Virbac

ANNUAL REPORT 2018

Shaping the future of animal health

INTRODUCTION

STATEMENT ON EXTRA-FINANCIAL PERFORMANCE

FINANCIAL REPORT

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

A fresh start

2018, A SPECIAL YEAR?

Yes, on two fronts. First, because we celebrated Virbac's 50th anniversary. Two days spent in a friendly, intercultural atmosphere, sharing a 50-year collective adventure in the service of animal health. In 2018, the Group also celebrated its return to growth. On behalf of the executive board, I wish to thank all Virbac teams around the world for their unfailing engagement, team spirit and camaraderie.

WHERE IS THIS GROWTH COMING FROM?

From every region of the world. From emerging countries, of course, with increases of more than 20% in China and Brazil and more than 10% in India. Nearly half of our subsidiaries are also experiencing growth between 10% and 24% in Europe, Asia, Latin America and the Pacific region. These results are a testimony of the rigorous execution of our strategy, which is also paying off in the United States (+7.4% growth in sales from distribution to the veterinary clinics). Only Southern Europe suffered in 2018, with the stoppage of the tenders for rabies products in Greece and the decline in sales of two products in Spain.

AND REGARDING SPECIES?

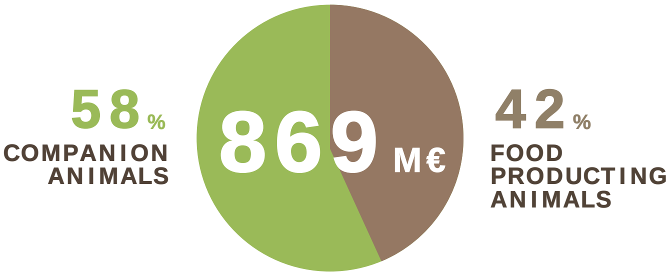
Revenue for companion animals is showing 3.9% growth (+6.5% at constant exchange rates), due in particular to the petfood and dental ranges, specialties and vaccines, whose significant increases offset the decline in parasiticide sales. For food producing animals, performance is a bit different(-3.1% at actual rates). Excluding the effects of exchange rates (+2.2%), situations are contrasted, with strong growth in the bovine sector (+7.1%), bolstered by ruminant vaccines and nutritional products, and relative stability in the industrial sector (swine and poultry). Aquaculture shows a decline of 17.3%, due in large part to the situation in Chile, where this year Virbac faced fierce competition in antibiotics and decreasing sales in oral vaccines. However, aquaculture, which is the world's number one source of animal protein worldwide, remains a key activity to "feed the planet".

HOW DOES VIRBAC CONTRIBUTE IN THIS AREA?

In Asia, where nearly 60% of the world's swine production is concentrated, one challenge is finding solutions that maintain animals raising productivity while reducing the use of antibiotics. This is why Virbac has made a progestogen available to Taiwanese farmers for improved management of reproduction. In India, we are mobilizing to improve cattle farming performance, thanks to the Target 150 program, which links key health indicators with the introduction of preventive protocols. Animal welfare is also at the heart of our concerns. Virbac was granted a European Marketing authorization variation in 2018 for a single injection as opposed to two of our vaccines for neonatal diarrhea in calves, thus contributing to the easing of the primo-vaccination protocol.

HOW DOES VIRBAC'S MISSION APPLY TO COMPANION ANIMALS?

We strive to provide best in class care to preserve the bond between humans and animals. First in new countries, thanks to geo-extension programs for our implant inducing temporary infertility in male dogs (an alternative to surgical castration) and our petfood range (adapted to the nutritional needs of carnivores). And also with new health solutions: the innovative Fr3sh technology that targets both the oral and digestive causes of bad breath in dogs, the Marketing authorization in Europe for an antimicrobial oral solution for gastro-intestinal, dental and urinary disorders in dogs or the new, very palatable galenic form of our flagship parasiticide for dirofilariasis, a fatal disease. Lastly we are also looking for testing and developping new distribution models.



SALES 2018
7TH WORLD

WHAT DOES THIS MEAN?

Today, digital media contributes indirectly to improving companion animal health by making our products more accessible. In 2018, several portals were created for the Veterinary HPM range (Italy, Poland, Germany, Japan, Scandinavia, etc.) to organize home delivery in partnership with veterinarians. More globally, our digital initiatives help increase awareness among animal owners about health issues. By intensifying social media presence, Virbac can quickly adapt to global changes.

HOW ARE THINGS LOOKING IN 2019?

Quite well. The outlook is good in the United States and in the European, Asia-Pacific and Latin America areas. In Chile, aquaculture activity should stabilize. On the industrial front, after a good 2018 (successful technology transfers, a drop in backorders and destruction, better control of our industrial procedures), we are going to launch a competitiveness study across all of our production sites while

continuing to guarantee the highest quality standards to those who care for animals. On the financial front, our operational profitability rate should gain around one point at constant exchange rates. Vigilance related to our investments and our changing working capital requirements should provide the Group with continued debt relief.

AND FOR THE LONGER TERM?

We are confident in our ability to further contribute to animal health, particularly in emerging countries where the needs are the greatest (Brazil, India, China and Asia) and in terms of food producing animals, where we are present in fewer than 50% of markets worldwide only. In an active sector like ours, innovation is key. Thanks to our innovation ecosystem, we will continue to generate new, valuable solutions for veterinarians, farmers and pet owners all around the world. Innovating also means making products designed for daily use available, like the Virbac-patented Smart Cap, which earned a Pharmapack award in 2018 for its ergonomics and safe use. The growth of our company continues to align with our values, which consider employee engagement to be essential to the company's successes.

IS THERE MORE?

What sets us apart from our competition is our corporate culture and the quality of the human relationships. Above all, Virbac is a family, a community of men and women from various backgrounds with a deep attachment to the company. The strength of this collaboration is a key asset for the sustainability of the Group. Therefore, continually offering opportunities to develop and grow is essential. The results of the latest Great Place to Work internal survey conducted in 2018 will help us implement action plans at the corporate level and continue to experience a unique human adventure in the service of animal health. Because caring for the health and welfare of animals is caring for life. And it is our duty to contribute to the collective effort in this field by making responsible choices for a sustainable future.

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

R&D CENTER ON
5 CONTINENTS

SALES SUBSIDIARIES
IN 33 COUNTRIES

PRODUCTION SITES
IN 10 COUNTRIES

4,900
EMPLOYEE
(+1.4% compared to 2017)

Balanced governance to support the Group's development

The principles on which Virbac bases its governance are those that provide the balance required for the Group's performance and successful 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 2018 an employee representative was appointed in conformance with the act of August 17, 2015 "on social dialogue and employment". In some cases, Virbac surpasses the objectives set by the Afep-Medef Code, particularly with regard to representation between women and men, the supervisory board being composed of four women (including the employee representative) 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. The supervisory board comprises seven members including three independent members:

MARIE-HÉLÈNE DICK-MADELPUECH
Chairwoman

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

SYLVIE GUEGUEN
Employee representative

SOLÈNE MADELPUECH
Member

PHILIPPE CAPRON
independent member

OLIVIER BOHUON
permanent representative of the company OJB Conseil, independent member

PIERRE MADELPUECH
Vice-chairman

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-Madelpuech, 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 Philippe Battisti.
Novances-David & Associés, represented by Jean-Pierre Giraud.

THE EXECUTIVE BOARD

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.

Habib Ramdani
Group 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

STATEMENT ON EXTRA-FINANCIAL PERFORMANCE

BUSINESS MODEL
VIRBAC

OUR VISION

A unique, innovative and agile company shaping the future of animal health, empowering and engaging each employee to enrich the customer experience

OUR STRATEGIC AREAS OF FOCUS

Accelerating in the USA and emerging countries

Improving competitiveness

Bringing innovative products & services

Transforming the company

OUR RESOURCES

HUMAN

4,900 EMPLOYEES ACROSS MORE THAN 30 COUNTRIES

FINANCIAL

SUSTAINABLE, PROFITABLE AND RESPONSIBLE GROWTH

LONGSTANDING FAMILY OWNERSHIP

INTELLECTUAL

R&D CENTERS OVER FIVE CONTINENTS

WIDE RANGE OF PRODUCTS

INDUSTRIAL

PRODUCTION FACILITIES IN 10 COUNTRIES

SOCIAL AND SOCIETAL

STRATEGIC PARTNERSHIPS

PROXIMITY TO ITS ECOSYSTEM

OUR VALUE CR

Addressing animal health challenges

CREATE — INNOVATION DEVELOPMENT

MAKE — INDUSTRIAL QUALITY

SELL — BUSINESS MARKETING

SUPPORT

COMMUNICATION, HUMAN, SOURCING, FINANCE, LEGAL, TECHNOLOGY

OUR V

Nurture entrepreneurship - Stimulate inn
Foster a customer-driven approach - Pay a

KEY CHALLENGES IN THE ANI

ANIMAL WELFARE

FEEDING THE PLANET (food security & food safety)

REGULATIONS

QUALITY

With deeply humane values and stable family ownership, Virbac offers a range of products and services covering the majority of species and animal pathologies. Based on both technological advances and customer feedback, Virbac innovation relies on production facilities that meet the highest international quality standards. Through its personal relationship with veterinarians, farmers and owners in each country, Virbac helps to create lasting growth for all of its stakeholders.

EATION MODEL

Supplying innovative products and services

OUR VALUE SHARING

EMPLOYEES

ENHANCING SKILLS & TRAINING

INTERNATIONAL MOBILITY

ENGAGEMENT

DIVERSITY

CLIENTS & PARTNERS

RESPONSIBLE INNOVATION

NEW PRODUCTS & SERVICES

INVESTORS

SUSTAINABLE PROFITABLE & RESPONSIBLE VALUE CREATION

SUPPLIERS

STRATEGIC PARTNERSHIPS

RELIABILITY OF THE CHAIN

RESPONSIBLE PURCHASING

COMMUNITY & SOCIETY

INTERNATIONAL PRESENCE

EMPLOYMENT OF LOCAL POPULATIONS

ENVIRONMENTAL CONSERVATION

FACTS AND FIGURES

Our vision through performance indicators

ACHIEVEMENTS

High employee satisfaction rate

Animal nutrition range named range of the year

R&D investment: 8.4% of revenue

2018 organic growth: +4.5%

Ebita: +1.3 pt at constant rates

Decrease in the debt level

Securing our supply model

Regionalized R&D

Virbac Foundation Projects

ALUES

novation - Demonstrate our engagement
attention to people - Choose sustainability

MAL HEALTH SECTOR

DIGITALIZATION AND BIG DATA

ONE HEALTH

CONSOLIDATION

DIVERSIFICATION

OUR COMMITMENTS FOR THE FUTURE

Virbac initiated a strategic reflection about CSR (Corporate social responsibility), and conducted an analysis of materiality in order to assess the Group's key issues in terms of sustainable development, particularly with regard to the social and environmental consequences of activity, effects of activity on human rights, and the fight against corruption and tax evasion.

To do this, Virbac used a third-party expert, who directed the analyses and assessments. This matrix was updated in 2018.

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

- conducting interviews with industry experts for reflection on key CSR challenges;
- sharing information about surveys and internal and external communication tools;
- reviewing sectoral documentation;
- media analysis, etc.

Based on a materiality threshold defined at the confluence of internal expectations (impact of the key challenges 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. A consulting company specialized in non-financial reporting that assisted throughout the entire process guaranteed its independence and objectivity.

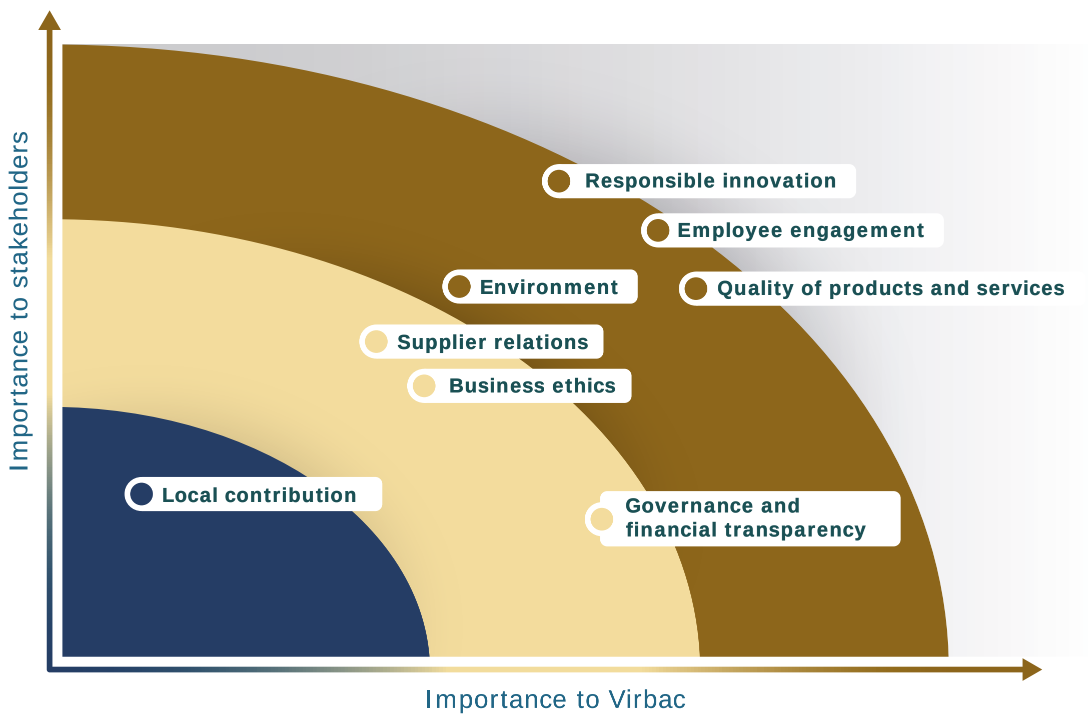
It should be noted that the areas required by the statement on extra-financial performance (social & societal, human rights, business ethics and environment) were reviewed during interviews.

Virbac has always had a reasonable fiscal policy aimed at ensuring the interests of shareholders while maintaining a relationship of trust with the countries in which we operate. Central and local financial teams, with the support of a tax advisor, are committed to complying with national and international tax obligations. Also reviewed were SEFP-related topics that, given our activity, do not concern us, particularly actions to combat food waste, food insecurity, and to respect responsible, fair and sustainable nutrition.

The topics deemed the most material are reflected in detail through the four key challenges as documented in the sections below.

- Innovating responsibly
- Strengthening employee engagement
- Ensuring the quality of products and services
- Protecting the environment

Virbac's matrix of materiality
Key issues



Innovating responsibly

CHALLENGE

In an evolving environment, the Virbac group must provide an innovative, safe range of products and services, developed and produced in respect of animal well-being. 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. For the Group, it's about focusing on research over the long term and offering innovative solutions that address a variety of diseases and production needs, depending on the individual geographic areas in which they appear. It's also about improving how we go about achieving this while maintaining quality and health standards.

STRATEGY

All of the Group's activities and products are governed by this responsibility requirement. An intrinsic part of Virbac's DNA, this strategic area of focus requires us to continually improve the innovative solutions offered and the way in which they are developed.

Two areas of focus stand out as fundamental for the Group:

- Virbac innovates and operates within a strong ethical framework, by promoting *in-vitro* tests as much as possible and by partnering with its stakeholders (suppliers, monitoring authorities, professional associations, etc.);
- the result is products and services that are focused on long-term animal health and that always meet the highest pharmaceutical requirements.

RISKS

The risks related to this innovation challenge have to do with the delays/setbacks tied to innovation projects (incomplete R&D projects, failure to obtain marketing authorizations, loss of license, lack of innovation, etc.). These risks also factor in responsible innovation requirements throughout the product's life cycle. For more information on the risks associated with this CSR challenge, see the chapter on risk factors page 60 of the annual report, risks related to the innovation process (research, development, and licensing) and/or product registrations.

POLICIES & ACTIONS

RESPONSIBLE INNOVATION AND DEVELOPMENT

AN ETHICAL ENVIRONMENT

To ensure implementation of the fundamental principle of responsibility, the Group has developed an ethical charter for studies on animals that applies to all Group employees; for all studies conducted on animals, in all of the Group's animal units, and to all service providers (charter attached to contracts). Furthermore, the Group has two policies governing animal studies: "Animal ethics committee" and "Animal welfare".

Key actions implemented:

- ethics committees are systematically established, governed by the same ethical principles (independence, impartiality, absence of conflicts of interests) and operational principles (diverse membership, study assessments, deliberation, voting, etc.), reviewing 100% of the studies;
- regarding studies outsourced to third parties or subcontractors, the Group imposes the same level of requirements on its partners (Contract research organizations, universities, etc.). These requirements include the establishment of their own ethical committee and deployment of strict follow-up procedures for their studies.

ALTERNATIVES TO ANIMAL STUDIES

As an animal health actor, Virbac must rely on animal studies, in accordance with applicable pharmaceutical regulations. However, the Group is committed to limiting them to the necessary minimum, in specific cases where they are required by regulations and no known alternative method is possible.

These animal studies deal mainly with:

- the animal: verification of the product's safety (non-toxicity, no impact on reproduction, non-carcinogenic, etc.) and of its efficacy in healing or protecting the target animal;
- humans: verification of safety for the product user and the absence of residues in species intended for consumption (meat, milk, eggs);
- the environment: verification of the absence of toxicity for organisms other than the target species that may come in contact with the product.

In general, clinical studies are subject to a regulatory submission or prior trial authorization (depending upon the country) and are conducted by veterinarians. As for pre-clinical trials, they are governed by regulations that affect every dimension of animal studies: the institutions where the studies are carried out, staff training and qualifications, the sources of the animals and their traceability, prior ethical evaluation of studies and their follow-up, controls by the authorities, ethics committees, and internal audits.

Key actions implemented

The above-mentioned charter is based on the international principles of the 3Rs: Reduce, Replace, Refine animal studies.

- The 3Rs rule constitutes our guiding principle of substituting animal studies and tests in our laboratories as much as possible and promoting alternative techniques to regulatory agencies worldwide. For example, when possible, carrying out *in-vitro* tests in lieu of *in-vivo* tests, or by capitalizing on reproducible tests, on bibliographic research or computer modeling.
- Furthermore, studies are carried out on the species for which the health products are intended (efficacy and safety studies). As a result, no tests are carried out on primates. Rodents and rabbits are mainly used in the validation phases for new vaccines.
- Various initiatives (including negotiations with regulatory agencies to eliminate routine tests, the production of batches intended for countries that do not require animal testing, etc.) have resulted in a significant reduction in the number of tests on domestic carnivores, used mainly for quality tests (regulatory requirements for the release of vaccine batches).

Furthermore, since 2013, Virbac has had in place an adoption program in partnership with the main French association dedicated to animal well-being. The objective, ensuring a host family for 100% of adoptable dogs and cats, has been reached.

INVOLVING STAKEHOLDERS

Innovating and producing in a responsible manner cannot be accomplished on a consistent basis without involving the entire Virbac ecosystem. This virtuous path, which consists of assuming social responsibility, valuing the women and men who make up this ecosystem and making animal well-being the focus of its projects and activities, comes about through regular dialogue with stakeholders.

Virbac's relationship with its suppliers reflects this continuity, with regular exchanges, focusing on a close community relationship with local suppliers. As such, the Group has policies and tools to ensure responsible purchasing practices consistent with the Group's guiding principles (supplier charter, assessment questionnaires that include CSR criteria, targeted audits, follow-up on indicators related to CSR topics, etc.).

For every invitation to tender and for main suppliers, 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 2018, 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.

INNOVATIVE AND TARGETED PRODUCTS

ENCOURAGING THE PREVENTIVE USE OF VACCINES

Prevention development, particularly by vaccination, is one of the ways to reduce the use of antibiotics in animal production. Recent investments by Virbac in vaccines research centers and production facilities intended for food-producing animals in France, Australia, Chile, Uruguay and Taiwan reflect this willingness to strengthen the Group's development in this area. Virbac is also involved in several partnership programs with public research institutes and private companies for the purposes of developing alternatives to antibiotics.

DEVELOPING MODERN ALTERNATIVES TO TRADITIONAL TREATMENTS

Furthermore, the Group's aim is to develop alternatives to certain traditional therapies, to ensure the well-being of the entire ecosystem and for the sake of protecting the environment.

As part of our responsible innovation process, a Group product (Suprelorin) represents a real alternative to surgical castration in dogs, through hormonal regulation that neutralizes the animal's reproductive capacity for six months or a year. The animal's well-being is preserved and, for the sake of the animal and its owner, any irreversible surgical procedure is currently unnecessary.

"ONE HEALTH" APPROACH

Virbac's ecosystem (its customers, veterinarians, farmers and animal owners) is becoming increasingly mindful of its impact on the environment and human health. Virbac is naturally driven to direct its activities accordingly. To illustrate this approach, Virbac's innovation impacts the lives of animals first, followed by the lives of humans. For example, Virbac is developing and marketing vaccines for rabies and leishmaniosis in dogs, diseases that are apt to affect humans.

Virbac's oral anti-rabies vaccines administered to foxes contributed to the eradication of rabies in several European countries, and key public health issues related to this disease are still a concern in several large emerging countries.

Innovation is also geared towards societal issues, for example supplying protein to a constantly growing world population. It is in this context that the Group invested in aquaculture, the most productive source of animal protein.

Furthermore, the organization in charge of Group innovation, structured as research centers divided by species and global regions, also affords the Group a range of relevant, suitable products and services to the benefit of all its customers, thanks to this close proximity.

Lastly, the Virbac corporate foundation's mission is first and foremost 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 the health of ecosystems by protecting and promoting health care for pets or wild animals in their natural habitat and implementing educational or awareness campaigns among local communities.

The foundation fulfills its objectives by developing initiatives and partnerships with health professionals, veterinary practices, regional and local communities and French and international institutions.

For more information about the Group's various policies to address this CSR challenge, please refer to the sustainable development report (GRI standard).

AIMS & INDICATORS

<table>
<tr><th>AIMS</th><th>INDICATORS</th></tr>
<tr><td rowspan="2">Reducing animal studies in R&D studies and quality controls</td><td>R&D STUDIES: 14 %

Out of the 5,598 rodents and rabbits used in studies, 1,286, or 23%, were used for the set-up 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 animals:
▪ including rodents: 89.71 %
▪ including rabbits: 7.26 %
▪ including food producing animals: 1.09 %
▪ including domestic carnivores: 1.94 %</td></tr>
<tr><td>QUALITY CONTROL: 86 %
(regulatory trials for the release of vaccines)

36,361 animals were used as part of Quality Control activities:
▪ including rodents: 96.48 %
▪ including rabbits: 2.39 %
▪ including food producing animals: 1.03 %
▪ including domestic carnivores: 0.10 %

0,10 % 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 tests and animals (-80 % between 2013 and 2018).</td></tr>
</table>

Strengthening employee engagement

CHALLENGE

The success of Virbac is directly linked to the engagement of its employees, an engagement that stems from the role played by the women and men at the heart of the company and its major decisions. The challenge is ongoing for a company that has to change its method of operating in line with globalization, market changes and new technologies, while adhering to its client proximity model. In such an environment, the issue of human capital plays a major role in the company's strategy, our ambition being to support change in organizations and professions, as well as in the specific needs of populations, by building a strong partnership with managers and all employees.

STRATEGY

In the area of social responsibility, respect for people has been one of the key values championed by the company's founder. Virbac is committed to preserving and fostering this legacy by complementing it with ambitious policies aimed at developing its human capital.

Virbac's strategy in this area can be seen in many policies and actions aimed at reaching the following objectives: safety and irreproachable working conditions that protect employee health, maintaining a real social dialogue, a favorable compensation and social welfare policy for employees with the lowest wages, individualized skills development, internal professional and geographic mobility and promoting an environment conducive to diversity and equal treatment amongst our employees.

RISKS

There are several types of key risks associated with a drop in employee engagement. Examples of key risks identified include:

- risks to the Group's ability to attract, develop and keep the talents and skills it needs to bring its strategy to fruition;
- risks to employee safety while doing their jobs and the Group's ability to ensure the workplace well-being needed for everyone to perform to their highest potential;
- risks to the health of employees due to insufficient mastery of certain materials used in the composition of medicines or used in the R&D or production processes;
- risks of unfair treatment amongst our employees based on age, gender, nationality or disability.

For more information on the risks associated with this CSR challenge, please refer to the chapter on risk factors pages 62 and 63 (risks related to the ability to attract and retain key skills and risks related to the use of hazardous materials and HSE risk).

POLICIES & ACTIONS

Virbac's policy as it pertains to this human capital issue is based on three complementary pillars:

- training, skills development, performance compensation;
- well-being in the workplace and recognition;
- mobility and diversity aspects that provide a valuable resource for the Group.

Virbac continues to pay close attention to the opinion of its employees and looks to them to define its policies and the areas of improvement so as to unite employees around strong values, thus increasing each and everyone's commitment and motivation. All employees regularly participate in a satisfaction survey that allows them to confidentially express their expectations on a very broad range of topics, many of which involve the human capital CSR challenge. Analysis of survey results serve as a basis for identifying key actions to undertake.

For all social performance indicators that follow, the scope includes the Group's key subsidiaries (84% of the total number of employees): South Africa, Germany, Australia, Brazil, Colombia, Spain, United States, France, India, Italy, Japan, Mexico, New Zealand, United Kingdom, Vietnam and Uruguay. These social indicators cover both permanent and temporary contracts.

COMMUNICATION, RECRUITMENT AND MOBILITY, TRAINING AND PERFORMANCE RECOGNITION

COMMUNICATION

The ability to work together cross-functionally and at a global level is turning out to be a major issue in meeting increasingly ambitious common goals. Information and communication are essential for Virbac.

This first component is reflected in the improvement in the communication of strategic company-wide decisions made through the use of digital tools that foster the sharing of experiences, knowledge and transversality necessary to the success of the Group's various strategic projects. 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.

RECRUITMENT AND MOBILITY

In 2018, 610 new employees were hired, compared to 519 in 2017. India, with 184 new recruits, France, with 115 and North America with 53 account for 58% of the total number of new recruits.

In terms of age groups, 47% of new hires are under 30, 46% are between 30 and 50, and 7% are over 50 years of age.

The subsidiary that hires the most young people is India, with 69% of new recruits under 30 years of age (compared to 82% in 2017). North America recruited the most experienced employees, with 55% between 30 and 50 and 23% over 50 years of age.

In terms of gender, India stands out for recruiting a majority of men, as this practice relates to the role of seller, which is typically assumed by males in this country.

Developing employees also means offering more career opportunities within the Group. To encourage increased internal and international mobility, practices in this area have been standardized through the development of a full and fair Group-wide policy for international mobility that aims to retain employees worldwide, foster transversality and efficiency through sharing of inter-cultural and inter-professional experiences, in addition to securing key positions by leveraging skills and knowledge transfer internally.

TRAINING AND SKILLS DEVELOPMENT

The Virbac Group has in place a skills development policy with a variety of training programs (management, professional efficiency and industry-specific expertise in particular) that aim to maintain employability and develop skills for all employee categories.

Digital Learning plays a major role in the deployment of training paths, combining online learning and practical activities tracked over time (campus innovation, Virbac Business School, Virbac Quality Academy). For example, training expenses in France this year amounted to 2.79% of payroll, or an investment of €1,884,160.

INDIVIDUAL AND COLLECTIVE PERFORMANCE ASSESSMENT

With respect to performance appraisals, a digital collaborative tool (e-Perf), available in 14 languages, has been rolled out in 33 countries, thus enabling Group-wide alignment of practices and improving the quality of exchanges between managers and employees. Virbac is therefore intensifying its desire for its employees to play a key role in their performance and development, all while responding to business challenges.

The digitization of Perf processes is no substitute for the face-to-face meeting, which is still a special, must experience in the context of employee supervision and support. The vast majority of Group employees are afforded, at a minimum, one annual interview that evaluates their performance over the year and their proficiency in their functions. This interview is also an opportunity to discuss objectives for the following year as well as development needs.

PERFORMANCE RECOGNITION

In France, for example, during the 2018 fiscal year, 100% of employees were 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.

In addition to financial elements related to individual performance compensation, the Virbac Group continues to pay close attention to collective performance compensation plans. For this reason, several mechanisms are already in place, such as a triennial incentive agreement entered into in 2017, and a profit-sharing agreement signed in 2008. Amounts originating from these agreements or voluntary payments can be invested in mutual funds, in the *PEE* (*plan d'épargne entreprise* [company or Group savings plan]) or in the *Perco* (*Plan d'épargne pour la retraite collectif* [Group retirement savings plan]); as of 2016, unused vacation days can also be paid into the *Perco*, with a limit of ten days per year.

WELL-BEING AT WORK

HEALTH AND SAFETY

This is a priority area of focus for the Group and has become ingrained in the corporate culture year after year. To boost and further reinforce the safety culture, a Group project was set up with a multi-year action plan. All managers in the industrial organization have been trained. An Intranet tool has also been developed, enabling all employees to access all types of documents about people, facilities and products.

In all countries, numerous measures have been taken regarding employee health and safety, without any formal agreement necessarily being entered into with the trade unions. Concerning the subject of psychosocial risks, the various departments, with the support of the HR teams and the parity group "well-being at work", are moving towards a global approach to quality of life at work. As such, various actions related primarily to working conditions, manager training, and the communication of good practices are being phased-in.

These actions also made it possible to finalize an internal "living better together" charter, a company-wide agreement on the right to log-off and a teleworking agreement.

DIVERSITY

The diversity policy aims to ensure equal treatment of staff, encourage variety among people and human relationships, and maintain worker employability. It is built around three key areas of focus: gender equality, disabilities, and age diversity through the intergenerational agreement.

GENDER EQUALITY

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.

Globally, Colombia, Spain and the United States are the countries with the fewest adverse gaps for women in all professional categories. On average, the female/male base salary ratio is equal to 87% for leaders, 90% for managers, 89% for technicians/employees, and 89% for workers.

Regarding pay equity between men and women, actions have been taken to measure the gaps, find the causes and take measures, following the example of France through an agreement signed in 2012 that ensures equality between women and men in their career paths (access to vocational training, pay equity between women and men doing the same job with the same level of skill, and work-life balance).

In 2018, ten countries were given an internal classification tool (grading) that provides improved management of internal equity and a rational approach to external competitiveness, in addition to establishing compensation and benefits policies. The Group regularly conducts company-wide surveys on compensation in order to ensure that it remains competitive in the job market and adjustments are made if necessary.

With regard to recruiting for key positions, priority is given to internal and local candidates. Recruitment decisions (internal or external) are based exclusively on the skills and qualification criteria for the position. The candidate’s nationality or age does not play a role in the decision. However, to the extent possible, Virbac staffs leadership positions with local managers in order to be nearer to clients and the market culture. In 2018, of the sixteen subsidiaries (social scope), 90% of senior managers are local hires and seven subsidiaries have strictly local management.

DISABLED WORKERS

The disabilities agreement, signed in 2014 and renewed in 2017, aims to recruit, integrate and train persons with disabilities; to communicate, raise awareness among employees and managers, and build a network of in-house disability stakeholders acting as ambassadors; to maintain and develop subcontracting activities in partnership with the protected and adapted work sector.

AGE AND CULTURE DIVERSITY

Virbac has always considered the contribution of the various generations and cultures of the countries in which the Group operates to be a real treasure. The Intergenerational Agreement, signed in 2013, aims to permanently integrate young workers, recruit and retain seniors in the workplace and foster intergenerational skills sharing.

For more examples of actions taken by the Group or its subsidiaries in meeting this CSR challenge, please refer to the sustainable development report (GRI standard).

Taking a cross-functional approach to these topics related to this major CSR challenge for the Group, adherence by our employees to our values as defined in the code of conduct is a prerequisite for any policy promoting human capital that can only be based on trust.

Taking the extended company into account, our partners' appropriate application regarding rules related to employment practices are taken into consideration by the Virbac departments involved. With regard to strategic suppliers, the Virbac Group has implemented several mechanisms (evaluation questionnaire, in situ visits) to ensure that their social practices are in compliance.

AIMS & INDICATORS

AIMS	INDICATORS
Promoting employee engagement and loyalty	2018 Absentee rate: **2.68 %** 2018 Staff turnover rate: **14.08 %**
Leading the roll-out of digitalization in the Group to improve the quality of exchanges and sharing between employees, and a higher level of information on and adoption of key development areas of focus defined by management	**100 %** of Group subsidiaries have implemented e-PERF, a solution developed in-house for conducting annual appraisals, among other things.
Increasing employee safety in the workplace: reduction in work-related accidents, better protection from potentially hazardous materials, improved ergonomics and management of psychosocial hazards	**WORKPLACE SAFETY** ■ 2018 frequency rate: **5.61** ■ 2018 severity rate: **0.17** ■ Number of professional illness cases in France in 2018: **3** 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. The severity rate used is based on French regulations and defined as the number of lost days following a work-related accident that resulted in a minimum of one lost work day, divided by the number of hours worked, multiplied by one thousand.
Continuing with training initiatives aimed at improving skills and employability	Number of employees present on 12/31 who have taken at least one training session/total staff on 12/31: **80 %**
Promoting employee diversity and equality	**RATIO OF FEMALE / MALE SALARIES** (by category in %) ■ Leaders: **87 %** ■ Managers: **90 %** ■ Technicians/employees: **89 %** ■ Workers: **89 %**

Ensuring the quality of products and services

CHALLENGE

As an animal health stakeholder, Virbac designs, manufactures and sells veterinary medicines, vaccines, and general health products to prevent disease and improve animal well-being and health. The quality of products and services is essential in the eyes of stakeholders, who are veterinarians, farmers and animal owners.

- The societal challenge related to the health of food producing animals is to contribute to a worldwide supply of meat and milk that is more abundant, of higher quality and less expensive. The goal is to meet the steadily increasing quantitative and qualitative food demands of a fast-growing global population that wants to eat better.
- The challenge related to companion animals is to offer veterinarians and animal owners medicines, vaccines, health products and a petfood range 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 improved well-being of the owners and is of particular benefit to people who live alone.

STRATEGY

In order to meet these major challenges, Virbac has defined a strategy aimed at ensuring the quality of its products and services, improving the quality of life and health of animals while ensuring the comfort and safety of those who administer these products: veterinarians, farmers and animal owners.

This strategy is based on two tenets; first, attaining an irreproachable level of regulatory compliance as a policy principle at every stage in the manufacturing of our products, and secondly, a monitoring and quality assurance body that ensures proper application of this policy principle on Group sites as well as those of strategic partners.

RISKS

The key risk associated with this challenge would be producing medicines or vaccines of inadequate pharmaceutical quality, which could have negative effects on the health of animals and, in turn, on humans.

For more information on the risks associated with this CSR challenge, please refer to the chapter on risk factors page 61 (risks related to product compliance and risks related to product liability).

POLICIES & ACTIONS

To reduce exposure to this risk, and in compliance with the regulations of each country, Virbac meets the highest applicable quality-safety-efficacy standards, particularly essential for the purpose of obtaining a Marketing authorization (MA) for products. These standards involve every stage in the product life cycle, meaning before they are marketed and after they are placed on the market.

The Group's key commitments aim at maintaining a high level of product and service quality through a "right first time" approach to reducing waste and destruction throughout the manufacturing process.

ASSESSMENT THROUGHOUT THE PRODUCT LIFE CYCLE

KEY ACTIONS PRIOR TO THE MARKETING PHASE

Pre-development and development phases

- Implementation of Good laboratory practices (GLP) relative among others to data traceability.
- Selection of the CRO (contract research organization) working in compliance with these GLPs.

