1,227
Accounts payable and related accounts	**19,951**	**20,447**
Third-party discounts, rebates and refunds to be obtained	27	17
Group discounts, rebates and refunds to be invoiced	180	242
Discounts, rebates and refunds to be invoiced	**207**	**259**
Provision for paid holidays (including social charges)	7,552	7,207
Provision for various bonuses (including social charges)	7,303	6,662
Provision for profit-sharing bonus	-	586
Provision for other accrued social charges	387	112
Provision for various accrued tax charges	73	149
Provision for professional training	563	546
Provision for the construction effort	253	246
Provision for the apprenticeship tax	427	415
Provision for the business added value assessment (CVAE)	38	-95
Provision for the business property tax (CFE)	15	28
Provision for taxes and various duties	148	39
Provision for the solidarity contribution	418	399
Tax and social payables	**17,177**	**16,294**
Provision for various accrued tax charges	222	236
Bank overdrafts and accrued interest not yet matured	40	44
Other payables	**262**	**280**
Accrued expenses	**40,787**	**40,714**

Breakdown of accrued income

in € thousand	2017	2016
Provision for interest accrued on loans	1,264	4,634
Other financial assets	**1,264**	**4,634**
Pending third-party receivable invoices	117	61
Pending Group receivable invoices	853	1,445
Unrealized third-party exchange differences	48	651
Accounts receivable and related accounts	**1,018**	**2,157**
Miscellaneous accrued income	58	505
Pending supplier credit note invoices	1,405	229
Accrued interest	1	1
Other receivables	**1,464**	**735**
Accrued income	**3,746**	**7,526**

A7. Related parties

Related companies and investments

in € thousand	2017	2016
Long-term investments	453,857	283,635
Claims related to long-term investments	-	-
Other capitalized claims	-	-
Loans	191,749	423,282
Accounts receivable and related accounts	57,451	60,998
Other various receivables (current accounts)	79,517	40,346
Accounts payable and related accounts	5,368	4,864
Other payables (current accounts miscellaneous financial debts)	25,714	27,666
Receivables and payables	**813,656**	**840,791**
Financial expenses	-71	-53
Allowance for impairment of financial assets	-	-
Miscellaneous financial income	18,586	18,102
Reversals of impairments of financial assets	-	-
Income from investments (dividends)	33,124	35,463
Financial income and expenses	**51,639**	**53,512**

Compensation of corporate officers

The expense recognized by the company during the 2017 financial year and related to directors' fees and the various compensation of the supervisory board amounted to €236,000. The expense recognized for the total compensation of the members of the executive board amounted to €1,224,813 this year.

Other benefits

The members of the executive board receive the following benefits:

Company vehicle

Executive board members receive a company vehicle, in accordance with the policy defined by the compensation committee.

Health insurance plan, maternity benefits, pension and retirement

Executive board members and the chairman of the executive board have the same health insurance, maternity benefits and pension and retirement plans as those provided to the company's executives, under the same contribution and benefit conditions as those defined for the other company executives.

Unemployment insurance plan

The chairman of the executive board is covered by the private GSC (*Garantie Sociale des Chefs d'Entreprise* [Unemployment Insurance for Corporate Directors]) plan, which is based on the 70-for-one-year formula, in accordance with this organization's general conditions, and whose contributions will be entirely paid by the company, but will be claimed as a benefit in kind for the chairman of the executive board. The amount of the annual contributions over time shall not exceed €15,000.
The other executive board members have the same unemployment insurance plan as that provided to the company's employees.

Supplementary pension plan

All executive board members have a supplementary defined benefit pension plan (12.5% of the reference salary and 22% in the event of service with the company exceeding 30 years), the allocation of which is contingent on the following criteria:

- over ten years service in the Group (including nine years as a member of the executive board or 15 years for a benefit of 22% of the reference salary);
- at least 60 years-old;
- ended his/her career in the Group.

Forced retirement severance pay

Éric Marée, who stepped down as chairman of the executive board on December 20, 2017 in order to retire, did not receive any severance pay.

The new chairman of the executive board, Sébastien Huron, shall benefit from commitments made by the company in the event of the termination of his office by virtue of a decision made by the supervisory board on December 20, 2017.

In the event of the forced termination of the office of the chairman of the executive board, the chairman of the executive board shall receive severance pay, the amount of which will be subject to the achievement of the Group's operating profit from ordinary activities to net revenue ratio (Ratio = Operating profit from ordinary activities/revenue excl. tax) over the last 2 and/or last 4 half-year ends and may range from between 0 and €700,000. The commitments made by the company in the event of the termination of the office held by Christian Karst, member of the executive board and general manager, were renewed by the supervisory board on March 13, 2018. The compensation amounted to €326,000. Severance pay shall only be paid out in the event of a forced departure at the company's initiative. It will not be owed in the event of resignation, full pension retirement, retirement once the age limit for being a member of the executive board is reached or in the event of dismissal for gross negligence.

These commitments will be subject to the approval of the next shareholders' meeting on June 20, 2018.

Non-competition payments

Sébastien Huron agreed to a non-competition commitment in the event he leaves office, in consideration of which a non-competition payment is scheduled.

In consideration of the non-competition obligation, Sébastien Huron, will receive each month, during the entire competition ban period, a payment in an amount equal to 80% of his gross fixed monthly compensation received for the company's last year-end (including directors' fees and any other compensation related to his functions within the Virbac group). This payment will be limited, for this 18-month period, to a maximum gross amount of €500,000.

Other related parties

A sporting sponsorship agreement was signed between the Absolute Dreamer company, of which Jean-Pierre Dick is the manager, and Virbac, where Jean-Pierre Dick is a member of the executive board. This partnership aims to contribute financially to the participation of a sailing vessel in various offshore races, which helps to promote Virbac's brand image throughout the world and increase its visibility. An amount of €1.2 million was accounted for in expenses in the 2017 financial year as part of this contract which ended on December 31, 2017.

A10. Subsidiaries and investments as of December 31, 2017

The company is the parent company of the consolidated Group and as such publishes the consolidated accounts in accordance with IFRS, as adopted by the European Union.

Company name	Country	Share capital		Reserves and retained earnings before appropriation of net income		Loans and advances extended	Endorsements and deposits	Share of the capital held
		in thousand currency		in thousand currency		€ thousand	€ thousand	%
French subsidiaries								
Interlab	France	63,463	kEUR	256,724	kEUR	-	-	100.00%
Virbac France	France	240	kEUR	7,482	kEUR	-	-	99.95%
Virbac Distribution	France	382	kEUR	43	kEUR	-	-	99.84%
Virbac Nutrition	France	547	kEUR	370	kEUR	-	-	99.99%
Bio Véto Test	France	200	kEUR	515	kEUR	-	-	100.00%
Alfamed	France	40	kEUR	126	kEUR	-	-	99.60%
Foreign subsidiaries								
Virbac Nederland BV	Netherlands	45	kEUR	2,563	kEUR	-	-	100.00%
Virbac (Switzerland) AG	Switzerland	200	kCHF	865	kCHF	-	-	100.00%
Virbac Ltd	United Kingdom	2	kGBP	459	kGBP	-	-	100.00%
Virbac SRL	Italy	1,601	kEUR	1,189	kEUR	-	-	100.00%
Virbac do Brasil Indústria e Comercio Ltda	Brazil	22,032	kBRL	9,786	kBRL	-	-	100.00%
Virbac Danmark A/S	Denmark	500	kDKK	9,416	kDKK	-	712	100.00%
Virbac Mexico SA de CV	Mexico	6,197	kMXN	411,439	kMXN	-	-	99.60%
Laboratorios Virbac Mexico SA de CV	Mexico	4,000	kMXN	32,136	kMXN	-	-	99.99%
Virbac Pharma Handelsgesellshaft mbH	Germany	102	kEUR	9	kEUR	-	-	100.00%
Virbac Tierarzneimittel GmbH	Germany	440	kEUR	1,762	kEUR	-	-	100.00%
Virbac Sp. z o.o.	Poland	5	kPLN	134	kPLN	-	-	100.00%
Virbac Hungary Kft	Hungary	3,000	kHUF	22,482	kHUF	-	-	100.00%
Virbac Uruguay S.A.	Uruguay	2,173	kUSD	25,525	kUSD	842	-	99.18%
Virbac Trading (Shanghai) Co. Ltd	China	22,454	kCNY	-13,580	kCNY	-	-	100.00%
Virbac HK Trading Co Ltd	Hong Kong	517	kHKD	-640	kHKD	-	-	100.00%
Asia Pharma Ltd	Hong Kong	16,055	kHKD	-182	kHKD	-	-	100.00%
SBC Virbac Limited	Hong Kong	-	kHKD	97,242	kHKD	3,191	-	100.00%
Virbac Hellas SA	Greece	300	kEUR	1,252	kEUR	-	-	100.00%
Animedica SA	Greece	96	kEUR	-51	kEUR	-	-	100.00%
Virbac España SA	Spain	601	kEUR	507	kEUR	-	-	100.00%
Virbac Österreich GmbH	Austria	36	kEUR	177	kEUR	-	-	50.00%
Virbac Korea Co. Ltd	South Korea	1,600,000	kKRW	152,972	kKRW	-	-	100.00%
Virbac (Thailand) Co. Ltd	Thailand	20,000	kTHB	24,987	kTHB	-	-	91.00%
Virbac (Taiwan) Co. Ltd	Taiwan	18,000	kTWD	10,294	kTWD	-	-	100.00%
Virbac Colombia Ltda	Colombia	7,404,486	kCOP	7,207,636	kCOP	-	-	99.98%
Virbac Philippines Inc.	Philippines	48,500	kPHP	-22,567	kPHP	-	250	100.00%
Virbac Japan Co. Ltd	Japan	130,000	kJPY	235,447	kJPY	-	1,333	100.00%
Laboratorios Virbac Costa Rica SA	Costa Rica	178,750	kCRC	1,126,335	kCRC	-	-	100.00%
Virbac Asia Pacific Co. Ltd	Thailand	10,000	kTHB	3,922	kTHB	-	-	100.00%
Virbac de Portugal Laboratorios Lda	Portugal	5	kEUR	656	kEUR	-	-	95.00%
Virbac Vietnam Co. Ltd	Vietnam	22,606,324	kVND	119,087,265	kVND	-	-	100.00%
Virbac RSA (Proprietary) Ltd	South Africa	54	kZAR	65,417	kZAR	-	-	100.00%
Virbac Animal Health India Private Limited	India	3,839	kINR	2,187,889	kINR	-	-	100.00%
PP Manufacturing Corporation	United States	-	kUSD	4,458	kUSD	-	4,646	100.00%
Virbac (Australia) Pty Ltd	Australia	2,500	kAUD	56,507	kAUD	-	-	100.00%
Virbac New Zealand Ltd	New Zealand	18,290	kNZD	17,096	kNZD	-	-	100.00%
Virbac Chile SpA	Chile	1,000	kCLP	2,589,160	kCLP	63,971	-	100.00%
Virbac Patagonia Ltda	Chile	57,398,882	kCLP	-2,192,468	kCLP	-	-	1.00%
Virbac Latam Spa	Chile	1,000	kCLP	29,588	kCLP	-	-	100.00%
GPM Virbac	Algéria	70,000	KDZD	-	KDZD	-	-	42.85%

