ANNUAL REPORT 2019

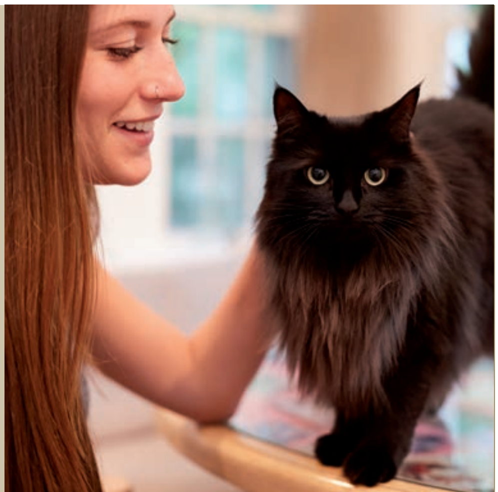
# Shaping the future of animal health

# INTRODUCTION



# STATEMENT ON EXTRA-FINANCIAL PERFORMANCE





# FINANCIAL REPORT

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

# On course for new territories

**IN WHAT WAYS ARE VIRBAC'S ACTIVITIES ESSENTIAL?**

Animal health is at the heart of protecting life. Taking care of animal's health not only helps farmers meet a growing demand for animal protein, it also safeguards the well-being of animals and the special relationship that binds them to their owner.

**WHAT DID VIRBAC TEAMS ACCOMPLISH IN 2019?**

In the companion animal sector we have mobilized, throughout 2019, to share new health solutions with owners and veterinarians. For example, fighting parasitism with a collar that gives dogs in Southern European countries protection against the sandflies responsible for leishmaniosis, a fatal zoonotic disease. Our efforts also focused on dental hygiene with the provision in several countries of drinkable or chewable products directly targeting the oral and digestive causes of bad breath.

**ANY OTHER CONTRIBUTIONS?**

Yes. Increasingly, we see that accurate diagnosis is essential in adjusting treatment to the animal's needs and that immediate results are key to managing certain diseases. That's why in 2019 we continued the European deployment of our blood marker dosage analyzer with a series of tests for five biomarkers in dogs and cats. We are also entering a new era in the treatment of mastocytomas in dogs, the most common form of skin cancer, after obtaining favorable opinion in Europe for an innovative injectable solution. Lastly, animal welfare continues to be one of our major concerns.

**HOW DO YOU TACKLE THIS ISSUE?**

In China, for example, after obtaining a marketing authorization, dog owners will soon have our deslorelin-based implant to reduce their animal's undesirable behaviors and control their fertility in a reversible manner and without

**R&D CENTERS ON 5 CONTINENTS**

**SALES SUBSIDIARIES IN 33 COUNTRIES**

**PRODUCTION SITES IN 10 COUNTRIES**

**4,900 EMPLOYEES**

altering body integrity. A real leap forward in this country, where 70% of owners who have not sterilized their animal believe that surgical castration is not a method that respects their dog's nature. In addition, aware that nutrition is a pillar of wellness and prevention, we are committed to making our petfood range, which respects the carnivorous diet of dogs and cats, available in new countries, such as Colombia, this year.

### AND FOR FOOD PRODUCING ANIMALS?

Along with the responsible use of antibiotics, the role of trace elements in cattle health is fundamental. In addition to bringing our mineral-based injectable supplement to France, Ireland and the United Kingdom, we strive to raise farmers' and veterinarians' awareness of the importance of micronutrition in disease prevention. Another essential component of prevention: vaccination. In 2019, we were proud to continue the Korean deployment of our type 2d vaccine against porcine circovirus, a predominant genotype in Asian farms. At the same time, we are continuing our relentless efforts to advance animal health.

### HOW SO?

Primarily, by increasing our ability to innovate on five continents. Therefore, we opened new facilities in Uruguay in late 2019, dedicated to developing vaccines for ruminants. In Taiwan, we laid the first stone of a new R&D biology center that will be operational within two years. We are also strengthening our aquaculture activities, with the start of construction of a specialized unit in Vietnam. On the production side, we launched a transformation and performance pilot program to develop the productivity, safety and quality aspects of Virbac's industrial activities. It's the beginning of a great adventure to build the Virbac plant of tomorrow.

### ANY OTHER INVESTMENTS?

Yes. Since June 2019, all company employees have had a new, higher performing Google Suite-centered digital workplace to optimize collaboration and performance. Along with our employees' commitment, our internal operating modes are clearly part of the company's success levers. Therefore, we are focused on improving quality of life at work. In France, for example, following the Great Place to Work survey, cross-functional working groups identified corrective actions that will help make the Virbac of tomorrow an even better place to work.

### WHAT IS THE OUTLOOK?

In our first Statement of extra-financial performance in 2019, we formalized our four sustainable development commitments, demonstrating our common will to a long-term approach. To ensure the company's sustainability, we also established governance to mitigate risks, including a strong commitment to transparency, business ethics and respect for human rights. Lastly, we are going to go even further with regard to corporate culture in order to further define our societal contribution. A capital approach to give meaning to our daily activities and thus continue shaping the future of animal health.