  ▸ 100% of products subject to pharmaceutical registration are checked for animal/human/environmental safety, quality, stability and efficacy.

Purchasing and sub-contracting

- Systematic qualification of materials purchased from suppliers (active ingredients, excipients, packaging) in terms of quality and reliability.
- When possible, several sources are qualified to limit the risk of disruptions in supply, and preference is given to purchases from leading pharmaceutical suppliers.
- Outsourcing to specialized subcontractors based on pharmaceutical form.

  ▸ 100% of active ingredient suppliers are qualified and analyzed during certification.

Production phase

- Implementation of Good manufacturing practices (GMP) that are applied through the certification of all of our manufacturing sites.
- Actions implemented at the production tool level in order to ensure end-of-production-line product quality from that is in compliance from the start, thus limiting scrap or destruction of materials or finished products.

  ▸ 100% of products subject or not to pharmaceutical registration undergo component and raw material testing at every manufacturing stage.

  ▸ 100% of Virbac manufacturing sites are certified.

Distribution phase

- For the transporting of drugs, Virbac uses Good distribution practices (GDP), such as compliance with the cold chain, when required by the nature of the products.
- Organization of transportation in accordance with regulations governing the shipping of high-risk products (availability of safety data sheets for "raw materials" and "finished products" to staff and carriers, packaging of hazardous products in packaging that meets current standards, etc.).

Packaging and Promotion

- The development or selection of specific packaging is determined on the basis of a product safety assessment.
- The development of diagrams and pictograms and communication media that provide a clear understanding of information fundamental to consumer health and safety.
- All promotional communications: Virbac respects scientific and technical claims demonstrated during the product's development stages.
- Any product claims are scientifically demonstrated and made available to regulatory agencies in compliance with the requirements defined by national or supranational veterinary pharmaceutical agencies.

  ▸ 100% of products, whether or not they require pharmaceutical registration, and nutritional products that do not require pharmaceutical registration are subject to advice and guidance from users of our products.

KEY ACTIONS OCCURRING AFTER MARKET LAUNCH

Pharmacovigilance

Virbac monitors what happens to those veterinary medicines it places on the market in terms of safety and efficacy in accordance with related regulatory obligations:

- a dedicated organization comprising a qualified person in (veterinary) pharmacovigilance and an interim qualified person, who compiles all of the cases, analyses them, and decides whether the side effects are attributable or not to the use of the drug in question, officially reporting these cases to the supervisory authorities when appropriate.
- the pharmacovigilance outcomes allow Virbac to develop knowledge of its products (for example: the addition of precautions for use), thus making their use safer.

  ▶ 100% of products, whether or not they require pharmaceutical registration, and nutritional products that do not require pharmaceutical registration are subject to monitoring using the pharmaco/nutri vigilance process.

Ongoing stability study

To ensure the efficacy over time of its pharmaceutical products that require registration, Virbac carries out ongoing research on their stability.

▶ 100% of products requiring pharmaceutical registration are subject to ongoing stability studies.

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:

- at national level with SIMV in France, NOAH in the United Kingdom, BfT in Germany, etc.;
- at regional level with IFAH-Europe, AHI in the United States;
- at worldwide level with HealthforAnimals.

  ▶ 100% of products, whether or not they require pharmaceutical registration, and nutritional products that do not require pharmaceutical registration are subject to regulatory monitoring.

AN ORGANIZATION DEDICATED TO QUALITY

To ensure proper application of good practices at various stages of the product life cycle, Virbac has rolled out a dedicated Group-wide organization that covers the topics of Quality Control and Quality Assurance. Comprising more than 100 employees and spread out over various Group sites, this organization implements the Group’s quality policy based on three areas of focus: product mastery, 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 addition, this Virbac quality system allows the company to efficiently detect, trace and effectively address all quality incidents inherent to the pharmaceutical business.

KEY ACTIONS RELATED TO THE GROUP’S QUALITY STRATEGY

- Taking a collaborative approach to designing a Quality benchmark that integrates standards for all production and research facilities, in all departments and all subsidiaries while taking into account regulations and product and galenic forms varieties.
- Expansion of the Virbac Quality System (VQS), which presently includes the Group’s organizations, processes, tools and Quality standards (core model).
- More precise identification and updating of the skills required, acquired and to be developed, so as to provide suitable training plans designed to enhance team skills and embrace a pharmaceutical culture.
- Deployment of a multidisciplinary team (research and development, production and quality assurance), aligned to deliver products on time and with the expected level of quality to satisfy our customers’ expectations.

- The Group Quality repository was built and shared with 100% of the R&D centers and production sites.

For more information about the Group's various policies to address this CSR challenge, please refer to the sustainable development report (GRI standard).

AIMS & INDICATORS

AIMS	INDICATORS
Securing reliable information on product quality and use	**Non-compliance with regulation and voluntary codes** In 2018, out of a total of **8,333** products marketed worldwide, Virbac declared or was informed by the national authorities of **16** cases of non-compliance observed in the field. None of these cases posed any danger to animal health. In 2017, this non-compliance number was **78** out of a total of **8,376** products marketed worldwide.
	Non-compliance related to packaging In 2018, out of a total of **8,333** product references marketed worldwide, Virbac declared or was informed by the national authorities of **8** cases of packaging non-compliance, which had no impact on product distribution. In 2017, this non-compliance number was **21** out of a total of **8,376** product references marketed worldwide.
	Non-compliance related to promotion In 2018, out of a total of **8,333** product references marketed worldwide, Virbac declared or was informed by the national authorities of **3** communications that did not comply with regulations and codes relating to promotional marketing. In 2017, this non-compliance number was **6** out of a total of **8,376** product references marketed worldwide.
Training employees in all manufacturing process positions	**100%** of employees trained.
Supporting roll-out of the Group Quality referential at all sites	**100%** of sites supported.

Protecting the environment

CHALLENGE

Protecting the environment is a growing challenge and a priority for the Virbac Group. Beyond initiatives deployed at the subsidiary level, our ambition lies in our proactive efforts to reduce the environmental footprint of all our activities and products. In seeking to optimize resource use, controlling energy use is at the heart of Virbac's strategy.

STRATEGY

This ambition is reflected in the structuring of a global approach made up of organizational, methodological and operational components of the entire Group. The objective being to identify competitiveness levers and align policies and actions aimed at acting on two key issues:

- the preservation of the planet's resources by controlling consumption (energy, materials) used in our manufacturing processes and
- the reduction, in the end, of emissions or waste resulting from our activities.

RISKS

Beyond possible operational cost overruns related to measures put in place to reduce consumption or emissions, Virbac identifies several themes associated with environmental protection:

- risks related to the use of hazardous materials during production, marketing and distribution (storage, shipping, etc.);
- HSE (Hygiene, safety, environment) risks related to operating permits and associated regulatory requirements (waste volume, effluent volumes and quality, etc.);
- risks related to the effects of climate change, which, generally speaking, prompt Virbac to help reduce greenhouse gas emissions.

For more information on the risks associated with this CSR challenge, please refer to the chapter on risk factors page 63 and 64.

POLICIES & ACTIONS

From an organizational point of view, the creation of a corporate HSE department, reporting to the chairman of the executive board, supports this route. One of this department's initiatives involves re-framing the Group's reporting scope and methods, a precondition for gaining an overall perspective of exposure to environmental risks.

Involving all subsidiaries in environmental reporting and increasing the reliability of relevant indicators as priority actions that will serve, in the short term, to identify existing good practices, in the medium term, to define appropriate objectives and actions when it comes to optimizing resource consumption and reducing our emissions over the long term.

Virbac is also committed to developing a training and awareness segment dedicated to environmental themes for both existing employees and new hires. External stakeholders were also involved in the effort, with the inclusion of environmental clauses in supplier assessment questionnaires.

These initiatives, in conjunction with the roll-out of audits throughout an expanded range of subsidiaries (Mexico, Taiwan, United States, Australia, New Zealand, Uruguay, Vietnam and Chile) demonstrate this move towards consistency in the deployment of a Group-driven strategy.

CONSUMPTION: ENERGY & NATURAL RESOURCES

ENERGY

For several years, Virbac has been working to reduce energy and natural resource consumption by replacing equipment (improved performance), adding thermal insulation, optimizing air conditioning and by introducing consumption indicators in as close proximity to end-users as possible (better control of energy expenditures).

For all of its industrial sites around the world, whether choosing new equipment or through ongoing monitoring, Virbac strives to take account of energy consumption based on the Best available techniques applicable to its activity.

A few examples:

Virbac in France

- For an identical volume of activity, the electric power consumption has decreased by nearly 36% over the past ten years.
- Roll-out of an Energy savings plan with three areas of potential gains: better temperature management (in particular for the storing of raw materials and finished products in Carros); installation of a heat recovery unit at the water treatment plant, and, finally, installation of additional insulation on all steam circuits.
- The November 2017 startup of the heat recovery unit at the Carros water treatment plant helped reduce gas consumption.

Virbac Australia

- The Penrith site saw a reduction in electric power consumption (solar panels and optimized management of power demands) of approximately 200 MWh per year, and a 580 MWh reduction in gas consumption (optimized industrial boiler maintenance).
- At the Crookwell site, electric power consumption was cut in half.

Reducing the energy intensity of its activities and products is clearly a competitiveness lever, placing Virbac on a virtuous path, which, in turn, will help reduce its overall emissions of CO_2.

WATER

Virbac also strives to lower water consumption at equivalent activity volumes by setting up recycling or production facilities for various BAT-compliant grades of water. Water consumption at French sites has been reduced by nearly 18% over the past ten years.

The Group also includes in its analyses the environmental setting of the areas in which it operates. 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 located in a water stress zone identified as such.

PRODUCTION: EMISSIONS, EFFLUENTS AND WASTE

EMISSIONS

Due to the nature of its pharmaceutical manufacturing activity (especially inhibiting technologies), Virbac does not generate any visual, noise or odor pollution.

Therefore, Virbac focuses on the real impacts of its activity, atmospheric emissions, effluents or waste resulting from its activities or products, by increasingly investing in environmental friendliness: taking into account EHS impacts in the management of industrial projects, improvements in the environmental performance of existing facilities, etc. Furthermore, the Group's environmental principles are tailored according to the various local regulations of the countries in question. Here again, the objective is to identify good practices at the subsidiary level to be consolidated within the Group context.

Greenhouse gases

Scope 1 & 2: Direct and indirect emissions (industrial site consumption and GHG related to refrigerant gases)

Actions

- Optimization of energy consumption: insulation of the energy recovery system on the wastewater treatment station for biological production units (Carros), solar boiler for industrial hot water (Mexico).
- Stability of emissions related to refrigerant gases (better control of facilities in Australia and France).

Scope 3: Emissions resulting from shipping of finished products

Actions

- New calculation method to increase the reliability of subsidiary data based on the emissions factors given by the French Environment and Energy Management Agency (see site www.bilans-ges.ademe.fr). Careful analysis of the various emissions factors used to adopt an appropriate calculation method will be rolled out in 2019.
- Shipping of finished products: destination grouping.
- Transporting employees: inter-site shuttles/exterior/site shuttles, incentive policies to limit the carbon impact of company/service vehicles, carpooling, etc.

EFFLUENTS

Calculation and reporting methods are also being revamped for industrial waste management. The inclusion of all industrial sites (Carros) or the resumption of activity in Saint Louis in the United States and in Mexico may have affected the past few years' results.

The goal remains to bring about Group-wide consolidation of the various locally driven initiatives, subject to specific regulatory frameworks. In this regard, the Group's oversight leads to conservative guidelines. For example, many sites must recover and treat a large portion of manufacturing water discharges in accordance with related standards for hazardous waste.

Steady investments are made in all of our facilities to best treat wastewater resulting directly from our activities and from the cleaning of equipment. Our goal is to reduce the amount of COD (Chemical Oxygen Demand), the key pollutant in discharged industrial water.

MATERIALS USED

Virbac seeks to fine-tune its use of active ingredients, excipients and packaging to avoid product wastage or the duplication of wrapping and packaging.

Key actions implemented are:

- optimized supply management to limit warehousing and internal transfers;
- optimization of shipping flows and rate;
- with the help of our strategic suppliers, this innovation aims to reduce wrapping and packaging;
- minimized wastage at every stage of the industrial process.

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 development and marketing (R&D, manufacturing, storage and shipping).

To limit these risks, which could cause harm to people, assets and the environment, 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.

Virbac manufacturing sites and research and development facilities are also regularly inspected by the appropriate authorities.

Primary packaging in contact with medicines is subject to strict pharmaceutical industry quality standards that limit the use of materials originating from recycling channels.

However, Virbac is focused, as early as the research and development stage and in partnership with its suppliers, on principles of eco-design for secondary or tertiary packaging (optimized in terms of weight, use of recycled fibers in certain packaging, etc.).

WASTE

Virbac produces two kinds of waste: non-hazardous industrial waste and hazardous industrial waste.

The Group is committed upstream to reducing the volume of waste produced, and downstream to optimizing source separation before sending it to dedicated collection and sorting sectors in charge of recovering or recycling it.

Non-hazardous waste

- In France, since 2003, Virbac has been contributing, along with other companies in the Carros industrial area, to the roll-out of a non-hazardous waste (aluminum, iron, glass, cardboard, plastic, paper, etc.) collection system through the "Tri&Co" effort. 100% of waste is recovered, no landfill is required.
- Mexico: pre-packaging facilities for non-hazardous waste to optimize the volumes produced.
- Within France, and with the help of a specialized company, a study is underway to identify key areas of improvement, firstly in terms of reducing waste volumes, and secondly in terms of reducing disposals.

Hazardous industrial waste

In addition to continually seeking to control the volumes generated and improve collection for treatment and maximum recycling, 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).

Controlling waste volumes also begins at the research and development stage by considering treatment application methods so as to limit wastage and residues that could harm the environment (targeting/optimizing sprays, for example).

AIMS & INDICATORS

Virbac's energy management strategy translates into ambitious target figures from the consolidated results of all subsidiaries. It is about the Group's commitment to reduce its consumption so as to, over time, reduce its emissions, effluents and all waste resulting from its activities.

For more information related to the various objectives and indicators, refer to the sustainable development report (GRI standard).

AIMS	**INDICATORS** (CSR scope covering all major production sites that, in 2018, represented nearly 60% of the Group's revenue: South Africa, Australia, United States, France, Mexico, New Zealand, Uruguay and Vietnam).
CONSUMPTION: GAS, ELECTRICITY, WATER	
Reducing energy and water consumption in the next five years, global objective addressed through initiatives across all subsidiaries	In 2018, the quantity of energy consumed (gas) was **33,101 MWh.** In 2018, the quantity of energy consumed (electricity) was **50,060 MWh.**
Controlling water withdrawals	In 2018, the total volume of water withdrawn by source was **237,462 m³.**
PRODUCTION: EMISSIONS, EFFLUENTS AND WASTE	
Reducing GHG emissions	**Scope 1 & 2:** direct and indirect emissions (gas and electricity consumption at manufacturing sites and related to refrigerant gases) in 2018 were equivalent to **23,681 tons** of CO_2. **Scope 3:** emissions from shipping of finished products was **16,927 tons**, more than half of which was attributed to air transport.
Reducing the intensity of greenhouse gases (tons of CO_2 / thousand €) *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).	In 2018, the intensity of direct and indirect emissions of GHG was **180 tons of CO_2 / k€.**
Limiting the volume of discharged water (m³) and its COD content	In 2018, the volume of discharged water was **142,259 m³**, including **121 tons** of COD for the entire Group.
Reducing the overall share of materials, including all packaging placed on the market	In 2018, total packaging placed on the market amounted to **4,682 tons.**
Controlling the production of non-hazardous and hazardous waste	In 2018, the volume of non-hazardous waste was **2,270 tons**. In 2018, the volume of hazardous industrial waste was **2,966 tons** at constant scope.

Report of one of the statutory auditors, appointed as independent third party, on the consolidated non financial statement published in the group management report

For the year ended December 31, 2018

To the shareholders,

In our capacity as Statutory Auditor of Virbac SA, appointed as independent third party and accredited by COFRAC under number 3-1048 (scope of accreditation available at www.cofrac.fr), we hereby report to you on the consolidated non financial statement for the year ended December 31, 2018 (hereinafter the "Statement"), presented in the group management report pursuant to the legal and regulatory provisions of Articles L. 225 102-1, R. 225-105 and R. 225-105-1 of the French commercial code (*code de commerce*).

Company's responsibility

The board of directors is responsible for preparing a Statement pursuant to legal and regulatory provisions, including a presentation of the business model, a description of the main extra-financial risks, a presentation of the policies implemented with respect to these risks as well as the results of these policies, including key performance indicators. The Statement was prepared by applying the company's procedures (hereinafter the "Guidelines"), summarized in the Statement and available on the company's website or on request from its headquarters.

Independence and quality control

Our independence is defined by Article L. 822-11-3 of the French commercial code and the French code of ethics for statutory suditors (*code de déontologie*). 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.

Responsibility of the statutory auditor appointed as independent third party

Based on our work, our responsibility is to express a limited assurance conclusion on:

- the compliance of the Statement with Article R. 225-105 of the French commercial code;

- the fairness of the information provided pursuant to part 3 of sections I and II of Article R. 225 105 of the French commercial code, *i.e.* the outcomes of policies, including key performance indicators, and measures relating to the main risks, hereinafter the "Information."

However, it is not our responsibility to provide any conclusion on:

- the company's compliance with other applicable legal and regulatory provisions, particularly with regard to the duty of vigilance, anti-corruption and taxation

- the compliance of products and services with the applicable regulations.

Nature and scope of procedures

We performed our work in accordance with Articles A. 225 1 et seq. of the French commercial code 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 (**Assurance engagements other than audits or reviews of historical financial information**).

We conducted procedures in order to assess the Statement's compliance with regulatory provisions, and the fairness of the Information:

- we familiarized ourselves with the Group's business activity, the report on the main social and environmental risks relating to this activity and the impacts thereof with regard to the respect for human rights and the fight against corruption and tax evasion, together with the subsequent policies and their results;
- we assessed the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and clarity, taking into account, where appropriate, best practices within the sector;
- we verified that the Statement covers each category of information stipulated in section III of Article L. 225 102 1 governing social and environmental affairs, the respect for human rights and the fight against corruption and tax evasion;
- we verified that the Statement includes an explanation justifying the absence of information required by paragraph 2 of section III of Article L. 225-102-1;
- we verified that the Statement presents the business model and the main risks relating to the Group's business activity, including, where relevant and proportionate, the risks generated by its business relations, products or services as well as policies, measures and outcomes, including key performance indicators;
- we verified that, when relevant to the main risks or policies presented, the Statement presents the information stipulated in section II of Article R. 225-105;
- we assessed the process of selecting and validating the main risks;
- we inquired as to the existence of internal control and risk management procedures set up by the company;
- we assessed the consistency of the results and key performance indicators used with regard to the main risks and policies presented;
- we verified that the Statement includes a clear and reasoned explanation justifying the absence of policy regarding one or more of these risks;
- we verified that the Statement covers the consolidated scope, i.e. all companies within the consolidation scope in accordance with Article L. 233-16, with the limits specified in the Statement;
- we assessed the collection process set up by the entity to ensure the completeness and fairness of the Information;
- For the key performance indicators and other quantitative outcomes that in our judgment were of most significance, we carried out:
    - analytical procedures that consisted in verifying the correct consolidation of collected data as well as the consistency of changes thereto;
    - substantive tests, on a sampling basis, that consisted in verifying the proper application of definitions and

procedures and reconciling data with supporting documents. These procedures were conducted for a selection of contributing entities and covered between 27% and 73% of the consolidated data for the key performance indicators and outcomes selected for these tests;

- we consulted documentary sources and conducted interviews to corroborate the qualitative information (measures and outcomes) that in our judgment were of most significance ;
- we assessed the overall consistency of the Statement in relation to our knowledge of the company.

We believe that the procedures we have performed, based on our professional judgment, are sufficient to provide a basis for a limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures.

Means and resources

Our work engaged the skills of five people between January and April 2019.

To assist us in conducting our work, we referred to our corporate social responsibility and sustainable development experts. We conducted around ten interviews with people responsible for preparing the Statement.

Conclusion

Based on our work, nothing has come to our attention that cause us to believe that the non financial statement does not comply with the applicable regulatory provisions and that the Information, taken as a whole, is not fairly presented in accordance with the Guidelines.

Comments

Without qualifying the conclusion expressed above and in accordance with Article A. 225-3 of the French Commercial Code, we make the following comments:

As stated in the Declaration, the reporting scope of social results and key performance indicators represents 84% of the total workforce. As for the environmental results and key performance indicators, the reporting perimeter covers major production sites and represents nearly 60% of the total revenue of the Group.

Paris-La Défense, April 5, 2019

One of the statutory auditors,

Deloitte & Associés

Philippe Battisti - Partner

Eric Dugelay - Partner

[1] **Quantitative social information** : total workforce by gender and employment type; total number of recruitments; total number of dismissals; salaries by gender and socio-professional group; frequency and severity rate of work accidents; number of occupational diseases in France; absenteeism rate by geographical area.

Quantitative environmental information : 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 ; eectricity consumption ; direct and indirect greenhouse gas emissions (Scope 1, 2 & 3).

[2] Virbac SA, Virbac France, Virbac corporation

[3] **Qualitative information** : alternatives to animal studies; the relationship with the suppliers and, in particular, the responsible purchasing practices; non-compliance with regulations and voluntary codes.


FINANCIAL REPORT

Management report

2018 KEY EVENTS

Latin America: an exclusive distribution contract with Elanco

In February in Columbia then in May in Mexico, Virbac enters into an exclusive three-year agreement with Elanco for the distribution of its product portfolio for companion animals.
This agreement, renewable every three years, enables Virbac to expand its product range in these two countries and to take advantage of the expected launch of Credelio in 2019. Credelio is a parasiticide for dogs used to control ticks and fleas. It is made from isoxazoline, a next-generation molecule.

United States: Virbac internalizes the production of its flagship parasiticide

In August, the FDA (Food and drug administration) closes the examination of its additional requests by accepting the commitments made by Virbac, thereby approving the transfer of production to the Virbac St. Louis site for Sentinel Spectrum, the parasiticide for dogs acquired by the company in early 2015.
With this industrial transfer, the complexity of which took all of the attention and skill of the American subsidiary and of the Corporate Production/Quality teams for nearly three years, Virbac confirms its technical expertise in the manufacture of extruded products, a future dosage form in animal health.

Group: Virbac transfers the production of Sentinel Tabs to a specialized manufacturer

In December, Virbac finalizes the transfer of production of Sentinel Flavor Tabs to a specialized manufacturer, following FDA approval of the production site. This operation comes in response to a request made by the FTC (Federal trade commission), the American agency responsible for controlling business practices, which requires that the product's purchaser handle production independently (from the acquisition and until this date, the tablets were produced by Elanco).

Turkey: Virbac is booming

After 20 years of being in the country through a local distributor, Virbac creates a new subsidiary in March in Turkey (Virbac Türkiye), which shows strong growth from the outset.
In this country of over 80 million inhabitants, animal health needs are developing: in food producing animals, where an improvement in dairy farming productivity is needed, and in companion animals, with the steady increase in the rate of medicalization. By creating a local entity, Virbac is able to be closer to veterinarians in order to better respond to their needs.

France: Virbac transfers its product distribution

In anticipation of the closing down of the Wissous site, and following a study to assess all possibilities, Virbac decides to transfer its Virbac distribution logistics business on May 1, 2018 to a provider specialized in storage and distribution of medicine in France.
This approach, which includes the transfer of contract rights of 11 Virbac Distribution employees, is aimed at ensuring Virbac's continuity and service competitiveness while taking into account the human aspect, now more important than ever when it comes to the company's decisions.

Brazil: major structural changes

In July, Virbac transfers its production operations in Brazil to a local independent manufacturer of veterinary products. This change is accompanied by the move of administrative and commercial staff to new facilities in São Paulo.
Thanks to these developments, Virbac Brazil, which is committed to increasing customer satisfaction through the excellence of its products and the quality of its service, will be able to better respond in the long-term to the country's animal health needs.

EVENTS SUBSEQUENT TO DECEMBER 31, 2018

There were no significant events after the end of the year.

ANALYSIS OF CONSOLIDATED FINANCIAL STATEMENTS

Performance of revenue

In 2018, the Group registered consolidated revenue of €868.9 million, an increase of 0.8% compared to last year at actual exchange rates, of which 4.5% excluding unfavorable exchange rate impact.

Performance by segment

in € million	2018 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	140.4	-6.1%					
Immunology	75.3				9.9%		
Antibiotics/dermatology	71.3				5.6%		
Specialties	67.0					14.6%	
Equine	25.7			5.0%			
Specialised petfood	40.4						26.2%
Others	74.1						16.9%
Companion animals	**494.2**				**6.5%**		
Bovine parasiticides	48.0		-1.1%				
Bovine antibiotics	67.7			3.1%			
Other ruminants products	135.3					12.5%	
Pig/poultry antibiotics	39.3	-5.6%					
Other pig/poultry products	28.9				9.3%		
Aquaculture	44.6	-17.3%					
Food producing animals	**363.8**			**2.2%**			
Other businesses	**11.0**			**1.8%**			
Revenue	**868.9**			**4.5%**			

Companion animals
In 2018, this business accounted for 57% of revenue, growing by 6.5% at constant exchange rates and scope compared with 2017.
The ranges growing the most significantly are specialized petfood, specialty range, dental range and vaccines, which offset the decline of the parasiticide ranges, explained partly by the regulation in the United States of the inventory of Sentinel in the distribution channel.

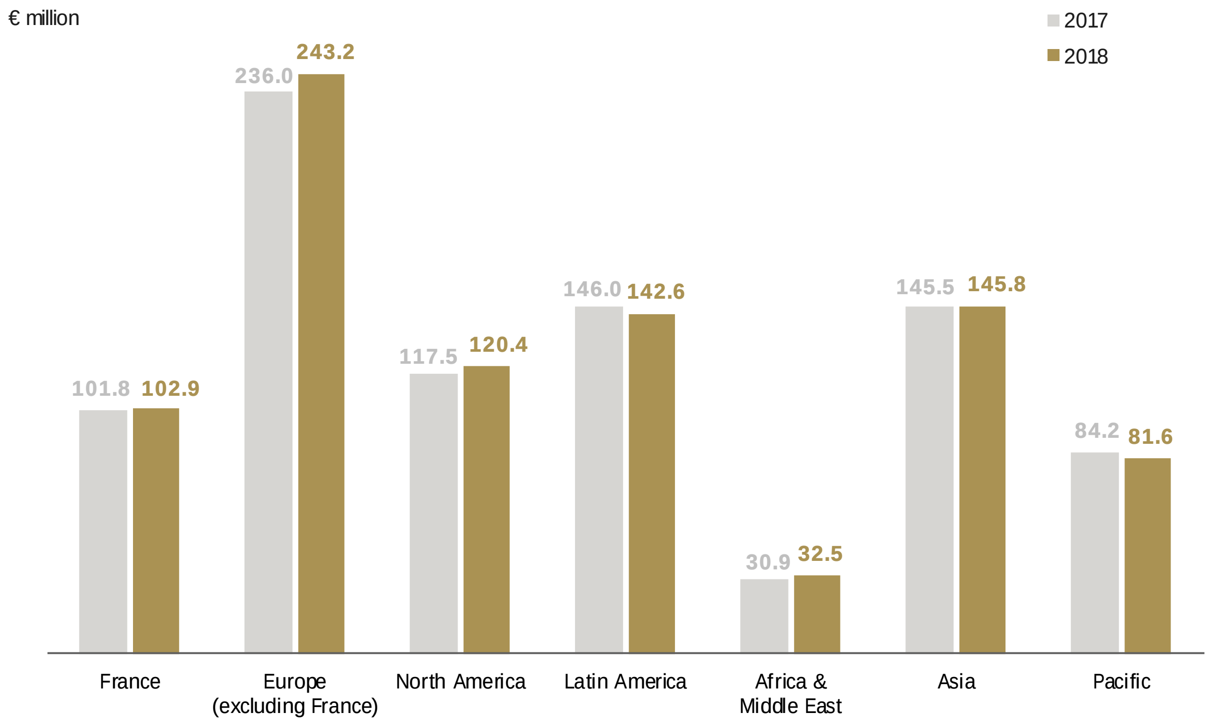
Food producing animals
In 2018, this business line accounted for 42% of Group revenue, growing by 2.2% at constant exchange rates and scope, compared with 2017.
Performances are mixed: the bovine sector shows strong growth at 7.1%, driven by bovine vaccines and nutritional products, industrial (swine and poultry) is stable, while aquaculture shows a decline of 17.3%, essentially tied to weaker sales of antibiotics and oral vaccines for salmon.

Other business lines
These business lines, which represent 1% of consolidated revenue in 2018, correspond to markets which are the least strategically important for the Group, and which mainly include the contract manufacturing for third parties in the United States and in Australia. The increase posted to this line is linked to a new manufacturing contract signed in 2018 in the United States.

Performance by geographic regions

Geographically, in the United States, overall sales for the year grew by 2.7% at real rates, including 5.7% at comparable exchange rates. Outside the United States, the Group posted 0.6% organic growth (4.4% at actual exchange rates). In Europe, the growth has reached 2.4% at constant exchange rates, boosted by the performance of the United Kingdom, France, Northern Europe, Scandinavia and Poland, despite a decline in activity in Southern Europe due to the non-renewed tender for rabies baits in Greece, and downturns in the external parasiticide range and swine antibiotics. Activity in Africa & Middle East region is growing by 5.2% at real exchange rates, and 9.5% at constant rate driven mainly by South Africa.
In the rest of the world, organic growth continues to be strong especially in Japan, as well as in emerging countries such as Brazil, Mexico, China and India. The Pacific region, despite showing a decline of 3.0% at real exchange rates, is growing by 3.9 % at constant rates, mostly due to the performance of New Zealand. However, the activity in Chile is decreasing by 11.5% at real exchange rates, and 8.6% at constant rates.

The major contributions by geographical area are as follows:



France
In 2018, business in France experienced a slight growth of 1.0% compared with 2017, due the good performance of petfood and vaccines in the companion animals sector, offsetting the decline in bovine parasiticides.

Europe (excluding France)
Business in Europe experienced growth of 3.0% and 3.4% at actual exchange rates and constant rates respectively. This growth was achieved by the good performance recorded in the United Kingdom, Northern Europe, Poland and Scandinavia. On the other hand, Southern Europe experienced a decline compared to 2017, especially in Greece and Spain.

- **United Kingdom**

The region is posting an increase of 7.0% at constant exchange rates, notably thanks to cat vaccines, to internal parasiticides with Milpro, to petfood and to the growing success of the anesthetic Propofol in the companion animals sector. In the food producing animals sector, the bovine vaccine Bovigen Scour is showing strong dynamism.

- **Northern Europe**

The region is posting an increase of 5.0% at constant exchange rates, under the impetus of the companion animals sector, with diagnostics, petfood and Suprelorin. Slight growth is showing on the food producing animals sector, the success of Bovigen Scour being offset by difficulties on bovine intramammaires due to the regulations on the use of critical antibiotics.

- **Poland**

The largest increase in the area was this year again recorded by Poland, with growth reaching 15.8% at constant rates, mainly thanks to bovine antibiotics with Shotapen. Companion animals sector is also growing, driven by internal parasiticides such as Milpro and Suprelorin.

■ **Scandinavia**

Scandinavia is posting growth of 11.4% at constant rates thanks to the petfood range and Zoletil, anesthetic for dogs and cats.

■ **Southern Europe**

Southern Europe is experiencing a decline in sales of 3.2% at constant rates this year, most notably in Greece where the tender for rabies baits has not been renewed in 2018, and in Spain, where new regulations on antibiotics have seen sales of Floron (porcine antibiotics) reduced.

North America

In the United States, business has posted a growth of 2.4% at real rates, of which 5.7% at comparable rates, showing a steady growth since the beginning of the year. This growth is attributable to the strong performance of the dental range, specialty products, internal parasiticides (launch of Iverhart Max Soft Chew), and revenue from new contract manufacturing initiated in 2018. Lastly, it should be noted that the inventory of US products in the distribution are at levels below those of 2017, which has impacted the sales in 2018. The sales ex-distributor in the United States of Virbac products to veterinary clinics are showing strong overall growth of 7% for the year. The Sentinel range remains stable for the period, despite competitive pressure, and the other ranges, excepting heartworm products, show noteworthy growth of 21% on average in 2018.

Latin America

In 2018, the Latin America area (excluding aquaculture business) recorded growth of 15.5% at constant exchange rates. All the regions are developing, especially Brazil, Mexico and the Export Latin America region.

■ **Brazil**

Brazil achieved growth at constant rates of 23.3%. Both sectors are showing sustained growth, most notably the food producing animals sector thanks to the rationalizing of the product portfolio following the transfer of the local production to a locally established manufacturer of veterinary products. The growth of this sector is driven by four main products, which are Fosfosal Injectable (nutritional supplements), Effipro Bovis (new bovine parasiticides launched this year), Clostrisan 11 (bovine vaccine) and Tribrissen (bovine antibiotic). The growth in the companion animals sector is driven mainly by the dermatology range, and vaccines with Rabigen Mono.

■ **Mexico**

Mexico posted growth of 10.0% at constant exchange rates, linked to the sales of dog vaccines that resumed this year, as well as the performance of Grofactor (bovine nutritional supplement).

■ **Export Latin America**

The region has recorded growth by 24.1% at constant rates, with the sales of dog vaccines resuming, and the good performance of antibiotic, nutritional and bovine vaccine ranges.

■ **Chile**

Business in Chile has experienced a global fall of 8.6% at constant exchange rates, impacted by the decline of the aquaculture segment, mainly oral vaccines and Veterin 50% due to increased regulations on antibiotics. The other segments post sustained growth rates but with insufficient volumes to allow for growth in the region.

Africa & Middle-East

The growth at constant rates of 9.5% of this region in 2018 is driven by the performance of South Africa with the launch this year of Grofactor in the food producing animals sector, strong sales of Stresspac on this same sector, and also the dynamism of the dermatology and specialty ranges in the companion animals sector.

Asia

In this region, revenue has recorded a growth of 7.0% at constant rates. The best performances are carried out by India, China and Japan. On the other hand, Vietnam posted a decrease of its sales over the period.

■ **India**

After 2017 sales impacted by new VAT regulations and demonetization, India has reached in 2018 growth of 10.2% at constant exchange rates, under the impetus of nutritional supplements, parasiticides, antibiotics and other bovine products.

■ **China**

Over the period, China has posted growth of 23.8% at constant exchange rates. This growth is driven by the companion animals sector, most notably the dermatology range with Epiotic, the dog vaccine range with Rabigen Mono, and specialty products with Physiological eye cleanser.

■ **Japan**

The launch of the internal parasiticide Moxiheart at the end of 2017, and of the anti-inflammatory Inflacam during 2018, combined with the good performance of Rilexine tablets, have enabled Japan to record growth of 12.0% at constant rates.

South Korea
Virbac Korea is showing growth of 12.6% at constant exchange rates. Both sectors are developing, companion animals sector driven by the dental range, and food producing animals sector by Ultracorn (bovine vaccine) and Virbagest (hormone used in swine reproduction).