Gross value of the shares held	Net value of the shares held	Number of shares held	Total number of shares	IFRS sales for the financial year		Financial year results		Dividends received by Virbac	2017 currency-to-EUR foreign exchange rate	
€ thousand	€ thousand			in thousand currency		in thousand currency		€ thousand	closing	average
276,785	276,785	4,230,848	4,230,849	-	kEUR	-3	kEUR	-	-	-
40,761	40,761	10,434	10,439	75,775	kEUR	1,289	kEUR	1,868	-	-
538	538	5,741	5,750	1,878	kEUR	87	kEUR	47	-	-
2,933	2,933	68,349	68,354	29,932	kEUR	3,054	kEUR	2,700	-	-
17,601	17,601	30,939	30,939	5,664	kEUR	815	kEUR	1,100	-	-
688	688	1,004	1,008	13,417	kEUR	611	kEUR	946	-	-
10,443	10,443	89	89	21,122	kEUR	1,696	kEUR	326	-	-
115	115	2,000	2,000	15,053	kCHF	1,025	kCHF	1,256	1.170	1.112
3	3	2,000	2,000	35,892	kGBP	2,423	kGBP	3,981	0.887	0.878
5,046	5,046	179,900	179,900	27,976	kEUR	485	kEUR	500	-	-
11,390	11,390	22,032,352	22,032,353	98,347	kBRL	4,199	kBRL	-	3.973	3.602
5,350	5,350	500	500	77,698	kDKK	1,774	kDKK	-	7.445	7.439
1,240	1,240	6,171,776	6,196,830	850,665	kMXN	47,638	kMXN	914	23.661	21.259
2,974	2,974	3,999,543	4,000,000	-490	kMXN	-384	kMXN	-	23.661	21.259
71	71	2,000	2,000	43	kEUR	1	kEUR	-	-	-
1,593	1,593	861,200	861,200	47,042	kEUR	2,334	kEUR	2,532	-	-
1	1	100	100	27,780	kPLN	779	kPLN	-	4.177	4.254
10	10	1	1	277,603	kHUF	39,316	kHUF	-	310.330	310.204
14,581	14,581	99,175	100,000	13,893	kUSD	304	kUSD	-	1.199	1.134
2,850	2,850	100	100	77,639	kCNY	3,045	kCNY	-	7.804	7.613
50	50	517,355	517,355	429	kHKD	132	kHKD	-	9.372	8.211
1,766	1,766	3	3	-	kHKD	-151	kHKD	-	9.372	8.211
12,575	12,575	102	102	25,899	kHKD	7,820	kHKD	-	9.372	8.211
1,290	1,290	100,000	100,000	8,087	kEUR	274	kEUR	-	-	-
125	125	32,000	32,000	-	kEUR	-3	kEUR	-	-	-
912	912	99,999	100,000	26,445	kEUR	996	kEUR	1,500	-	-
18	18	18,170	36,340	5,123	kEUR	264	kEUR	-	-	-
1,329	1,329	320,000	320,000	8,292,270	kKRW	407,778	kKRW	-	1,279.610	1,274.836
429	429	9,100	10,000	253,292	kTHB	34,921	kTHB	-	39.121	38.505
485	485	1,800,000	1,800,000	290,138	kTWD	20,764	kTWD	390	35.534	34.325
3,408	3,408	5,659	5,660	35,671,223	kCOP	916,352	kCOP	-	3,586.410	3,326.763
1,156	1,156	37,999,997	38,000,000	191,212	kPHP	7,827	kPHP	-	59.795	57.513
2,834	2,834	6,400	6,400	1,552,299	kJPY	52,384	kJPY	-	135.010	127.724
432	432	420,658	420,658	1,867,169	kCRC	119,318	kCRC	-	684.560	639.964
209	209	99,998	100,000	111,370	kTHB	3,695	kTHB	281	39.121	38.505
5	5	380	400	6,591	kEUR	61	kEUR	-	-	-
2,977	2,977	1,000	1,000	288,737,638	kVND	30,938,318	kVND	390	27,274.000	25,456.352
5,305	5,305	56,684	56,684	364,868	kZAR	45,678	kZAR	2,526	-	-
66	66	383,899	383,900	6,330,970	kINR	949,860	kINR	-	76.606	73.612
4,946	4,946	100	100	6,720	kUSD	1,170	kUSD	598	1.199	1.134
4,346	4,346	2,499,997	2,500,000	113,745	kAUD	13,608	kAUD	11,269	1.535	1.475
13,977	13,977	18,290,000	18,290,000	27,689	kNZD	3,277	kNZD	-	1.685	1.592
2	2	1,000	1,000	-	kCLP	2,296,921	kCLP	-	739.010	732.164
NS	NS	1	100	-	kCLP	5,339,914	kCLP	-	739.010	732.164
1	1	1,000	1,000	817,912	kCLP	56,797	kCLP	-	739.010	732.164
240	240	300	700	-	KDZD	-	KDZD	-	137.753	137.753

Statutory auditors' report on the financial statements

For the year ended December 31, 2017

This is a translation into English of the statutory auditors' report on the financial statements of the company issued in French and it is provided solely for the convenience of speaking users.
This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the shareholders,

OPINION

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying financial statements of Virbac for the year ended December 31, 2017.
In our opinion, the financial statements give a true and fair view of the assets and liabilities, and of the financial position of the company as of December 31, 2017 and of the results of its operations for the year then ended in accordance with French accounting principles.
The audit opinion expressed above is consistent with our report to the audit committee.

BASIS FOR OPINION

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Our responsibilities under those standards are further described in the "Statutory auditors' responsibilities for the audit of the financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the issue date of our report and specifically we did not provide any prohibited non-audit services referred to in article 5(1) of regulation (EU) N° 537/2014 or in the French code of ethics (*Code de déontologie*) for statutory auditors.

EMPHASIS OF MATTER

We draw attention to the following matter described in the "Significant events for the period" section of the financial statements relating to the change in accounting method for foreign exchange transactions. Our opinion is not modified in respect of this matter.

JUSTIFICATION OF ASSESSMENTS - KEY AUDIT MATTERS

In accordance with the requirements of articles L823-9 and R823-7 of the French commercial code *(Code de commerce)* relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

Key audit matter: measurement of equity investments

As of December 31, 2017, equity investments have a net carrying amount of €453.9 million. They are recognized at acquisition cost, excluding incidental expenses, on entry into the accounts.
If the value in use of equity investments is lower than their net carrying amount, an impairment loss is recognized in the amount of the difference. As disclosed in the "Equity investments " section of the "Accounting principles and methods" note to the financial statements, value in use is determined based on a multi-criteria analysis encompassing the share in the subsidiary's equity and the discounted present value of forecast cash flows.