Taiwan
Virbac Taiwan has recorded growth of 12.4% at contant rates, most notably thanks to the food producing animals sector, sustained by bovine antibiotics and swine ranges. The companion animals sector are also developping, with the launch of the vaccine Virbagen Omega, as well as the good performance of Zoletil.

Thailand
Virbac Thailand is growing by 4.1% at constant rates in 2018. This growth is driven by strong sales of Zoletil, anesthetics for dogs and cats.

Vietnam
Vietnam is again showing a decrease in sales of 9.3% at constant rates with the continuing of the blockade on Vietnamese swine imports into China.

Pacific

Australia
In 2018, Australia is posting growth of 1.7% at constant exchange rates, and a decrease of 5.0% at real rates. This slight increase is explained by the excellent performance of Multimin, offset by lower sales of the bovine parasiticides, and Canigen in the companion animals sector.

New Zealand
New Zealand is returning to growth in 2018 with revenue increasing by 14.5% at constant exchange rates. This performance is driven by the intramammaires segment, with the launch of Quadrant and Boviseal, and to the strong sales of Penclox.

2018 major launches

The major product launches and ranges in 2018 are:

- Iverhart Max Soft Chew, new product of the Iverhart range, and first bacon-flavored Ivermectin-based chewable gum, was launched in the United States. This product offers a combined protection against heartworms, like the other products of the range, as well as against tapeworms;
- Grofactor, growth promoter for bovines, was launched in South Africa. It is the third biggest market for this type of product behind the United States and Mexico;
- Effipro Bovis, external parasiticide for bovines, was launched in Brazil and Mexico;
- C.E.T. Veggiedent Fr3sh, new formula of dental chew targeting the cause of bad breath in dogs, was launched in the United States, in Canada, in the United Kingdom, in France, in Spain and in Japan;
- Boviseal, intramammary suspension for cattle, was launched in New Zealand;
- Inflacam, anti inflammatory, was launched in Japan;
- Suigen PCV2, vaccine against porcine circovirus was launched at the end of 2018 in Taiwan. It will be sold in other countries of Southeast Asia by the end of 2021.

Analysis of the results

Changes in results

in € million	2018	%	2017	%	*Change*
Revenue from ordinary activities	**868.9**	**100.0**	**861.9**	**100.0**	**0.8%**
Margin on purchasing costs	**574.6**	**66.1**	**558.4**	**64.8**	**2.9%**
Current operating expenses	457.8	52.7	451.6	52.4	1.4%
Depreciations and provisions	28.7	3.3	26.5	3.1	8.4%
Current operating profit before depreciation of intangible assets arising from acquisitions	**88.1**	**10.1**	**80.3**	**9.3**	**9.6%**
Depreciations of intangible assets arising from acquisitions	15.0	1.7	15.9	1.9	-5.7%
Operating profit from ordinary activities	**73.0**	**8.4**	**64.4**	**7.5**	**13.4%**
Other non-current income and expenses	8.0		6.3		26.7%
Operating profit	**65.0**	**7.5**	**58.0**	**6.7**	**12.0%**
Financial income and expenses	24.1	2.8	17.8	2.1	35.3%
Profit before tax	**40.9**	**4.7**	**40.2**	**4.7**	**1.6%**
Income tax	20.4		39.2		-48.1%
Including non-current tax expense	*2.4*		*21.4*		-88.6%
Share from companies' result accounted for by the equity method	-0.5		-0.8		-39.6%
Net result from ordinary activities	**31.5**	**3.6**	**29.5**	**3.4**	**6.7%**
Result for the period	**21.0**	**2.4**	**1.8**	**0.2**	**1093.1%**
Net result attributable to the non-controlling interests	0.9		4.3		-79.6%
Net result attributable to the owners of the parent company	**20.1**	**2.3**	**-2.6**	**-0.3**	**-880.6%**

Margin on purchasing costs

Margin on purchasing costs has posted growth of 2.9% at real rates, notably due to a decrease in purchasing costs of certain materials.

Current operating expenses

The current operating expenses, net of income, amount to €457.8 million in 2018, an increase at real rates of €6.2 million (+1.4%) compared to 2017.
This evolution is mainly due to an increase in personnel costs (around €4.0 million), mostly in commercial activities in Europe, as well as the industrial activities in Asia, Latin America and in the Pacific region. It is also impacted by the disposal of industrial machinery following the transfer of production operations of certain ranges in the United Stated and Brazil.
The increase of the “Depreciations and provisions” is due to the increase in other provisions (see note A15 to the consolidated accounts), as well as an increase in amortization.

Current operating profit before depreciation of intangible assets arising from acquisitions

The current operating profit before depreciation of intangible assets arising from acquisitions is growing by 9.6% compared to the previous year, from €80.3 million at the end of 2017 to €88.1 million as at December 31, 2018. The ratio of current operating profit before depreciation of intangible assets arising from acquisitions over revenue reaches 10.1% in 2018 at real exchange rates, and 10.6% at constant exchange rates. Excepting Chile, all the regions are contributing positively to the operating profit of the Group, in particular the United States, Asia, India, Mexico, Brazil and the Pacific region. Exchange rates have had a negative impact on the current operating profit before depreciation of intangible assets arising from acquisitions of €7.1 million.

Other non-current income and expenses

Other non-current income and expenses represent a net expense of €8.0 million in 2018, compared to €6.3 million in 2017. The non-current expenses for 2018 relate to the depreciation of the goodwill and the patent of the leishmaniosis vaccine CGU for €6.6 million before tax impact (-€1.6 million) and to costs linked to the outsourcing of the production of the intramammaries range for €4.1 million. The sale of the logistics centre of Wissous in the Paris region generated income net of restructuring costs of €2.5 million.

Financial income and expenses
The net financial expenses amount to €24.1 million, compared to €17.8 million last year. The cost of the net financial debt is decreasing, from €19.9 million in 2017 to €16.7 million in 2018. However exchange rates have had a negative impact on the financial result for €7.5 million.

Taxes for the financial year
The tax charge amounted to €20.4 million in 2018, compared to €39.2 million in 2017. Taxes for the financial year were impacted by the failure to record in the Virbac United States subsidiary's accounts deferred tax assets on tax losses carried forward for the 2018 financial year (€4.6 million), in accordance with IAS 12, which covers the existence of a history of recent and unused tax losses as a strong indication that future taxable profits may not be useable.
The Group’s effective tax rate changes from 33.66% in 2017 to 33.32% in 2018. This rate is explained in note A26 to the consolidated accounts.

Net Result
The Group share of the net profit amounts to €20.1 million in 2018, compared to a loss of €2.6 million last year, showing an improvement of €22.7 million at real rates.
The profit attributable to the non-controlling interests amounted to €0.9 million in 2018 compared to €4.3 million in 2017. This decrease is explained mainly by the lesser contribution of the Chilean entities.

Bridge from net result to net result from ordinary activities

Since 2017, the Group has decided to show a new performance indicator: net result from ordinary activities, corresponding to the consolidated net profit, reprocessed from non-current revenue and expenses, as well as from the impairment of the American subsidiary's deferred tax asset. The reconciliation of the net profit with the current net profit for the period is shown below.

in € million	Net result IFRS 2018	Impairment of assets	Restructuring costs	Non-current tax expense	Net result from ordinary activities 2018
Revenue from ordinary activities	**868.9**				**868.9**
Current operating profit before depreciation of intangible assets arising from acquisitions	**88.1**				**88.1**
Depreciations of intangible assets arising from acquisitions	-15.0				-15.0
Operating profit from ordinary activities	**73.0**	**-**	**-**	**-**	**73.0**
Other non-current income and expenses	-8.0	6.6	1.4		-0.0
Operating profit	**65.0**	**6.6**	**1.4**	**-**	**73.0**
Financial income and expenses	-24.1				-24.1
Profit before tax	**40.9**	**6.6**	**1.4**	**-**	**48.9**
Income tax	-20.4	-1.6	-0.5	4.6	-17.9
Share from companies' result accounted for by the equity method	0.5				0.5
Result for the period	**21.0**	**5.0**	**0.9**	**4.6**	**31.5**

Analysis of the financial situation

Consolidated balance sheet

in € million	2018	2017
Net assets	856.1	870.6
Operating WCR	134.9	130.3
Invested capital	**991.0**	**1,000.9**
Equity attributable to the owners of the parent company	460.3	436.3
Non-controlling interests and provisions	104.6	104.5
Net debt	426.1	460.0
Financing	**991.0**	**1,000.9**

Net assets
The elements making up this item and their variations are detailed hereafter.

- **Goodwill**

This item amounts to €309.7 million at the end of 2018, compared to €303.0 million at the end of 2017. This increase is related to a positive exchange rate effect, generating an increase of €7.1 million. Furthermore, the goodwill impairment recognized in the amount of €0.4 million on the leishmaniosis vaccine CGU follows the completion of the impairment tests shown in note A3 of the consolidated accounts.

- **Intangible assets**

This item amounts to €295.0 million at the end of 2018, compared to €314.3 million at the end of 2017. The depreciation expense for €19.6 million, as well as the impairment of the patent of the leishmaniosis vaccine CGU for €6.2 million explain in majority the decrease in this item. It is partly offset by an investment in a licensing agreement with a CRO (Contract research organization) and in computer projects.

- **Tangible assets**

This item amounts to €236.7 million at the end of 2018, compared to €238.8 million at the end of 2017. This change is explained by investments of €22.3 million (building fixtures and various industrial equipment in France, in the United States, in Chile and in Australia), offset by depreciation expense amounting to €23.1 million and disposals for which the net book value represents €3.5 million.

- **Other financial assets and shares in companies accounted for by the equity method**

This item amounts to €14.7 million at the end of 2018, including mainly loans granted and other fixed assets receivables (€7.0 million), currency and interest rate derivatives (€4.4 million) and shares in companies accounted for by the equity method (€3.1 million). As at December 31, 2017, this item amounted to €14.4 million and was distributed in similar proportions.

Elements of WCR (Working capital requirements)
The elements making up this item and their variations are detailed hereafter.

- **Inventories and work in progress**

This item amounts to €195.8 million at the end of 2018, compared to €184.8 million at the end of 2017. Excluding the exchange rate effect, inventories increase by €12 million, mainly in France, Brazil and Chile. These levels of inventory were established in anticipation of sales which will occur in the months to come and to offer sufficient availability of certain strategic products.

- **Trade receivables**

This item amounts to €101.5 million at the end of 2018, compared to €112.9 million at the end of 2017. The decrease in the trade item came predominantly from the Chilean subsidiary, in line with the level of business activity, as well as from the American subsidiary due to a drop in sales volume in December 2018 compared with those in December 2017. Foreign currency translation adjustments also contributed to a decrease in this item, in the amount of €1.8 million.
To be noted that the trade receivables that were deconsolidated due to being assigned as part of factoring contracts amount to €46.9 million as at December 31, 2018 (compared to €47.8 million as at December 31, 2017).

- **Trade payables**

This item amounts to €89.6 million at the end of 2018, compared to €108.7 million at the end of 2017. The drop in this item was particularly noticeable in France and the United States. This was due to a decrease in purchase volumes over the last quarter in 2018, compared with the same period in the previous financial year, as well as a decrease in the days of sales outstanding.

■ **Other elements of WCR**

As at December 31, 2018, this item represents a net liability of €82.8 million, compared to €66.3 million as at December 31, 2017. The increase in this liability is mainly due to the amount of the year-end rebates granted to customers (+€6.3 million compared to previous financial year) as well as the decrease in other receivables (-€6.4 million compared to previous financial year): refund of receivables to the State in France, transfer of research tax credit receivable and payment obtained on other operating receivables.

Net debt

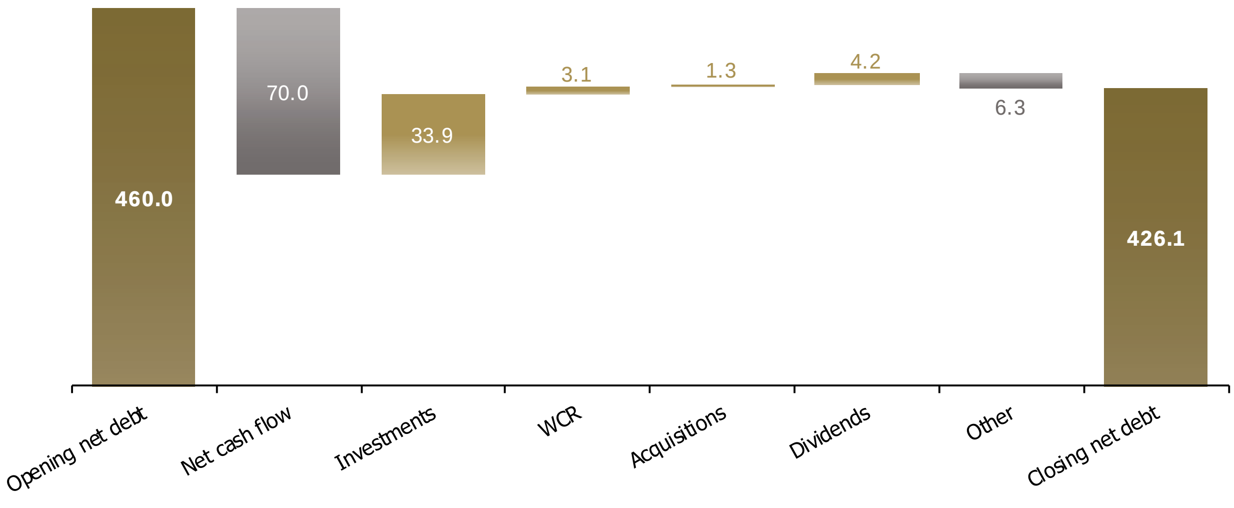
The calculation of the net debt is presented hereafter:

in € million	2018	2017
Loans, non-current portion	373.3	407.4
Loans and other financial receivables	110.6	95.0
Currency and interest rate derivatives	1.6	1.8
Other elements of financial debt	3.4	4.2
Treasury and treasury equivalents	-62.8	-48.4
Net debt	**426.1**	**460.0**

Changes in net debt are presented in the graph of the “Financing” section, hereafter.

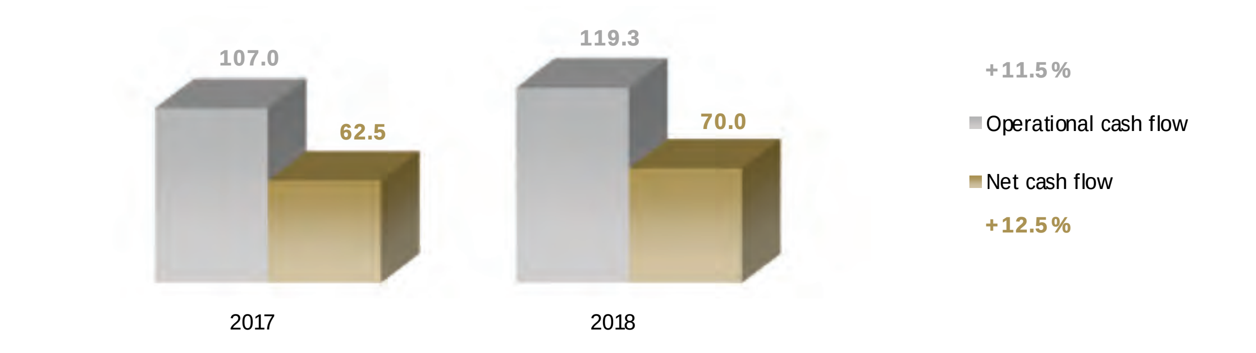
Financing

Changes in net debt



The effect of exchange rates on closing net debt is unfavourable. At 2017 exchange rates, le net debt as at December 31, 2018 would amount to €412.2 million.

Changes in cash flow



The main features of Virbac's three funding instruments are as follows:
• a syndicated loan of €420 million, drawn in euros and American dollars, contracted with a pool of banks repayable at maturity, with an initial maturity of April 2020, extended until April 9, 2022, once the extension agreement was received by all of the lenders on March 23, 2018;
• market-based contracts (*Schuldschein*) consisting of four instalments, with maturities of five, seven and ten years, at variable and fixed rates;
• a US$ 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, 2018, the position of the funding instruments was as follows:
• the syndicated loan was drawn for amounts of €77 million and US$ 152 million;
• the market-based contracts amounted to €15 million and US$ 15.5 million;
• the bilateral loans and BPI and EIB financing amounted to €80.5 million and US$ 90 million.

These funding instruments include a financial covenant compliance clause that requires the borrower to adhere to the following financial ratio based on the consolidated accounts and reflecting net consolidated debt[1] for the period considered on the consolidated Ebitda (Earnings before interest, taxes, depreciation and amortization)[2] for the same test period.

In the first quarter of 2018, Virbac applied for a waiver to have the financial covenant compliance clause relaxed for 2018. This request was granted by all of *Schuldschein*'s bank partners and investors.
As such, the ratio of net debt to Ebitda was expected to be below 5.0 at the end of June 2018 and below 4.25 at the end of December 2018.

As at December 31, 2018, the ratio was at 3.46, still under this waiver and under the 3.75 threshold of the initial financial covenant of the contract (initial contract whose covenant clause and related financial conditions will apply again in 2019).

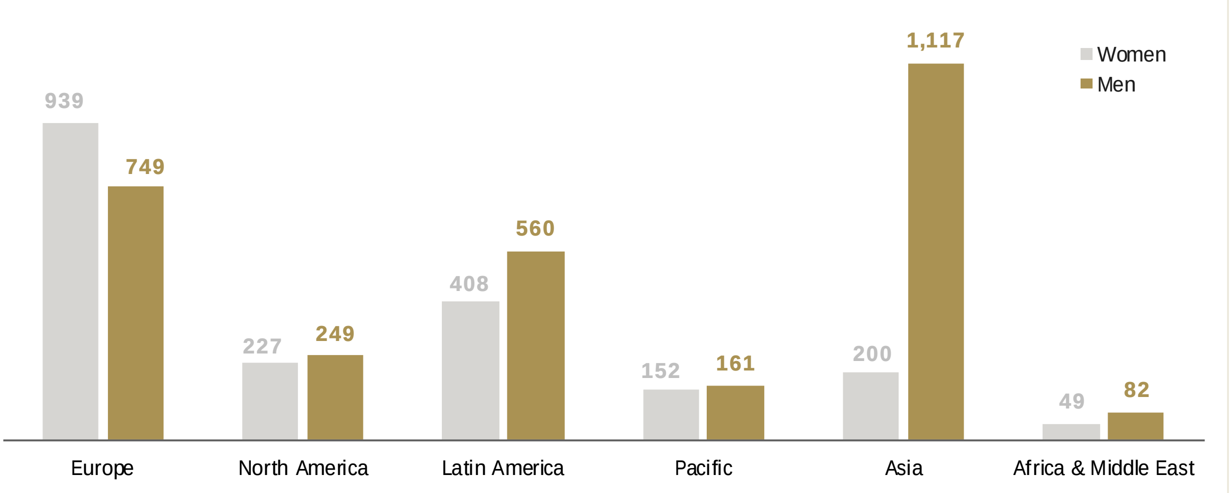
[1] Consolidated net debt refers, as defined in the contract, to the sum of other current and non-current financial liabilities, namely the following items: loans, bank loans, accrued interest liabilities, debts related to finance leases, profit sharing, interest rate and foreign exchange derivatives, 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.
[2] Consolidated Ebitda refers, as defined in the contract, to net operating income for the period under review, plus depreciations and provisions, net of reversals and dividends received from non-consolidated subsidiaries.

Group workforce

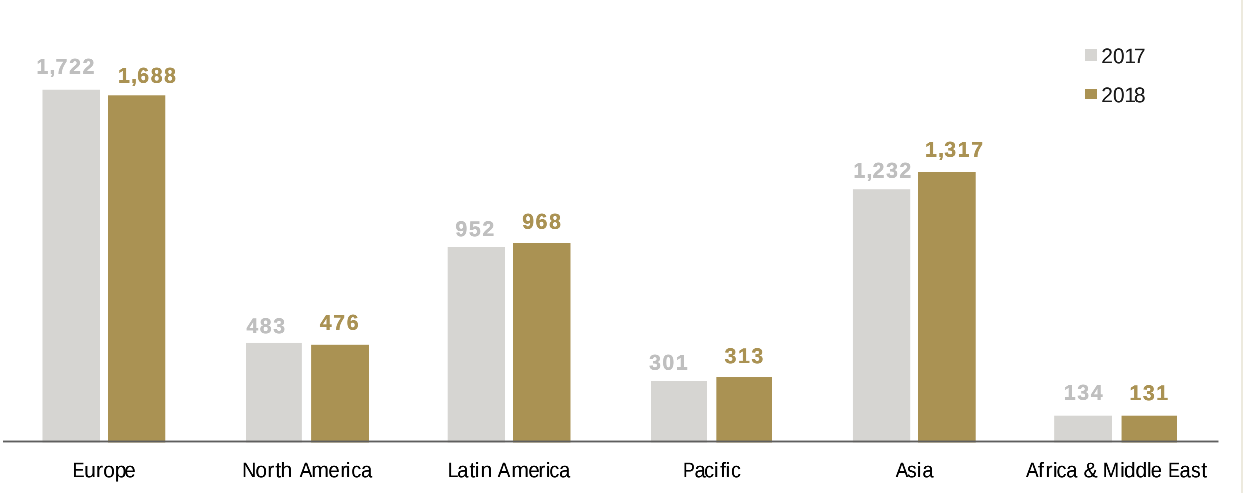
As of the end of December 2018, Virbac had 4,893 employees in 37 countries: 1,975 women (40.3%) and 2,918 men (59.7%).
34.5% of Group employees are in Europe, of which 1,339 are in France, or 27.4%.

The workforce as at December 31, 2018 is increasing by 1.4% compared with that of December 31, 2017.

Breakdown of Group employees by type



Changes in Group employee numbers by region



Changes to employee numbers by function

	2018		2017	
Production	1,748	35.7%	1,772	36.7%
Administration	582	11.9%	584	12.1%
Commercial & marketing	2,047	41.8%	2,019	41.9%
Research & development	516	10.5%	449	9.3%
Total	**4,893**	**100.0%**	**4,824**	**100.0%**

ANALYSIS OF THE ACCOUNTS OF THE PARENT COMPANY

Statutory accounts

Revenue for Virbac's parent company amounts to €266.5 million as at December 31, 2018 compared to €264.2 million in 2017, an increase of €2.3 million (0.9%).
The share of the revenue achieved by Virbac with the Group's subsidiaries accounted for 91.2% of its total sales. The remaining 8.8% involved direct sales by Virbac in countries where the company does not have a subsidiary.
In 2018, growth is driven by companion animals products, especially the specialty range with Suprelorin, Zoletil and Zenifel, and the internal parasiticides with Milpro. The production animals sector is slightly decreasing, the good performance of the bovine vaccines with Bovigen Scour being offset by difficulties in antibiotics due to strengthening of certain European regulations.

As at December 31, 2018, the financial result is down €1.8 million (-5.2%) compared to 2017. This change is due to a decrease by €3.4 million of dividends received and by €5.3 million in the revenue from receivables. Gains on operations and provision for foreign exchange losses have increased by €4.7 million. Interest expenses on loans and credit lines reduced by €2.8 million. In 2018, participating interests linked to the transfer of the logistics center in Wissous were impaired for €0.5 million, as well as marketable securities for €0.2 million.

The non-current result posts a loss of €1.2 million, increasing by €1.1 million compared to the 2017 financial year. In 2018, disposal gains of around €5 million were accounted for at the time of the sale of the Wissous distribution site, and provisions on various risks and charges impacted the results for a global amount of €5.5 million.
Regulated provisions also impact the non-current result for a net allowance (expense) of €1.5 million.

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

in €	2014	2015	2016	2017	2018
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	262,986,936	271,890,991	256,691,480	264,200,946	266,519,766
Earnings before tax, employee profit sharing, depreciations and provisions	53,827,212	51,424,402	61,235,284	44,522,664	53,987,017
Income tax payable	-7,886,956	-7,301,645	-7,932,626	-9,688,591	-8,872,185
employee profit sharing	-	-	-	-	-
Allowances for depreciations and provisions	13,511,112	19,462,111	21,490,116	19,676,178	26,662,243
Earnings after tax, employee profit sharing, depreciations and provisions	48,203,056	39,263,936	47,677,793	34,535,077	36,196,959
Earnings distributed	16,070,200	-	-	-	-
Result from operations per share					
Earnings after tax, employee profit sharing, before depreciations and provisions	7.30	4.87	8.18	6.41	7.43
Earnings after tax, employee profit sharing, depreciations and provisions	5.70	4.64	5.64	4.08	4.28
Dividend per share	1.90	-	-	-	-
Personnel					
Average number of employees	1,095	1,176	1,178	1,170	1,138
Total payroll	52,055,870	53,445,252	57,130,754	58,060,578	58,794,511
Total benefits paid (social security, other employee benefits, etc.)	25,254,103	25,317,677	27,095,012	27,353,031	27,583,283

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

As at December 31, 2018

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	3,495	-	-	-	-	275
Amount excluding tax of related invoices	15,585,206	716,102	48,205	-20,914	-28,434	714,959
Ratio of total purchases (excluding tax) for the period	6.8%	0.3%	0.0%	0.0%	0.0%	0.3%
[B] Excluded invoices from [A] linked to contentious or non booked payables						
Number of excluded invoices	154					
Total amount of excluded invoices	767,749					
[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 : -					

As at December 31, 2017

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 total purchases (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

As at December 31, 2018

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	1,005	-	-	-	-	184
Amount excluding tax of related invoices	46,121,477	1,671,348	829,905	40,304	7,402,932	9,944,489
Ratio of total sales (excluding tax) for the period	16.3%	0.6%	0.3%	0.0%	2.6%	3.5%
[B] Excluded invoices from [A] linked to contentious or non booked receivables						
Number of excluded invoices	0					
Total amount of excluded invoices	0					
[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 : -					

As at December 31, 2017

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 total sales (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 : -					

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 12, 2019.

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 153 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 France committee, 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 report on corporate governance (pages 80 to 90), 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. 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:

- Global Business Operations department;
- Corporate Financial Affairs department;
- Corporate development department;
- 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;
- area directors: Europe, North America, Latin America, the APISA area (Asia-Pacific-India-South Africa), and the director of the Aquaculture division;

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.

France committee

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

- Global Business Operations department;
- Corporate Financial Affairs department;
- Corporate Human Resources;
- French Industrial Operations department;
- Global Industrial Operations & Corporate Quality Assurance department;
- Corporate Communications department;
- Group Information Systems department;
- Virbac France;
- Group Pharmaceutical R&D department;
- Group Biology R&D department;
- Corporate Sourcing;
- Group Legal department;
- Creations and Regulatory Affairs department.

The France 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 57 and 58 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. 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 60 *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 France 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 affiliates. 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 93.
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 France 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 pages 54-55 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 page 55 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 56 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 2018, 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 2018, 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, four years ago the Group began a strategic project aimed at securing the major projects within the Group.
This project continued throughout 2018 and will continue in 2019, 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 29 *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 page 23 of the statement on extra-financial performance:

- 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 29 *et seq.* of the statement on extra-financial performance.

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).
For 2018 and to give itself more flexibility, Virbac applied for and obtained relaxation in the financial covenant compliance clause from its banking partners. It had to be below 5.0 at the end of June 2018 and below 4.25 at the end of December 2018.
The financial ratio calculated as of December 31, 2018 was 3.46, thus complying with the covenant. It should be noted that, as from 2019, the covenant clause of the original contract and the associated financial conditions will apply. Consequently the ratio will have to be below 3.75 at the end of December and below 4.25 at the end of June of every year.
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 A31 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.

STATEMENT ON EXTRA-FINANCIAL PERFORMANCE

Following the transposition into French law of the European Directive 2014/95/EU of October 22, 2014 on the publication of extra-financial information (by ordinance 2017-1180 of July 19, 2017 and decree 2017-1265 of August 9, 2017), Virbac publishes the first statement on extra-financial performance (pages 9 to 35 of the annual report). This statement presents the Group's values and rules of conduct in the social and societal fields, human rights, the fight against corruption and tax evasion, and the environment.

2019 OUTLOOK

Revenue at constant rates in 2019 should be posting a growth of 4 to 6% compared to 2018.

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 one point compared with 2018.

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 at constant rates. Moreover, the financial covenants (net debt/Ebitda) for 2019 will return to the initial commitment levels of 4.25 at the end of June and 3.75 at the end of December.

PROVISIONAL TIMETABLE FOR FINANCIAL COMMUNICATION

The provisional timetable for 2019 is as follows:

- January 17, 2019 after the close of trading: communication of 2018 annual revenue;
- March 18, 2019 after the close of trading: communication of 2018 annual profit;
- April 11, 2019 after the close of trading: communication of revenue for the first quarter of 2019;
- June 18, 2019: annual shareholders' meeting;
- July 16, 2019 after the close of trading: communication of revenues for the second quarter of 2019;
- September 16, 2019 after the close of trading: communication of the profits of the first half of 2019;
- October 11, 2019 after the close of trading: communication of revenues for the third quarter of 2019;
- January 16, 2019 after the close of trading: communication of 2019 annual revenue.

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

As at December 31, 2018

in € thousand	Deloitte					Novances - David & Associés Nexia network				
	Audit		Network		Total	Audit		Network		Total
Issuer	141.2	100%	-	-%	**141.2**	52.9	100%	-	-%	**52.9**
Consolidated subsidiaries	-	-%	773.3	100%	**773.3**	-	-%	22.7	100%	**22.7**
Audit and limited review of the individual and consolidated accounts	**141.2**	**79%**	**773.3**	**94%**	**914.5**	**52.9**	**100%**	**22.7**	**100%**	**75.6**
Issuer	36.6	100%	-	-%	**36.6**	-	-%	-	-%	**-**
Consolidated subsidiaries	-	-%	45.8	100%	**45.8**	-	-%	-	-%	**-**
Other services	**36.6**	**21%**	**45.8**	**6%**	**82.4**	**-**	**-%**	**-**	**-%**	**-**
Total fees	**177.8**	**100%**	**819.1**	**100%**	**996.9**	**52.9**	**100%**	**22.7**	**100%**	**75.6**

As at 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**

The services other than the certification of the accounts provided by the statutory auditors to the issuer, consolidating entity, and to its affiliates correspond to the following elements:

- certificate relating to the statement on extra-financial performance,
- certificates relating to the calculation of the financial ratio (banking covenants).

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 12, 2019.
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 75-76 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 consists of seven members, including one employee representative. Three of the members of the supervisory board are independent, i.e. Philippe Capron, the company OJB Conseil, represented by Olivier Bohuon, and the company Galix Conseils, represented by Grita Loebsack.

At its meeting on March 12, 2019, 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, or 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 a statutory 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 length of tenure 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;
- · 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 addition, 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 had a direct or indirect business relationship with the company or the Group and, in particular, that none of the aforementioned members was 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 that the aforementioned three members of the supervisory board meet all the independence criteria of the Afep- Medef Code, with the exception of that of length of tenure, but decided not to retain the length of tenure criterion of more than twelve years as this criterion would automatically mean the loss of independence of Philippe Capron, and thus confirmed the independence of the three aforementioned members.

The supervisory board is gender-balanced and made up of three women, including the chairwoman, and three men. Since October 20, 2018, the supervisory board has also included an employee representative, who is a female. The members of the supervisory board have a variety of skills related to their professional experience. Its members are aged between 25 and 60. Six 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 77-78 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 courier, as early as possible prior to the meeting. Supervisory board meetings are generally held at Virbac's head office.
Discussions are chaired 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 five times. All supervisory board members attended all of the board meetings, with the exception of Philippe Capron, who attended four meetings. Supervisory board members also met informally several times during the year for informal work and discussion sessions. During these supervisory board 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 internal bylaws and operating procedures

At its March 13, 2009 meeting, the supervisory board approved its internal bylaws 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 bylaws 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 2018, 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 met three times during 2018.
All the members of the compensation committee attended these meetings.

At these meetings, the topics covered were:

- review of executive board member performance in 2017 in relation to their variable compensation;
- 2018 compensation of executive board members;
- review of compensation paid to the Group's key management.
- review of the free share plan introduced in 2018;
- defined benefit pension plan.

Audit committee

The audit committee, chaired by Philippe Capron, an independent member of the supervisory board, met four times during 2018 with the chairman of the executive board, the chief financial officer and, when necessary, with 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 developed 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 2018, the audit committee examined the 2017 annual financial statements and the 2018 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 meeting 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 2018, the executive board held nine 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 dividends, 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 line with the law, the entitlement of shareholders to attend shareholders' meetings in person, by proxy or by mail 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.

Organization and representation of women and men on leadership committees

The strategic committee

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

- Global Business Operations department;
- Corporate Financial Affairs department;
- Corporate development department;
- 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;
- area directors: Europe, North America, Latin America, the APISA area (Asia-Pacific-India-South Africa), and the director of the Aquaculture division;

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.

The strategic committee consists of 3 women and 14 men.

The France committee

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

- Global Business Operations department;
- Corporate Financial Affairs department;
- Corporate Human Resources;
- French Industrial Operations department;
- Global Industrial Operations & Corporate Quality Assurance department;
- Corporate Communications department;
- Group Information Systems department;
- Virbac France;
- Group Pharmaceutical R&D department;
- Group Biology R&D department;
- Corporate Sourcing;
- Group Legal department;
- Creations and Regulatory Affairs department.

The France 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.

The France committee consists of 4 women and 11 men.

For several years, the company has been leaning towards increasing the proportion of female representation on its committees, including by helping female executives rise to positions of responsibility in the company and, in particular, by putting them in charge of departments when directors change or departments undergo restructuring.

At its meeting on September 11, 2018, the supervisory board held that an improvement could be made to the percentage of women sitting on the French committee and in positions in charge of product innovations.

In France, the percentage of women in 10% of positions of responsibility is at 31.5%. The company is aware of the need to improve the level of female representation in 10% of positions with greater responsibility; this is a major challenge in the years ahead.

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 71
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 70
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 72
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 71
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 80

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 81
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 83
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 83
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. At the supervisory board meeting on March 12, 2019, a decision was made to rescind the defined benefit pension plan effective December 31, 2019. Only those members of the executive board nearing the age of retirement (aged 50 years or older as of 12.31.2019) will keep their residual rights under this plan.	page 82

GOVERNING, MANAGEMENT AND MONITORING BODIES

Supervisory board

The supervisory board consists of seven members, including one employee representative, in addition to three independent members: Philippe Capron, the company OJB Conseil, represented by 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 54, 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, 2018: 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 meeting 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: 2021.
Aged 58, 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 Developpement, 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, 2018: 110.

Solène Madelpuech
A member of Virbac's supervisory board, appointed by decision (cooptation) of the supervisory board meeting of September 5, 2017, as a replacement of Jeanine Dick, who resigned.
Current term ends: 2020.
French.
25 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, 2018: 10.

Philippe Capron
Member of Virbac's supervisory board.
French.
Date of first appointment: 2004.
Current term ends: 2019.
Aged 60 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. Since 2018, Philippe Capron has acted as a Partner in the business bank Perella Weinberg Partners France S.A.S.
Other positions held:

- director of the Econocom Group SA/NV (Belgium).

Number of shares held as of December 31, 2018: 442.