Impairment tests performed by management to calculate the value in use of equity investments require management to make significant judgments and assumptions, notably concerning:

- forecast cash flows based on the profitability outlook of the country concerned;
- discount rates and long-term growth rates used to forecast these flows and the discount rate.

Accordingly, a change in these assumptions may modify the value in use of equity investments.
In this context, we considered the correct measurement of equity investments to be a key audit matter presenting a potential risk of material misstatement, due to the importance of management judgment and the material amount of equity investments in the balance sheet.

Our response
To assess the reasonableness of the estimated value in use of equity investments, our work mainly consisted in verifying that the estimated values, as determined by management, are based on an appropriate justification of the valuation method and the figures used.
We:

- verified that the equity, of which the share of equity used, agrees with the entity accounts audited;
- assessed the reasonableness of the key assumptions adopted:
  - Determination of cash flows in relation to the financial and economic environment of each country;
    In addition, we analyzed the consistency of forecasts with the most recent management assumptions, as presented by management in the budget process;
  - Discount rates and long-term growth rates used to forecast these flows.
- sample tested the arithmetical accuracy of the impairment tests performed by the company;
- compared prior period forecasts with the corresponding actual results to assess the attainment of past objectives;
- assessed the appropriateness of disclosures presented in the "Equity investments" section of the "Accounting principles and methods" note and Note B3 "Financial assets" to the financial statements.

VERIFICATION OF THE MANAGEMENT REPORT AND OF THE OTHER DOCUMENTS PROVIDED TO SHAREHOLDERS

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information given in the management report and other documents provided to shareholders with respect to the financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the executive board and in the other documents provided to shareholders with respect to the financial position and the financial statements.

Report on corporate governance

We attest that the supervisory board's report on corporate governance contains the information required by articles L225-37-3 and L225-37-4 of the French commercial code (*Code de commerce*).
Concerning the information given in accordance with the requirements of Article L225-102-1 of the French commercial code (*Code de commerce*) relating to remunerations and benefits received by the directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Appointment of the statutory auditors

We were appointed statutory auditors of Virbac SA by the shareholders' meeting of June 29, 1999 for Novances-David & Associés and June 30, 2004 for Deloitte & Associés.
As of December 31, 2017, Novances-David & Associés and Deloitte & Associés were in the 19th year and 14th year of total uninterrupted engagement, respectively.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the company or to cease operations.
The audit committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.
The financial statements were approved by the executive board.

STATUTORY AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in article L823-10-1 of the French commercial code *(Code de commerce)*, our statutory audit does not include assurance on the viability of the company or the quality of management of the affairs of the company.
As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;

- assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the audit committee

We submit a report to the audit committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the audit committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the audit committee with the declaration provided for in article 6 of regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by articles L822-10 to L822-14 of the French commercial code (*Code de commerce*) and in the French code of ethics (*Code de déontologie*) for statutory auditors. Where appropriate, we discuss with the audit committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Nice and Marseille, April 6, 2018
The statutory auditors

Novances-David & Associés
Jean-Pierre Giraud

Deloitte & Associés
Vincent Gros

Statutory auditors' special report on regulated agreements and commitments

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments that is issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements and commitments should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements and commitments reported on are only those provided by the French commercial code (Code de commerce) and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

Shareholders' meeting held to approve the financial statements for the year ended December 31, 2017

To the shareholders,

In our capacity as statutory auditors of your company, we hereby report to you on regulated agreements and commitments.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or which we may have discovered during the course of our audit, as well as the reasons justifying that such commitments and agreements are in the Company's interest, without expressing an opinion on their usefulness and appropriateness or identifying other such agreements and commitments, if any. It is your responsibility, pursuant to article R225-58 of the French commercial code (*Code de commerce*), to assess the interest involved in respect of the conclusion of these agreements and commitments for the purpose of approving them.

Our role is also to provide you with the information stipulated in article R225-58 of the French Commercial Code relating to the implementation during the past year of agreements and commitments previously approved by the shareholders' meeting, if any.
We performed the procedures that we considered necessary with regard to the professional guidelines of the French national institute of statutory auditors (*Compagnie nationale des commissaires aux comptes*) relating to this engagement. These procedures consisted in agreeing the information provided to us with the relevant source documents.

AGREEMENTS AND COMMITMENTS SUBMITTED TO THE APPROVAL OF THE SHAREHOLDERS' MEETING

Agreements and commitments authorized during the year

Pursuant to article L225-88 of the French commercial code, we have been informed that the following agreements and commitments were previously authorized by your supervisory board.

Senior management termination benefits

Senior executive concerned
Mr. Sébastien Huron, chairman of the executive board.

Nature and purpose
The supervisory board meetings of December 20, 2017 and March 13, 2018 extended the scope of termination benefits to include Mr. Sébastien Huron, the new chairman of the executive board, payable in the event of forced departure from his office of chairman of the executive board, subject to the attainment of certain conditions.

The amount of termination benefits will be determined based on the following objectives:

- where the ratio of current operating profit to Group net revenues exceeds or is equal to 7% on average over the two half-years preceding departure, termination benefits of €700,000 will be payable;
- where the ratio of current operating profit to Group net revenues is less than 7% on average over the two half-years preceding departure, but exceeds 4% on average over the four half-years preceding departure, termination benefits of €550,000 will be payable;
- where the ratio of current operating profit to Group net revenues is less than 4% on average over the four half-years preceding departure, no termination benefits will be payable.

This agreement is in the Company's interest as it encourages the retention of the new chairman.

Terms and conditions
This agreement had no financial impact during the year ended December 31, 2017.

AGREEMENTS AND COMMITMENTS PREVIOUSLY APPROVED BY THE SHAREHOLDERS' MEETING

Agreements and commitments approved during previous years and having continuing effect in 2017

Pursuant to article R225-57 of the French commercial code, we have been advised that the following agreements and commitments, previously approved by shareholders' meetings of prior years, have had continuing effect during 2017.

Amendment to the supplementary retirement plan for senior executives

Senior executives concerned: Messrs. Sébastien Huron, Christian Karst, Habib Ramdani and Jean-Pierre Dick, members of the Virbac executive board.
On December 13, 2002, your supervisory board approved, in principle, an amendment to the supplementary retirement plan for members of the executive board.
The agreement was signed on December 22, 2003 with retroactive effect from January 1, 2003.
As of December 31, 2017, Virbac has a total commitment of €2,380,862 with respect to this plan given the payments made in previous years. Net income of €103,017 was recorded by the Company for fiscal year 2017.

Senior management termination benefits

Senior executive concerned: Mr. Christian Karst, member of the Virbac executive board.
On March 13, 2015, your supervisory board authorized the renewal of senior management termination benefit provisions under the same terms and conditions as those decided by the supervisory board meeting of March 5, 2012: termination benefits will only be paid in the event of a forced departure, regardless of whether or not it is related to a change in control or strategy, and provided that the "current operating profit to revenues" ratio for the two half-years preceding the departure of the relevant senior executive exceeds or is equal to 7%. In such an event, termination benefits of €326,000 would be payable to Mr. Christian Karst.

Agreement with Absolute Dreamer SARL

Senior executive concerned: Mr. Jean-Pierre Dick, member of the Virbac executive board.
On December 17, 2014, your supervisory board approved the signature of a sports sponsorship and communications agreement with Absolute Dreamer SARL, whose general manager is Jean-Pierre Dick. The purpose of this partnership is mainly to fund the participation of a sailboat in various ocean races, including the "*Vendée Globe 2016-2017*".
Virbac recorded an expense of €1,200,000 in respect of this agreement for fiscal year 2017. The agreement terminated on December 31, 2017.

Nice and Marseille, April 6, 2018
The statutory auditors

Novances-David & Associés	**Deloitte & Associés**
Jean-Pierre Giraud	Vincent Gros

Statement of responsibility for the annual financial report

I certify, to my knowledge, that the financial statements are prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position, and result of the company and all companies included in the consolidation, and that the management report presents an accurate picture of the evolution of the business, result, and financial position of the company and all companies included in the consolidation as well as a description of the main risks and uncertainties to which they are exposed.

Carros, 13 March 2018

Sébastien Huron, chairman of the executive board

Ordinary and extraordinary shareholders' meeting of June 20, 2018

Explanatory statement and draft resolutions

ORDINARY BUSINESS

1. Approval of the statutory accounts of the financial year 2017

Statement

Resolutions 1, 2 and 3: approval of the annual accounts (parent company and consolidated), allocation of profit from the 2017 financial year and determination of dividends

The ordinary shareholders' meeting is convened to approve:

- the statutory accounts along with an income statement that shows a net profit of €34,535,077.37 in 2017;
- the consolidated accounts from the 2017 financial year, with details and explanations appearing on pages 128 to 183;
- allocation of profit.

A proposal will be submitted to the shareholders at the meeting not to approve the distribution of dividends for the 2017 financial year.
Result for the financial year, which amounted to €34,535,077.37, shall be recorded entirely under retained earnings. The willingness to continue to re-balance the financial position by reducing debt accounts for the absence of a dividend payment for 2017.

Resolutions

First resolution: approval of the statutory accounts for the 2017 financial year

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, after having heard the reports from the executive board, the supervisory board, the chairwoman of the supervisory board, and the statutory auditors, approves, as they were presented, the statutory accounts for the financial year ending December 31, 2017 showing a result of €34,535,077.37, as well as the transactions reflected in these accounts or summarized in said reports.
The shareholders' meeting also approves the expenditures incurred during the past financial year related to the transactions that fall within the scope of article 39-4 of the French general tax code, representing a total of €337,582. As a consequence, the shareholders' meeting grants the members of the executive board full and unreserved *quietus* of the execution of their mandate for the aforementioned financial year.

Second resolution: approval of the 2017 consolidated accounts

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, after having heard the reports from the executive board, the supervisory board, and the statutory auditors for the financial year ending December 31, 2017, approves, as they were presented, the consolidated accounts for this financial year, showing a net result of €-2,574,782 attributed to the owners of the parent company.
The shareholders' meeting also approves the transactions reflected in these accounts or summarized in said reports.

Third resolution: allocation of profit

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, elects to allocate the profit for the financial year as follows:

	In respect of 2017
Net result for the period	34,535,077.37 €
Retained earnings carried forward	272,362,569.22 €
Distributable result	**306,897,646.59 €**
Retained earnings for the period	34,535,077.37 €

Pursuant to article 243a of the French General Tax Code, it is recalled that distributions made for the three previous financial years were as follows:

	Dividend per share	Global distribution
In respect of 2014	1.90 €	16,012,926.00 €
In respect of 2015	-	-
In respect of 2016	-	-

2. Regulated agreements

Statement

Resolution 4: agreements and commitments known as "regulated", pursuant to article L225-38 *et seq*. of the French commercial code

No agreement or commitment governed by article L225-38 of the French commercial code was entered into in the 2017 financial year.

However, a resolution will be tabled at the shareholders' meeting in order to acknowledge the regulated agreements and commitments that were previously entered into in that financial year, already approved at a shareholders' meeting and that continued throughout the 2017 financial year.

It is hereby specified that the sponsorship contract between Virbac and the company Absolute Dreamer SARL, whose manager is Jean-Pierre Dick, the purpose of which was to contribute financially to the participation of a sailing vessel in various offshore races, expired at the end of December 2017 and was not renewed.

Resolution:

Fourth resolution: regulated agreements and commitments referred to in article L225-86 of the French commercial code

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, having acquainted itself with the special report of the statutory auditors on the agreements and commitments subject to the provisions of article L225-38 of the French commercial code:

- acknowledges that no agreement or commitment of this nature was entered into in the 2017 financial year;
- approves the wording of said report and takes note that the regulated agreements and commitments previously entered into and approved by a shareholders' meeting and which are referred to therein continued to be in effect during the previous financial year.

3. Supervisory board - ratification of the appointment of members, appointment of members

Statement

Resolutions 5 to 9:

- At its September 5, 2017 meeting, the supervisory board noted the resignation of the ASERGI company and, in its place, co-opted Pierre Madelpuech as a member of the supervisory board.
- Accordingly, we propose that you ratify the appointment of Pierre Madelpuech as a member of the supervisory board for the remainder of the Asergi company's term of office, or until the end of this shareholders' meeting.
- We also propose that you renew Pierre Madelpuech's term of office for an additional period of three years (resolutions 5 and 6).

- At its September 5, 2017 meeting, the supervisory board noted the resignation of Jeanine Dick and, in her place, co-opted Solène Madelpuech as a member of the supervisory board.
- Accordingly, we propose that you ratify the appointment of Solène Madelpuech as a member of the supervisory board for the remainder of Jeanine Dick's term of office, or until the end of the shareholders' meeting convened to approve the accounts for the financial year ending December 31, 2019 (resolution 7).
-
- At its December 20, 2017 meeting, the supervisory board noted the resignation of Grita Loebsack and, in her place, co-opted the company Galix Conseils as a member of the supervisory board.
- Accordingly, we propose that you ratify the appointment of Galix Conseils as a member of the supervisory board for the remainder of Grita Loebsack's term of office, or until the end of this shareholders' meeting.
- We also propose that you renew Galix Conseils's term of office for an additional period of three years (resolutions 8 and 9).

Information regarding the members of the supervisory board appears on pages 110 and 111 of the corporate governance report.

Resolutions

Fifth resolution: ratification of the appointment of Pierre Madelpuech as a member of the supervisory board

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, approves the appointment of Pierre Madelpuech as a member of the supervisory board, temporarily appointed by the supervisory board at its meeting of December 5, 2017, to replace the company Asergi.
Pierre Madelpuech held his office for the remainder of the Asergi company's term of office, or until the end of this shareholders' meeting.

Sixth resolution: renewal of Pierre Madelpuech's term of office as a member of the supervisory board

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, elects to renew Pierre Madelpuech's term of office as a member of the supervisory board for an additional period of three years that will expire at the close of the shareholders' meeting convened to approve the accounts for the financial year ending December 31, 2020.

Seventh resolution: ratification of the appointment of Solène Madelpuech as a member of the supervisory board

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, approves the appointment of Solène Madelpuech as a member of the supervisory board, temporarily appointed by the supervisory board at its meeting of September 5, 2017, to replace the Jeanine Dick.
Solène Madelpuech will hold her office for the remainder of Jeanine Dick's term of office, i.e. until the close of the shareholders' meeting convened to approve the accounts of the financial year ending December 31, 2019.

Eighth resolution: ratification of the appointment of Galix Conseils as a member of the supervisory board

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, approves the appointment of the company Galix Conseils as a member of the supervisory board, temporarily appointed by the supervisory board at its meeting of December 20, 2017, to replace Grita Loebsack.
The Galix Conseils company held office for the remainder of Grita Loebsack's term of office, or until the end of this shareholders' meeting.

Ninth resolution: renewal of Galix Conseils's term of office as a member of the supervisory board

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, elects to renew Galix Conseils's term of office as a member of the supervisory board for an additional period of three years that will expire at the close of the shareholders' meeting convened to approve the accounts for the financial year ending December 31, 2020.

4. Non-voting advisor - ratification of the appointment

Statement

Resolution 10:

At its December 20, 2017 meeting, the supervisory board noted the resignation of the XYC company and, in its place, co-opted the Xavier Yon Consulting Unipessoal Lda company as a non-voting advisor.
Accordingly, we propose that you ratify the appointment of the Xavier Yon Consulting Unipessoal Lda company as a non-voting advisor and renew its term of office for one year, or until the end of the shareholders' meeting convened to approve the accounts for the current financial year.

Resolutions

Tenth resolution: ratification of the appointment of Xavier Yon Consulting Unipessoal Lda as a non-voting advisor

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, approves the appointment of the company Xavier Yon Consulting Unipessoal Lda as a non-voting advisor, temporarily appointed by the supervisory board at its meeting of December 20, 2017, in replacement of Xavier Yon.
Xavier Yon Consulting Unipessoal Lda's term of office will end at the close of the shareholders' meeting convened to approve the accounts for the financial year ending December 31, 2018.

Information regarding the non-voting advisor appears on page 111 of the governance report

5. Compensation

Statement

Resolutions 11 to 16: Approval, renewal of commitments made to the members of the executive board pursuant to Article L225-90-1 of the French commercial code

At its December 20, 2017 meeting, the supervisory board renewed, for an additional period of three years, the terms of office of those executive board members whose terms of office expired, with the exception of Éric Marée, who retired. Sébastien Huron, an existing member of the executive board, was appointed by the supervisory board to serve as chairman of the executive board, thereby replacing Éric Marée.
In accordance with the law, we are tabling a specific resolution to be voted on by each member of the executive board in order to approve or renew, as the case may be, the commitments made by the company regarding compensation, allowances, benefits and conditional entitlements due or likely to be due as a result of leaving or changing office or subsequent thereto, pursuant to Article L225-90-1 of the French commercial code.

Refer to pages 230 to 234 for details of the commitments made to the members of the executive board, as well as the statutory auditors' supplementary special report on regulated agreements and commitments, on page 220.

Resolutions

Eleventh resolution: renewal of the defined benefit pension commitment made to Sébastien Huron pursuant to article L225-90-1 of the French commercial code

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, having acquainted itself with the special report of the statutory auditors on the agreements and commitments subject to the provisions of articles L225-86 and L225-88 of the French commercial code, acknowledges the conclusions of said report, in accordance with the provisions of article L225-90-1 of the French commercial code:

- Approves, for 2018, the company's continued commitment to Sébastien Huron for a supplementary defined benefit pension plan, subject to performance conditions.