Olivier Bohuon
Permanent representative of the company OJB Conseil, the company was appointed by decision (cooptation) of the supervisory board meeting of December 14, 2018 following the resignation of Olivier Bohuon.
Member of Virbac's supervisory board until December 14, 2018, the date of his resignation.
French.
Date of first appointment: 2011.
Current term ends: 2020.
Aged 59, 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:

- chairman of the company OJB Conseil SAS (France);
- director of the Shire PLC company (Ireland);
- director of the Smiths Group company (United Kingdom);
- director of the Biotech Promise SCA SICAV-SIF company (Luxembourg);
- Vice-president of the Leo Pharma company (Denmark).

Number of shares held by the company OJB Conseil as of December 31, 2018: 0.

Grita Loebsack
Permanent representative of Galix Conseils, the company was appointed by decision (cooptation) of the supervisory board meeting of December 20, 2017 following the resignation of Grita Loebsack.
Member of Virbac's supervisory board until December 20, 2017, the date of her resignation.
German.
Date of first appointment: 2014.
Current term ends: 2021
Aged 48, with a London School of Economics degree and an MBA from INSEAD. Since 2018, Grita Loebsack has acted in the capacity of Marketing Director at Essilor International, SA.
Other positions held:

- president of the company Galix Conseils SAS (France).

Number of shares held by the company Galix Conseils as of December 31, 2018: 20.

Sylvie Gueguen
Employee representative sitting on the supervisory board since October 30, 2018.
French.
Current term ends: 2021
Aged 54.
Director of Virbac's preclinical and clinical biological product development department
Other positions held: none.
Number of shares held as of December 31, 2018: 0.

NON-VOTING ADVISOR

The company Xavier Yon Consulting Unipessoal Lda, non-voting advisor, appointed by decision (cooptation) of the supervisory board meeting 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, 78 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: 2019.

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

Sébastien Huron
Chairman of Virbac's executive board since December 20, 2017.
Aged 48, a veterinarian, Sébastien Huron joined the Virbac Group in 2006. He has been a member of the executive board since December 2012.
Other positions held:
- 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);
- chairman of Virbac Hellas S.A. (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, 2018: 9,376

Christian Karst
Member of the executive board of Virbac.
Aged 60, 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 the société civile immobilière (non-trading property investment company) Karst (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, 2018: 5,825.

Habib Ramdani
Member of the executive board of Virbac.
Aged 43, 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 terms performed at subsidiaries of Virbac:
- director of the Asia Pharma Limited company (Hong Kong);
- chairman of Interlab, SAS (France);
- permanent representative of Virbac, director of Virbac Chile Spa (Chile);
- permanent representative of Virbac, director of Virbac Patagonia Limitada (Chile)
- director of Virbac Corporation (United States).

Current term ends: December 2020.
Number of shares held as of December 31, 2018: none

Jean-Pierre Dick
Member of the executive board of Virbac.
Aged 53, 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 the société civile immobilière Terre Du Large (France), a non-trading 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, 2018: 880.

COMPENSATION OF THE MEMBERS OF THE SUPERVISORY BOARD AND THE NON-VOTING ADVISOR IN RESPECT OF FINANCIAL YEAR 2018

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 75-76 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 law no. 2016-1691 of December 9, 2016, the elements 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.

	Amount due in respect of 2018		Amount due in respect of 2017	
in €	Compensation	Directors' fees	Compensation	Directors' fees
Marie-Hélène Dick	€95,000	€21,000	€95,000	€21,000
Jeanine Dick	-	-	-	€4,000
Pierre Madelpuech	-	€21,000	-	€6,000
Philippe Capron	-	€24,000	-	€24,000
Olivier Bohuon	-	€21,000	-	€21,000
Company Asergi	-	-	-	€6,000
Company Galix Conseils represented by Grita Loebsack	-	€21,000	-	€21,000
Solène Madelpuech	-	€21,000	-	€17,000
Non-voting advisor, company Xavier Yon Consulting Unipessoal Lda represented by Xavier Yon	-	€21,000	-	€21,000
Total	**€95,000**	**€150,000**	**€95,000**	**€141,000**

COMPENSATION OF THE MEMBERS OF THE EXECUTIVE BOARD IN RESPECT OF FINANCIAL YEAR 2018

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 no. 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 adheres to 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 that, when they exist, suggest 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 for a given financial year shall be based on the achievement of the financial year objectives to be defined by the supervisory board meeting that is held each year in March of that financial 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 voted on at 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 result 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 75-76 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 all 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 the 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;
- ended 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 stipulates 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 meeting 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 rights vested for the year 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 financial year in question.

The shareholders' meeting of June 20, 2018 renewed, for each member of the executive board, the commitments relating to the defined benefit pension plan, taken up in their favor by the company for the year 2018.

At its meeting on March 12, 2019, the supervisory board decided to terminate the defined benefit pension plan effective December 31, 2019. So as not to penalize those executive board members who are close to retirement, the supervisory board decided, for the sake of current potential beneficiaries who would have reached the age of 50 by December 31, 2019, the termination date of the plan, to maintain rights for their benefit on an adjusted basis. In this context, rights amounting to 10.5% of the reference salary of a beneficiary retiring at age 65 would continue for their sole benefit after termination of the plan, provided they meet the conditions set out in the internal bylaws currently in effect.

Accordingly:

- given that Christian Karst already meets some of the conditions set out in this plan (including the fact that he is reaching the age of 60, the seniority conditions in the company and as a member of the executive board),

this plan could be activated in the event of death prior to December 31, 2019 with the reversion of rights to which his widow would be entitled.
Furthermore, and due to his age, he would also be entitled to rights that will continue beyond the termination of the plan.

- Jean-Pierre Dick, who has already reached the age of 50, will enjoy residual rights that continue beyond the termination of the plan.

- for the other executive board members, Sébastien Huron and Habib Ramdani, failure to meet the conditions required to benefit from the plan in 2019, as well as the fact that neither of them will have reached the age of 50 by December 31, 2019, already rules out any possibility that one day they may become beneficiaries of the plan.

A specific resolution for Christian Karst and Jean-Pierre Dick will be presented at the next shareholders' meeting in order to renew, until the end of their current term, the defined benefit pension commitment made in their favor, after taking into consideration, as of January 1, 2020, the amendments resulting from the termination of this plan (see above).

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 granted to the new chairman of the executive board and 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 is noted 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 severance pay 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%).

The shareholders' meeting of June 20, 2018 renewed, for each beneficiary, the commitments made by the company for their benefit in the event of termination of their office.

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 payment is planned.

The shareholders' meeting of June 20, 2018 approved this non-competition commitment in the event of departure.

A summary table on pages 75-76 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.

Fourteenth resolution

Remuneration policy for members of the supervisory board: approval of the principles and criteria for determining, distributing and allocating the elements comprising 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 attributable, due to their mandates, to the members of the supervisory board.

Fifteenth 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

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 and attributable, due to their mandates, to the members of the executive board.

These draft resolutions will also be included in the explanatory statement and draft resolutions, pages 196 to 208 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 the 2018 financial year

in €	Compensation due in respect of 2018	Value of stock options granted in 2018	Value of stock grants awarded for 2018[1]	Total compensation
Sébastien Huron	€528,031	-	€190,720	**€718,751**
Christian Karst	€460,082	-	€143,040	**€603,122**
Habib Ramdani	€281,028	-	€119,200	**€400,228**
Jean-Pierre Dick	€18,840	-	-	**€18,840**
Total	**€1,287,981**	**-**	**€452,960**	**€1,740,941**

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

Summary of the gross amounts due for the 2017 financial year

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**

Gross compensation Sébastien Huron

in €	Financial year 2018		Financial year 2017	
	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	€325,000	€365,726	€265,000	€265,000
Variable compensation	€166,250	€18,125	€18,125	€46,575
Extraordinary compensation	-	-	-	-
Directors' fees	€25,000	€25,000	€25,000	€25,000
Benefits in kind	€11,781	€11,781	€2,580	€2,580
Total	**€528,031**	**€420,632**	**€310,705**	**€339,155**

Calculation criteria for the variable portion

For the financial year 2018, the allocation criteria for the variable portion of Sébastien Huron's compensation was determined as follows:

- criterion based on the Group revenues, amounting to 40% of the target variable portion;
- criterion based on the Adjusted EBIT before RDL, amounting to 45% of the target variable portion;
- criterion based on inventory levels, amounting to 5% of the target variable portion;
- criterion based on the Group's level of debt relief, amounting to 5% of the target variable portion;
- criterion based on the North American revenues, amounting to 5% of the target variable portion.

For the financial year 2018, 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): 50.0%

For the 2018 financial year, Sébastien Huron should be paid the following variable compensation: €166,250, representing 47.5% 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

For the 2018 year, 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 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 financial 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.

At its meeting on March 12, 2019, the supervisory board decided to terminate the defined benefit pension plan effective December 31, 2019. So as not to penalize those executive board members who are close to retirement, the supervisory board decided, for the sake of current potential beneficiaries who would have reached the age of 50 by December 31, 2019, the termination date of the plan, to maintain rights for their benefit on an adjusted basis. In this context, rights amounting to 10.5% of the reference salary of a beneficiary retiring at age 65 would continue for their sole benefit after termination of the plan, provided they meet the conditions set out in the internal bylaws currently in effect.

Accordingly, given the fact Sébastien Huron does not meet the conditions required to benefit from the plan in 2019, as well as the fact that he will not have reached the age of 50 by December 31, 2019, any possibility that one day he may become a beneficiary of the plan is already ruled out.

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 last two fiscal half-years ended (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 last two fiscal half-years ended but higher than or equal to 4% on average for the last four fiscal half-years 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 half-years ended (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 hold any corporate office or otherwise exercise any activity in any group or company directly or indirectly engaging in research, development, manufacturing 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 fixed gross monthly compensation received for the company's last financial 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.

Gross compensation Christian Karst

in €	Financial year 2018		Financial year 2017	
	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	€147,250	€19,375	€19,375	€57,200
Extraordinary compensation	-	-	-	-
Directors' fees	€45,000	€45,000	€45,000	€45,000
Benefits in kind	€2,832	€2,832	€2,832	€2,832
Total	**€460,082**	**€332,207**	**€332,207**	**€370,032**

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:
- criterion based on the Group revenues, amounting to 40% of the target variable portion;
- criterion based on the Adjusted EBIT before RDL, amounting to 45% of the target variable portion;
- criterion based on inventory levels, amounting to 5% of the target variable portion;
- criterion based on the Group's level of debt relief, amounting to 5% of the target variable portion;
- criterion based on the North American revenues, amounting to 5% of the target variable portion.

For the financial year 2018, 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): 50.0%.

For the financial year 2018, Christian Karst should be paid the following variable compensation: €147,250, representing 47.5% 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

For the year 2018, 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 financial 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.

At its meeting on March 12, 2019, the supervisory board decided to terminate the defined benefit pension plan effective December 31, 2019. So as not to penalize those executive board members who are close to retirement, the supervisory board decided, for the sake of current potential beneficiaries who would have reached the age of 50 by December 31, 2019, the termination date of the plan, to maintain rights for their benefit on an adjusted basis. In this context, rights amounting to 10.5% of the reference salary of a beneficiary retiring at age 65 would continue for their sole benefit after termination of the plan, provided they meet the conditions set out in the internal bylaws currently in effect.

Given that Christian Karst already meets some of the conditions set out in this plan (including the fact that he is reaching the age of 60, the seniority conditions in the company and as a member of the executive board), this plan could be activated in the event of death prior to December 31, 2019 with the reversion of rights to which his widow would be entitled.

Furthermore, and due to his age, he would also be entitled to rights that will be maintained beyond the termination of the plan.

A specific resolution for Christian Karst will be presented at the next shareholders' meeting in order to renew, until the end of his current term, the defined benefit pension commitment made in his favor, after taking into consideration, as of January 1, 2020, the amendments resulting from the termination of this plan.

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 last two fiscal half-years closed preceding the departure of the officer.

Gross compensation Habib Ramdani

	Financial year 2018		Financial year 2017	
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	€203,000	€203,000
Variable compensation	€77,140	€7,613	€7,613	€38,700
Extraordinary compensation	-	-	-	-
Directors' fees	-	-	-	-
Benefits in kind	€888	€888	€888	€888
Total	**€281,028**	**€211,501**	**€211,501**	**€242,588**

Calculation criteria for the variable portion

For the financial year 2018, the allocation criteria for the variable portion of the compensation of Habib Ramdani were determined as follows:

- criterion based on the Group revenues, amounting to 40% of the target variable portion;
- criterion based on the Adjusted EBIT before RDL, amounting to 45% of the target variable portion;
- criterion based on inventory levels, amounting to 5% of the target variable portion;
- criterion based on the Group's level of debt relief, amounting to 5% of the target variable portion;
- criterion based on the North American revenues, amounting to 5% of the target variable portion.

In respect of the financial year 2018, the maximum potential variable portion of Habib Ramdani's compensation accounted for, as a percentage of his fixed compensation: 40.0%.

For the financial year 2018, Habib Ramdani should be paid the following variable compensation: €77,140, accounting for 38.0% 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

For the 2018 year, 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 financial 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.

At its meeting on March 12, 2019, the supervisory board decided to terminate the defined benefit pension plan effective December 31, 2019. So as not to penalize those executive board members who are close to retirement, the supervisory board decided, for the sake of current potential beneficiaries who would have reached the age of 50 by December 31, 2019, the termination date of the plan, to maintain rights for their benefit on an adjusted basis. In this context, rights amounting to 10.5% of the reference salary of a beneficiary retiring at age 65 would continue for their sole benefit after termination of the plan, provided they meet the conditions set out in the internal bylaws currently in effect.

Accordingly, given the fact Habib Ramdani does not meet the conditions required to benefit from the plan in 2019, as well as the fact that he will not have reached the age of 50 by December 31, 2019, any possibility that one day he may become a beneficiary of the plan is already ruled out.

Gross compensation Jean-Pierre Dick

	Financial year 2018		Financial year 2017	
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	€18,000	€18,000	€41,000	€41,000
Variable compensation	-	-	-	€13,773
Extraordinary compensation	-	-	-	-
Directors' fees	-	-	-	-
Benefits in kind	€840	€840	€840	€840
Total	**€18,840**	**€18,840**	**€41,840**	**€55,613**

There is no criterion bringing about change to Jean-Pierre Dick's variable portion.

Supplementary pension plan
For the year 2018, 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 financial 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.

At its meeting on March 12, 2019, the supervisory board decided to terminate the defined benefit pension plan effective December 31, 2019. So as not to penalize those executive board members who are close to retirement, the supervisory board decided, for the sake of current potential beneficiaries who would have reached the age of 50 by December 31, 2019, the termination date of the plan, to maintain rights for their benefit on an adjusted basis. In this context, rights amounting to 10.5% of the reference salary of a beneficiary retiring at age 65 would continue for their sole benefit after termination of the plan, provided they meet the conditions set out in the internal bylaws currently in effect.

Given that Jean-Pierre Dick has already reached the age of 50, he will be entitled to rights that continue beyond the termination of the plan.
A specific resolution for Jean-Pierre Dick will be presented at the next shareholders' meeting in order to renew, until the end of his current term, the defined benefit pension commitment made in his favor, after taking into consideration, as of January 1, 2020, the amendments resulting from the termination of this plan.

Shares subscription or purchase options

The company has no shares subscription or purchase options plan.

Performance-related stock grants

Allocated performance-related stock grants

It should be noted that:

- throughout the 2014, 2015 and 2017 financial years, no performance-related stock grants were allocated;
- throughout the last five financial years, no performance-related stock grants were allocated;

In regards to the 2016 performance-related stock grants plan, the executive board deemed during 2018 that the performance indicator objectives, which had been extended to December 31, 2019, would not be attainable, given the financial projections for this new horizon. The Group has taken this observation under advisement, and the expense recognized for the 2016 plan over the past few financial years now appears in the 2018 financial year.

Performance-related stock grants plan awarded to executive board members

The table below, based on a five-year history (2014 to 2018), presents the only plan in effect as of December 31, 2018: 2018 plan granted as of July 20, 2018.

	Number of stock options granted	Value of stock grants[1]	Acquisition date[2]	Availability date[3]
Sébastien Huron	€1,600	€190,720	2022	2024
Christian Karst	€1,200	€143,040	2022	2024
Habib Ramdani	€1,000	€119,200	2022	2024
Total	**€3,800**	**€452,960**		

[1] Based on the method used for the consolidated accounts
[2] Potential to acquire 50% as early as 2021.
[3] The retention period is 2 years, which involves an availability date in 2024 (or 2023 for shares potentially acquired in 2021).

The June 20, 2018 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% 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 at 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.

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[1]	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
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

At its meeting on March 12, 2019, the supervisory board decided to terminate the defined benefit pension plan effective December 31, 2019 (pages 82-83 of the report).

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

	Number of shares	Cumulated amount of transactions
Sébastien Huron	9,106	€1,104,461
Christian Karst	-	-
Habib Ramdani	-	-
Jean-Pierre Dick	-	-
Achats	**9,106**	**€1,104,461**
Sébastien Huron	675	€95,175
Christian Karst	-	-
Habib Ramdani	-	-
Jean-Pierre Dick	-	
Ventes	**675**	**€95,175**

By members of the supervisory board and related parties

No movements were declared in 2018.

SHARE CAPITAL STRUCTURE

As of December 31, 2018

	Shares	Voting rights	Capital	Voting rights
Dick family group	4,201,066	8,402,032	49.67%	65.83%
Company savings plan	66,338	132,676	0.78%	1.04%
Public	4,154,646	4,229,308	49.12%	33.13%
Treasury shares	35,950	-	0.43%	-
Total	**8,458,000**	**12,764,016**	**100.00%**	**100.00%**

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%**

Delegation granted by the shareholders' meeting concerning capital increases

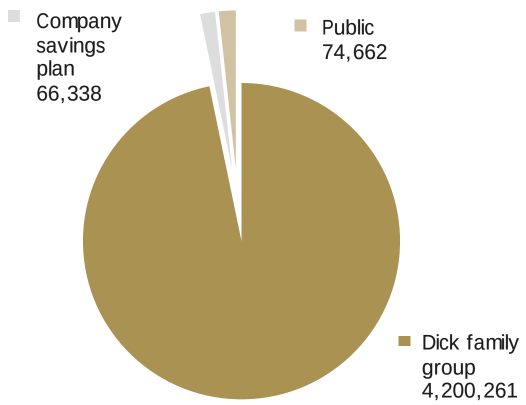
There is no delegation of authority granted by the shareholders' meeting in the area of capital increases; the company did not experience any capital increase.

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 (35,950 shares) 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 February 20, 2019, La Financière de L'Echiquier exceeded the 2% threshold of Virbac's share capital. As of that date, it owned 173,399 shares, or 2.0501% of the total number of shares and 1.3548% of the voting rights.

STOCK MARKET DATA

in €	2014	2015	2016	2017	2018
Highest share price	€184.10	€257.95	€223.80	€177.30	€150.80
Lowest share price	€139.90	€153.60	€127.00	€102.10	€103.00
Average share price	€166.44	€205.43	€162.29	€141.43	€126.18
Closing share price	€174.30	€219.80	€167.20	€123.50	€113.80

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 interim 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 94,030 Virbac shares, representing a share capital of 1.11%, which were held through an employee savings plan and registered performance-related stock grants as of December 31, 2018.

Relations with individual investors

The virbac.com corporate website has a financial information section that is regularly updated. It allows Group financial information to be obtained and downloaded: press releases, annual and interim 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 all of the information required by the directive.

Relations with institutional investors

Managers 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, 2018 to the supervisory board, which duly acquainted itself therewith.

In 2018, the Group registered consolidated revenue of €868.9 million, up 0.8% and 4.5% at actual and constant exchange rates respectively.

The adjusted operating profit from ordinary activities (restated to reflect the impact of the allowance for depreciations of intangible assets resulting from acquisition transactions) increased by 9.6% compared with the previous financial year, rising from €80.3 million at the end of 2017 to €88.1 million as of December 31, 2018. Outside of Chile, all of the regions make a positive contribution to the Group's operating profit, especially the United States, Asia, India, Mexico and the Pacific region. Exchange rates had a negative impact of €7.1 million on the operating profit from ordinary activities before depreciation of intangible assets arising from acquisitions.

The net profit - Group share amounted to €20.1 million in 2018 compared to a loss of €-2.6 million the previous year, for an increase of €22.7 million based on actual rates.

The Group's net debt as of December 31, 2018 decreased to €426.1 million, i.e. 92.6% of the equity attributable to the parent company's owners.

The share price, closing at €113.8 at the end of 2018, was down 7.9% from January 1, 2018.

At the shareholders' meeting, a proposal will be made not to distribute a dividend for the financial year 2018. The willingness to re-balance the financial position by reducing debt accounts for the absence of a dividend payment for 2018.

The supervisory board consists of seven members, including one employee representative. Three of the members are independent members, and the board has a 50% female representation rate.

The 2018 year marked the Group's 50th anniversary, celebrated at events attended by up to more than 3,000 people from headquarters and subsidiaries around the world.

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	2018	2017 *
Goodwill	A1-A3	309,711	303,048
Intangible assets	A2-A3	295,016	314,297
Tangible assets	A4	236,685	238,848
Other financial assets	A5	10,771	9,825
Share in companies accounted for by the equity method	A6	3,140	3,161
Deferred tax assets *	A7	9,936	7,530
Non-current assets		**865,259**	**876,709**
Inventories and work in progress	A8	195,776	184,758
Trade receivables *	A9	101,507	112,947
Other financial assets	A5	768	1,441
Other receivables	A10	46,686	53,079
Cash and cash equivalents	A11	62,810	48,378
Assets classified as held for sale	A12	-	-
Current assets		**407,549**	**400,603**
Assets		**1,272,807**	**1,277,311**
Share capital		10,573	10,573
Reserves attributable to the owners of the parent company *		449,735	425,755
Equity attributable to the owners of the parent company	A13	**460,307**	**436,327**
Non-controlling interests *		35,567	42,496
Equity		**495,875**	**478,824**
Deferred tax liabilities	A7	36,423	38,989
Provisions for employee benefits	A14	20,294	17,782
Other provisions	A15	10,532	3,010
Other financial liabilities	A16	375,900	409,634
Other payables	A17	2,520	571
Non-current liabilities		**445,669**	**469,988**
Other provisions	A15	1,778	2,240
Trade payables	A18	89,572	108,733
Other financial liabilities	A16	112,995	98,756
Other payables	A17	126,919	118,771
Current liabilities		**331,265**	**328,501**
Liabilities		**1,272,807**	**1,277,311**

* The first application of IFRS 9 generated a non-material adjustment of some lines of the statement of financial position (see note A9).

Income statement

in € thousand	Notes	2018	2017	*Change*
Revenue from ordinary activities	**A19**	**868,932**	**861,882**	***0.8%***
Purchases consumed	**A20**	-294,289	-303,438	
External costs	**A21**	-179,068	-179,029	
Personnel costs		-267,255	-263,116	
Taxes and duties		-11,931	-11,992	
Depreciations and provisions	**A22**	-28,745	-26,514	
Other operating income and expenses	**A23**	432	2,549	
Current operating profit before depreciation of assets arising from acquisitions [1]		**88,076**	**80,341**	***9.6%***
Depreciations of intangible assets arising from acquisitions	**A22**	-15,043	-15,946	
Operating profit from ordinary activities		**73,033**	**64,396**	***13.4%***
Other non-current income and expenses	**A24**	-8,040	-6,348	
Operating result		**64,993**	**58,048**	***12.0%***
Financial income and expenses	**A25**	-24,104	-17,811	
Profit before tax		**40,889**	**40,237**	***1.6%***
Income tax	**A26**	-20,366	-39,243	
Including non-current tax expense		*-2,438*	*-21,379*	
Share from companies' result accounted for by the equity method		462	765	
Net result from ordinary activities [2]	**A27**	**31,463**	**29,485**	***6.7%***
Result for the period		**20,985**	**1,759**	***1093.1%***
attributable to the owners of the parent company		20,099	-2,575	*-880.6%*
attributable to the non-controlling interests		886	4,334	*-79.6%*
Profit attributable to the owners of the parent company, per share	**A28**	€2.39	-€0.31	*-880.5%*
Profit attributable to the owners of the parent company, diluted per share	**A28**	€2.39	-€0.31	*-880.5%*

[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.

Comprehensive income statement

in € thousand	2018	2017	*Change*
Result for the period	**20,985**	**1,759**	***1093.1%***
Conversion gains and losses	3,455	-34,149	
Effective portion of gains and losses on hedging instruments	-562	454	
Items subsequently reclassifiable to profit and loss (before tax)	**2,892**	**-33,695**	***-108.6%***
Actuarial gains and losses	-459	-165	
Items not subsequently reclassifiable to profit and loss (before tax)	**-459**	**-165**	***177.7%***
Other items of comprehensive income (before tax)	**2,433**	**-33,860**	***-107.2%***
Tax on items subsequently reclassifiable to profit and loss	194	-160	
Tax on items not subsequently reclassifiable to profit and loss	-17	-262	
Comprehensive income	**23,595**	**-32,523**	***-172.5%***
attributable to the owners of the parent company	25,277	-34,708	*-172.8%*
attributable to the non-controlling interests	-1,682	2,184	*-177.0%*

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 12/31/2016	**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**
Restated equity as at 12/31/2017 *	**10,573**	**6,534**	**444,366**	**-22,571**	**-2,575**	**436,327**	**42,496**	**478,824**
2017 allocation of net income	-	-	-2,575	-	2,575	**-**	-	**-**
Distribution of dividends	-	-	-	-	-	**-**	-5,247	**-5,247**
Treasury shares	-	-	52	-	-	**52**	-	**52**
Changes in scope	-	-	-	-	-	**-**	-	**-**
Other variations	-	-	-1,349	-	-	**-1,349**	-	**-1,349**
Comprehensive income	-	-	-844	6,023	20,099	**25,278**	-1,682	**23,596**
Equity as at 12/31/2018	**10,573**	**6,534**	**439,650**	**-16,548**	**20,099**	**460,307**	**35,567**	**495,875**

* The first application of IFRS 9 generated a non-material adjustment on opening balance (see note A9).

The ordinary shareholders' meeting of June 20, 2018 decided not to pay a dividend for the financial year 2017.

The other changes relate to equity entries recorded in accordance with IAS 8. These changes are due partly to an error in the parameters used to calculate the defined benefit pension commitment in France (amounting to €780 thousand net of tax), and partly to a change in the accounting method used for the employer's contribution owing on payments to fund this plan (amounting to €598 thousand net of tax).

Cash position statement

in € thousand	Notes	2018	2017
Result for the period		**20,985**	**1,759**
Elimination of share from companies' profit accounted for by the equity method	A6	-462	-765
Elimination of depreciations and provisions	A14-A22	56,110	43,455
Elimination of deferred tax change	A7	-2,331	14,350
Elimination of gains and losses on disposals	A23	-1,887	208
Other income and expenses with no cash impact		-2,378	3,460
Cash flow		**70,036**	**62,467**
Effect of net change in inventories	A8	-12,639	1,041
Effect of net change in trade receivables	A9	9,633	9,986
Effect of net change in trade payables	A18	-11,163	8,416
Effect of net change in other receivables and payables	A10-A17	11,077	5,960
Effect of change in working capital requirements		**-3,092**	**25,403**
Net financial interests paid	A25	16,678	19,936
Net cash flow generated by operating activities		**83,623**	**107,806**
Acquisitions of intangible assets	A2-A18	-8,047	-6,705
Acquisitions of tangible assets	A4-A18	-25,822	-31,537
Disposals of intangible and tangible assets	A23	5,862	283
Change in financial assets	A5	1,511	-4,282
Change in debts relative to acquisitions		-1,282	-
Acquisitions of subsidiaries or activities		-	-
Disposals of subsidiaries or activities		-	-
Withholding tax on distributions		-	-
Dividends received	A6	617	-
Net cash flow allocated to investing activities		**-27,161**	**-42,241**
Dividends paid to the owners of the parent company		-	-
Dividends paid to the non-controlling interests		-4,820	-5,159
Change in treasury shares		314	-1,041
Increase/decrease of capital		-	-
Cash investments		-	-
Debt issuance	A16	67,118	239,008
Repayments of debt	A16	-90,387	-281,815
Net financial interests paid	A25	-16,678	-19,936
Net cash flow from financing activities		**-44,453**	**-68,943**
Change in cash position		**12,009**	**-3,378**

Statement of change in cash position

in € thousand	2018	2017
Cash and cash equivalents	48,378	48,454
Bank overdraft	-16,689	-9,158
Accrued interests not yet matured	-40	-36
Opening net cash position	**31,649**	**39,260**
Cash and cash equivalents	62,810	48,378
Bank overdraft	-19,173	-16,689
Accrued interests not yet matured	-49	-40
Closing net cash position	**43,588**	**31,649**
Impact of currency conversion adjustments	-68	-4,233
Impact of changes in scope	-	-
Net change in cash position	**12,009**	**-3,378**

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 2018 consolidated accounts were approved by the executive board on March 8, 2019. They will be submitted for approval to the shareholders' general meeting on June 18, 2019; 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

Restructuring exercise involving the Virbac Distribution subsidiary

At the end of April 2018, the Virbac Distribution company, based in Wissous, Île de France, sold its business goodwill to its historical provider of logistical services. This restructuring led to the closure of the site. The costs associated with this exercise, as well as proceeds from the sale of the building that housed this business, were recorded under "Other non-current income and expenses", amounting to a total of €2.5 million (see note A24).

Decision to outsource production of intramammaries

Virbac decided to close the intramammary production facility in Carros and to transfer production to an external supplier (CDMO -Contract development and manufacturing organization-). This decision and the repercussions of this restructuring were presented to employee representative bodies in September 2018.
The actual site closure will take effect as soon as the regulatory transactions related to the change of production site (change in Marketing authorization) are completed. This work was subcontracted to the CDMO and a transfer services contract was signed by Virbac in this regard. In accordance with IAS 37, Virbac set aside in its 2018 accounts a provision for all expenses the company has incurred under this restructuring exercise.
Virbac shall classify "Other non-current income and expenses" as non-recurring expenses, which result from one-time decisions or operations for an unusual amount. The costs associated with this restructuring exercise were included on this line, amounting to €4.1 million (including a provision of €3.9 million).

Extended syndicated loan

A syndicated loan of €420 million, drawn in euros and dollars, contracted with a pool of banks and repayable at maturity, with an initial maturity of April 2020, had its term extended until April 9, 2022, once the extension agreement was received by all of the lenders on March 23, 2018 (see note A16).

Developments in the dispute over trademark infringement and unfair competition

In the dispute over trademark infringement and unfair competition between Virbac and a competitor in France, a decision was rendered by the Court of Cassation on January 31, 2018, partially quashing the ruling of the Court of Appeal of Lyon dating back to May 13, 2015. In keeping with this decision, Virbac was granted in 2018 a reimbursement of the compensation the Group had paid in the amount €1,950 thousand following the ruling of the Court of Appeal of Lyon.
Given the uncertainty remaining in the wake of these proceedings, in particular over the decision that may be rendered by the Court of Appeal to which the competitor referred the matter, in addition to another court action before the Tribunal de Grande Instance de Paris (Paris High Court) concerning similar facts, albeit on a European-wide basis, a provision has been recognized (see note A15).

Significant events after the closing date

There is no significant event after the closing date.

Scope

The consolidated financial statements as of December 31, 2018 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.
On April 1, 2018, Virbac opened a distribution subsidiary in Turkey in order to boost sales in this particular market.

Accounting principles and methods applied

Compliance and basis for preparing the consolidated financial statements

The Virbac group's consolidated accounts were drawn up in line with the international accounting standards as adopted by the European Union (regulation 1606/2002 dated July 19, 2002). 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).

New standards and interpretations

Mandatory standards and interpretations effective January 1, 2018

For the presentation of the consolidated accounts for the 2018 financial year, the Group applied all standards and interpretations in force Europe-wide, applicable to financial years beginning on or after January 1, 2018. These standards and interpretations are as follows:

■ **IFRS 15. Revenue from contracts with customers**

This standard replaces IAS 18 “Revenue” 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. It changes the analyses on revenue generated by licensing contracts or the inclusion of variable income. It also includes new reporting requirements in the notes to the consolidated accounts.
The Group began its IFRS 15 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, Virbac implemented this new standard, which did not have a significant impact on the previous revenue recording practice.

■ **IFRS 9. Financial instruments**

This standard replaces IAS 39 “Financial instruments: recognition and measurement”.
IFRS 9 was structured around three main themes: classification and valuation, impairment and hedge accounting. The adoption of IFRS 9 prompted the introduction of a new credit-risk recognition model when it comes to trade receivables. This model is built on an impairment matrix for receivables that are outstanding and not yet due, based on historical default rate losses.
The Group applied the standard as of January 1, 2018 and restated the opening statement of financial position. Considering the very low default rate on Virbac's trade receivables, the implementation of the new matrix had no significant impact on the consolidated accounts as at December 31, 2018 and on the opening balance sheet, with the net impact on opening equity amounting to -€19 thousand.

■ **Amendments to IFRS 2. Share-based payment**

These amendments provided the following clarifications:

- clarification on the impact of the attendance and performance conditions in the valuation and recognition of the debt incurred from the cash-settled plans;
- clarification on the treatment of a cash-settled source deduction due on an equity-settled plan;
- clarification on the recognition of a cash-settled plan converted to an equity-settled plan.

The Group took into account these details in the treatment of these share plans. These did not have any impact on the consolidated accounts as at December 31, 2018.

- **Amendments to IFRS 4. Insurance contracts**

These amendments clarified the interaction between IFRS 4 “Insurance contracts” and IFRS 9 “Financial instruments”.
The Group has no activity that falls within the scope of this standard.

- **Amendments to IAS 40. Investment property**

These amendments provided clarification on the transfer conditions between the various share classes.
The Group has no activity that falls within the scope of this standard.

- **IFRIC 22. Foreign currency transactions and advance consideration**

The purpose of this interpretation is to define the exchange rates to be used when an early payment has been made prior to completion of the transaction.
The Group shall implement this interpretation when a situation involving an early foreign currency payment arises.

Standards and interpretations available for early adoption as of January 1, 2018, as adopted by the EU (European Union)

On the reporting date of these consolidated accounts, the following standards and interpretations were submitted by both the IASB (International accounting standards board) and the IFRS IC (IFRS Interpretations committee) and adopted by the European Union. These standards and interpretations went into effect after the fiscal years beginning on or after January 1, 2018, but were available for early adoption.

- **IFRS 16. Leases**

On January 13, 2016, the IASB (International accounting standards board) published IFRS 16 to redefine how lease contracts are recognized, measured and presented. IFRS 16 will replace IAS 17, as well as related IFRIC and SIC interpretations and will remove, for lessees, the distinction previously made between “operating leases” and “finance leases”. Lessees will be required to record all lease contracts with a term of more than one year by recording an asset and a liability for rights and obligations created by a lease contract. This new standard, adopted by the European Union on October 31, 2017, shall be applicable for financial years beginning on or after January 1, 2019.
The Group chose not to adopt this standard early, choosing instead to assess the implications involved in adopting the standard and anticipated its implementation. For the transition, the Group shall use the simplified retrospective method. The estimated impacts of adopting IFRS 16 on the 2018 financial statements are detailed in a dedicated note, at the end of the “Accounting principles and methods”.

- **Amendment to IFRS 9. Prepayment features with negative compensation**

This amendment includes an exception to allow instruments with symmetrical prepayment options to be eligible for cost amortization or to be recorded at fair value in OCI (Other comprehensive income).
The Group did not identify any cases affected by this amendment.