Twelfth resolution: approval of new commitments made to Sébastien Huron pursuant to article L225-90-1 of the French commercial code

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, having acquainted itself with the special report of the statutory auditors on the agreements and commitments subject to the provisions of articles L225-86 and L225-88 of the French commercial code, acknowledges the conclusions of said report, in accordance with the provisions of article L225-90-1 of the French commercial code:

- approves the new commitments made by the company to Sébastien Huron for, on the one hand, allowances likely to be due as a result of leaving office in the event of a non-voluntary departure, whether or not it is related to a change of strategy or control, allowances which are subject to performance conditions and for, on the other hand, a non-competition payment that will be paid to him in consideration of the non-competition commitment that will apply to him at the end of his term of office.

Thirteenth resolution: renewal of the defined benefit pension commitment made to Christian Karst pursuant to article L225-90-1 of the French commercial code

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, having acquainted itself with the special report of the statutory auditors on the agreements and commitments subject to the provisions of Articles L225-86 and L225-88 of the French commercial code, acknowledges the conclusions of said report, in accordance with the provisions of article L225-90-1 of the French commercial code:

- approves, for 2018, the company's continued commitment to Christian Karst for a supplementary defined benefit pension plan, subject to performance conditions.

Fourteenth resolution: renewal of the commitments made to Christian Karst pursuant to article L225-90-1 of the French commercial code

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, having acquainted itself with the special report of the statutory auditors on the agreements and commitments subject to the provisions of Articles L225-86 and L225-88 of the French commercial code, acknowledges the conclusions of said report, in accordance with the provisions of Article L225-90-1 of the French commercial code:

- approves the continued commitments made by the company to Christian Karst for allowances likely to be due as a result of leaving office in the event of a non-voluntary departure, whether or not it is related to a change of strategy or control, allowances which are subject to performance conditions.

Fifteenth resolution: renewal of the commitment made to Jean-Pierre Dick pursuant to article L225-90-1 of the French commercial code

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, having acquainted itself with the special report of the statutory auditors on the agreements and commitments subject to the provisions of articles L225-86 and L225-86 of the French commercial code, acknowledges the conclusions of said report, in accordance with the provisions of article L225-90-1 of the French commercial code:

- approves, for 2018, the company's continued commitment to Jean-Pierre Dick for a supplementary defined benefit pension plan, subject to performance conditions.

Sixteenth resolution: renewal of the commitment made to Habib Ramdani pursuant to article L225-90-1 of the French commercial code

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, having acquainted itself with the special report of the statutory auditors on the agreements and commitments subject to the provisions of articles L225-86 and L225-88 of the French commercial code, acknowledges the conclusions of said report, in accordance with the provisions of article L225-90-1 of the French commercial code:

- approves, for 2018, the company's continued commitment to Habib Ramdani for a supplementary defined benefit pension plan, subject to performance conditions.

Statement

Resolutions 17 to 19: advisory opinion on the remuneration elements due or attributed to the chairwoman of the supervisory board of the supervisory board, the chairman of the executive board and members of the executive board for the financial year 2017

Under the provisions of article L225-100 II. of the French commercial code, three resolutions are being tabled for your approval of the fixed and variable components making up total compensation and benefits of any kind paid or granted for the 2017 financial year to the chairwoman and the members of the supervisory board, to Éric Marée (chairman of the executive board until December 20, 2017), to Sébastien Huron (member of the executive board and new chairman since December 20, 2017) and to the other members of the executive board. These components were paid or granted as part of the compensation policy that applies to the members of the supervisory board and its chairwoman as well as to the members of the executive board and its chairman in 2017, as approved by the shareholders' meeting of June 23, 2017. Details of these components are provided in the Corporate Governance Report prepared by the supervisory board, pursuant to article L225-82-2 of the French commercial code. This report appears on pages 104 to 127 of the annual report.

In accordance with the provisions of article L225-82-2 of the French commercial code, payment of the variable compensation portion for 2017 to the members of the executive board and its chairman is subject to your approval during this shareholders' meeting (ex post vote), as provided for in article L225-100 II. of the French commercial code.

Summary chart of compensation of supervisory board members

	Amount due in respect of 2017		Amount due in respect of 2016	
in €	Compensation	Directors' fees	Compensation	Directors' fees
Marie-Hélène Dick	95,000	21,000	95,000	21,000
Jeanine Dick	-	4,000	-	12,000
Pierre Madelpuech	-	6,000	-	21,000
Philippe Capron	-	24,000	-	24,000
Olivier Bohuon	-	21,000	-	21,000
Company Asergi	-	6,000	-	-
Grita Loebsack	-	21,000	-	21,000
Solène Madelpuech	-	17,000	-	-
Non-voting advisor, company XYC represented by Xavier Yon	-	21,000	-	21,000
Total	**95,000**	**141,000**	**95,000**	**141,000**

Summary chart of compensation of members of the executive board

■ **Éric Marée**
Member of the executive board until December 20, 2017

Compensation components owed or awarded in respect of 2017

Nature	Amounts or valuation to be voted on	Presentation
Fixed compensation	€370,000	On March 13, 2017, the supervisory board, on the recommendation of the compensation committee, decided to increase the annual fixed compensation from €340,472 to €370,000, an increase of 8.7%.
Annual variable compensation	€26,964	At its March 13, 2018 meeting, the supervisory board determined the variable compensation components for 2017. It amounted 7.3% of fixed compensation. For more information, refer to pages 114-122 of the financial report.
Multi-annual variable compensation	NA	No deferred variable compensation
Extraordinary compensation	NA	No extraordinary compensation
Stock options, performance shares or any other long-term compensation components	€0	No performance share allocated for the fiscal year 2017. No performance plan 2015, therefore no performance share distributed in 2017. For more information, refer to pages 122-123 of the financial report.
Directors' fees	€45,000	Directors' fees received with respect to terms held in the Group's subsidiaries in 2017.
Valuation of benefits in kind	€1,596	Company vehicle

Compensation components owed or awardedfor the fiscal year ended that are or were voted on at the shareholders' meeting under the procedure for regulated agreements en commitments

Nature	Amounts voted on	Presentation
Severance pay	No payment	For more information, refer to page 116 of the financial report
Non-competition payment	No payment	For more information, refer to page 116 of the financial report
Supplementary pension plan	No payment	For more information, refer to page 115 and to note B10 of statutory accounts

Sébastien Huron

Compensation components owed or awarded in respect of 2017

Nature	Amounts or valuation to be voted on	Presentation
Fixed compensation	€265,000	On March 3, 2017, the supervisory board, on the recommendation of the compensation committee, decided to increase the annual fixed compensation from €245,000 to €265,000, an increase of 8.2%.
Annual variable compensation	€18,125	At its March 13, 2018 meeting, the supervisory board determined the variable compensation components for 2017. It amounted 6.8% of fixed compensation. For more information, refer to pages 114-122 of the financial report.
Multi-annual variable compensation	NA	No deferred variable compensation
Extraordinary compensation	NA	No extraordinary compensation
Stock options, performance shares or any other long-term compensation components	€0	No performance share allocated for the fiscal year 2017. No performance plan 2015, therefore no performance share distributed in 2017. For more information, refer to pages 122-123 of the financial report.
Directors' fees	€25,000	Directors' fees received with respect to terms held in the Group's subsidiaries in 2017.
Valuation of benefits in kind	€2,580	Company vehicle

Compensation components owed or awardedfor the fiscal year ended that are or were voted on at the shareholders' meeting under the procedure for regulated agreements en commitments

Nature	Amounts voted on	Presentation
Severance pay	No payment	For more information, refer to page 116 of the financial report
Non-competition payment	No payment	For more information, refer to page 116 of the financial report
Supplementary pension plan	No payment	For more information, refer to page 115 and to note B10 of statutory accounts

Christian Karst

Compensation components owed or awarded in respect of 2017

Nature	Amounts or valuation to be voted on	Presentation
Fixed compensation	€265,000	On March 3, 2017, the supervisory board, on the recommendation of the compensation committee, decided to maintain the annual fixed compensation at €265,000.
Annual variable compensation	€19,375	At its March 13, 2018 meeting, the supervisory board determined the variable compensation components for 2017. It amounted 7.3% of fixed compensation. For more information, refer to pages 114-122 of the financial report.
Multi-annual variable compensation	NA	No deferred variable compensation
Extraordinary compensation	NA	No extraordinary compensation
Stock options, performance shares or any other long-term compensation components	€0	No performance share allocated for the fiscal year 2017. No performance plan 2015, therefore no performance share distributed in 2017. For more information, refer to pages 122-123 of the financial report.
Directors' fees	€45,000	Directors' fees received with respect to terms held in the Group's subsidiaries in 2017.
Valuation of benefits in kind	€2,832	Company vehicle

Compensation components owed or awardedfor the fiscal year ended that are or were voted on at the shareholders' meeting under the procedure for regulated agreements en commitments

Nature	Amounts voted on	Presentation
Severance pay	No payment	For more information, refer to page 116 of the financial report
Non-competition payment	NA	No non-competition payment
Supplementary pension plan	No payment	For more information, refer to page 115 and to note B10 of statutory accounts

Habib Ramdani

Compensation components owed or awarded in respect of 2017

Nature	Amounts or valuation to be voted on	Presentation
Fixed compensation	€203,000	On March 3, 2017, the supervisory board, on the recommendation of the compensation committee, decided to set the annual fixed compensation at €203,000. It is specified that the fixed compensation of €109,016 received in 2016 applies to the period between June 23, 2016, the date he joined the executive board, and the end of the financial year.
Annual variable compensation	€7,613	At its March 13, 2018 meeting, the supervisory board determined the variable compensation components for 2017. It amounted 3.8% of fixed compensation. For more information, refer to pages 114-122 of the financial report.
Multi-annual variable compensation	NA	No deferred variable compensation
Extraordinary compensation	NA	No extraordinary compensation
Stock options, performance shares or any other long-term compensation components	€0	No performance share allocated for the fiscal year 2017. No performance plan 2015, therefore no performance share distributed in 2017. For more information, refer to pages 122-123 of the financial report.
Directors' fees	€0	No director's fees
Valuation of benefits in kind	€888	Company vehicle

Compensation components owed or awardedfor the fiscal year ended that are or were voted on at the shareholders' meeting under the procedure for regulated agreements en commitments

Nature	Amounts voted on	Presentation
Severance pay	NA	No severance pay
Non-competition payment	NA	No non-competition payment
Supplementary pension plan	No payment	For more information, refer to page 115 and to note B10 of statutory accounts

Jean-Pierre Dick

Compensation components owed or awarded in respect of 2017

Nature	Amounts or valuation to be voted on	Presentation
Fixed compensation	€41,000	On March 3, 2017, the supervisory board, on the recommendation of the compensation committee, decided to maintain the annual fixed compensation at €41,000.
Annual variable compensation	€0	No variable compensation will be paid for 2017 as per the decision of the supervisory board at its March 13, 2018 meeting. For more information, refer to pages 114 to 122 of the financial report.
Multi-annual variable compensation	NA	No deferred variable compensation
Extraordinary compensation	NA	No extraordinary compensation
Stock options, performance shares or any other long-term compensation components	€0	No performance share allocated for the fiscal year 2017. No performance plan 2015, therefore no performance share distributed in 2017. For more information, refer to pages 122-123 of the financial report.
Directors' fees	€0	No director's fees
Valuation of benefits in kind	€840	Company vehicle

Compensation components owed or awardedfor the fiscal year ended that are or were voted on at the shareholders' meeting under the procedure for regulated agreements en commitments

Nature	Amounts voted on	Presentation
Severance pay	NA	No severance pay
Non-competition payment	NA	No non-competition payment
Supplementary pension plan	No payment	For more information, refer to page 115 and to note B10 of statutory accounts

Resolutions

Seventeenth resolution: compensation components owed or awarded to Marie-Hélène Dick, chairwoman of the supervisory board, for the 2017 financial year

The shareholders' meeting, consulted pursuant to the recommendation of paragraph 26 of the Afep-Medef Corporate Governance Code, which constitutes the company's reference code pursuant article L225-37 of the French commercial code, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, approves the compensation components owed or awarded to Marie-Hélène Dick, chairwoman of the supervisory board, as indicated in the corporate governance report (page 113) for the financial year ending December 31, 2017.

Eighteenth resolution: compensation components owed or awarded to Éric Marée, chairman of the executive board in 2017, for the 2017 financial year

The shareholders' meeting, consulted pursuant to the recommendation of paragraph 26 of the Afep-Medef Corporate Governance Code, which constitutes the company's reference code pursuant to article L225-37 of the French commercial code, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, approves the compensation components owed or awarded to Eric Marée, chairman of the executive board, as indicated in the corporate governance report (page 117) for the financial year ending December 31, 2017.

Nineteenth resolution: compensation components owed or awarded to the members of the executive board for the 2017 financial year

The shareholders' meeting, consulted pursuant to the recommendation of paragraph 26 of the Afep-Medef Corporate Governance Code, which constitutes the company's reference code pursuant to article L225-37 of the French commercial code, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, approves the compensation components owed or awarded to the members of the executive board, as indicated in the corporate governance report (pages 118 to 122) for the financial year ending December 31, 2017.

Statement

Resolutions 20 and 21: remuneration policy for members of the supervisory board: approval of the principles and criteria for determining, distributing and allocating the total compensation and benefits-in-kind attributable to the members of the supervisory board ant to the members of the executive board

Pursuant to article L225-82-2 of the French commercial code, the supervisory board submits to the shareholders' meeting for approval the principles and criteria applicable to the determination, distribution and allocation of the fixed, variable and extraordinary components, such as those comprising total compensation and benefits-in-kind attributable to members of the supervisory board and members of the executive board due to the exercise of their term of office for the financial year 2018, and until the shareholders' meeting convened to approve this policy, in accordance with the law and constituting the remuneration policy concerning them.

These principles and criteria adopted by the supervisory board on the recommendation of the compensation committee are presented in the report provided by the aforementioned article and appearing on pages 113 to 116 of the corporate governance report.

will apply up to the next shareholders' meeting convened to approve this policy, in accordance with the law.

Resolutions

Twentieth resolution: approval of the principles and criteria for determining, distributing and allocating the total compensation and benefits-in-kind attributable to the members of the supervisory board

Pursuant to article L225-82-2 of the French commercial code, the shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, approves the principles and criteria for determining, distributing and allocating the elements comprising the total compensation and benefits-in-kind presented in the corporate governance report (page 113) and attributable, due to their mandates, to the members of the supervisory board.

Twenty-first resolution: approval of the principles and criteria for the determination, distribution and allocation of fixed, variable and exceptional components comprising total compensation and benefits-in-kind attributable to the members of the executive board

Pursuant to article L225-82-2 of the French commercial code, the shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, approves the principles and criteria for determining, distributing and allocating the fixed, variable and exceptional components comprising the total compensation and benefits-in-kind presented in the corporate governance report (pages 114 to 116) and attributable, due to their mandates, to the members of the executive board.

Statement

Resolution 22: determination of directors' fees allocated to the members of the supervisory board

It will be proposed at the shareholders' meeting to allocate to the supervisory board the sum of €150,000 as directors' fees for the current financial year. It is hereby stated that the amount allocated in 2017 was €141,000, and that this amount had not been updated since 2014. The supervisory board will determine the distribution among its members.

Resolution

Twenty-second resolution: determination of directors' fees allocated to members of the supervisory board

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, elects to grant the sum of €150,000 as directors' fees for the financial year 2018, which will be shared among the members of the supervisory board.

6. Authorization to be granted to the executive board to buy back shares of the company

Statement

Resolution 23: authorization to be granted to the executive board to buy back the company's shares

The ordinary shareholders' meeting of June 23, 2017 authorized the Virbac parent company to buy back treasury shares in accordance with articles L225-209 *et seq.* of the French commercial code and in line with the terms of the buyback plan set out in the prospectus published, by our professional distributor and on the company's website on

May 30, 2017, in accordance with the provisions of the transparency directive that came into force on January 20, 2007.

As of December 31, 2017, Virbac held 37,261 treasury shares in total, acquired on the market for a total of €4,730,434 excluding fees, for an average price of €126.95 per share.

During the financial year, the company bought 39,704 treasury shares (at an average price of €138.97) and sold 31,411 treasury shares (at an average price of €142.51) as part of the market-making contract. In 2017, no share was purchased or sold as part of performance-related stock grants.
As of December 31, 2017, treasury shares accounted for 0.44% of Virbac's capital. They are earmarked in part for market making and performance-related stock grants, and possibly for reducing capital, in accordance with the fourteenth resolution adopted by the shareholders' meeting of June 23, 2017.

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

- ensuring liquidity or supporting the market price via an independent investment services provider pursuant to a liquidity agreement in accordance with a code of ethics recognized by the French financial markets authority (*AMF*);
- allocating performance-related stock grants;
- reducing the company's share capital by cancelling part or all of the shares repurchased, subject to the adoption by this shareholder's meeting of the resolution on the authorization to reduce the share capital by cancellation of repurchased shares.

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

Resolution

Twenty-third resolution: authorization to be granted to the executive board to buy back the company's shares

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, after having heard the report from the executive board, authorizes the executive board, with the option of sub-delegation, in accordance with the provisions of Articles L225-209 et seq. of the French commercial code, to buy back shares representing up to a maximum of 10% of the company's share capital on the date of this meeting, in order to:

- ensure liquidity or support the market price via an independent investment services provider pursuant to a liquidity agreement in accordance with a code of ethics recognized by the French financial markets authority (*AMF*);
- proceed with the allocation of bonus performance-related stock grants under the provisions of articles L225-197-1 et seq. of the French commercial code;
- reduce the company's capital stock by cancelling all or part of the shares purchased.

The maximum unit purchase price may not exceed €350 per share.
The maximum transaction amount that could be carried out pursuant to this resolution, taking into account the 37,395 shares already held as at February 28, 2018, is thus set at €282,941,750.