- **IFRIC 23. Uncertainty over income tax treatments**

This interpretation clarifies rules for recognizing and measuring the fiscal implications of tax uncertainty, pursuant to IAS 12 (“Uncertainty over tax treatments”).
The Group chose not to adopt this interpretation early and deemed that the impact of adopting this interpretation as at January 1, 2019 is not material.

Standards and interpretations available for early adoption as at January 1, 2018, not yet adopted by the EU

On the reporting date of these consolidated accounts, the standards and interpretations listed below were submitted by the IASB and IFRS IC respectively, but were still not adopted by the EU.
The Group chose not to adopt these standards and interpretations early, choosing instead to conduct an analysis of the implications involved in adopting them. Where necessary, the Group will apply these standards in its statements once they are adopted by the European Union.

- **Amendment to IAS 19. Plan amendment, curtailment or settlement**

This amendment provides clarification on how such occurrences are taken into account in determining the cost of services rendered and the net interest expense for the period, both of which must be revalued from the date of the occurrence by using the actuarial assumptions available on that date.

- **Amendment to IAS 28. Long-term interests in associates and joint ventures**

This amendment specifies how the IFRS 9 is applied to long-term investments, including as it pertains to any impairment thereof, in an associated company or a joint venture that is part of the latter's net investment.

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, 2018.

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 applied

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 twelve years as part of Virbac United States’ 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 business plans and the main assumptions of the impairment test for the most significant CGUs.
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

IAS 38 sets out the six criteria required to account for an intangible asset:

- technical feasibility needed to complete the development project;
- intent to complete the project;
- ability to use this intangible asset;
- demonstration of the likelihood the asset will generate future economic benefits;
- availability of technical, financial and other resources in order to complete the project and;
- reliable valuation of the development expenditures.

Internal development costs

They are only recorded under intangible assets if all six IAS 38 criteria have been met.
Intangible assets are valued at their historical acquisition cost, including acquisition fees, plus, if applicable, the internal costs of employees who have played a role in the realization of the intangible asset.

Research and development acquired separately

Payments made to acquire research and development activities separately are recorded as intangible assets when they meet the definition of an intangible asset, that is to say when it involves a controlled resource, from which Virbac expects to derive future economic benefits and which is identifiable, in other words separable or stemming from contractual or legal rights.
Pursuant to paragraph 25 of IAS 38, the first accounting criterion, which relates to the likelihood the intangible asset will generate future economic benefits, is deemed to be met for research and development activities when they are acquired separately. In this respect, amounts paid to third parties in the form of deposits or instalments on generic products that have not yet been granted a Marketing authorization are recognized as an asset.

The amount of intangible assets is reduced by accumulated depreciation and, if applicable, accumulated impairment losses.

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.

Intangible assets with indefinite useful lives are reviewed annually to ensure that their useful lives have not become finite.

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.

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 business plans and the main assumptions of the impairment test for the most significant CGUs.
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 inventories are 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.
In accordance with the new IFRS 9 effective as of January 1, 2018, an additional provision is recorded under expected loan losses. Provision rates used, as set by the Group's Financial Affairs department for all subsidiaries, remain very low in light of the small amount of losses from bad debts historically recognized by the Group. They are periodically reviewed.

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, 2018, no asset was classified as held for sale.

Revenue from ordinary activities

Virbac's revenue from ordinary operations reflects the sale of veterinary health and nutrition products. Revenue comprises the fair 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.

Returns, discounts and rebates are recorded over the accounting period for underlying sales and are deducted from revenue. These amounts are calculated as follows:

- provisions for rebates related to the achievement of objectives are measured and recognized at the time of the corresponding sales;
- provisions for product returns are calculated based on management's best estimate of the amount of products that will eventually be returned by customers. Provisions for returns are estimated based on past experience with returns. Furthermore, Virbac takes into account factors, among others, such as inventory levels in the various distribution channels, product expiry dates, and information on the potential discontinuation of products. In each case, provisions are continually reviewed and updated based on the most recent information at management's disposal.

Following the entry into force of IFRS 15, the notions “performance obligations” and “transfer of control” did not significantly alter the way Virbac records revenue. When it comes to accounting for product sales, the transfer of risks and rewards is an indicator of transfer of control, even if this is not always the discerning criterion.

Accordingly, IFRS 15 did not result in any significant change with respect to the date on which the revenue is recognized or its amount.

Virbac's other revenue relates mainly to licensing royalties. Each contract is subject to specific analysis in order to identify the performance obligations and determine the progress of each one of them towards achievement at the closing date of Virbac's consolidated accounts; and revenue is recognized accordingly.

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, 2018, the net total goodwill was €309,711 thousand and the value of the intangible assets was €295,016 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 within the meaning of IAS 12.

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 €20,294 thousand as of December 31, 2018.

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, 2018, the amount of other provisions was €12,310 thousand.

Impact of the IFRS 16 transition

IFRS 16 will become effective as of January 1, 2019. As such, the Group's first financial statements that include the impact of the Group's new standard will be the ones dated June 30, 2019.
This note describes the effects that the application of IFRS 16 would have on the Group's financial statements, as well as the main performance indicators for the 2018 financial year.

The Group opted for the simplified retrospective transition method that involves restating the amount of the residual lease liability on the transition date. It was also decided to use the simplification measures set out in the standard and not to take into consideration lease contracts with a term of less than twelve months, nor those on low-value assets.
Applying IFRS 16 to lease contracts for intangible assets is one standard-specific option the Group chose to use for information technology contracts (software).
Lease terms correspond to the elapsed non-cancellable periods for, if applicable, renewal options the Group may exercise with reasonable certainty.

When it comes to accounting for contracts, the Group, with the assistance of an external provider, had developed a questionnaire to gather contract-related information, as required by the standard. The Group also acquired a solution dedicated to tracking contracts and managing financial calculations on the impact of the standard.

The impact on the statement of financial position as at December 31, 2018 presented below relates primarily to the recognition of a right of use and a lease obligation. The impact on profit for the period relates basically to reclassifications between operating profit and financial result. The residual impact on net profit stems from the time lag between depreciations and the repayment of the lease obligation and interest.

The right of use generated by the application of IFRS 16 is represented below as an underlying asset category:

in € million	Gross value	Cumulated amortization	Net value
Lands and buildings	29.3	-11.6	17.7
Transportation equipment	17.0	-10.1	6.9
Information system (hardware)	3.4	-1.4	2.0
Industrial installations, machinery and equipment	3.0	-1.5	1.5
Office equipment and others	1.3	-0.6	0.7
Information system (software)	0.7	-0.4	0.3
Assets	**54.7**	**-25.6**	**29.1**

Statement of financial position - restated

in € million	2018	Impact of IFRS 16	2018 restated
Goodwill	309.7		309.7
Intangible assets	295.0	-1.6	293.4
Tangible assets	236.7	-0.4	236.3
Right of use	-	29.1	29.1
Other financial assets	10.8		10.8
Share in companies accounted for by the equity method	3.1		3.1
Deferred tax assets	9.9		9.9
Non-current assets	**865.3**	**27.1**	**892.4**
Inventories and work in progress	195.8		195.8
Trade receivables	101.5		101.5
Other financial assets	0.8		0.8
Other receivables	46.7		46.7
Cash and cash equivalents	62.8		62.8
Assets classified as held for sale	-		-
Current assets	**407.5**	**-**	**407.5**
Assets	**1,272.8**	**27.1**	**1,299.9**
Share capital	10.6		10.6
Reserves attributable to the owners of the parent company	449.7	-1.4	448.3
Equity attributable to the owners of the parent company	**460.3**	**-1.4**	**458.9**
Non-controlling interests	35.6		35.6
Equity	**495.9**	**-1.4**	**494.5**
Deferred tax liabilities	36.4		36.4
Provisions for employee benefits	20.3		20.3
Other provisions	10.5		10.5
Other financial liabilities	375.9		375.9
Lease liability	-	21.1	21.1
Other payables	2.5		2.5
Non-current liabilities	**445.7**	**21.1**	**466.8**
Other provisions	1.8		1.8
Trade payables	89.6		89.6
Other financial liabilities	113.0		113.0
Lease liability	-	7.4	7.4
Other payables	126.9		126.9
Current liabilities	**331.3**	**7.4**	**338.7**
Liabilities	**1,272.8**	**27.1**	**1,299.9**

Income statement - restated

in € million	2018	Impact of IFRS 16	2018 restated
Revenue from ordinary activities	**868.9**		**868.9**
Purchases consumed	-294.3		-294.3
External costs	-179.1	9.7	-169.4
Personnel costs	-267.3		-267.3
Taxes and duties	-11.9		-11.9
Depreciations and provisions	-28.7	-8.6	-37.3
Other operating income and expenses	0.4		0.4
Current operating profit before depreciation of assets arising from acquisitions	**88.1**	**1.1**	**89.2**
Depreciations of intangible assets arising from acquisitions	-15.0		-15.0
Operating profit from ordinary activities	**73.0**	**1.1**	**74.1**
Other non-current income and expenses	-8.0		-8.0
Operating result	**65.0**	**1.1**	**66.1**
Financial income and expenses	-24.1	-1.4	-25.5
Profit before tax	**40.9**	**-0.3**	**40.6**
Income tax	-20.4		-20.4
Including non-current tax expense	*-2.4*		*-2.4*
Share from companies' result accounted for by the equity method	0.5		0.5
Net result from ordinary activities	**31.5**	**-0.3**	**31.2**
Result for the period	**21.0**	**-0.3**	**20.7**
attributable to the owners of the parent company	20.1	-0.3	19.8
attributable to the non-controlling interests	0.9	-	0.9

A1. Goodwill

Change in goodwill by CGU

in € thousand	Gross value as at 12/31/2017	Impairment value as at 12/31/2017	Book value as at 12/31/2017	Increases	Sales	Impair-ment of value	Conversion gains and losses	Book value as at 12/31/2018
Italy	1,585	-	**1,585**	-	-	-	-	**1,585**
Denmark	4,643	-	**4,643**	-	-	-	0	**4,643**
Leishmaniosis vaccine	5,421	-5,000	**421**	-	-	-421	-	**-**
Greece	1,358	-	**1,358**	-	-	-	-	**1,358**
Colombia	1,781	-	**1,781**	-	-	-	-52	**1,729**
India	14,838	-	**14,838**	-	-	-	-547	**14,291**
United States	214,897	-3,419	**211,477**	-	-	-	9,952	**221,429**
Australia	3,326	-325	**3,001**	-	-	-	-94	**2,907**
Peptech	3,571	-	**3,571**	-	-	-	-192	**3,379**
New Zealand	15,087	-161	**14,926**	-	-	-	-186	**14,740**
Chile	31,886	-	**31,886**	-	-	-	-2,231	**29,655**
Uruguay	3,967	-	**3,967**	-	-	-	187	**4,154**
SBC	7,083	-	**7,083**	-	-	-	247	**7,329**
Other CGUs	4,244	-1,733	**2,511**	-	-	-	1	**2,512**
Goodwill	**313,686**	**-10,638**	**303,048**	**-**	**-**	**-421**	**7,084**	**309,711**

The change in this item is, by and large, related to an exchange rate effect, generating an increase of €7.1 million. Furthermore, the goodwill impairment recognized in the amount of €0.4 million on the Leishmaniosis vaccine CGU follows the completion of the impairment tests shown in note A3.

A2. Intangible assets

Changes in intangible assets

in € thousand	Concessions, patents, licenses and brands – Indefinite life	Concessions, patents, licenses and brands – Finite life	Other intangible assets	Intangible assets in progress	Intangible assets
Gross value as at 12/31/2017	**164,363**	**225,358**	**55,419**	**10,673**	**455,813**
Acquisitions and other increases	9	118	1,808	4,585	**6,519**
Disposals and other decreases	-	-563	-612	-395	**-1,569**
Changes in scope	-	-	-	-	**-**
Transfers	-20	-147	5,373	-5,200	**6**
Conversion gains and losses	-2,059	3,013	52	83	**1,089**
Gross value as at 12/31/2018	**162,293**	**227,779**	**62,041**	**9,745**	**461,858**
Depreciation as at 12/31/2017	**-166**	**-95,219**	**-45,727**	**-404**	**-141,516**
Depreciation expense	-	-15,934	-3,659	-	**-19,593**
Impairment losses (net of reversals)	-6,174	-140	-	-	**-6,314**
Disposals and other decreases	-	563	591	-	**1,154**
Changes in scope	-	-	-	-	**-**
Transfers	16	276	-62	-	**231**
Conversion gains and losses	-0	-839	7	29	**-804**
Depreciation as at 12/31/2018	**-6,324**	**-111,293**	**-48,849**	**-375**	**-166,841**
Net value as at 12/31/2017	**164,197**	**130,139**	**9,692**	**10,269**	**314,297**
Net value as at 12/31/2018	**155,969**	**116,486**	**13,192**	**9,369**	**295,016**

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 (for €1.3 million).

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).

The “Transfers” line indicates the commissioning of these projects.

Depreciations and impairments amounted to €25.9 million. Furthermore, the impairment recognized in the amount of €6.2 million on assets with indefinite life relates to the Leishmaniosis vaccine CGU Marketing authorizations and follows the completion of the impairment tests shown in note A3.

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, 2018, 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	2015	43,755	24,412	42,899	11,214	**122,280**
SBC	2015	-	3,878	1,950	-	**5,828**
Uruguay: Santa Elena	2013	3,424	9,352	-	-	**12,776**
Australia: Axon	2013	888	1,183	-	-	**2,071**
Australia: Fort Dodge	2010	1,491	443	-	-	**1,935**
New Zealand	2012	3,108	810	-	2,584	**6,502**
Centrovet	2012	20,161	35,457	-	8,599	**64,216**
Multimin	2011-2012	3,233	4,866	-	-	**8,099**
Peptech	2011	955	-	-	-	**955**
Colombia: Synthesis	2011	1,662	-	730	-	**2,392**
Schering-Plough Europe	2008	4,879	186	4,291	-	**9,356**
India: GSK	2006	11,299	-	-	-	**11,299**
Leishmaniosis vaccine	2003	-	1,735	9,653	-	**11,388**
Others		6,972	1,860	3,471	1,054	**13,358**
Total intangible assets		**101,827**	**84,183**	**62,994**	**23,451**	**272,455**

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, 2018

in € thousand	Intangible assets with indefinite life	Intangible assets with finite life	Total
Brands	101,827	-	**101,827**
Patents and know-how	41,367	42,816	**84,183**
Marketing authorizations and registration rights	12,765	50,229	**62,994**
Customers lists and others	11	23,440	**23,451**
Total intangible assets	**155,969**	**116,486**	**272,455**

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**

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

A3. Impairment of assets

At the 2018 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.

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 business plans and the main assumptions of the impairment test of the most significant CGUs.

Beyond the future cash flow forecasting horizon set at five years for all CGUs tested with the exception of the United States (twelve 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. The infinite growth rate was calculated at 2% for companies located in mature markets like Europe, North America, Japan and Australia, at 3% for Chile and at 5% for emerging markets like India.

The discount rates used for these calculations are based on the Group's weighted average cost of capital. These discount rates are post-tax rates applied to post-tax cash flows.
For the 2018 financial year, the discount rates used are the following:
- 7.7% for CGUs located in mature markets, with the exception of the United States;
- 8.9% for American CGUs, up 1.4 points compared with 2017, due mainly to the rise in long-term rates in this market;
- 9.7% for CGUs located in less mature markets, in order to account for risks inherent to these markets.

As at December 31, 2018, the tests resulted in the recognition of an impairment of goodwill and part of the intangible assets in the Leishmaniosis vaccine CGU, amounting to €5 million. This amount of €5 million breaks down as follows: €0.4 million of goodwill; €6.2 million of intangible assets (Marketing authorization) and €1.6 million of deferred taxes.

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 in the American and Chilean CGUs, for which an impairment would need to be recognized, taking into account the following assumptions:
- a 2.0-point increase in the discount rate would lead to an impairment of the American and Chilean CGUs in the amounts of €45.2 million and €30.1 million respectively;
- a 2.0-point decrease in the infinite growth rate would result in an impairment of the Chilean CGU only, amounting to €15.2 million.

Moreover, for the five most significant CGUs (which accounted for 83% of the gross value of intangible assets and goodwill as at December 31, 2018), Virbac conducted sensitivity tests relating to a change in the Ebit revenue ratio after taxes. In the event this ratio drops by 4.0 points, the American CGU would require an impairment of €41.7 million. A 2.0-point decrease in this ratio would also result in an impairment of the Chilean CGU, amounting to €10.9 million.

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 12/31/2018	Discount rate, combined into a zero perpetual growth rate, from which impairment is established
United States	435,538	9.4%
Chile	158,081	8.1%
India	43,063	40.5%
Australia	31,710	40.9%
Uruguay	29,896	23.6%
New Zealand	26,970	19.3%
Leishmaniosis vaccine *	20,284	6.1%
SBC	18,104	15.5%
Antigenics	16,241	53.4%
Schering-Plough Europe	10,654	21.5%
Multimin	10,451	55.9%
Peptech	7,272	166.1%

* 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 after tax.

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 at December 31, 2018, goods acquired through finance leases and restated as tangible assets, in accordance with IAS 17, relate mainly to computer equipment in France (in the amount of €3.6 million gross) as well as vehicles in several Group subsidiaries (in the amount of €2.4 million gross). Furthermore, the purchase option on Centrovet's productive assets in Chile was exercised in 2018.

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 12/31/2017	**19,600**	**177,245**	**183,598**	**31,973**	**37,909**	**450,326**
Acquisitions and other increases	-	3,671	5,465	2,320	10,885	**22,341**
Disposals and other decreases	-456	-5,494	-4,449	-2,354	-906	**-13,660**
Changes in scope	-	-	-	-	-	**-**
Transfers	-	12,024	10,574	499	-22,411	**686**
Conversion gains and losses	-272	249	485	-242	326	**546**
Gross value as at 12/31/2018	**18,872**	**187,695**	**195,674**	**32,195**	**25,803**	**460,238**
Depreciation as at 12/31/2017	**-**	**-88,956**	**-101,353**	**-21,120**	**-49**	**-211,478**
Depreciation expense	-	-7,627	-11,916	-3,600	-	**-23,143**
Impairment losses (net of reversals)	-	-	82	-4	-	**78**
Disposals and other decreases	-	4,174	3,868	2,058	-	**10,100**
Changes in scope	-	-	-	-	-	**-**
Transfers	-	59	16	1,072	-835	**312**
Conversion gains and losses	-	54	355	189	-20	**577**
Impairment as at 12/31/2018	**-**	**-92,296**	**-108,948**	**-21,404**	**-905**	**-223,554**
Net value as at 12/31/2017	**19,600**	**88,288**	**82,246**	**10,854**	**37,859**	**238,848**
Net value as at 12/31/2018	**18,872**	**95,399**	**86,726**	**10,790**	**24,898**	**236,685**

The main investments made during the financial year involve:
- Virbac (mother company), which invested €8.1 million in building fixtures and various industrial equipment throughout different production units;
- Virbac United States, which invested €4.8 million, primarily in the Sentinel Tabs production chain and in the new Iverhart Max Soft Chews production chain that went into operation during the first half of 2018;
- Centrovet, which furthered its investments by €2.2 million, directed mainly toward redevelopment of a vaccine production line that went into operation in the course of the financial year;
- other industrial projects in other subsidiaries, in particular Virbac Australia.

The main decreases are linked to the divestment of the Wissous site, as well as the disposal of various pieces of industrial equipment.

Commissioning of these various investments are shown on the line “Transfers”.

A5. Other financial assets

Change in other financial assets

in € thousand	2017	Increases	Decreases	Changes in scope	Transfers	Conversion gains and losses	2018
Loans and other financial receivables	**8,451**	426	-1,843	-	-	-43	**6,990**
Currency and interest rate derivatives	**1,329**	2,370	-	-	-	-	**3,699**
Restricted cash	**40**	-	-	-	-	-2	**39**
Other	**5**	13	-	-	25	-0	**43**
Other financial assets, non-current	**9,825**	**2,809**	**-1,843**	**-**	**25**	**-45**	**10,771**
Loans and other financial receivables	**97**	4	-69	-	-	-4	**29**
Currency and interest rate derivatives	**1,344**	-	-604	-	-	-	**740**
Restricted cash	**-**	-	-	-	-	-	**-**
Other	**-**	-	-	-	-	-	**-**
Other financial assets, current	**1,441**	**4**	**-673**	**-**	**-**	**-4**	**768**
Other financial assets	**11,266**	**2,813**	**-2,516**	**-**	**25**	**-49**	**11,539**

Changes in the line "Loans and other long-term receivables" are related to entries recorded as factoring contract holdbacks. The change in value of €2.4 million related to currency and interest rate derivatives is primarily related to the increase in the CLP hedge market value, with this currency declining substantially since the introduction of hedging.

Other financial assets classified according to their maturity

As at December 31, 2018

in € thousand	Payments			Total
	less than 1 year	from 1 to 5 years	more than 5 years	
Loans and other financial receivables	29	6,990	-	**7,019**
Currency and interest rate derivatives	740	3,699	-	**4,439**
Restricted cash	-	39	-	**39**
Other	-	-	43	**43**
Other financial assets	**768**	**10,728**	**43**	**11,539**

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**

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 €35,353 thousand, including €867 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, 2018.

	in CLP thousand	in € thousand
Goodwill	23,563,558	29,655
Intangible assets	51,666,976	65,023
Tangible assets	21,357,175	26,878
Non-current assets	**96,587,709**	**121,555**
Inventories and work in progress	14,535,406	18,293
Trade receivables	14,778,197	18,598
Other financial assets	3,855,955	4,853
Cash and cash equivalents	392,649	494
Current assets	**33,562,208**	**42,238**
Assets	**130,149,917**	**163,793**
Equity	**80,895,515**	**101,807**
Non-current financial liabilities	-	-
Other non-current liabilities	15,899,209	20,009
Non-current liabilities	**15,899,209**	**20,009**
Current financial liabilities	23,621,381	29,727
Other current liabilities	9,733,812	12,250
Current liabilities	**33,355,193**	**41,977**
Liabilities	**130,149,917**	**163,793**

The net decrease in cash position during the financial year amounted to €2,382 thousand.

The dividends paid out by the HSA group in 2018 totaled €10,705 thousand (including €5,247 thousand paid out to owners of non-controlling interests).

The table below provides a summarized income statement of the HSA sub-group for 2018.

	in CLP thousand	in € thousand
Revenue from ordinary activities	**44,048,097**	**58,186**
Other income and expenses	-39,090,253	-51,637
Operating result	**4,957,844**	**6,549**
Financial income and expenses	-2,707,669	-3,577
Profit before tax	**2,250,175**	**2,972**
Income tax	-909,505	-1,201
Result for the period	**1,340,670**	**1,771**

Information about equity-accounted companies

	Company's individual accounts using equity method				Consolidated financial statements	
in € thousand	Balance sheet total	Equity	Sales	Result	Share of equity	Share of result
AVF Animal Health Co Ltd	NA	NA	-	-	2,926	469
GPM Virbac	NA	NA	-	-	214	-7
Share in companies accounted for by the equity method					**3,140**	**462**

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.
Throughout 2018, the AVF company paid out dividends totalling US$ 1.4 million, with half of the amount paid benefitting Virbac.

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 in France (gradually dropping to 25% in 2022) was taken into consideration when calculating the deferred tax expense.

Variation in deferred taxes

in € thousand	2017	Variations	Changes in scope	Transfers	Conversion gains and losses	2018
Deferred tax assets	**20,752**	3,665	-	-907	-379	**23,130**
Deferred tax liabilities	**52,211**	1,140	-	-1,618	-2,116	**49,617**
Deferred tax offset	**-31,459**	**2,525**	**-**	**711**	**1,737**	**-26,487**

The variation in deferred taxes shown above includes deferred taxes on the effective share of the profits and losses on hedging instruments, which totaled €194 thousand over the 2018 year.

Deferred taxes broken down by type

As at December 31, 2018

in € thousand	Deferred tax assets
Internal margin on inventories	9,075
Retirement and end of career severance commitments	5,697
Sales adjustments (IFRS 15)	1,115
Inventory adjustments (IAS 2)	364
Other non-deductible provisions	2,264
Other charges with deferred deduction	4,616
Tax loss carryforwards	-
Total by type	**23,130**
Impact of compensation by fiscal entity	-13,194
Deferred net tax assets	**9,936**

in € thousand	Deferred tax liabilities
Adjustments on intangible assets	36,336
Adjustments on tangible assets	3,686
Adjustments on fiscal provisions	8,786
Activation of expenses linked to acquisitions	799
Other income taxed in advance	8
Total by type	**49,617**
Impact of compensation by fiscal entity	-13,194
Deferred net tax liabilities	**36,423**

Deferred tax asset use horizon

The table below indicates the horizon specific to the use of other charges with deferred deduction:

in € thousand	Deferred tax assets as at 12/31/2018	less than 1 year	from 1 to 5 years	more than 5 years
Deferred tax on other charges with deferred deduction in Chile	**745**	745	-	-
Deferred tax on retirement and end of career severance commitments	**5,697**	1,555	-71	4,213
Deferred tax on other bases	**16,688**	15,972	664	52
Total deferred tax assets	**23,130**	**18,272**	**593**	**4,265**

The net deferred tax assets on loss carryforwards of Virbac United States as at December 31, 2018 have been impaired in full in keeping with the position adopted by the Group as at December 31, 2017. Hence, it does not contribute to the total deferred tax asset balance sheet (see note A27). As at December 31, 2018, this fully impaired receivable amounted to US$ 29.4 million, including US$ 5.2 million generated in the course of the period.

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 12/31/2017	**74,695**	**13,282**	**111,862**	**199,839**
Variations	-4,273	1,861	17,598	**15,186**
Changes in scope	-	-	-	**-**
Transfers	-400	-	215	**-185**
Conversion gains and losses	-108	-8	-763	**-879**
Gross value as at 12/31/2018	**69,914**	**15,135**	**128,911**	**213,961**
Depreciation as at 12/31/2017	**-5,900**	**-539**	**-8,642**	**-15,081**
Allowances	-1,413	-1,192	-6,514	**-9,119**
Reversals	2,750	539	3,284	**6,573**
Changes in scope	-	-	-	**-**
Transfers	-	-	-215	**-215**
Conversion gains and losses	-158	-	-184	**-342**
Depreciation as at 12/31/2018	**-4,722**	**-1,192**	**-12,271**	**-18,184**
Net value as at 12/31/2017	**68,795**	**12,743**	**103,220**	**184,758**
Net value as at 12/31/2018	**65,192**	**13,944**	**116,640**	**195,777**

Excluding the exchange rate effect, inventories increased by €12 million, mainly in France, Brazil and Chile. These increased inventories involve strategic raw materials in Chile's case, as well as finished and semi-finished products in France and Brazil. These inventories were built up in anticipation of sales forecasted in the months to come or to ensure sufficient availability of certain strategic products.

A9. Trade receivables

in € thousand	Trade receivables
Gross value as at 12/31/2017	**116,475**
Variations	**-9,871**
Changes in scope	**-**
Transfers	**7**
Conversion gains and losses	**-1,857**
Gross value as at 12/31/2018	**104,754**
Depreciation as at 12/31/2017	**-3,528**
Allowances	**-513**
Reversals	**751**
Changes in scope	**-**
Transfers	**-6**
Conversion gains and losses	**49**
Depreciation as at 12/31/2018	**-3,247**
Net value as at 12/31/2017	**112,947**
Net value as at 12/31/2018	**101,507**

Since January 1, 2018, the entry into force of IFRS 9 has resulted in a new approach to the impairment of trade receivables. Virbac used the simplified impairment method based on expected credit losses over the life of the receivables. The opening balance sheet was adjusted to account for this new approach to trade receivables as at December 31, 2017. Adjustment of the provision on the opening balance sheet amounts to €28 thousand before tax.

Receivables assigned as part of factoring contracts were deconsolidated. Total deconsolidated receivables as at December 31, 2018 in the Group's various entities, amounted to €46.9 million (compared with €47.8 million as at December 31, 2017).

The decrease in the trade item was predominantly from the Chilean subsidiary, in line with the level of business activity, as well as from the American subsidiary due to a drop in sales volume in December 2018 compared with those in December 2017.

Foreign currency translation adjustments also contributed to a decrease in this item, in the amount of €1.8 million.

The credit risk from trade receivables and other receivables is presented in note A31.

A10. Other receivables

in € thousand	2017	Variations	Changes in scope	Transfers	Conversion gains and losses	2018
Income tax receivables	**1,815**	1,013	-	-	-10	**2,818**
Social receivables	**532**	93	-	-	-21	**605**
Other receivables to the State	**27,730**	-3,082	-	-	-161	**24,487**
Advances and prepayments on orders	**2,395**	-219	-	-	-87	**2,090**
Depreciation on various other receivables	**-**	-	-	-	-	**-**
Prepaid expenses	**5,593**	-384	-	-	50	**5,258**
Other various receivables	**15,013**	-3,788	-	-25	228	**11,429**
Other receivables	**53,078**	**-6,366**	**-**	**-25**	**-1**	**46,686**

The main events in 2018 that account for the change in this item are:

- the repayment by French tax authorities of the 3% contribution to dividends paid out from 2013 to 2015 (€1,309 thousand) following a claim filed by the company in December 2015;
- the transfer of research tax credit (RTC) receivables in 2017 (€7,821 thousand) offset by RTC receivables in 2018 (€6,853 thousand);
- the payment obtained by a Group subsidiary from other operating receivables in the amount of €3.4 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 2018 financial year totaled €1,357 thousand.

A11. Cash and cash equivalents

in € thousand	2017	Variations	Changes in scope	Transfers	Conversion gains and losses	2018
Available funds	**33,399**	1,950	-	-	275	**35,624**
Marketable securities	**14,979**	12,557	-	-	-348	**27,187**
Cash and cash equivalents	**48,378**	**14,506**	**-**	**-**	**-73**	**62,811**
Bank overdraft	**-16,689**	-2,489	-	-	5	**-19,173**
Accrued interests not yet matured	**-40**	-9	-	-	0	**-49**
Overdraft	**-16,729**	**-2,498**	**-**	**-**	**5**	**-19,222**
Net cash position	**31,649**	**12,009**	**-**	**-**	**-68**	**43,588**

The increase in marketable securities related mainly to a Group subsidiary, which invested €25,988 thousand at the 2018 year-end.

A12. Assets classified as held for sale

During the 2018 financial year, as in 2017, no asset was classified as held for sale.

A13. Equity

in € thousand	2018	2017
Capital	10,573	10,573
Premiums linked to capital	6,534	6,534
Legal reserve	1,089	1,089
Other reserves and retained earnings *	379,381	344,827
Consolidation reserves	64,268	102,265
Conversion reserves	-16,548	-22,571
Actuarial gains and losses	-5,088	-3,814
Result for the period	20,099	-2,575
Equity attributable to the owners of the parent company	**460,307**	**436,327**
Other reserves and retained earnings	44,658	45,572
Conversion reserves	-9,977	-7,410
Result for the period	886	4,334
Non-controlling interests	**35,567**	**42,496**
Equity	**495,875**	**478,824**

* Adjustments related to IFRS 9 application.

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, 4,341,261 have double voting rights.

Share buyback program

The ordinary shareholders' meeting of June 20, 2018 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 19, 2017, in accordance with the provisions of the transparency directive that came into force on January 20, 2007.

As of December 31, 2018, Virbac held 35,950 treasury shares acquired on the market for a total of €4,577,106 excluding fees, for an average price of €127.39 per share.

During the financial year, the company bought 65,030 treasury shares (at an average price of €126.53) and sold 66,341 treasury shares (at an average price of €129.19) as part of the market-making contract. In 2018, no share was purchased or sold as part of performance-related stock grants.

As of December 31, 2018, treasury shares accounted for 0.425% of Virbac's capital. They are earmarked for market-making and performance-related stock grants, in accordance with the twenty-fifth resolution adopted by the shareholders' meeting of June 20, 2018.

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 the French financial markets authority (*AMF*) regulations;
- 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.

Change in provisions by country

in € thousand	2017	Allowances	Reversals	Transfers	Equity	Conversion gains and losses	2018
France	**7,531**	465	-559	-	425	-	**7,862**
Italy	**857**	120	-16	-	-57	-	**904**
Germany	**554**	2	-	-	-	-	**556**
Greece	**155**	9	-	-	-	-	**164**
Mexico	**86**	14	-17	-	-	4	**87**
Korea	**121**	128	-145	-	60	1	**165**
Taiwan	**676**	56	-4	-	107	13	**849**
Thailand	**203**	24	-23	-	-	11	**216**
Uruguay	**420**	161	-	-	-	-29	**552**
Retirement and severance pay allowances	**10,603**	**979**	**-764**	**-**	**535**	**-**	**11,354**
France	**2,382**	271	-	1,146	-43	-	**3,755**
Japan	**1,748**	232	-98	-	89	134	**2,105**
Defined benefit retirement plans	**4,131**	**503**	**-98**	**1,146**	**46**	**134**	**5,861**
South Africa	**1,024**	107	-40	-	-43	-104	**944**
Medical cover	**1,024**	**107**	**-40**	**-**	**-43**	**-104**	**944**
India	**393**	444	-194	-	-80	-13	**550**
Allowances for absence	**393**	**444**	**-194**	**-**	**-80**	**-13**	**550**
Australia	**1,436**	137	-122	-	-	-78	**1,373**
Austria	**147**	12	-	-	-	-	**159**
Spain	**48**	4	-	-	-	-	**52**
Other long term benefits	**1,631**	**153**	**-122**	**-**	**-**	**-78**	**1,584**
Provisions for employee benefits	**17,782**	**2,186**	**-1,218**	**1,146**	**458**	**-61**	**20,294**

The amount listed in the "Transfers" column reflects the impact on the debt (recognized in equity) of the correction made to an error in the parameters used to calculate the defined benefit pension commitment, representing an amount net of tax of €780 thousand.

Main commitments

The main employee benefit plans are in France, Australia, Japan and South Africa. As of December 31, 2018, they contributed 57%, 7%, 10% and 5% 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%.

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, 2018

	Discount rate	Future salary growth
France	1.50%	2.20%
South Africa	9.91%	N/A
Japan	0.30%	3.00%
India	7.40%	7.00%

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%

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 €803 thousand or an increase of approximately €860 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 €618 thousand or a reduction of approximately €584 thousand recognized with a balancing entry in other comprehensive income.

Allowance for the year

in € thousand	2018 allowance
Cost of services rendered	1,811
Financial cost	358
Expected return on assets	-122
Change of scheme	137
Immediate recognition of actuarial (gains)/losses in the year	-
Administrative costs recognized in expenses	2
Net cost / (net gain) recognized in income	**2,186**

Employer contributions (including benefits paid directly by the employer) in 2018 totaled €511 thousand and are estimated to reach €982 thousand for 2019.