In the event of a capital increase through incorporation of reserves and allocation of performance-related stock grants, a share split or reverse shares split, this amount will be adjusted by a multiplier equal to the ratio between the number of shares in the share capital prior to the transaction and the number after the transaction.
This authorization, which cancels and supersedes any previous authorization of the same nature, in particular the one granted by the shareholders' meeting of June 23, 2017 in its fourteenth resolution, is granted for a period of 18 months from the date of this meeting.

All powers are conferred to the executive board, with the power of delegation, to place all orders, enter into all agreements, carry out all formalities and declarations with any organization, in particular the French financial markets authority and, more generally, to do what will be necessary for the purposes of carrying out transactions performed in accordance with this authorization.

EXTRAORDINARY BUSINESS

7. Authorization to be given to the executive board to increase share capital for the benefit of employees who are members of a savings plan.

Statement

Resolution 24

Paragraph II of article L225-129-6 of the French commercial code requires the extraordinary shareholders' meeting to vote, once every three years, on a resolution authorizing a capital increase reserved for employees, whenever the shares held by employees of the company and related companies, as defined in Article L225-180 of the French commercial code, account for less than 3% of the share capital.
A resolution was presented to the shareholders' meeting of June 24, 2015 and was not adopted.
In accordance with the provisions of article L225-129-6 of the French commercial code, we are tabling a new resolution that we advise you not to adopt, so as to avoid a multiplicity of systems enabling employees to become shareholders of the company or to increase their stake.

Resolution

Twenty-fourth resolution: Authorization to be given to the executive board to increase share capital through the creation of shares to be paid for in cash, albeit by eliminating the shareholders' preferential subscription right for the benefit of employees who are members of the company savings plan, pursuant to article L225-129-6 of the French commercial code.

The shareholders' meeting, in accordance with the *quorum* and majority requirements for extraordinary shareholders' meetings, after having heard the report by the executive board and the special report by the statutory auditors, authorizes the executive board to increase the share capital by a maximum amount of €227,000, pursuant to the provisions of article L225-129-6 of the French commercial code, by issuing new shares to be paid for in cash and reserved for the company's employees who are members of the company savings plan, and to eliminate the preferential subscription right of the shareholders to the shares to be issued, in favor of said employees.

The shareholders' meeting shall delegate to the executive board, with the right to sub-delegate to the chairman of the executive board, as provided for in article L225-129-4 of the French commercial code, all powers in order to determine (i) the amount of the share capital increase or increases within the authorized limit, (ii) their timing, as well as the terms and conditions of each increase. It may also determine the issue price of the new shares, in accordance with articles L3332-18 to L3332-20 of the French labor code, the basis on which such shares are to be paid up, the subscription period and the terms governing the exercise by beneficiaries of their subscription right, in addition to determining the conditions, including seniority, that will need to be met by the beneficiaries of the capital increases. It may also make any adjustments required in accordance with legal and regulatory provisions, recognize the capital increases, amend the by-laws accordingly, carry out the required formalities and generally do what has to be done.
The executive board may delegate the power to decide on the completion and postponement of the issue to its chairman or, in agreement with the latter, to one of its members.

This authorization is valid for a term of twenty-six months as from the date of this shareholders' meeting.

8. Changes to share capital and powers

Statement

Resolution 25: authorization to be granted to the executive board to proceed with the allocation of bonus performance-related stock grants

The June 24, 2016 shareholders' meeting adopted a resolution to extend for a new thirty-eight month period the possibility of allocating company performance-related stock grants, in compliance with the provisions of articles L225-197-1 et seq. of the French commercial code.
This resolution allows for performance-related stock grants to be awarded to managers or comparable employees, or certain categories thereof, as well as to the corporate officers referred to in article L225-197-1 of the French

commercial code, both for Virbac and the companies that are either directly or indirectly associated with it, in accordance with article L225-197-2 of the French commercial code.
The total number of performance-related stock grants awarded may not represent over 1% of Virbac's capital. The allocation is made with no dilution, the company purchasing the number of required shares on the market.
Similar to the prior authorization, the bonus performance-related stock grants will only be definitive at the end of a vesting period of at least two years, with the shares thus held also having to be retained for at least two years from the end of the vesting period. The executive board will determine the identity of the beneficiaries as well as the terms and grant criteria for the shares that will be linked to the improvement in the Group's performance levels.

The 2018 French finance act brought about new changes to the performance-related stock grants, by changing taxation related to this plan. As a result, the company decided to submit to the next shareholders' meeting a new resolution that will cancel and replace the previous authorization.

The executive board members have undertaken not to resort to hedging transactions for their risk of performance-related stock grants, until the end of the share lock-in period set by the supervisory board.

Resolution 26: amendment of article 10 of the articles of association of the company

We are tabling a draft amendment to Article 10 of the bylaws pursuant to article L225-27-1 of the French commercial code introduced by the French job security act of June 14, 2013 and amended by the act of August 17, 2015 "on social dialogue and employment", known as the "Rebsamen act". The act of August 17, 2015 lowered the thresholds set by the act of June 14, 2013.

Since this act, supervisory boards of companies that employ, directly or indirectly, after two consecutive year-ends, at least 1,000 permanent employees in the company and its subsidiaries whose head office is located in France, or that employ, directly or indirectly, at least 5,000 permanent employees in the company and its subsidiaries whose head office is located in France and abroad, and is required to set up a workers' committee, must include employee representatives.

With the new thresholds set by the act of August 17, 2015, Virbac falls within the scope of this legislation.

Accordingly, the supervisory board will have to include at least 1 employee representative by the end of 2018.
The company's by-laws must be amended to include the conditions governing appointment of this employee representative as well as the term of his office.
In accordance with the decision made by the workers' committee at its December 19, 2017 meeting, of the three conditions of appointment set out in the act, the appointment of the employee representative will be done by the workers' committee once the by-laws are amended, and by the end of 2018.

Resolution 27: amendment of article 16 of the articles of association of the company

A resolution will be proposed to the shareholders' meeting to change the age limit of members of the executive board from 67 years to 65 years and to amend Article 16 of the bylaws accordingly.

Resolution 28: powers

This resolution is intended to confer the necessary powers to carry out the formalities resulting from the shareholders' meeting.

Resolutions

Twenty-fifth resolution: authorization to be given to the executive board to award bonus performance-related stock grants

The shareholder's meeting, in accordance with *quorum* and majority requirements for extraordinary shareholders' meetings, after having heard the executive board's report and the special report of the statutory auditors, and in accordance with articles L225-197-1 et seq. of the French commercial code:

- authorizes the executive board to award, on one or more occasions, bonus performance-related stock grants of existing Virbac shares to managers or comparable employees, or certain categories thereof, as well as to the corporate officers referred to in article L225-197-1 of the French commercial code, both from Virbac and the companies that are either directly or indirectly associated with it, in accordance with article L225-197-2 of the French commercial code;

- resolves that the total number of performance-related stock grants that may be awarded under this authorization, may not exceed 1% of Virbac's share capital as valued on the day of the adoption of the award resolution by the executive board, subject to the regulatory adjustments necessary to protect the rights of the beneficiaries of the shares;
- resolves that, within the aforementioned set limit, the number of performance-related stock grants awarded to the members of the executive board during the term of this authorization may not exceed 0.5% of the capital as of the day of award;
- resolves that the final award of the existing performance-related stock grants shall be contingent upon satisfaction of the individual and collective performance criteria to be defined by the executive board;
- resolves that the awarding of the performance-related stock grants to the awardees shall be final at the end of a minimum vesting period of two years;
- resolves that the minimum holding period of the performance-related stock grants by the awardees shall be two years;
- vests all powers in the executive board, with the option of sub-delegation, to implement this authorization for the purpose in particular of:
  - determining the identity of the beneficiaries or of the category(ies) of beneficiaries of the bonus performance-related stock grants among the personnel and the corporate officers of the company or the aforementioned companies and the number of shares awarded to each of them;
  - determining the term of the vesting period and deciding, if applicable or not, to set a holding period for the shares;
  - determining whether the performance criteria according to which the shares would be awarded were satisfied, and adding, where applicable, all the conditions and criteria that it deems relevant;
  - setting the conditions and, where applicable, the criteria for awarding bonus performance-related stock grants. For shares awarded to the corporate officers, the supervisory board shall resolve either that the performance-related stock grants may not be surrendered by the beneficiaries prior to leaving the company, or shall set the quantity of performance-related stock grants awarded that they must keep as registered shares until they leave the company;
  - having the right to temporarily suspend the allocation rights;
  - setting final awarding dates and the dates as from which the shares may be freely surrendered, taking account of the legal restrictions;
  - recording the performance-related stock grants awarded as registered shares in the name of their holder, mentioning the holding period and the term of such holding period and lifting the holding period for the shares for any circumstance for which applicable regulations allow the lifting of the holding period.
- authorizes the executive board to provide for, if applicable, the permanent allocation of the shares before the end of the vesting period and the elimination of the holding period in the event of the disability of the beneficiary corresponding to classification in the second or third categories provided in Article L341-4 of the French social security code, as well as in the event of the death of the beneficiary;
- authorizes the executive board, where applicable, to adjust the number of performance-related stock grants awarded related to any transactions involving the share capital of Virbac;
- delegates all powers to the executive board, with the option of sub-delegation within the statutory limits, to implement this authorization, to perform all acts and formalities and make all representations and generally to do whatever is necessary.

The shareholder's meeting takes note that all implementations by the executive board of this authorization shall require the prior authorization of the supervisory board.
The shareholder's meeting takes note of the fact that, if the executive board uses this authorization, it shall inform the shareholders' meeting each year of the transactions carried out under the provisions of articles L225-197-1 to L225-197-3 of the French commercial code under the conditions provided for in article L225-197-4 of said code.
This authorization is granted for a period of 38 months as from the day of this meeting and renders the unused portion of the sixteenth resolution of the joint shareholders' meeting of June 24, 2016 ineffective.

Twenty-sixth resolution: amendment of article 10 of the company's articles of association

The shareholders' meeting, in accordance with *quorum* and majority requirements for extraordinary shareholders' meetings, having taken note of the executive board's report, decides to supplement Article 10 of the bylaws by inserting the conditions governing designation of a member of the supervisory board to serve as an employee representative.

ARTICLE 10 - COMPOSITION OF THE SUPERVISORY BOARD

Beginning of article 10 without changes. The following shall be added *in fine*:

"The supervisory board shall include an employee representative designated by the company workers' committee or by the future Social and Economic Committee for which it was substituted.

The condition requiring members of the supervisory board to own at least ten shares of the company does not apply to the employee representative.

The employee representative's term of office shall be set at three years from the date of designation.

If, at year-end, the provisions of the act no longer apply to the company, the term of office of the employee representatives shall end automatically at the end of the shareholders' meeting convened to approve the accounts of said financial year."

Twenty-seventh resolution: amendment of article 16 of the articles of association of the company

The shareholders' meeting, in accordance with *quorum* and majority requirements for extraordinary shareholders' meetings, having considered the report of the executive board, decides to amend the third paragraph of Article 16 of the company's articles of association in the following manner:
"No person over the age of 65 may be appointed as a member of the executive board. If a member of the executive board exceeds the age of 65, he shall be deemed to have resigned ex officio at the end of the next ordinary shareholders' meeting."
The rest of article 16 remains unchanged.

Twenty-eighth resolution: powers to carry out formalities

The shareholders' meeting, in accordance with *quorum* and majority requirements for general shareholders' meetings, confers all powers to the bearer of an original, an extract or a copy of these minutes in order to complete all formalities provided by law.

Statutory auditors' report on the share capital increase reserved for participants in corporate savings plans

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

Ordinary and extraordinary shareholders' meeting of June 20, 2018

Twenty-fourth resolution

To the shareholders,

As statutory auditors of your company and pursuant to articles L225-135 *et seq.* of the French commercial code (*Code de commerce*), we hereby report to you on the proposed share capital increase via the issue of shares of ordinary shares with cancellation of preferential subscription rights in a maximum amount of €227,000, reserved for participants in corporate savings plans, a transaction on which you are asked to decide.

You are asked to approve this share capital increase pursuant to articles L225-129-6 of the French commercial code and L3332-18 *et seq.* of the French labor code (*Code du travail*).

Your executive board recommends that, having considered its report, you confer on it, for a period of 26 months, the authority to set the terms and conditions of this transaction and that you consider waiving your preferential subscription rights.

It is the executive board's responsibility to prepare a report in accordance with articles R225-113 and R225-114 of the French commercial code. Our role is to express an opinion on the fairness of the quantified data derived from the financial statements, on the proposed cancellation of preferential subscription rights and on certain other information pertaining to the issue, as presented in this report.

We performed the procedures that we considered necessary in accordance with the professional guidelines of the French national institute of statutory auditors (*Compagnie nationale des commissaires aux comptes*) applicable to this engagement. Such procedures consisted in verifying the content of the executive board's report as it relates to this transaction and the conditions in which the issue price of the equity securities to be issued was determined.

Subject to the subsequent review of the terms and conditions of the proposed share capital increase, we have no comments on the methods used to determine the price of the shares of ordinary shares to be issued, as presented in the executive board's report.

As the terms and conditions of the share capital increase have yet to be determined, we cannot express an opinion on such increase nor, accordingly, on the proposed cancellation of preferential subscription rights on which you are asked to decide.

In accordance with article R225-116 of the French commercial code, we shall issue a supplementary report, if applicable, when the share capital increase is performed by the executive board.

Nice and Marseille, April 6, 2018
The statutory auditors

Novances-David & Associés
Jean-Pierre Giraud

Deloitte & Associés
Vincent Gros

Statutory Auditors' special report on the granting of existing or newly-issued shares for no consideration

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

Ordinary and extraordinary shareholders' meeting of June 20, 2018

Twenty-fifth resolution

To the shareholders,

As statutory auditors of your Company and in accordance with article L225-197-1 of the French commercial code (*Code de commerce*), we have prepared this report on the proposed authorization to grant existing or newly-issued shares for no consideration to salaried employees and corporate officers of your company and its affiliates, a transaction on which you are asked to decide.

Your executive board recommends that, having considered its report, you confer on it the authority to grant existing or newly-issued shares for no consideration and for a period of 38 months.

The executive board is responsible for preparing a report on this transaction which it wishes to carry out. Our role is to inform you of our comments, if any, on the information thus given to you on the proposed transaction.

We performed the procedures that we considered necessary in accordance with the professional guidelines of the French national institute of statutory auditors (*Compagnie nationale des commissaires aux comptes*) applicable to this engagement. Such procedures consisted in verifying that the proposed conditions as given in the executive board's report comply with legal provisions.

We have no comments on the information given in the executive board's report in respect of the proposed granting of shares for no consideration.

Nice and Marseille, April 6, 2018
The statutory auditors

Novances-David & Associés	**Deloitte & Associés**
Jean-Pierre Giraud	Vincent Gros

Products glossary

The product names stated in the annual report and listed below are subject to protection in particular in respect of trademarks. Virbac and/or its subsidiaries are the owners or have exclusive use of them. All medicines or products mentioned in this document can be not authorized or not marketed in all the countries including France.

Canigen
vaccines range for dogs

Clostrisan
vaccine intended for the prevention of clostridiosis and botulism in cattle, sheep and goats.

Deltanil
deltamethrin-based parasiticide intended for use in cattle and sheep as a topical application

Effitix
external parasiticide combining permethrin and fipronil for treating tick, flea and mosquito infestations in dogs

Epiotic
ear cleanser for dogs and cats

Eradia
metronidazole-based antibiotic and parasiticide for dogs intended for the treatment of clostridium infections and giardiasis

Fort Up
ivermectin-based injectable solution for cattle used to control and treat gastro-intestinal and pulmonary parasiticides

Iverhart
range of chewable tablets for use in dogs to prevent canine heartworm disease and for the treatment and control of roundworms and hookworms, as well as tapeworms for Iverhart Max

Iverhart Max Soft Chew
soft chews combining ivermectin, pyrantel pamoate and praziquantel for dogs to prevent canine heartworm disease and for the treatment and control of roundworms, hookworms and tapeworms.

Maxflor Duo/Maxflin
florfenicol-based antibiotic intended for the prevention and the treatment of respiratory diseases in cattle and swine

Milteforan
miltefosine-based oral treatment for canine leishmaniosis whose administration in food facilitates optimum compliance

Moxiheart
internal parasiticide for dogs

Multimin
trace element injectable supplement for food producing animals

Nutribond
palatable oral solution to boost dietary or drink intake for sick or recovering cats and dogs until a normal diet is back

Prinovox
broad-spectrum ectoparasiticide for dogs and cats combining moxidectin and imidacloprid

Propofol
anesthetic for dogs and cats

Rilexine
cephalexin-based antibiotic. In tablets: prescribed for treating skin infections in dogs and urinary infections in cats. Injectable: prescribed for treating chronic and acute mastitis in dairy cows

Sentinel Flavor Tabs and Sentinel Spectrum
polyvalent parasiticide tablets for dogs to prevent canine heartworm disease and for the treatment of roundworms (as well as tapeworms for Sentinel Spectrum) and flea infestations

Shotapen
combination of antibiotics prescribed for first-line treatment of numerous bacterial infections in food producing animals

Speed Reader
blood marker dosage analyzer with a series of tests of five biomarkers in dogs and cats

Suprelorin
deslorelin-based implant for the induction of temporary infertility in male dogs

Tridectin
parasiticide oral solution for sheep combining moxidectin, levamisole and albendazole

Veterin
broad-spectrum antibiotic for swine, poultry and salmons

Veterinary HPM
specialized petfood for dogs and cats

Zoletil
multi-species general anesthetic

THE VIRBAC TEAMS
ARE LISTENING TO YOU
ON 5 CONTINENTS

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Shaping the future
of **animal health**