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, 2018	**20,162**
Benefits paid by employer	-1,026
Benefits paid by funds	-192
Cost of services rendered and financial cost	2,307
Termination/end of contract	-
Actuarial (gains)/losses due to demographic assumptions	-57
Actuarial (gains)/losses due to financial assumptions	-50
Actuarial experience (gains)/losses	1,684
Change of scheme	137
Other variations	-
Transfers	-
Conversion gains and losses	-111
Present value as at December 31, 2018	**22,855**

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, 2018	**2,380**
Contributions paid	511
Benefits paid by funds	-363
Interest income	122
Actuarial gains/(losses)	-36
Tax on premiums paid	-2
Conversion gains and losses	-51
Fair value as at December 31, 2018	**2,561**

in € thousand	Employee benefits
Fair value of hedging assets	-2,561
Present value of actuarial liability	22,855
(Assets) / liabilities recognized in provisions as at December 31, 2018	**20,294**

in € thousand	Employee benefits
Provision to liabilities as at January 1, 2018	**17,782**
Charge/(gain) recognised in income - allowance	2,185
Amount recognized in equity	459
Employer contributions/benefits paid - reversal	-1,219
Other events	-
Transfers	1,146
Conversion gains and losses	-60
Provision to liabilities as at December 31, 2018	**20,294**

A15. Other provisions

in € thousand	2017	Allowances	Reversals	Changes in scope	Transfers	Conversion gains and losses	2018
Trade disputes and industrial tribunals	**1,601**	3,061	-487	-	-	-17	**4,157**
Fiscal disputes	**964**	882	-624	-	-	-25	**1,196**
Various risks and charges	**446**	5,043	-311	-	-	-	**5,178**
Other non-current provisions	**3,011**	**8,985**	**-1,422**	**-**	**-**	**-42**	**10,532**
Trade disputes and industrial tribunals	**1,213**	30	-752	-	-	20	**510**
Fiscal disputes	**-**	-	-	-	-	-	**-**
Various risks and charges	**1,027**	-	-670	-	880	30	**1,268**
Other current provisions	**2,240**	**30**	**-1,422**	**-**	**880**	**50**	**1,778**
Other provisions	**5,251**	**9,015**	**-2,843**	**-**	**880**	**8**	**12,310**

As part of the dispute with a competitor and both trademark infringement and unfair competition proceedings currently in progress on a national and European scale, the risk stemming from remaining uncertainty was analyzed and a provision was made accordingly in the accounts dated December 31, 2018.

Tax-related provisions are intended to deal with the financial consequences of the Group's tax audits.

Provisions for miscellaneous risks and charges include the provision made for costs generated by the outsourcing of production of intramammaries (€3.9 million) referred to in the significant events for the period.

The amount in the "Transfers" column (€880 thousand) reflects the employer's contribution owing on payments to fund the French defined benefit pension commitment, for which the change in accounting method was recognized under equity (representing an amount net of tax of €598 thousand).

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

A16. Other financial liabilities

Change in other financial liabilities

in € thousand	2017	Increase	Decrease	Changes in scope	Transfers	Conversion gains and losses	2018
Loans	**407,406**	20,000	-36,361	-	-18,988	1,259	**373,317**
Bank overdrafts	**-**	-	-	-	-	-	**-**
Accrued interests not yet matured	**-**	-	-	-	-	-	**-**
Debt relating to leasing contracts	**1,371**	443	-38	-	-159	-	**1,618**
Employee profit sharing	**3**	1	-1	-	-	-	**2**
Currency and interest rate derivatives	**854**	-	109	-	-	-	**963**
Other	**-**	-	-	-	-	-	**-**
Other non-current financial liabilities	**409,634**	**20,444**	**-36,291**	**-**	**-19,146**	**1,259**	**375,900**
Loans	**78,330**	46,128	-51,381	-	18,988	-630	**91,435**
Bank overdrafts	**16,689**	-	2,489	-	-	-5	**19,173**
Accrued interests not yet matured	**40**	-	9	-	-	-	**49**
Debt relating to leasing contracts	**2,481**	64	-2,376	-	1,016	-17	**1,167**
Employee profit sharing	**267**	482	-231	-	-	14	**532**
Currency and interest rate derivatives	**949**	-	-311	-	-	-	**639**
Other	**-**	-	-	-	-	-	**-**
Other current financial liabilities	**98,757**	**46,674**	**-51,800**	**-**	**20,004**	**-639**	**112,995**
Other financial liabilities	**508,390**	**67,118**	**-88,091**	**-**	**857**	**620**	**488,895**

The main features of Virbac's three funding instruments are as follows:
- a syndicated loan of €420 million, drawn in euros and US dollars, contracted with a pool of banks repayable at maturity, with an initial maturity of April 2020, extended until April 9, 2022, once the extension agreement was received by all of the lenders on March 23, 2018;
- market-based contracts (*Schuldschein*) consisting of four installments, with maturities of five, seven and ten years, at variable and fixed rates;
- a US$ 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, 2018, the position of the funding instruments was as follows:
- the syndicated loan was drawn for amounts of €77 million and US$ 152 million;
- the market-based contracts amounted to €15 million and US$ 15.5 million;
- the bilateral loans and BPI and EIB financing amounted to €80.5 million and US$ 90 million.

These funding instruments include a financial covenant compliance clause that requires the borrower to adhere to the following financial ratio based on the consolidated accounts and reflecting net consolidated debt(1) for the period considered on the consolidated Ebitda (Earnings before interest, taxes, depreciation and amortization)(2) for the same test period.

In the first quarter of 2018, Virbac applied for a waiver to have the financial covenant compliance clause relaxed for 2018. This request was granted by all of *Schuldschein's* bank partners and investors.
As such, the ratio of net debt to Ebitda was expected to be below 5.0 at the end of June 2018 and below 4.25 at the end of December 2018.

As at December 31, 2018, the ratio was at 3.46, still under this waiver and under the 3.75 threshold of the initial financial covenant of the contract (initial contract whose covenant clause and related financial conditions will apply again in 2019).

(1) Consolidated net debt refers, as defined in the contract, 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.
(2) Consolidated Ebitda refers, as defined in the contract, 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, 2018

in € thousand	Payments less than 1 year	Payments from 1 to 5 years	Payments more than 5 years	Total
Loans	91,435	288,740	84,577	**464,752**
Bank overdrafts	19,173	-	-	**19,173**
Accrued interests not yet matured	49	-	-	**49**
Debt relating to leasing contracts	1,167	1,618	-	**2,785**
Employee profit sharing	532	2	-	**534**
Currency and interest rate derivatives	639	963	-	**1,601**
Other	-	-	-	**-**
Other financial liabilities	**112,995**	**291,323**	**84,577**	**488,895**

The generation of operating cash flow as well as negotiated overdrafts and factoring cover short-term financial liabilities.

As at December 31, 2017

in € thousand	Payments less than 1 year	Payments from 1 to 5 years	Payments more than 5 years	Total
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**

Information related to financial activities

in € thousand	2017	Cash flows: Debt issuance	Cash flows: Repayments of debt	Other flows: Fair Value	Other flows: Transfers	Other flows: Conversion gains and losses	2018
Non-current financial liabilities	**407,406**	20,000	-36,361	-	-18,988	1,259	**373,317**
Current financial liabilities	**78,330**	46,128	-51,381	-	18,988	-630	**91,435**
Debt relating to leasing contracts	**3,851**	507	-2,414	-	857	-17	**2,785**
Employee profit sharing	**270**	483	-232	-	-	14	**534**
Currency and interest rate derivatives	**1,803**	-	-	-202	-	-	**1,601**
Other financial liabilities	**491,661**	**67,118**	**-90,387**	**-202**	**857**	**626**	**469,673**

A17. Other payables

in € thousand	2017	Variations	Changes in scope	Transfers	Conversion gains and losses	2018
Income tax payables	**-**	-	-	-	-	**-**
Social payables	**-**	-	-	-	-	**-**
Other fiscal payables	**-**	-	-	-	-	**-**
Advances and prepayments on orders	**-**	-	-	-	-	**-**
Prepaid income	**335**	587	-	-	20	**943**
Various other payables	**237**	1,351	-	-6	-4	**1,578**
Other non-current payables	**572**	**1,939**	**-**	**-6**	**16**	**2,520**
Income tax payables	**8,032**	-1,111	-	-	-178	**6,744**
Social payables	**41,081**	2,247	-	-	-76	**43,252**
Other fiscal payables	**10,944**	218	-	20	-21	**11,160**
Advances and prepayments on orders	**152**	131	-	-	-6	**276**
Prepaid income	**705**	27	-	-	13	**746**
Various other payables	**57,858**	4,711	-	2,178	-6	**64,742**
Other current payables	**118,772**	**6,223**	**-**	**2,198**	**-273**	**126,920**
Other payables	**119,343**	**8,161**	**-**	**2,192**	**-256**	**129,440**

Transfers represent reclassifications emerging the item “Trade payables“ (see note A18).
The line “Other payables” largely comprises liabilities for contracts entered into with customers.
The table below details the type of contract-related liabilities in question:

in € thousand	2017	Variations	Changes in scope	Transfers	Conversion gains and losses	2018
Advances and prepayments on orders	**152**	131	-	-	-6	**276**
Accounts receivable - Credits and accruals	**50,052**	6,333	-	-	-38	**56,347**
Other payables	**50,203**	**6,464**	**-**	**-**	**-45**	**56,623**

Credits and accruals stem primarily from changes in transaction pricing, as the majority of the Group's subsidiaries grant customers year-end discounts, the amount of which is contingent on the achievement of sales objectives.

A18. Trade payables

in € thousand	2017	Variations	Changes in scope	Transfers	Conversion gains and losses	2018
Current trade payables	**105,670**	-11,832	-	-6,852	-183	**86,803**
Payables of intangible assets	**1,428**	-1,527	-	1,718	21	**1,640**
Payables of tangible assets	**1,635**	-3,481	-	2,939	37	**1,129**
Trade payables	**108,733**	**-16,841**	**-**	**-2,195**	**-125**	**89,572**

The “Transfers” column indicates reclassifications from the item “Other liabilities” (see note A17 above).

The drop in this item was particularly noticeable in France and the United States. This was due to a decrease in purchase volumes over the last quarter in 2018, compared with the same period in the previous financial year, as well as a decrease in the days of sales outstanding.

A19. Revenue from ordinary activities

in € thousand	2018	2017	*Change*
Sales of finished goods and merchandise	986,599	963,983	*2.3%*
Services	30	188	*-84.0%*
Additional income from activity	3,463	4,211	*-17.8%*
Royalties paid	350	342	*2.4%*
Gross sales	**990,442**	**968,724**	***2.2%***
Discounts, rebates and refunds on sales	-95,979	-87,707	*9.4%*
Expenses deducted from sales	-17,727	-15,240	*16.3%*
Financial discounts	-7,741	-3,871	*100.0%*
Provision for returns	-62	-24	*160.1%*
Expenses deducted from sales	**-121,510**	**-106,843**	***13.7%***
Revenue from ordinary activities	**868,932**	**861,882**	***0.8%***

In 2018, the Group registered consolidated revenue of €868.9 million, up 0.8% and 4.5% at actual and constant exchange rates respectively.

Geographically, in the United States, overall sales for the year increased by 2.4% and 5.7% at actual and constant exchange rates respectively.
Europe saw growth of 2.7% at constant exchange rates, driven by strong performance, especially in the United Kingdom, France, Northern Europe, Scandinavia and Poland, despite an overall business slowdown in Southern Europe due to the non-renewal of tenders for anti-rabies baits in Greece and a decline in the external parasiticide and swine antibiotic ranges.
Sales in the Africa-Middle East region were up 5.2%, an increase of 9.5% at constant exchange rates, owing mainly to South Africa.
In the rest of the world, organic growth continues to be strong in many emerging countries, in particular Brazil, Mexico, China, and Japan, as well as India.
Despite a decline of -3.0% at actual rates, the Pacific region recorded growth of 3.9% at constant exchange rates, owing mainly to strong results in New Zealand.
Chile showed a decline of -11.5% and -8.6% at actual and constant exchange rates respectively, due to weaker antibiotic and oral vaccine sales compared with the same period in 2017.

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.

A20. Purchases consumed

in € thousand	2018	2017	*Change*
Inventoried purchases	-280,509	-273,464	*2.6%*
Non-inventoried purchases	-22,616	-24,871	*-9.1%*
Supplementary charges on purchases	-4,211	-4,248	*-0.9%*
Discounts, rebates and refunds obtained	407	185	*120.1%*
Purchases	**-306,928**	**-302,397**	***1.5%***
Change in gross inventories	15,185	-378	*-4118.6%*
Allowances for depreciation of inventories	-9,119	-8,567	*6.4%*
Reversals of depreciation of inventories	6,573	7,904	*-16.8%*
Net variation in inventories	**12,639**	**-1,041**	***-1314.1%***
Purchases consumed	**-294,289**	**-303,438**	***-3.0%***

A21. External costs

Within this item, external research and development costs recognized during the 2018 financial year totaled €13,102 thousand compared to €14,318 thousand in 2017.

Operating lease contracts as of December 31, 2018

in € thousand	Rents for the period	Minimum future lease payments as per contracts			
		less than 1 year	from 1 to 3 years	from 3 to 5 years	more than 5 years
Lands and buildings	-4,930	-4,226	-7,219	-4,437	-3,411
Industrial equipment	-1,215	-526	-694	-293	-63
IT equipment	-570	-21	-115	-	-
Office equipment and furniture	-1,128	-215	-169	-42	-46
Transport equipment	-5,171	-2,255	-2,138	-735	-275
Lease payments	**-13,013**	**-7,244**	**-10,335**	**-5,507**	**-3,796**

A22. Depreciation, impairment and provisions

in € thousand	2018	2017	*Change*
Allowances for depreciation of intangible assets *	-4,549	-4,073	*11.7%*
Allowances for impairment of intangible assets	-140	-292	*-52.1%*
Allowances for depreciation of tangible assets	-23,143	-22,406	*3.3%*
Allowances for impairment of tangible assets	-542	-687	*-21.1%*
Reversals of depreciation of intangible assets	-	-	-
Reversals of impairment of intangible assets	-	69	*-100.0%*
Reversals of depreciation of tangible assets	-	-	-
Reversals of impairment of tangible assets	620	584	*-100.0%*
Depreciation and impairment	**-27,754**	**-26,806**	***3.5%***
Allowances of provisions for risks and charges	-3,165	-2,525	*25.4%*
Reversals of provisions for risks and charges	2,174	2,816	*-22.8%*
Provisions	**-991**	**292**	***-440.0%***
Impairment and provisions	**-28,745**	**-26,514**	***8.4%***

* Excluding allowances for depreciation of intangible assets resulting from acquisitions.

Allowances for depreciation of assets arising from acquisitions break down as follows:

in € thousand	2018	2017
United States: Sentinel	-9,765	-10,073
SBC	-63	-72
Uruguay: Santa Elena	-138	-143
Australia: Axon	-125	-134
New Zealand	-484	-632
Centrovet	-2,467	-2,551
Multimin	-542	-575
Peptech	-69	-169
Colombia: Synthesis	-110	-115
Schering-Plough Europe	-1,279	-1,481
Total depreciations of intangible assets arising from acquisitions	**-15,043**	**-15,946**

A23. Other operating income and expenses

in € thousand	2018	2017	*Change*
Royalties paid	-3,745	-3,999	*-6.4%*
Grants received (including research tax credit)	7,478	7,984	*-6.3%*
Allowances for depreciation of receivables	-513	-664	*-22.8%*
Reversals of depreciation of receivables	751	1,803	*-58.4%*
Bad debts	-995	-1,474	*-32.5%*
Net book value on disposed assets	-2,324	-491	*373.1%*
Income from disposals of assets	387	283	*36.9%*
Other operating income and expenses	-608	-893	*-31.9%*
Other current income and expenses	**432**	**2,549**	***-83.0%***

The amount of research tax credits posted as subsidies for the financial year ending December 31, 2018 was €7,460 thousand.

A24. Other non-current income and expenses

As of December 31, 2018, this item breaks down as follows:

in € thousand	2018
Impairment of goodwill and MA held by BVT on Leishmaniosis vaccine	-6,595
Restructuring costs related to the logistics center in Wissous	2,470
Costs related to the outsourcing of intramammary production	-4,093
Restructuring costs of Virbac Corporation	178
Other non-current income and expenses	**-8,040**

Following the emergence of a new player on the Leishmaniosis vaccine market in 2017, tests conducted as at December 31, 2018 resulted in the recognition of a goodwill impairment supplement of €0.4 million on the Leishmaniosis vaccine CGU, as well as an intangible asset impairment in the amount of €6.2 million (see note A3).

The item “Other non-current income and expenses” also includes the impact of the restructuring exercise that took place at the Virbac Distribution subsidiary in the amount of €2.5 million, including both the net proceeds of the sale of the building in the amount of €4.1 million and the restructuring costs and fees associated with the sale of the building, totalling €1.6 million.

Also recorded in this item were costs associated with outsourcing the production of intramammaries, amounting to €3.9 million in provisions and €0.2 million in costs already incurred.

A25. Financial income and expenses

in € thousand	2018	2017	*Change*
Gross cost of financial debt	-17,793	-20,313	*-12.4%*
Income from cash and cash equivalents	1,114	377	*195.8%*
Net cost of financial debt	**-16,678**	**-19,936**	***-16.3%***
Foreign exchange gains and losses	-10,011	4,155	*-340.9%*
Changes in foreign currency derivatives and interest rate	2,523	-2,029	*-224.3%*
Other financial charges	-245	-134	*82.3%*
Other financial income	307	134	*129.1%*
Other financial income and expenses	**-7,425**	**2,126**	***-449.3%***
Financial income and expenses	**-24,103**	**-17,811**	***35.3%***

The cost of net debt in 2018 decreased by €3.3 million compared with 2017, partly because of the drop in interest expense in line with the shrinking debt, and partly because of the increased income from cash resulting from marketable securities referred to in note A11.

Foreign exchange losses, amounting to €10.0 million, were heavily impacted by the negative changes in CLP *vis-à-vis* the revaluation of the Chilean subsidiary's loans, both in relation to the euro and the US Dollar.
This loss was partially offset by the impact of the revaluation of financial instruments in accordance with IFRS 9, which generated an overall gain of €2.5 million in 2018, including income of €3.1 million on interest rate instruments (almost exclusively on CLP) and an expense of €0.6 million on currency instruments.

A26. Income tax

in € thousand	2018 Base	2018 Tax	2017 Base	2017 Tax
Profit before tax	**40,889**		**40,237**	
Adjustment for tax credits	-8,815		-9,563	
Adjustment of non-recurring items	30,195		44,684	
Profit before tax, after adjustments	**62,269**		**75,358**	
Tax currently payable for French companies		-1,160		-661
Tax currently payable for foreign companies		-21,537		-24,232
Tax currently payable		**-22,697**		**-24,893**
Deferred tax for French companies		1,854		3,119
Deferred tax for foreign companies		477		-17,470
Deferred tax		**2,331**		**-14,350**
Tax accounted for		**-20,366**		**-39,243**
Restatement of adjustments on tax currently payable		-304		226
Restatement of adjustments on deferred tax		-75		-1,517
Depreciation of deferred tax assets		-		15,167
Tax after restatements		**-20,745**		**-25,367**
Effective tax rate		*33.32%*		*33.66%*
Theoretical tax rate		*34.43%*		*34.43%*
Theoretical tax		**-21,439**		**-25,946**
Difference between theoretical tax and recorded tax		**-1,073**		**13,297**

The theoretical tax rate considered by the Group is the corporate tax rate in effect in France (including the additional contribution of 3.3%).

Taxes for the financial year were impacted by the failure to record in the Virbac United States' accounts deferred tax assets on tax losses carried forward for the 2018 financial year (€4.6 million), in accordance with IAS 12, which covers the existence of a history of recent and unused tax losses as a strong indication that future taxable profits may not be useable.

Restated profit before tax

The adjusted pre-tax profit is arrived at based on the pre-tax profit, 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, so as to determine what the actual tax rate is for the 2018 financial year. These restatements 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 credits in Chile and Brazil.

Adjustment for tax bases related to non-recurring items

This amount includes:

- accounting expenses or income without any tax impact, including goodwill impairment (€0.4 million), permanent differences between entities in France and those abroad (€2.6 million);
- as well as Virbac United States' tax deficit for the 2018 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
In 2017, the Group's accounts were impacted by the impairment of Virbac United States' deferred tax asset at the beginning of the financial year (US$ 17.2 million).

A27. Bridge from net result to net result from ordinary activities

As at December 31, 2018

in € thousand	Net result IFRS 2018	Impairment of assets	Restructuring costs	Other items	Non-current tax expense	Net result from ordinary activities 2018
Revenue from ordinary activities	**868,932**					**868,932**
Current operating profit before depreciation of assets arising from acquisitions	**88,076**					**88,076**
Depreciations of intangible assets arising from acquisitions	-15,043					-15,043
Operating profit from ordinary activities	**73,033**					**73,033**
Other non-current income and expenses	-8,040	6,595	1,445			-
Operating result	**64,993**					**73,033**
Financial income and expenses	-24,104					-24,104
Profit before tax	**40,889**					**48,929**
Income tax	-20,366	-1,595	-521		4,554	-17,928
Share from companies' result accounted for by the equity method	462					462
Result for the period	**20,985**					**31,463**

Net profit from ordinary activities equates to net profit restated for the following items:
- the line “Other non-current income and expenses” disclosed in more detail in note A24;
- 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 (here the impairment of the deferred tax asset on tax losses carried forward from Virbac United States’ financial year).

For the record, the net profit from ordinary activities for the 2017 financial year was as follows:

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**

In 2017, the non-recurring charge reflected the impairment of the deferred tax asset on losses carried forward of Virbac United States, amounting to US$ 24.2 million.

A28. Earnings per share

	2018	2017
Profit attributable to the owners of the parent company	**20,099,108 €**	**-2,574,782 €**
Total number of shares	8,458,000	8,458,000
Impact of dilutive instruments	-	-
Number of treasury shares	35,950	37,261
Outstanding shares	8,422,050	8,420,739
Profit attributable to the owners of the parent company, per share	**€2.39**	**-€0.31**
Profit attributable to the owners of the parent company, diluted per share	**€2.39**	**-€0.31**

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, 2018

in € thousand	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
Revenue from ordinary activities	133,422	222,326	142,787	120,029	142,260	82,387	25,721	**868,932**
Current operating profit before depreciations of assets aring from acquisitions	15,047	12,777	17,765	-1,794	21,044	18,586	4,651	**88,076**
Profit attributable to the owners of the parent company	1,618	9,029	2,462	-21,126	12,920	11,966	3,229	**20,099**
Non-controlling interests	1	-	885	-	-	-	-	**886**
Consolidated profit	**1,619**	**9,029**	**3,347**	**-21,126**	**12,920**	**11,966**	**3,229**	**20,985**

in € thousand	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
Assets by geographic area	674,523	39,871	217,727	147,953	111,261	75,598	5,876	**1,272,807**
Intangible investment	4,129	214	503	1,635	21	-	18	**6,519**
Tangible investment	8,366	322	4,399	6,200	1,064	1,871	118	**22,341**

No customer achieved more than 10% of revenue.

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

The French net profit includes an impairment of goodwill and intangible assets in the amount of €5 million net of taxes.

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	249,814	69,612	266,251	469,491	110,832	98,959	12,352	**1,277,311**
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**

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 (level 2), particularly for interest rate swaps, forward purchases and sales, or foreign currency options. The model incorporates various inputs such as the spot and forward exchange rates or the interest rate curve.

Financial assets

The different asset classes are as follows:

As at December 31, 2018

in € thousand	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	-	-	3,699	**3,699**	2
Other non-current financial assets	7,072	-	-	**7,072**	-
Trade receivables	101,507	-	-	**101,507**	-
Other receivables *	38,610	-	-	**38,610**	-
Current derivative financial instruments	-	120	620	**740**	2
Other current financial assets	29	-	-	**29**	-
Cash and cash equivalents	35,624	27,187	-	**62,811**	1
Financial assets	**182,842**	**27,307**	**4,319**	**214,468**	

* excluding prepaid expenses and income tax receivables.

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	-	-	-	1,329	**1,329**	2
Other non-current financial assets	-	8,496	-	-	**8,496**	-
Trade receivables *	-	112,947	-	-	**112,947**	-
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	**-**	**200,610**	**15,948**	**1,704**	**218,262**	

* restated from the impact of IFRS 9.
** excluding prepaid expenses and income tax receivables.

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

The different classes of liabilities are as follows:

As at December 31, 2018

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	-	23	940	**963**	2
Other non-current financial liabilities	374,937	-	-	**374,937**	-
Trade payables	89,572	-	-	**89,572**	-
Other payables *	121,008	-	-	**121,008**	-
Current derivative financial instruments	-	514	125	**639**	2
Bank overdrafts and accrued interests not yet matured	19,173	49	-	**19,222**	2
Other current financial liabilities	93,134	-	-	**93,134**	-
Financial liabilities	**697,824**	**586**	**1,065**	**699,474**	

* excluding prepaid income and income tax debt.

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	-	**16,730**	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 of December 31, 2018, the gross cost of financial debt amounted to €17,793 thousand. As of December 31, 2017, it was €20,313 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, 2018, the Group's maximum exposure to credit risk was €101,507 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, 2018

in € thousand	Receivables due	Receivables overdue for				Impaired	Total
		< 3 months	3-6 months	6-12 months	> 12 months		
France	19,860	1,212	317	272	3	80	**21,743**
Europe (excluding France)	18,845	803	87	52	2	2,096	**21,885**
Latin America	27,499	3,825	293	163	-	916	**32,695**
North America	4,431	-	-	-	-	1	**4,432**
Asia	14,000	1,207	61	11	-	149	**15,428**
Pacific	5,743	152	-	-	-	3	**5,899**
Africa & Middle East	2,461	209	-	-	-	2	**2,672**
Trade receivables	**92,840**	**7,408**	**757**	**497**	**5**	**3,247**	**104,753**

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	20,047	227	4	-	-	503	**20,781**
Europe (excluding France)	20,620	1,898	185	5	-	2,078	**24,786**
Latin America	27,931	7,070	153	112	16	829	**36,111**
North America	9,976	-	-	-	23	3	**10,002**
Asia	13,857	936	527	29	-	112	**15,460**
Pacific	6,702	129	7	-	-	-	**6,838**
Africa & Middle East	2,322	173	-	-	-	2	**2,497**
Trade receivables	**101,455**	**10,432**	**877**	**145**	**39**	**3,528**	**116,476**

* Restated from the impact of IFRS 9.

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).

For 2018 and to give itself more flexibility, Virbac applied for and obtained flexibility in the financial covenant compliance clause from its banking partners. It should be below 5.0 at the end of June 2018 and below 4.25 at the end of December 2018.

The financial ratio calculated as at December 31, 2018 was 3.46, and thereby in compliance with the waiver covenant. As this application only covers 2018, the contract will revert back to the initial conditions after this period.

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.

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

in € thousand	2018	2017
Fair value hedges	-361	217
Cash flow hedges	204	80
Net investment hedges	-	-
Derivatives not qualifying for hedges	-57	7
Derivative financial exchange instruments	**-214**	**304**

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 €482 million. These lines are indexed to the Euribor and US$ Libor rates.
Borrowing in the United States is indexed to the US$ 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	2018 Average real interest rate	2018 Book value	2017 Average real interest rate	2017 Book value
Vietnam			3.600%	73
Chile	3.724%	29,720	2.223%	25,114
Mexico	9.440%	2,001	8.886%	2,675
Uruguay	5.698%	2,764	5.050%	2,915
France	2.291%	49,900	2.239%	51,398
Fixed rate debt		**84,385**		**82,176**
Vietnam	2.170%	430	2.170%	481
France	2.920%	347,731	2.084%	373,637
United States	4.070%	30,568	2.538%	21,679
Mexico	-	-	9.135%	1,681
Colombia	-	-	8.245%	493
New Zealand	4.443%	1,466	4.580%	3,633
Australia	-	-	2.810%	1,955
Philippines	7.840%	150	-	-
Other		23	-	-
Variable rate debt		**380,369**		**403,560**
Bank overdrafts	-	19,173	-	16,689
Loans and bank overdrafts *		**483,927**		**502,426**

* excluding debt relating to the capital leasing contracts.

Interest rate derivatives are shown below, at market value:

in € thousand	2018	2017
Fair value hedges	-	-
Cash flow hedges	3,050	565
Net investment hedges	-	-
Derivatives not qualifying for hedges	-	-
Derivative financial rate instruments	**3,050**	**565**

■ **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, 2018, the unrealized gains and losses in equity for the period accounted for a net profit of €151 thousand. The ineffective share recorded as profit for this cash flow hedging reflected a profit of €3,102 thousand.

in € thousand	Nominal		Positive fair value		Negative fair value	
	2018	2017	2018	2017	2018	2017
Forward exchange contract	39,494	63,200	295	1,169	525	847
OTC options exchange	21,693	22,301	137	76	121	92
Exchange instruments	**61,187**	**85,501**	**432**	**1,245**	**646**	**939**
Swap rate	145,175	133,073	1,212	1,002	581	138
Interest rate options	179,336	91,720	528	110	-	392
Cross currency swap	44,423	44,423	2,267	314	375	333
Interest rate instruments	**368,934**	**269,216**	**4,007**	**1,426**	**956**	**863**
Derivative financial instruments	**430,121**	**354,717**	**4,439**	**2,671**	**1,602**	**1,802**

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

	2017	Increase	Decrease	2018
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	**8,420,739**	66,341	-65,030	**8,422,050**
Treasury shares	**37,261**	65,030	-66,341	**35,950**
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, grants allocations of company shares for certain employees and directors at Virbac and at its subsidiaries.

Fair value of performance-related stock grant plans

In accordance with IFRS 2, these plans were valued in Virbac's consolidated accounts based on the allocated shares' fair value on their allocation date.
In regards to the 2016 performance-related stock grants plan, the executive board deemed during 2018 that the performance indicator objectives, which had been extended to December 31, 2019, would not be attainable, given the financial projections for this new horizon. The Group has taken this observation under advisement, and the

expense recognized for the 2016 plan over the past few financial years now appears in the 2018 financial year, generating income of €600 thousand.

The 2018 performance-related stock grants plan, allocated on July 20, 2018, was valued at €1,788 thousand, which translates into 15,000 shares amounting to €119.20 each. This amount was initially deferred over the vesting period of 41 months.

A34. Dividends

In 2018, 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 2018 financial year.

A35. Workforce

Evolution of workforce by geographic area

	2018	2017	*Change*
France	1,340	1,391	*-3.7%*
Europe (excluding France)	349	331	*5.4%*
Latin America	968	952	*1.7%*
North America	476	483	*-1.4%*
Asia	1,317	1,232	*6.9%*
Pacific	313	301	*4.0%*
Africa & Middle East	130	134	*-3.0%*
Workforce	**4,893**	**4,824**	***1.4%***

Distribution of workforce by position

	2018		2017	
Production	1,748	*35.7%*	1,772	*36.7%*
Administration	582	*11.9%*	584	*12.1%*
Commercial	2,047	*41.8%*	2,019	*41.9%*
Research & Development	516	*10.5%*	449	*9.3%*
Workforce	**4,893**	***100.0%***	**4,824**	***100.0%***

A36. Information on related parties

Compensation of supervisory board members

	2018		2017	
	Compensation	Directors' fees	Compensation	Directors' fees
Marie-Hélène Dick	€95,000	€21,000	€95,000	€21,000
Jeanine Dick	-	-	-	€4,000
Pierre Madelpuech	-	€21,000	-	€6,000
Philippe Capron	-	€24,000	-	€24,000
Olivier Bohuon	-	€21,000	-	€21,000
Company Asergi	-	-	-	€6,000
Company Galix Conseils represented by Grita Loebsack	-	€21,000	-	€21,000
Solène Madelpuech	-	€21,000	-	€17,000
Non-voting advisor Company XYC Unipessoal Lda represented by Xavier Yon	-	€21,000	-	€21,000
Total	**€95,000**	**€150,000**	**€95,000**	**€141,000**

Compensation of executive board members

As at December 31, 2018 - Gross amount due

	Fixed compensation (including benefits in kind)	Compensation linked to terms of office for administrators in Group companies	Variable compensation	Total compensation
Christian Karst	€267,832	€45,000	€147,250	**€460,082**
Habib Ramdani	€203,888	-	€77,140	**€281,028**
Sébastien Huron	€336,781	€25,000	€166,250	**€528,031**
Jean-Pierre Dick	€18,840	-	-	**€18,840**
Total	**€827,341**	**€70,000**	**€390,640**	**€1,287,981**

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**

Compensation paid for the 2018 financial year represents fixed compensation paid in 2018, compensation paid in 2018 in relation to terms of office for directors in Group companies, variable compensation paid in 2019 in relation to 2018 and benefits in kind granted in 2018 (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 €3,755 thousand as of December 31, 2018 compared to €2,382 thousand at the 2017 year-end. A change of -€271 thousand was recognized in the income statement, and a change of -€1,103 thousand was recorded under other comprehensive income.

■ **Forced retirement severance pay**
- the 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, 2019.

■ **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	Number of shares 2018 plan
Christian Karst	1,000	1,200
Sébastien Huron	1,000	1,600
Habib Ramdani	400	1,000
Total	**2,400**	**3,800**

Throughout the 2013, 2014 and 2015 financial years, no performance-related stock grants were allocated.
In the final analysis, the 2016 plan shares were not issued (see note A33).

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	2018	2017
PP Manufacturing Corporation	NDNE 9/90 Corporate Center LLC	30/09/2026	6,695	4,646
Virbac Uruguay	Banco de la Republica Oriental del Uruguay	-	3,493	4,858
Guarantees given			**10,188**	**9,503**

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. Since management considered the risk of resource outflows to be very low, no provision was recognized.

A38. Scope of consolidation

Company name	Locality	Country	2018		2017	
			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	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
Virbac Hayvan Sağlığı Limited Şirketi	Istanbul	Turkey	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 levels**

Company name	Locality	Country	2018		2017	
			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
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 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	42.85%	Equity method

*** Pre-consolidated levels**

Statutory auditors' report on the consolidated financial statements

Year ended December 31, 2018

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, 2018.
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 at December 31, 2018 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, 2018 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 L823-9 and R823-7 of the French commercial code 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.

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.

Key audit matter: measurement of goodwill and indefinite-life intangible assets

As of December 31, 2018, goodwill and indefinite-life intangible assets are recorded in the Group's consolidated balance sheet in the amount of €309.7 million and €156.0 million, respectively.

Goodwill and indefinite-life intangible assets of the Group's American subsidiary (Virbac United States) are valued at €221.4 million and €48.1 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 cash-generating unit (CGU) of Leishmaniosis vaccine are valued at zero (net value of the goodwill after impairment) and €15.3 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 entity. We also analyzed the consistency of these cash flow forecasts with the most recent management estimates, as presented to the management board in the budget process, being precised that the management board approves the main business plans;
  - the long-term growth rates underlying these flows, substantiating them with external market analyses;
- we assessed the discount rates adopted by management, comparing it with our own estimated rates, 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.

SPECIFIC VERIFICATIONS

As required by law, we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the management report of the executive board.

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

We attest that the consolidated non-financial statement required by article L225-102-1 of the French commercial code is included in the information pertaining to the Group presented in the management report, being specified that, in accordance with the provisions of article L823-10 of the code, we have not verified the fair presentation and the consistency with the consolidated financial statements of the information contained therein and should be reported on by an independent assurance services provider.

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, 2018, Novances-David & Associés and Deloitte & Associés were in the 20th year and 15th 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 risks 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 consolidated financial statements.

As specified in article L823-10-1 of the French commercial code, 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 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 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 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 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 L822-10 to L822-14 of the French commercial code 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 5, 2019

The statutory auditors
French original signed by

Novances-David & Associés	**Deloitte & Associés**
Jean-Pierre Giraud	Philippe Battisti

Statutory accounts

FINANCIAL STATEMENTS

Balance sheet - Assets

in € thousand	Notes	Gross amount	Depreciation and provisions	2018 Net amount	2017 Net amount
Concessions, patents, licences and brands		48,868	33,050	15,818	18,174
Other intangible assets		53,976	41,898	12,078	11,210
Intangible assets	**B1**	**102,844**	**74,948**	**27,896**	**29,384**
Land		1,683	-	1,683	1,790
Buildings		106,931	65,608	41,323	40,889
Technical facilities, materials and industrial equipment		104,984	68,470	36,514	37,961
Other tangible assets		4,950	3,666	1,284	1,136
Prepayments on assets and assets in progress		5,931	-	5,931	8,195
Tangible assets	**B2**	**224,479**	**137,744**	**86,735**	**89,971**
Shares in companies and other receivables		455,113	538	454,575	454,472
Other long-term securities		-	-	-	-
Loans		188,933	-	188,933	191,749
Other financial assets		1,769	-	1,769	1,785
Financial assets	**B3**	**645,815**	**538**	**645,277**	**648,006**
Total fixed assets		**973,138**	**213,230**	**759,908**	**767,361**
Raw materials		24,920	1,064	23,856	22,421
Work in progress		13,827	1,192	12,635	11,309
Semi-finished and finished goods		12,309	525	11,784	10,588
Inventories and work in progress	**B4**	**51,056**	**2,781**	**48,275**	**44,318**
Trade receivables and related accounts		57,867	-	57,867	60,896
Employee-related receivables		51	-	51	55
Income tax receivables		6,746	-	6,746	6,643
Other social and State receivables		3,305	-	3,305	6,132
Other receivables		99,818	-	99,818	86,440
Current receivables	**B5**	**167,787**	**-**	**167,787**	**160,166**
Advances and prepayment on orders		143	-	143	567
Marketable securities	**B6**	5,366	304	5,062	5,065
Available funds	**B7**	12,386	-	12,386	9,021
Cash and cash equivalents		**17,895**	**304**	**17,591**	**14,653**
Prepaid expenses		2,240	-	2,240	2,605
Deferred charges		1,047	-	1,047	906
Unrealised foreign exchange losses		18,205	-	18,205	16,478
Accruals and other assets	**B8**	**21,492**	**-**	**21,492**	**19,989**
Total assets		**1,231,368**	**216,315**	**1,015,053**	**1,006,487**

Balance sheet - Liabilities

in € thousand	Notes	2018	2017
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		306,898	272,363
Result for the period		36,197	34,535
Investment grants		203	71
Regulated provisions		32,465	31,005
Equity	**B9**	**466,642**	**428,853**
Government loans		-	-
Other equity		**-**	**-**
Provisions for contingencies		19,372	10,243
Provisions for foreign exchange losses		3,324	3,975
Provisions for litigations		-	-
Provisions for liabilities and charges	**B10**	**22,696**	**14,218**
Bonds		-	-
Bank borrowings		400,176	427,441
Bank overdrafts - current		18,534	15,881
Bank overdrafts - other		-	-
Other borrowings and financial liabilities		41	27
Related borrowings and financial liabilities		30,014	25,714
Financial liabilities	**B5 & B11**	**448,765**	**469,063**
Trade payables and related accounts		37,048	50,413
Employee-related payables		11,782	10,448
Social payables		8,166	10,209
Income tax payables		-	-
Value added tax		984	179
Other social and State payables		3,037	2,834
Payables to fixed assets suppliers and related accounts		-	-
Other payables		1,024	1,012
Current liabilities	**B5**	**62,041**	**75,095**
Prepaid income		-	-
Unrealised foreign exchange gains	B8	14,909	19,258
Accruals and other liabilities	**B12**	**14,909**	**19,258**
Total liabilities		**1,015,053**	**1,006,487**

Income statement

in € thousand	Notes	2018	2017	*Variation*
Sales of goods and services		266,519	264,201	
Net sales	**R1**	**266,519**	**264,201**	*0.9%*
Production transferred to inventory		3,453	1,670	
Capitalization of expenses		891	1,099	
Government grants		6	-	
Reversals of provisions and depreciations, expense transfers		5,622	6,561	
Other operating income		2,718	4,433	
Operating income	**R2**	**12,690**	**13,763**	*-7.8%*
Purchases of goods		-31,613	-28,501	
Purchases of raw materials and other supplies		-59,465	-59,930	
Change in inventories (raw materials and supplies)		453	-2,705	
Other purchases and external expenses		-72,278	-77,147	
Taxes and other contributions		-6,593	-5,936	
Wages and salaries		-58,795	-58,060	
Social contributions		-27,583	-27,353	
Depreciations and provisions of fixed assets		-16,469	-16,544	
Provisions for current assets		-2,781	-3,292	
Provisions for risks and charges		-3,023	-546	
Other operating expenses		-5,000	-5,552	
Operating expenses	**R2**	**-283,147**	**-285,566**	*-0.8%*
Net operating income		**-3,938**	**-7,602**	*-48.2%*
Dividends received		29,722	33,124	
Other interest receivable and similar income		13,318	18,595	
Reversals of provisions and expense transfers		4,104	2,245	
Foreign exchange gains		39,002	75,598	
Net income on the disposals of marketable securities		-	-	
Financial income	**R3**	**86,146**	**129,562**	*-33.5%*
Depreciations and provisions		-4,166	-4,104	
Other interest paid and similar expenses		-13,929	-16,739	
Foreign exchange losses		-35,155	-74,023	
Net expenses on the disposals of marketable securities		-3	-3	
Financial expenses	**R3**	**-53,253**	**-94,869**	*-43.9%*
Net financial income		**32,893**	**34,693**	*-5.2%*
Profit before tax		**28,955**	**27,091**	*6.9%*
Non-recurring income from operations		2,789	166	
Non-recurring income from capital transactions		6,051	190	
Reversals of provisions and expense transfers		4,888	5,115	
Non-recurring income	**R4**	**13,728**	**5,471**	*150.9%*
Non-recurring expenses from operations		-809	-96	
Non-recurring expenses from capital transactions		-1,000	-545	
Depreciations and provisions		-13,079	-7,120	
Non-recurring expenses	**R4**	**-14,888**	**-7,761**	*91.8%*
Net non-recurring income		**-1,160**	**-2,290**	*-49.3%*
Employee profit-sharing		-470	45	
Income tax	**R5**	8,872	9,689	
Result for the period		**36,197**	**34,535**	*4.8%*

Cash flow statement

in € thousand	2018	2017
Result for the period	**36,197**	**34,535**
Elimination of depreciations and provisions	27,176	19,566
Elimination of gains and losses on disposals	-4,850	142
Other income and expenses with no cash impact	-881	-505
Cash flow	**57,642**	**53,738**
Effect of net change in inventories	-3,956	699
Effect of net change in trade receivables	3,029	3,626
Effect of net change in trade payables	-13,365	3,738
Effect of net change in other receivables and payables	-11,467	-34,493
Effect of change in working capital requirements	**-25,759**	**-26,430**
Net cash flow generated by operating activities	**31,883**	**27,308**
Acquisitions of intangible assets	-4,071	-3,889
Acquisitions of tangible assets	-8,142	-10,620
Acquisitions of financial assets	-12,434	-267,791
Disposals of intangible and tangible assets	20,719	327,825
Net flow allocated to investing activities	**-3,928**	**45,525**
Dividends paid to the owners of the parent company	-	-
Increase/decrease in capital	-	-
Merger premium	-	-
Other increases related to merger	-	-
Investment grants	6	70
Other equity	-	-
Issuance/repayments of debt	-27,252	-75,201
Net cash from financing activities	**-27,246**	**-75,131**
Change in cash position	**709**	**-2,298**

Statement of change in cash position

in € thousand	2018	2017
Marketables securities	-3	-382
Available funds	3,365	8,423
Change in cash position assets	**3,362**	**8,041**
Bank overdrafts - current	-2,653	-10,339
Change in cash position liabilities	**-2,653**	**-10,339**
Net change in cash position	**709**	**-2,298**

APPENDICES TO THE STATUTORY ACCOUNTS

Significant events of the financial year

A syndicated loan of €420 million, drawn in euros and American dollars, contracted with a pool of banks and repayable at maturity, with an initial maturity of April 2020, had its term extended until April 9, 2022, following the extension agreement that has been signed on March 23, 2018 by all lenders.
Virbac has a division producing intramammaries at the Carros site. The Group decided to gradually close this workshop and outsource production. A manufacturing contract was set up in September 2018. A provision of €3.9 million was made over the financial period for future costs associated with this production transfer, in particular those related to the updating of marketing authorization files.
In the dispute over trademark infringement and unfair competition between Virbac and a competitor in France, a decision was rendered by the Court of Cassation on January 31, 2018, partially quashing the ruling of the Court of Appeal of Lyon dating back to May 13, 2015. In keeping with this decision, Virbac was granted in 2018 a reimbursement of the compensation the Group had paid in the amount €2.0 million following the ruling of the Court of Appeal of Lyon. Given the uncertainty persisting over the referral decision that may be rendered by the Court of Appeal to which the competitor referred the matter, in addition to another ongoing court action on a European-wide basis, a provision has been recognized for the same amount.
At the end of April 2018, a company of the Group, the Virbac Distribution company, based in Wissous, sold its business goodwill to its historical provider of logistical services. This restructuring led to the closure of the site. At the end of the year, Virbac sold the building and land that housed this operation for an amount of €5.5 million.

Events subsequent to the financial year-end

No significant events subsequent to the financial year-end.

Accounting rules and methods

The accounts for the financial year ended December 31, 2018 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. ANC regulation 2018-01 concerning changes in methods, estimates and correction of errors is applicable to financial years beginning October 9, 2018.

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 as long 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 7.7%.

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 thousand;
- 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 7.7%;
- 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 AA10Y+ 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.

NOTES TO THE STATUTORY ACCOUNTS

B1. Intangible assets

in € thousand	2017	Increases	Decreases	Transfers	2018
Trademarks and filing fees for trademarks	5,332	-	-	-	5,332
Patents and licences	16,283	-	-	-	16,283
Marketing authorisations (AMM)	26,310	-	-	-	26,310
Domain names	4	-	-	-	4
Distribution rights	898	-	-	-	898
Goodwill	442	-	-	-	442
Other intangible assets	40	-	-	-	40
Softwares	44,848	1,346	-	3,034	49,228
Advances, prepayments on intangible assets and assets in progress	4,809	2,725	-193	-3,034	4,307
Gross value	**98,966**	**4,071**	**-193**	**-**	**102,844**
Depreciation and amortisation	-69,312	-5,226	-	-	-74,538
Provisions	-270	-140	-	-	-410
Depreciation and provisions	**-69,582**	**-5,366**	**-**	**-**	**-74,948**
Net value	**29,384**	**-1,295**	**-**	**-**	**27,896**

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 €3,000 thousand;
- the Doxycycline 50% Marketing authorization at €690 thousand (net value after impairment and depreciation: zero);
- the Schering-Plough Marketing authorization at €18,334 thousand;
- the Virbamec, Equimax and Eraquell Marketing authorizations at €4,000 thousand;
- the Cyclosporin Marketing authorization at €1,500 thousand;
- 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 in the amount of €1,110 thousand were made to the various systems in the financial year, including the commissioning of the Group's accounting plan project.
Distribution licenses and agreements were recorded in assets under construction for the year for a total value of €1,321 thousand.
Staff costs to be capitalized were recorded as of December 31, 2018 in assets under construction on IT projects, for a value of €600 thousand.

B2. Tangible assets

in € thousand	2017	Increases	Decreases	Transfers	2018
Land	1,790	-	-107	-	1,683
Buildings	102,604	2,550	-1,018	2,795	106,931
Equipment and tools	102,389	3,914	-2,071	752	104,984
Other tangible assets	4,564	396	-10	-	4,950
Tangible assets in progress	4,606	1,283	-	-2,694	3,195
Pending invoices for fixed assets	2,626	-	-	-849	1,777
Advances and prepayment orders	963	-	-	-4	959
Gross value	**219,542**	**8,143**	**-3,206**	**-**	**224,479**
Land	-	-	-	-	-
Buildings	-61,715	-4,737	844	-	-65,608
Equipment and tools	-64,428	-6,514	2,472	-	-68,470
Other tangible assets	-3,428	-248	10	-	-3,666
Tangible assets in progress	-	-	-	-	-
Pending invoices for fixed assets	-	-	-	-	-
Advances and prepayment orders	-	-	-	-	-
Depreciation and provisions	**-129,571**	**-11,499**	**3,326**	**-**	**-137,744**
Land	1,790	-	-107	-	1,683
Buildings	40,889	-2,187	-174	2,795	41,323
Equipment and tools	37,961	-2,600	401	752	36,514
Other tangible assets	1,136	148	-	-	1,284
Tangible assets in progress	4,606	1,283	-	-2,694	3,195
Pending invoices for fixed assets	2,626	-	-	-849	1,777
Advances and prepayment orders	963	-	-	-4	959
Net value	**89,971**	**-3,356**	**120**	**-**	**86,735**

Investments were made during the 2018 financial year on different sites, with the following in particular:

- refurbishments at VB1 for €595 thousand;
- upgrades at VB7 for €608 thousand;
- construction of a cafeteria at VBD for €85 thousand;
- installation of an air handling unit at VB6 and work to bring it into compliance for €545 thousand.

Equipment was purchased or commissioned, such as, for example:

- a new tank at VB6 for €230 thousand;
- a Bio2 transmission line for €386 thousand;
- a transfer line at Bio3 for €149 thousand.

A provision for impairment of equipment has been recognized since 2012. In the financial statements as of December 31, 2018, this impairment amounted to €441 thousand for decommissioned filtration systems and to €95 thousand for unused equipment. The impact of the adjustment of this provision on the result for the 2018 financial year is €84 thousand (income), taking into account depreciation recognized elsewhere.

B3. Financial Assets

in € thousand	2017	Increases	Decreases	Transfers	2018
Long-term investments	453,856	1,257	-	-	455,113
Related account receivable	616	-	-616	-	-
Other equity securities	-	-	-	-	-
Loans and other financial assets	193,534	12,988	-15,820	-	190,702
Gross value	**648,006**	**14,245**	**-16,436**	**-**	**645,815**
Impairment of financial assets	-	-538	-	-	-538
Provisions	**-**	**-538**	**-**	**-**	**-538**
Net value	**648,006**	**13,707**	**-16,436**	**-**	**645,277**

Equity investments

In 2018, Virbac created a new subsidiary in Turkey, Virbac Hayan Sagligi Limited Sirketi, whose 100% stake amounts to €2,000. Over the financial year, SBC Virbac Ltd. received a capital increase in the amount of €1,254 thousand.

in € thousand	2018
SBC Virbac Limited	1,254
Virbac Hayan Sagligi Limited Sirketi	2
Capital increases, acquisitions and start-ups	**1,256**

Other financial assets

The ordinary shareholders' meeting of June 20, 2018 authorized Virbac company to buy back treasury shares in accordance with article L225-209 of the French commercial code. 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.*:

- €58,599 thousand to Virbac Chile;
- €4,474 thousand to SBC Virbac (Hong-Kong);
- €715 thousand to Virbac Japan ;
- €380 thousand to Virbac Hayan Sagligi Limited Sirketi (Turkey);
- €115,284 thousand (or US$ 132 million) to Virbac United States;
- €8,734 thousand (or US$ 10 million) to SBC Virbac Biotech (Taiwan).

The loan granted to Virbac Uruguay for a value as of December 31, 2017 of €834 thousand was repaid in full during the 2018 financial 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. Loans to Virbac United States and SBC Virbac Biotech, were not hedged; rather they were covered by a *de facto* hedge matched by the American dollar loan of the same amounts and the same repayment dates.

B4. Inventories and work in progress

in € thousand	2018 Gross	2017 Gross	Change in inventories of raw materials and other supplies	Change in inventories of work-in-progress and finished goods
Raw materials and supplies	24,920	24,467	-453	-
Work-in-progress	13,827	11,849	-	1,978
Finished goods	12,309	10,834	-	1,475
Inventories and work-in-progress	**51,056**	**47,150**	**-453**	**3,453**

As of December 31, 2018, provisions for inventory depreciation amounted to:
- raw materials: €1,064 thousand;
- manufacturing work-in-progress: €1,192 thousand;
- finished goods: €525 thousand.

The company has not recognized impairment for the inventory of spare parts.

B5. Receivables and payables

in € thousand	2018 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	-	-	-	-
Loans	188,933	28,309	136,171	24,454
Other financial assets	1,769	-	1,769	-
Total fixed assets	**190,702**	**28,309**	**137,940**	**24,454**
Accounts receivable and related accounts*	57,867	57,867	-	-
Other receivables	110,108	110,108	-	-
Prepaid expenses	2,240	2,240	-	-
Current assets	**170,215**	**170,215**	**-**	**-**
Total receivables	**360,917**	**198,524**	**137,940**	**24,454**
Bank loans	400,176	25,938	288,135	86,103
Current bank overdrafts	18,534	18,534	-	-
Bank overdraft	-	-	-	-
Loans and miscellaneous financial debts	41	27	-	-
Owed to subsidiaries (current accounts)	30,014	30,014	-	-
Borrowings	**448,765**	**74,513**	**288,135**	**86,103**
Accounts payable and related accounts**	37,048	37,048	-	-
Tax and social payables	23,974	23,974	-	-
Payables to fixed assets suppliers and related accounts	-	-	-	-
Other payables	1,024	1,024	-	-
Prepaid income	-	-	-	-
Operating liabilities	**62,046**	**62,046**	**-**	**-**
Total payables	**510,811**	**136,559**	**288,135**	**86,103**

*including assignment of receivables (factoring): €1,024 thousand
**of which bills of exchange payable: none

As of 31 December, 2018, the amount of receivables assigned amounted to €1,024 thousand (classified as a reduction of trade receivables) and the on-going funding to €1,040 thousand. The impairment provision for trade receivables in the amount of €464 thousand, as recognized in December 2017, was reversed in full during the year; no provision was recorded in December 2018. Bad debts totaling €242 thousand were recognized as expenses during the financial year.

B6. Marketable securities

As of December 31, 2018, this item includes SICAV for €789 thousand, the treasury shares of the 2018 performance plan for an amount of €1,889 thousand, as well as those of the liquidity contract for €1,983 thousand and those of the previous performance-related grants for a total value of €705 thousand.

in € thousand	2017	Increases	Decreases	Transfers	2018
SICAV	**464**	325	-	-	**789**
Treasury shares (liquidity contract)	**2,136**	-	-153	-	**1,983**
Performance-related stock grants	**1,500**	-	-	389	**1,889**
Treasury shares pending (cancelled plans)	**1,094**	-	-	-389	**705**
Marketable securities	**5,194**	**325**	**-153**	**-**	**5,366**

As of December 31, 2018, Virbac is recording an insignificant unrealized capital gain on SICAV (€186). Concerning treasury shares, provision has been made for an unrealized capital loss of €187 thousand realized on the liquidity contract, as well as on the treasury shares arising from former performance-related grants, for a value of €117 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).
During the financial year, the performance-related grant introduced in 2016 was cancelled (12,150 treasury shares) and a new 2018 grant was created (15,000 treasury shares), whose acquisition cost in the amount of €1,889 thousand will be staggered until December 2021.

B7. Available funds

As of December 31, 2018, available funds consisted only of the credit balances in the bank account which amounted to €1,030 thousand and to financial instruments in the amount of €11,356 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 accounted as a stock over the 2018 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 €18,205 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 €11,506 thousand in account 478700. A provision for the amount of the unhedged financial risk was booked for a value of €3,324 thousand as of December 31, 2018. This is linked in the main to currency loans made to subsidiaries. The “Other hedges (natural)” item includes a American dollar loan granted to the American subsidiary and the Taiwanese subsidiary naturally hedged by a bank draft in the same currency.

en k€	Trade receivables and payables	Financial receivables and payables	Derivative financial instruments	Total
Unrealized foreign exchange losses	1,291	16,733	182	**18,206**
Change in value of financial instruments	-14	-11,492		**-11,506**
Others hedges (natural)	-	-3,194		**-3,194**
Provision for foreign exchange losses	1,277	2,047		**3,324**

B9. Equity

Share capital

As of December 31, 2018, 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, 2018, Virbac held 35,950 treasury shares acquired on the market for a total of €4,577 thousand excluding fees, for an average price of €127.39 per share. During the financial year, the company bought 65,030 treasury shares and sold 66,341 as part of the market-making contract. The ordinary shareholders' meeting of June 20, 2018 decided not to pay dividends. The entire profit for the previous financial year was allocated to retained earnings.

	Prior to appropriation of results	2017 allocation of net income	After allocation of net income	Increases	Decreases	2018
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	2017 allocation of net income	After allocation of net income	Increases	Decreases	2018
Share capital	**10,573**	-	10,573	-	-	**10,573**
Share and merger premiums	**6,534**	-	6,534	-	-	**6,534**
Financial year results	**34,535**	-34,535	-	36,197	-	**36,197**
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	**272,363**	34,535	306,898	-	-	**306,898**
Distribution of dividends	**-**	-	-	-	-	**-**
Investment grants	**70**	-	-	142	-9	**203**
Regulated provisions	**31,005**	-	31,005	4,935	-3,475	**32,465**
Equity	**428,852**	**-**	**428,782**	**41,274**	**-3,484**	**466,642**

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	2017	Allowances	Reversals of amounts used	Reversals of amounts not used	2018
Retirement and severance pay allowances	5,933	377	-	-	6,310
Provisions for supplementary pensions schemes	2,381	2,254	-	-	4,635
Provisions for foreign exchange losses	3,975	3,324	-3,975	-	3,324
Provisions for stock grants	321	259	-321	-	259
Provisions for risks and charges	1,608	7,600	-1,040	-	8,168
Provisions for risks and charges	**14,218**	**13,814**	**-5,336**	**-**	**22,696**
Impairment of fixed assets	890	1,214	-620	-	1,484
Impairment of current assets	3,295	3,085	-3,295	-	3,085
Provisions for impairment	**4,185**	**4,299**	**-3,915**	**-**	**4,569**
Provisions	**18,403**	**18,113**	**-9,251**	**-**	**27,265**

During the financial year, the company recognized €377 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: 1.5%;
- 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 €5,244 thousand in the financial year 2018.
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 2018 financial year, a provisions was made for an amount of €2,255 thousand, including €880 thousand in social security contributions. Payments have already been made for the previous financial years in respect of the pre-financing of the scheme. These amounts are managed by an insurance company and are covered by risk-free investments. The value relating to the hedging asset was €89 thousand as of December 31, 2018.
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 with respect to the 2016 performance grant was reversed in the amount of €322 thousand following cancellation of the grant. A new 2018 performance grant was created, and a provision amounting to €259 thousand was recorded for the financial year. The vesting period is set at December 31, 2021.
The other provisions for risks and charges specifically include a provision of €238 thousand for commercial disputes, a provision of €199 thousand for industrial disputes, a provision of €150 thousand for disputes following reimbursement of the Schuldschein contract, a provision of €2,000 thousand for disputes with one of our main competitors, a provision of €1,035 thousand for miscellaneous risks, as well as a provision of €3,900 thousand related to the production of intramammaries at the Carros site. The Group decided to gradually close this workshop and outsource production. A provision was therefore made during the financial period for the costs related to this production transfer.
The provision for impairment of tangible assets mainly involves unused or decommissioned equipment in the amount of €536 thousand (see note B2) as well as equity investments in the amount of €538 thousand by the Virbac Distribution company, an entity without any activity since May 2018 after the transfer of its business goodwill. The impaired current assets reflect inventories and work in progress totaling €2,781 thousand as well as the impairment of treasury shares arising from former performance-related grants and the liquidity contract for a value of €304 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 American dollars, contracted with a pool of banks and repayable in full upon maturity in April 2020, had its term extended until April 9, 2022, once the extension agreement was received by all of the lenders on March 23, 2018;
- 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, 2018, the position of the funding instruments was as follows:
- the syndicated loan was drawn for amounts of €77 million and US$ 152 million;
- the market-based contracts amounted to €15 million and US$ 15.5 million;
- the bilateral loans and PIB and EIB financing amounted to €80.5 million and US$ 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.

In the first quarter of 2018, Virbac applied for a waiver to have the financial covenant compliance clause relaxed for 2018. This request was granted by all of *Schuldschein's* bank partners and investors. As such, the ratio of net debt to Ebitda was expected to be below 5.0 at the end of June 2018 and below 4.25 at the end of December 2018.
As of December 31, the ratio was 3.46, still under this waiver ceiling. It should be noted that, beginning in 2019, the initial contract covenant clause and related financial conditions will apply. As such, the ratio of net debt to Ebitda is expected to be below 3.75 as of December 31 and below 4.25 as of June 30 of each year. 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 2018 financial year.

Conversion gains

These correspond to unrealized foreign exchange gains following the revaluation of currency receivables and payables at the closing price for €14,909 thousand. These gains are offset by unrealized exchange losses in the amount of €182 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.

en k€	Trade receivables and payables	Financial receivables and payables	Derivative financial instruments	Total
Unrealized foreign exchange gains	70	3,333	11,506	**14,909**
Change in value of financial instruments	-42	-140		**-182**
Latent exchange gains	28	3,193		**3,221**

R1. Sales

Breakdown of revenue between French and export sales

in € thousand	2018	2017
France	61,916	68,154
Export	204,604	196,047
Sales	**266,520**	**264,201**

Breakdown of revenue by type

in € thousand	2018	2017
Sales of finished goods and merchandise	255,274	249,459
Services	11,246	14,742
Sales	**266,520**	**264,201**

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, 2018, subcontracted research and development costs amounted to €7,187 thousand.

Competitiveness and employment tax credit

During the 2018 financial year, Virbac recognized €1,177 thousand in CICE tax credits minus personnel expense following the recommendation of the accounting standards board ANC.
The CICE for the years 2015 to 2018 of the integrated tax group were pre-financed with a bank for an overall value of €5,737 thousand.
The loan monies were used to fund expenses incurred by Virbac strengthening its Carros sites in 2018:

- tangible investments:
  - €4,875 thousand for production;
  - €405 thousand for R&D equipment;
- personnel:
  - creation of 18 permanent contracts;
  - creation of 7 temporary contracts.

Foreign exchange differences

In accordance with the ANC 2015-05 regulation, implemented over the 2018 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 2018 financial year amounts to €560 thousand:

- foreign exchange in the amount of €1,894 thousand booked in accounts 756;
- foreign exchange in the amount of €2,454 thousand booked in accounts 656.

R3. Financial income and expenses

As of December 31, 2018, the financial result has decreased of €1.8 million (-5.2%) compared with 2017. This change is due to the €3.4 million drop in dividends received and the €5.3 million decrease in income from receivables. An increase in gains on transactions and foreign exchange provisions, amounting to €4.7 million, was recorded. Interest expense on loans and credit lines were down €2.8 million. This year, provisions made for impairment of equity investments and marketable securities in the amount of €713 thousand were recorded as expenses.

Financial expenses

in € thousand	2018	2017
Provisions for foreign exchange losses	-3,324	-3,975
Provisions for impairment of securities	-842	-129
Allowances for amortisation and provisions	**-4,166**	**-4,104**
Interest, loans and credit lines	-13,569	-16,330
Other financial charges	-363	-412
Foreign exchange losses	-35,155	-74,023
Other interest paid and similar expenses	**-49,087**	**-90,765**
Financial expenses	**-53,253**	**-94,869**

Financial income

in € thousand	2018	2017
Income from capital share	29,722	33,124
Reversal of provisions	4,104	2,245
Foreign exchange gains	39,003	75,598
Net income from sales of marketable securities	-	-
Income from various receivables	13,317	18,595
Financial income	**86,146**	**129,562**

R4. Non-recurring expenses and income

As of December 31, 2018, the company posted a net non-recurring loss of €1.2 million, an improvement of €1.1 million compared with the 2017 financial year. A capital gain of approximately €5 million was recorded at the time of the sale of a facility. Provisions for risks and charges put a strain on profit in the amount of €5.5 million, without taking into account the dispute with on one of our major competitors for which a repayment of €1950 thousand was received during the financial year.

Non-recurring expenses

in € thousand	2018	2017
Net values of fixed asset disposals	-1,000	-545
Tax penalties	-3	-54
Other non-recurring	-806	-42
Allowances for regulated provisions	-4,936	-4,927
Allowances for provisions for risks and charges	-7,467	-1,453
Allowances for other provisions	-676	-740
Non-recurring expenses	**-14,888**	**-7,761**

Non-recurring income

in € thousand	2018	2017
Income from disposal of fixed assets	6,051	190
Reversals of regulated provisions	3,475	3,779
Reversals of provisions for risks and charges	792	684
Reversals of provisions for extraordinary impairments	620	653
Transfers of extraordinary expenses	-	-
Miscellaneous income	2,790	165
Non-recurring income	**13,728**	**5,471**

R5. Income tax

As of December 31, 2018, 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 €18 thousand. As of December 31, 2018, a €6,487 thousand research tax credit and a €35 thousand corporate sponsorship tax credit were recognized. If Virbac had been taxed separately, it would have only recognized a total tax income equivalent to €6,523 thousand of tax credits. As a result of tax consolidation, Virbac this year recognized a tax savings of €2,830 thousand.

Increases and decreases of the future tax liability

The 2018 Finance Law provides for a gradual reduction in income tax, dropping to 25.83% in 2022. The impact for Virbac will have an effect on 2019 with a rate reduced to 32.02%, versus 34.43%, as of 2018.
Given this reduction and the prospects for use, tax relief and tax increases are calculated based on a rate of 32.02% for 2019, beyond which the rate of 25.83% will apply.

in € thousand	2018		2017	
Tax rate	**32.02 %**	**25.83 %**	**34.43 %**	**25.83 %**
Special depreciation allowances	1,172	7,440	1,134	7,158
Increases related to timing differences		**8,612**		**8,292**
Solidarity contribution	128	-	144	-
Unrealised gains on investments of cash	-	-	1	-
Unrealised foreign exchange gains	9	-	2,325	-
Retirement obligations	-	2,827	-	2,148
Corporate sponsorship tax credit	38	-	73	-
Other provisions	188	17	54	98
Total decreases by tax rate	**363**	**2,844**	**2,597**	**2,246**
Total decreases related to timing differences		**3,207**		**4,843**
Tax carry forwards	-	-9,190	-	-7,421
Items to be charged to the tax		**-9,190**		**-7,421**

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	2018 Taxes	Net
Financial year results	**27,325**	**8,872**	**36,197**
Special depreciation allowances	1,461	-503	958
Other regulated provisions	-	-	-
Exceptional evaluations (allowances and reversals)	**1,461**	**-503**	**958**
Net income excluding exceptional tax evaluations	**28,786**	**8,369**	**37,155**

Breakdown of the 2018 income tax

in € thousand	Profit before taxes	Tax owed	Net income after taxes
Operating profit from ordinary activities	28,485	2,258	**30,743**
Non-recurring result	-1,160	91	**-1,069**
Miscellaneous tax credits	-	6,523	**6,523**
Net income for accounting purposes	**27,325**	**8,872**	**36,197**

A1. Lease finance and operating lease transactions

Operating lease agreements

Virbac signed operating lease agreements for computers. As of December 31, 2018, the commitment in terms of capital amounted to €2,062 thousand.

A2. Off-balance sheet commitments

in € thousand	2018	2017
Securities, deposits, letters of comfort and guarantees	46,904	39,843
- of which extended to related companies	46,904	39,843
Commitments given	**46,904**	**39,843**
Forward exchange contracts	39,494	61,958
OTC options exchange	21,693	21,017
Swap rate	145,175	133,073
Interest rate options	179,336	261,216
Crossed currencies swap	44,423	44,423
Reciprocal commitments	**430,121**	**521,687**
Real property finance leases	-	-
Finance leases	2,062	2,058
Others commitments	**2,062**	**2,058**

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, 2018:

in € thousand	Trade receivables Due between	Past due receivables for < 30 days	< 60 days	<90 days	>180 days	Trade receivables Impaired	Total
Third-party trade receivables	3,459	932	-	29	593	-	**5,013**

As of December 31, 2018, the Group's highest exposure to credit risk was €58,255 thousand, which represents the trade receivables as presented in the Group's consolidated financial statements. The risk on trade receivables between Group companies or €53,242 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, 2018, the amount of receivables assigned amounted to €1,024 thousand (classified as a reduction of trade receivables) and current funding was €1,040 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 suitable for 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).
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, measured throughout the 2018 financial year, was amended and adjusted upward. It was expected to be below 5.0 at the end of June 2018 and below 4.25 at the end of December 2018. 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.
The financial ratio calculated as of December 31, 2018 was 3.46, and thereby in compliance with the waiver covenant. As this application only covers 2018, the contract will revert back to the initial conditions after this period.
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	2018	2017
Fair value hedges	-361	217
Cash flow hedges	204	80
Net investment hedges	-	-
Derivatives not qualifying for hedge	-57	7
Exchange derivatives	**-214**	**304**

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	2018	2017
Fair value hedges	-	-
Cash flow hedges	3,050	565
Net investment hedges	-	-
Derivatives not qualifying for hedges	-	-
Rate derivatives	**3,050**	**565**

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, 2018 qualified for hedge. Virbac therefore does not hold any isolated open position instrument.

en k€	Nominal 2018	Nominal 2017	Positive fair value 2018	Positive fair value 2017	Negative fair value 2018	Negative fair value 2017
Forward exchange contracts	39,494	63,200	295	1,169	525	847
OTC options exchange	21,693	22,301	137	76	121	92
Exchange instruments	**61,187**	**85,501**	**432**	**1,245**	**646**	**939**
Swap rate	145,175	133,073	1,212	1,002	581	138
Interest rate options	179,336	91,720	528	110	-	392
Cross currency Swaps	44,423	44,423	2,267	314	375	333
Interest rate instruments	**368,934**	**269,216**	**4,007**	**1,426**	**956**	**863**
Derivative financial instruments	**430,121**	**354,717**	**4,439**	**2,671**	**1,602**	**1,802**

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

	2018	2017
Managers	513	507
Supervisors and technicians	403	423
Workers	188	202
Employees	17	19
Apprentices	17	19
Workforce	**1,138**	**1,170**

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	2018	2017
Accrued interest on employee profit-sharing	1	1
Accrued interest on credit line	1,307	3,189
Loans and financial debts	**1,308**	**3,190**
Provisions for pending invoices	16,406	18,573
Provisions for representation offices	76	72
Unrealised exchange differences	1,291	1,306
Accounts payable and related accounts	**17,773**	**19,951**
Third-party discounts, rebates and refunds to be obtained	12	27
Group discounts, rebates and refunds to be invoiced	2	180
Discounts, rebates and refunds to be invoiced	**14**	**207**
Provision for paid holidays (including social charges)	7,835	7,552
Provision for various bonuses (including social charges)	7,748	7,303
Provision for profit-sharing bonus	564	-
Provision for other accrued social charges	522	387
Provision for various accrued tax charges	148	73
Provision for professional training	568	563
Provision for the construction effort	256	253
Provision for the apprenticeship tax	441	427
Provision for the payroll taxes	55	-
Provision for the business added value assessment (CVAE)	121	38
Provision for the business property tax (CFE)	-	15
Provision for taxes and various duties	142	148
Provision for the solidarity contribution	398	418
Tax and social payables	**18,798**	**17,177**
Provision for various accrued tax charges	234	222
Bank overdrafts and accrued interest not yet matured	49	40
Other payables	**283**	**262**
Accrued expenses	**38,176**	**40,787**

Breakdown of accrued income

in € thousand	2018	2017
Provision for interest accrued on loans	748	1,264
Other financial assets	**748**	**1,264**
Pending third-party receivable invoices	84	117
Pending Group receivable invoices	496	853
Unrealized third-party exchange differences	70	48
Accounts receivable and related accounts	**650**	**1,018**
Miscellaneous accrued income	-	58
Pending supplier credit note invoices	-	1,405
Accrued interest	404	1
Other receivables	**404**	**1,464**
Accrued income	**1,802**	**3,746**

A7. Related parties

Related companies and investments

in € thousand	2018	2017
Long-term investments	455,113	453,857
Claims related to long-term investments	-	-
Other capitalized claims	-	-
Loans	188,933	191,749
Accounts receivable and related accounts	53,739	57,451
Other various receivables (current accounts)	92,958	79,517
Accounts payable and related accounts	4,174	5,368
Other payables (current accounts miscellaneous financial debts)	30,014	25,714
Receivables and payables	**824,931**	**813,656**
Financial expenses	-7	-71
Allowance for impairment of financial assets	538	-
Miscellaneous financial income	13,071	18,586
Reversals of impairments of financial assets	-	-
Income from investments (dividends)	29,722	33,124
Financial income and expenses	**43,324**	**51,639**

Compensation of corporate officers

The expense recognized by the company during the 2018 financial year and related to directors' attendance fees and the various compensation of the supervisory board amounted to €245,000. The expense recognized for the total compensation of the members of the executive board amounted to €1,258,707 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

The 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 were approved at the 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.

A10. Subsidiaries and investments as of December 31, 2018

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	256,721	kEUR	-	-	100.00%
Virbac France	France	240	kEUR	7,481	kEUR	-	-	99.95%
Virbac Distribution	France	382	kEUR	48	kEUR	-	-	99.84%
Virbac Nutrition	France	547	kEUR	314	kEUR	-	-	99.99%
Bio Véto Test	France	200	kEUR	430	kEUR	-	-	100.00%
Alfamed	France	40	kEUR	125	kEUR	-	-	99.60%
Foreign subsidiaries								
Virbac Nederland BV	Netherlands	45	kEUR	2,480	kEUR	-	-	100.00%
Virbac (Switzerland) AG	Switzerland	200	kCHF	1,239	kCHF	-	-	100.00%
Virbac Ltd	United Kingdom	2	kGBP	482	kGBP	-	-	100.00%
Virbac SRL	Italy	1,601	kEUR	951	kEUR	-	-	100.00%
Virbac do Brasil Indústria e Comercio Ltda	Brazil	22,032	kBRL	13,985	kBRL	-	-	100.00%
Virbac Danmark A/S	Denmark	500	kDKK	8,688	kDKK	-	710	100.00%
Virbac Mexico SA de CV	Mexico	6,197	kMXN	459,057	kMXN	-	-	99.60%
Laboratorios Virbac Mexico SA de CV	Mexico	4,000	kMXN	31,751	kMXN	-	-	99.99%
Virbac Pharma Handelsgesellshaft mbH	Germany	102	kEUR	11	kEUR	-	-	100.00%
Virbac Tierarzneimittel GmbH	Germany	440	kEUR	1,826	kEUR	-	-	100.00%
Virbac Sp. z o.o.	Poland	5	kPLN	213	kPLN	-	-	100.00%
Virbac Hungary Kft	Hungary	3,000	kHUF	61,798	kHUF	-	-	100.00%
Virbac Uruguay S.A.	Uruguay	2,173	kUSD	25,889	kUSD	-	-	99.18%
Virbac Trading (Shanghai) Co. Ltd	China	22,454	kCNY	-10,535	kCNY	-	-	100.00%
Virbac HK Trading Co Ltd	Hong Kong	517	kHKD	-509	kHKD	-	-	100.00%
Asia Pharma Ltd	Hong Kong	16,055	kHKD	-333	kHKD	-	-	100.00%
SBC Virbac Limited	Hong Kong	-	kHKD	105,060	kHKD	4,474	-	100.00%
Virbac Hellas SA	Greece	300	kEUR	1,525	kEUR	-	-	100.00%
Animedica SA	Greece	96	kEUR	-53	kEUR	-	-	100.00%
Virbac España SA	Spain	601	kEUR	507	kEUR	-	-	100.00%
Virbac Österreich GmbH	Austria	36	kEUR	-	kEUR	-	-	50.00%
Virbac Korea Co. Ltd	South Korea	1,600,000	kKRW	500,231	kKRW	-	-	100.00%
Virbac (Thailand) Co. Ltd	Thailand	20,000	kTHB	59,888	kTHB	-	-	91.00%
Virbac (Taiwan) Co. Ltd	Taiwan	18,000	kTWD	8,885	kTWD	-	-	100.00%
Virbac Colombia Ltda	Colombia	7,404,486	kCOP	8,123,988	kCOP	-	-	99.98%
Virbac Philippines Inc.	Philippines	48,500	kPHP	-14,755	kPHP	-	250	100.00%
Virbac Japan Co. Ltd	Japan	130,000	kJPY	279,168	kJPY	715	1,430	100.00%
Laboratorios Virbac Costa Rica SA	Costa Rica	178,750	kCRC	1,245,653	kCRC	-	-	100.00%
Virbac Asia Pacific Co. Ltd	Thailand	10,000	kTHB	4,617	kTHB	-	-	100.00%
Virbac de Portugal Laboratorios Lda	Portugal	5	kEUR	716	kEUR	-	-	95.00%
Virbac Vietnam Co. Ltd	Vietnam	22,606,324	kVND	150,025,583	kVND	-	-	100.00%
Virbac RSA (Proprietary) Ltd	South Africa	54	kZAR	71,567	kZAR	-	-	100.00%
Virbac Animal Health India Private Limited	India	3,839	kINR	3,133,816	kINR	-	-	100.00%
PP Manufacturing Corporation	United States	-	kUSD	5,629	kUSD	-	6,694	100.00%
Virbac (Australia) Pty Ltd	Australia	2,500	kAUD	53,114	kAUD	-	-	100.00%
Virbac New Zealand Ltd	New Zealand	18,290	kNZD	20,373	kNZD	-	-	100.00%
Virbac Chile SpA	Chile	1,000	kCLP	4,886,081	kCLP	59,347	-	100.00%
Virbac Patagonia Ltda	Chile	57,398,882	kCLP	-491,554	kCLP	-	-	1.00%
Virbac Latam Spa	Chile	1,000	kCLP	86,385	kCLP	-	-	100.00%
GPM Virbac	Algeria	70,000	KDZD	-	KDZD	-	-	42.85%
Virbac Hayvan Sagligi Limited Sirketi	Turkey	10	KTRY	-	kTRY	380	-	100.00%

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	2018 currency-to-EUR foreign exchange rate	
€ thousand	€ thousand			in thousand currency		in thousand currency		€ thousand	closing	average
276,785	276,785	1,512,910	4,230,849	-	kEUR	-2	kEUR	-	-	-
40,761	40,761	10,434	10,439	73,981	kEUR	2,011	kEUR	1,289	-	-
538	-	5,741	5,750	635	kEUR	-1,095	kEUR	81	-	-
2,933	2,933	68,349	68,354	36,324	kEUR	4,663	kEUR	3,110	-	-
17,601	17,601	30,939	30,939	6,738	kEUR	732	kEUR	900	-	-
688	688	1,004	1,008	11,387	kEUR	341	kEUR	609	-	-
10,443	10,443	89	89	22,162	kEUR	1,914	kEUR	1,780	-	-
115	115	2,000	2,000	16,076	kCHF	1,004	kCHF	573	1.127	1.154
3	3	2,000	2,000	37,935	kGBP	1,827	kGBP	2,701	0.895	0.885
5,046	5,046	179,900	179,900	28,173	kEUR	475	kEUR	750	-	-
11,390	11,390	22,032,352	22,032,353	122,512	kBRL	1,664	kBRL	-	4.444	4.314
5,350	5,350	500	500	88,423	kDKK	2,577	kDKK	335	7.467	7.453
1,240	1,240	6,171,776	6,196,830	971,569	kMXN	58,304	kMXN	-	22.492	22.682
2,974	2,974	3,999,543	4,000,000	-	kMXN	-4,509	kMXN	-	22.492	22.682
71	71	2,000	2,000	30	kEUR	1	kEUR	-	-	-
1,593	1,593	861,200	861,200	48,390	kEUR	2,159	kEUR	2,269	-	-
1	1	100	100	32,073	kPLN	1,233	kPLN	160	4.301	4.257
10	10	1	1	253,761	kHUF	-8,041	kHUF	-	320.980	318.977
14,581	14,581	99,175	100,000	17,311	kUSD	2,852	kUSD	-	1.145	1.170
2,850	2,850	100	100	94,777	kCNY	-2,188	kCNY	-	7.875	7.813
50	50	517,355	517,355	455	kHKD	199	kHKD	-	8.968	9.265
1,766	1,766	3	3	-	kHKD	5,198	kHKD	-	8.968	9.265
13,829	13,829	102	102	-	kHKD	-19,019	kHKD	-	8.968	9.265
1,290	1,290	100,000	100,000	6,785	kEUR	209	kEUR	-	-	-
125	125	32,000	32,000	-	kEUR	-2	kEUR	-	-	-
912	912	99,999	100,000	25,297	kEUR	594	kEUR	996	-	-
18	18	18,170	36,340	5,666	kEUR	244	kEUR	221	-	-
1,329	1,329	320,000	320,000	9,354,487	kKRW	432,463	kKRW	-	1,277.930	1,299.197
429	429	9,100	10,000	263,670	kTHB	19,443	kTHB	-	37.052	38.123
485	485	1,800,000	1,800,000	319,852	kTWD	19,064	kTWD	522	34.967	35.507
3,408	3,408	5,659	5,660	38,409,318	kCOP	1,997,112	kCOP	-	3,726.270	3,485.102
1,156	1,156	37,999,997	38,000,000	201,719	kPHP	7,936	kPHP	-	60.113	62.077
2,834	2,834	6,400	6,400	1,740,428	kJPY	59,847	kJPY	-	125.850	129.943
432	432	420,658	420,658	2,174,063	kCRC	317,587	kCRC	-	697.350	681.765
209	209	99,998	100,000	180,861	kTHB	16,376	kTHB	91	37.052	38.123
5	5	380	400	6,475	kEUR	-170	kEUR	-	-	-
2,977	2,977	1,000	1,000	273,000,581	kVND	6,332,983	kVND	-	26,596.000	27,088.335
5,305	5,305	56,684	56,684	401,529	kZAR	50,523	kZAR	2,382	-	-
66	66	383,899	383,900	6,872,705	kINR	1,064,868	kINR	-	79.730	80.849
4,946	4,946	100	100	7,477	kUSD	1,171	kUSD	-	1.145	1.170
4,346	4,346	2,499,997	2,500,000	117,477	kAUD	15,842	kAUD	10,925	1.622	1.580
13,977	13,977	18,290,000	18,290,000	30,795	kNZD	4,942	kNZD	-	1.706	1.710
2	2	1,000	1,000	-	kCLP	823,325	kCLP	-	794.600	757.020
-	-	1	100	-	kCLP	3,958,698	kCLP	-	794.600	757.020
1	1	1,000	1,000	941,207	kCLP	51,092	kCLP	-	794.600	757.020
240	240	300	700	-	KDZD	-2,327	KDZD	-	135.337	137.644
2	2	100	100	3,300	KTRY	-1,165	KTRY	-	6.059	6.505

Statutory auditors' report on the financial statements

For the year ended December 31, 2018

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, 2018.
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, 2018 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, 2018 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 L823-9 and R823-7 of the French commercial code 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, 2018, equity investments have a net carrying amount of €454.1 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 entity; 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 B3 note “Financial assets” to the financial statements.

SPECIFIC VERIFICATION

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.

We attest the fair presentation and the consistency with the financial statements of the information relating to payment deadlines mentioned in article D441-4 of the French commercial code.

Report on corporate governance

We attest that the supervisory board’s report on corporate governance sets out the information required by articles L225-37-3 and L225-37-4 the French commercial code.

Concerning the information given in accordance with the requirements of article L225-37-3 of the French commercial code relating to remunerations and benefits received by the members of the executive board and of the supervisory board and any other commitments made in their favour, 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.

With respect to the information relating to items that your company considered likely to have an impact in the event of a public purchase or exchange offer, provided pursuant to article L225-37-5 of the French commercial code, we have verified their compliance with the source documents communicated to us. Based on our work, we have no observations to make on this information.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Appointment of the statutory auditors

We were appointed statutory auditors of Virbac by the shareholders' meeting of June 29, 1999 for Novances-David & Associés and June 30, 2004 for Deloitte & Associés.

As of December 31, 2018, Novances-David & Associés and Deloitte & Associés were in the 20th year and 15th 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 risks 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, 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 and in the French code of ethics 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 5, 2019
The statutory auditors

Novances-David & Associés
Jean-Pierre Giraud

Deloitte & Associés
Philippe Battisti

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, 2018

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, 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

We hereby inform you that we have not been advised of any agreement or commitment authorized during the year to be submitted to the approval of the shareholders' meeting pursuant to article L225-86 of the French commercial code.

AGREEMENTS AND COMMITMENTS PREVIOUSLY APPROVED BY THE SHAREHOLDERS' MEETING

Agreements and commitments approved during previous years and having continuing effect in 2018

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 2018.

Senior executive termination benefits

Senior executives concerned:
Mr. Sébastien Huron, chairman of the executive board and Mr. Christian Karst, member of the executive board.

Nature and purpose

- **Mr. Sébastien Huron**

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 income 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 income to Group net revenues is less than 7% on average over the two half-years preceding departure, but exceeds or is equal to 4% on average over the four half-years preceding departure, termination benefits of €550,000 will be payable;
- where the ratio of current operating income to Group net revenues is less than 4% on average over the four half-years preceding departure, no termination benefits will be payable.

- **Mr. Christian Karst**

On March 13, 2015, your supervisory board authorized the renewal of senior executive 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 income 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.

Terms and conditions
This agreement had no financial impact during the year ended December 31, 2018.

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, 2018, Virbac has a total commitment of €3,755,371 with respect to this plan given the payments made in previous years. A net expense of €1,374,509 was recorded by the company for fiscal year 2018.
On March 12, 2019, your supervisory board decided to terminate this retirement plan with effect from December 31, 2019.

Non-compete compensation

Senior executive concerned :
Mr. Sébastien Huron, chairman of the executive board.

Nature and purpose
On December 20, 2017, your supervisory board authorized the grant of non-compete compensation to Mr. Sébastien Huron.

In consideration for a non-compete obligation, Mr. Sébastien Huron will receive, throughout the non-compete period, monthly compensation equal to 80% of his gross fixed compensation received in respect of the last fiscal year closed by the company (including directors' fees and any other compensation relating to his duties in the Virbac group). This compensation will be capped at €500,000 gross, for this 18-month period.

Terms and conditions
This agreement had no financial impact during the year ended December 31, 2018.

Nice and Marseille, April 5, 2019
The statutory auditors

Novances-David & Associés
Jean-Pierre Giraud

Deloitte & Associés
Philippe Battisti

Statutory auditors’ report on the capital decrease

Ordinary and extraordinary shareholders’ meeting of June 18, 2019

Eighteenth resolution

To the Virbac shareholders’ meeting,

in our capacity as statutory auditors of your company and in accordance with the procedures provided for in article L225-209 of the French commercial code (*Code de Commerce*) on the decrease in share capital by the cancellation of shares purchased, we hereby report to you on our assessment of the reasons for and the terms and conditions of the proposed decrease in share capital.
Shareholders are requested to confer all necessary powers on the executive board, during a period of 26 months, to cancel, up to a maximum of 10% of its share capital by 24 month periods, the shares purchased by the company pursuant to the authorization to purchase its own shares as part of the provisions of the aforementioned article.

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. Our procedures consisted, in particular, in verifying the fairness of the reasons for and the terms and conditions of the proposed decrease in share capital, and ensuring that it does not interfere with the equal treatment of shareholders.

We have no comments on the reasons for and the terms and conditions of the proposed decrease in share capital.

Nice and Marseille, April 5, 2019
The statutory auditors
French original signed by

Novances-David & Associés
Jean-Pierre Giraud

Deloitte & Associés
Philippe Battisti

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, March 14, 2019

Sébastien Huron, chairman of the executive board

Combined ordinary and extraordinary shareholders' meeting of June 18, 2019

Explanatory statement and draft resolutions

ORDINARY BUSINESS

1. Approval of the statutory accounts of the financial year 2018

Statement

Resolutions 1, 2 and 3: approval of the annual accounts (parent company and consolidated), allocation of profit from the 2018 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 €36,196,959.32 in 2018;
- the consolidated accounts from the 2018 financial year, with details and explanations appearing on pages 96 to 154;
- allocation of profit.

At the shareholders' meeting a proposal will be made not to distribute a dividend for the financial year 2018.
Profit for the financial year, which amounted to €36,196,959.32, 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 the financial year 2018.

Resolutions

First resolution: approval of the statutory accounts for the 2018 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, and the statutory auditors, approves, as they were presented, the statutory accounts for the financial year ending December 31, 2018 showing a net profit of €36,196,959.32, 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 €378,018. As a consequence, the shareholders' meeting grants the members of the executive board full and unreserved discharge of their duties for the aforementioned financial year.

Second resolution: approval of the 2018 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, 2018, approves, as they were presented, the consolidated accounts for this financial year, showing a net profit of €20,099,108 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 €	In respect of 2018
Net result for the period	€36,196,959.32
Retained earnings carried forward	€306,897,647.59
Distributable result	**€343,094,606.91**
Retained earnings for the period	€36,196,959.32

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:

in €	Dividend per share	Global distribution
In respect of 2015	-	-
In respect of 2016	-	-
In respect of 2017	-	-

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 2018 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 2018 financial year.

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 2018 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 - renewal and ratification of the appointment of members

Statement

Resolutions 5 to 7:

- Marie-Hélène Dick-Madelpuech's term of office as chairwoman of the supervisory board expires at the end of this shareholders' meeting.
  Accordingly, we propose that you renew Marie-Hélène Dick-Madelpuech's term of office as a member of the supervisory board for an additional three years, until the end of the shareholders' meeting convened to approve the financial statements closed on December 31, 2021 (resolution 5).

- Philippe Capron's term of office as a member of the supervisory board expires at the end of this shareholders' meeting.
Accordingly, we propose that you renew Philippe Capron's term of office as a member of the supervisory board for an additional three years, *i.e*. until the end of the shareholders' meeting convened to approve the financial statements closed on December 31, 2021 (resolution 6).

- At its December 14, 2018 meeting, the supervisory board noted the resignation of Olivier Bohuon, and, in her place, co-opted the company OJB Conseil as a member of the supervisory board.
Accordingly, we propose that you ratify the appointment of the company OJB Conseil, represented by Olivier Bohuon, as a member of the supervisory board for the remainder of Olivier Bohuon'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).

Information regarding the members of the supervisory board appears on pages 77-78 of the corporate governance report.

Resolutions

Fifth resolution: renewal of Marie-Hélène Dick-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, decides to renew the term of office of Marie-Hélène Dick-Madelpuech as a member of the supervisory board for a term 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, 2021.

Sixth resolution: renewal of Philippe Capron'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 Philippe Capron's term of office as a member of the supervisory board for a term 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, 2021.

Seventh resolution: ratification of the appointment of the company OJB Conseil 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 OJB Conseil as a member of the supervisory board, temporarily appointed by the supervisory board at its meeting of December 14, 2018, to replace Olivier Bohuon.
The company OJB Conseil will hold its office for the remainder of Olivier Bohuon'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.

4. Non-voting advisor – renewal of the non-voting advisor's term

Statement

Resolution 8:

The term of office of the company Xavier Yon Consulting Unipessoal Lda as a non-voting advisor expires at the close of this shareholders' meeting.
Accordingly, we propose that you renew the term of office of the company Xavier Yon Consulting Unipessoal Lda, represented by Xavier Yon, as a non-voting advisor for one year, or until the end of the shareholders' meeting convened to approve the accounts for the 2019 financial year.

Resolutions

Eighth resolution: renewal of the term of office of the company Xavier Yon Consulting Unipessoal Lda as a non-voting advisor

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, renews the term of office of the Xavier Yon Consulting company as a non-voting advisor.

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, 2019.

Information regarding the non-voting advisor appears on page 78 of the corporate governance report.

5. Compensation

Statement

Resolutions 9 and 10: renewal of the defined benefit pension commitment made to Christian Karst and Jean-Pierre Dick pursuant to article L225-90-1 of the French commercial code

Following the December 20, 2017 renewal of the terms of office of members of the supervisory board, the June 20, 2018 shareholders' meeting approved or renewed, as the case may be, commitments made to members of the executive board by the company regarding elements of compensation, indemnities, benefits and contingent rights due or likely to be due from the termination of or change in their duties or subsequent thereto, as referred to in article L225-90-1 of the French commercial code.

One of these commitments, the defined benefit retirement commitment approved for each executive board member and referred to in article L225-90-1 of the French commercial code was renewed for a term of one year.

Following the March 12, 2019 decision by the supervisory board to end the defined benefit retirement plan effective December 31, 2019, no benefit may be given to Sébastien Huron or Habib Ramdani under this plan.

In its March 12, 2019 meeting, the supervisory board decided to end the defined benefit retirement plan effective December 31, 2019. So as to not penalize executive board members who are nearing retirement, the supervisory board decided to maintain rights to their benefit on an adjusted basis for current potential beneficiaries who will reach the age of 50 by the plan's closing date, December 31, 2019. In doing so, rights up to 10.5% of their benchmark for retirement at the age of 65 will be maintained for their sole benefit after the plan's closing, provided they meet the conditions laid out in the internal rules currently in force.

Accordingly:

- given that Christian Karst has already fulfilled certain conditions as provided for in this plan (in particular, the fact that he has reached the age of 60 and the company's seniority conditions, and as a member of the executive board), this plan could be activated with regard to him in the event of death before December 31, 2019, to which his widow would have the right of reversion.
  In addition, due to his age, he is also eligible for rights that will be continued beyond the termination of the plan.

- Jean-Pierre Dick, who has already reached the age of 50, will be entitled to residual rights that continue beyond the termination of the plan.

- For the other executive board members, Sébastien Huron and Habib Ramdani, the failure to meet conditions for benefiting from the plan in 2019, as well as the fact that neither of them will have reached the age of 50 by December 31, 2019 already eliminates any possibility of them one day being beneficiaries of this plan.

Accordingly, we submit to your vote a specific resolution for Christian Karst and Jean-Pierre Dick to renew, until the end of their current term of office, the defined benefit retirement commitment made to them, after consideration, beginning on January 1, 2020, of amendments resulting from the termination of the plan.

Refer to pages 87 and 89 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 193.

Resolutions

Ninth resolution: renewal of the defined benefit retirement 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 the company's continued commitment to Christian Karst for a supplementary defined benefit retirement plan, subject to performance conditions.

Tenth resolution: renewal of the defined benefit retirement 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 L225-88 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 company's continued commitment to Jean-Pierre Dick for a supplementary defined benefit retirement plan, subject to performance conditions.

Statement

Resolutions 11 to 13: elements of compensation due or attributed to the chairwoman of the supervisory board, the chairman of the executive board and members of the executive board for the financial year 2018

Pursuant to 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 elements making up total compensation and benefits-in-kind paid or granted for the 2018 financial year to the chairwoman and the members of the supervisory board, to the chairman of the executive board and to the other members of the executive board. These elements 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 2018, as approved by the shareholders' meeting of June 20, 2018. Details of these elements 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 70 to 94 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 2018 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 2018		Amount due in respect of 2017	
in €	Compensation	Directors' fees	Compensation	Directors' fees
Marie-Hélène Dick	€95,000	€21,000	€95,000	€21,000
Jeanine Dick	-	-	-	€4,000
Pierre Madelpuech	-	€21,000	-	€6,000
Philippe Capron	-	€24,000	-	€24,000
Olivier Bohuon	-	€21,000	-	€21,000
Company Asergi	-	-	-	€6,000
Company Galix Conseils represented by Grita Loebsack	-	€21,000	-	€21,000
Solène Madelpuech	-	€21,000	-	€17,000
Non-voting advisor, company Xavier Yon Consulting Unipessoal Lda represented by Xavier Yon	-	€21,000	-	€21,000
Total	**€95,000**	**€150,000**	**€95,000**	**€141,000**

Summary chart of compensation of members of the executive board

Sébastien Huron, chairman of the executive board

Compensation components owed or awarded in respect of 2018

Nature	Amounts or valuation to be voted on	Presentation
Fixed compensation	€325,000	On March 13, 2018, the supervisory board, on the recommendation of the compensation committee, decided to increase the annual fixed compensation from €265,000 to €325,000, an increase of 22,6%.
Annual variable compensation	€166,250	At its March 12, 2019 meeting, the supervisory board determined the variable compensation components for 2018. It amounted 51,2% of fixed compensation. For more information, refer to pages 84-85 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	€190,720	No performance share allocated for the fiscal year 2018. No performance plan 2015, therefore no performance share distributed in 2018. For more information, refer to pages 89-90 of the financial report.
Directors' fees	€25,000	Directors' fees received with respect to terms held in the Group's subsidiaries in 2018.
Valuation of benefits in kind	€11,781	Company vehicle and subscription GSC

Compensation components owed or awarded for 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 85 of the financial report
Non-competition payment	No payment	For more information, refer to page 86 of the financial report
Supplementary pension plan	NA	For more information, refer to page 85 of the financial report

Christian Karst

Compensation components owed or awarded in respect of 2018

Nature	Amounts or valuation to be voted on	Presentation
Fixed compensation	€265,000	On March 13, 2018, the supervisory board, on the recommendation of the compensation committee, decided to maintain the annual fixed compensation at €265,000.
Annual variable compensation	€147,250	At its March 12, 2019 meeting, the supervisory board determined the variable compensation components for 2018. It amounted 55.6% of fixed compensation. For more information, refer to page 86 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	€143,040	A new performance share plan was allocated for the fiscal year 2018. For more information, refer to pages 89-90 of the financial report.
Directors' fees	€45,000	Directors' fees received with respect to terms held in the Group's subsidiaries in 2018.
Valuation of benefits in kind	€2,832	Company vehicle

Compensation components owed or awarded for 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 87 of the financial report
Non-competition payment	NA	No non-competition payment
Supplementary pension plan	No payment	For more information, refer to page 87 of the financial report

Habib Ramdani

Compensation components owed or awarded in respect of 2018

Nature	Amounts or valuation to be voted on	Presentation
Fixed compensation	€203,000	On March 13, 2018, the supervisory board, on the recommendation of the compensation committee, decided to maintain the annual fixed compensation at €203,000.
Annual variable compensation	€77,140	At its March 12, 2019 meeting, the supervisory board determined the variable compensation components for 2018. It amounted 38,0% of fixed compensation. For more information, refer to pages 87-88 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	€119,200	A new performance share plan was allocated for the fiscal year 2018. For more information, refer to pages 89-90 of the financial report.
Directors' fees	€0	No director's fees
Valuation of benefits in kind	€888	Company vehicle

Compensation components owed or awarded for 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	NA	For more information, refer to page 88 of the financial report

Jean-Pierre Dick

Compensation components owed or awarded in respect of 2018

Nature	Amounts or valuation to be voted on	Presentation
Fixed compensation	€18,000	On March 13, 2018, the supervisory board, on the recommendation of the compensation committee, decided to reduce the annual fixed compensation at €18,000.
Annual variable compensation	NA	At its March 12, 2019 meeting, the supervisory board decided that no variable compensation will be paid for 2018.
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	NA	No performance share allocated for the fiscal year 2018.
Directors' fees	NA	No director's fees
Valuation of benefits in kind	€840	Company vehicle

Compensation components owed or awarded for 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 89 of the financial report

Resolutions

Eleventh resolution: elements of compensation owed or awarded to Marie-Hélène Dick-Madelpuech, chairwoman of the supervisory board, for the 2018 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 elements of compensation owed or awarded to Marie-Hélène Dick-Madelpuech, chairwoman of the supervisory board, as indicated in the corporate governance report (page 80) for the financial year ending December 31, 2018.

Twelfth resolution: elements of compensation owed or awarded to Sébastien Huron, chairman of the executive board for the 2018 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 elements of compensation owed or awarded to Sébastien Huron, chairman of the executive board, as indicated in the corporate governance report (page 84 to 86) for the financial year ending December 31, 2018.

Thirteenth resolution: elements of compensation owed or awarded to the members of the executive board for the 2018 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 elements of compensation owed or awarded to the members of the executive board, as indicated in the corporate governance report (pages 84 to 90) for the financial year ending December 31, 2018.

Statement

Resolutions 14 and 15: compensation policy for members of the supervisory board and the executive board: approval of the principles and criteria for determining, distributing and allocating the elements comprising total compensation and benefits-in-kind attributable to the members of the supervisory board and 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 elements, 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 2019, for the current period until the shareholders' meeting that will be convened to approve this policy, in accordance with the law and constituting the compensation 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 80 to 90 of the corporate governance report. They will apply up to the next shareholders' meeting that will be convened to approve this policy, in accordance with the law.

Resolutions

Fourteenth resolution: approval of the principles and criteria for determining, distributing and allocating the elements comprising 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 80) and attributable, due to their mandate, to the members of the supervisory board.

Fifteenth resolution: 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 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 elements comprising the total compensation and benefits-in-kind presented in the corporate governance report (pages 80 to 90) and attributable, due to their mandates, to the members of the executive board.

Statement

Resolution 16: 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 €157,000 as directors' fees for the current financial year. It is specified that the amount allocated in 2018 was €150,000. The supervisory board will determine the distribution among its members.

Resolution

Sixteenth resolution: determination of the amount 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 €157,000 as directors' fees for the financial year 2019, 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 17: authorization to be granted to the executive board to buy back the company's shares

The ordinary shareholders' meeting of June 20, 2018 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.

As of December 31, 2018, Virbac held 35,950 treasury shares in total, acquired on the market for a total of €4,577,106 excluding fees, for an average price of €127.39 per share.

During the financial year, the company bought 65,030 treasury shares (at an average price of €126.53) and sold 66,341 treasury shares (at an average price of €129.19) as part of the market-making contract. In 2018, no share was purchased or sold as part of performance-related stock grants.

As of December 31, 2018, treasury shares accounted for 0.42% 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 twenty-third resolution adopted by the shareholders' meeting of June 20, 2018.

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 (*Autorité des marchés financiers*);
- 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

Seventeenth 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 of 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 (*Autorité des marchés financiers*);
- 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 36,930 shares already held as of February 28, 2019, is thus set at €283,104,500.

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 20, 2018 in its twenty-third 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 granted to the executive board to reduce share capital by cancelling treasury shares held by the company

Statement

Resolution 18

The shareholders' meeting of June 23, 2017 authorized the executive board, under the provisions of articles L225-209 of the French commercial code, for a period of twenty-six months, to reduce capital on one or more occasions, up to a maximum of 10% by cancellation of all or part of the shares held by the company or which could be held by the company following repurchases carried out under articles L225-209 of the French commercial code, in particular with respect to the resolution authorizing the executive board to purchase shares in the company.

It is noted that during this twenty-six month period, the executive board made no capital reductions.
At the shareholders' meeting a proposal will be made to renew the authorization given to the executive board, under the same conditions and for a new twenty-six month period.

Resolution

Eighteenth resolution: authorization to allow the executive board to reduce share capital by cancelling treasury shares held by the company

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:

- authorizes the executive board to cancel, on one or more occasions, all or part of the shares held by the company or which could be held by the company following buybacks carried out under articles L225-209 of the French commercial code, up to a maximum of 10% of the total number of shares per period stipulated by law, by attributing the difference between the purchase value of the cancelled shares and the nominal value on the premiums and available reserves, including, in part, up to 10% of the capital cancelled from the legal reserve;
- authorizes the executive board to record that one or more capital decreases have been carried out and, as a result, amend the bylaws and carry out all requisite formalities;
- authorizes the executive board to delegate all powers needed to implement its decisions, all in accordance with legal provisions in effect at the time of the use of this authorization;
- this authorization is valid for a term of twenty-six months from the date of this shareholders' meeting.

Statement

Resolution 19: powers

This resolution is intended to confer the necessary powers to carry out the formalities resulting from the shareholders' meeting.

Resolution

Nineteenth resolution: powers to carry out formalities

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary 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.

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.

Boviseal
injectable suspension used to prevent intramammary infections in cattle

Bovigen Scour
vaccine used to protect calves against viral and bacterial infections

C.E.T. Veggiedent Fr3sh
chews enabling to fight both the oral and digestive causes of bad breath in dogs

Canigen
vaccines range for dogs

Clostrisan
vaccine intended for the prevention of clostridiosis and botulism in cattle, sheep and goats

Effipro bovis
external parasiticide used to treat tick, fly and louse infestations in cattle

Epiotic
ear cleanser for dogs and cats

Eradia
metronidazole-based antibiotic and parasiticide for dogs intended for the treatment of clostridium infections and giardiasis

Fosfosal
Trace mineral injectable supplementation for growing food producing animals and critical periods of the production cycle and reproduction

Grofactor
zilpaterol-based growth promoter for cattle

Inflacalm
multi-species anti-inflammatory

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

Milpro
internal parasiticide tablets for dogs and cats combining praziquantel and milbemycin for the prevention of canine heartworm disease and for the treatment of roundworms and tapeworms

Moxiheart
internal parasiticide for dogs

Multimin
trace element injectable supplement for food producing animals

Penclox
dual combination of penicillin and cloxacillin antibiotic lactating intramammary targeting common bacteria causing mastitis in dairy cattle

Physiological eye cleanser
soothing isotonic solution for cleaning the eye and surrounding areas

Porcistart
feed supplement for piglets

Propofol
anesthetic for dogs and cats

Quadrant
long-acting antibiotic intramammary containing Cephalonium used to treat existing, and prevent new infections in dairy cows at drying off

Rabigen mono
monovalent and multi-dose rabies vaccine

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

Suigen PCV2
vaccine against porcine circovirus

Suprelorin
deslorelin-based implant for the induction of temporary infertility in male dogs

Tribrissen
parasiticide oral solution for sheep combining moxidectin, levamisole and albendazole

Ultra-corn
injectable biological suspension used to stimulate the immune system in ruminants, swine and horses

Veterin
broad-spectrum antibiotic for swine, poultry and salmons

Veterinary HPM
specialized petfood for dogs and cats

Virbagest
altrenogest-based progestin for synchronizing return to heat of gilts (batch management)

Virbagen Omega
veterinary interferon used in the treatment of viral pathologies in cats (retrovirus) and dogs (parvovirus)

Zenifel
fogger and spray enabling to reduce behaviors due to stress or undesirable behaviors in cats

Zoletil
multi-species general anesthetic

THE VIRBAC TEAMS ARE LISTENING TO YOU ON 5 CONTINENTS

CORPORATE.VIRBAC.COM

Virbac group
13e rue LID - BP 27
06511 Carros cedex - France
Phone number: +33 4 92 08 71 00 - Fax: +33 4 92 08 71 65

Investor relations
finances@virbac.com

Corporate Communications
communication@virbac.com

Public limited company with an executive board and a supervisory board with a capital of 10 572 500 €
1ère avenue 2065 m LID - 06511 Carros cedex - France - 417 350 311 RCS Grasse

Shaping the future of animal health

Virbac