# Finance : good 2019 performance

**WHAT WAS THE OUTCOME FOR VIRBAC IN 2019?**

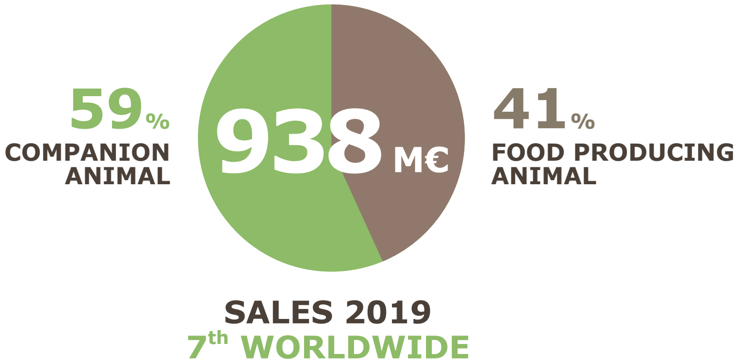
Our revenue grew 6.6% at constant rates and scope, above the estimated market growth rate of between 3 and 4%. All regions contributed to this growth except for the Pacific region, where the Australian drought greatly affected our sales. Eleven countries, including Brazil, China, and the United States, saw double-digit growth. At the same time, our profitability[1] greatly improved, reaching 13% of our sales at real rates.

**AND ON THE SPECIES FRONT?**

In companion animals, we had growth of 9.6% at constant rates and scope. This activity was driven in large part by the increase in sales of our petfood range, which surpassed €50 million in 2019. Our dental range profited from the launch of our innovative chews in Europe and North America. Lastly, in spite of a few supply issues, our canine contraceptive implant posted double-digit growth.

**AND FOR FOOD PRODUCING ANIMALS?**

The pig and poultry sector was impacted by new regulations on the prescribing of antibiotics in Italy and Spain. In addition, the African swine fever epidemic slowed the provision of our new vaccine against porcine circovirus in Asia. However, our food producing animal activity grew overall by 2.4% at constant rates and scope.




**WHAT ARE THE GROWTH FACTORS IN THIS SEGMENT?**

The performance of vaccines and food supplements for cattle in Europe and Latin America, on one hand, and parasiticides and injectable aquaculture vaccines in Chile on the other.

**WHAT IS THE OUTLOOK FOR 2020?**

In view of the anticipated impact of Covid-19, we have decided to suspend our guidance given in March. Right now, it is still too soon to evaluate the impact of Covid-19 with a sufficient degree of certainty. We will give the outlook for 2020 as soon as we have a clearer picture of the future.

[1] Current operating profit, before depreciation of assets arising from acquisitions

# Balanced governance to support the Virbac group's development

The principles on which Virbac bases its governance are those that provide the balance required for the Virbac 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 organizational 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 Virbac 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 Virbac group continues to improve its governance practices. Since 2018, the supervisory board includes an employee representative.

## 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

**SOLÈNE MADELPUECH**
Member

**SYLVIE GUEGUEN**
Employee representative

**PIERRE MADELPUECH**
Vice-chairman

**OLIVIER BOHUON**
Permanent representative of the company OJB Conseill
Independent member

**PHILIPPE CAPRON**
Independent member

**CYRILLE PETIT**
Permanent representative of the company Cyrille Petit Conseil,
Independent member

**XAVIER YON**
Permanent representative of the company Xavier Yon Consulting Unipessoal Lda
Non-voting advisor

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

### AUDIT COMMITTEE

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

It is comprised of Philippe Capron, chairman, Cyrille Petit 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 Virbac group's general human resources policy and more specifically, the compensation policy for the Virbac group's main executives;
• reviewing proposals and conditions relating to stock grants;
• drawing up proposals regarding the amounts of directors' fees to be paid to the members of the supervisory board.

It is comprised of Marie-Hélène Dick, chairwoman, Olivier Bohuon and Philippe Capron.

## 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 three 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 organization allows a high level of responsiveness when taking decisions.
The executive board reports on its strategic decisions and results to the supervisory board and submits all of the Virbac group's major acquisitions 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

Member of the executive board since 2016

**Sébastien Huron**
Chairman of the executive board

DVM, member of the executive board since 2012

**Christian Karst**
General manager and executive vice-president Corporate Development

DVM, member of the executive board since 1996

# STATEMENT
## OF NON-FINANCIAL PERFORMANCE

Integral part of the management report

# Editorial

“ We do not inherit the Earth from our ancestors;
we borrow it from our children ”
(attributed to Saint-Exupéry).

This should be the driving force behind the actions of humans on Earth.
Virbac understands this well.

Taking the long-term approach to its development comes naturally to Virbac for several reasons. The majority of Virbac's capital is controlled by one family, that of its founder, Dr Pierre-Richard Dick, whose profoundly human values have left their mark on the company and are still the foundation stone on which the company's strategy has been built.

As with many family businesses, the ability to envisage the long-term and to act accordingly is part of its genetic make-up. Furthermore, being a listed company only serves to advance this vision, as more and more shareholders are favoring companies whose strategies incorporate sustainable development goals that foster, rather than impede, economic performance.

> Virbac's mission to create, manufacture and sell veterinary medicines and, in a broader sense, animal health products puts the company at the heart of the food chain and the "One Health" ecosystem, where it is understood that the health of all living beings on Earth is intrinsically linked.

Its customers, veterinarians, farmers and animal owners are becoming increasingly mindful of their impact on the environment and human health. As a result, Virbac is naturally driven to adapt its activities accordingly.

The Group's growth both in France and internationally leads to additional requirements. Virbac is deeply rooted in its place of origin, the Côte d'Azur. Its visibility is growing as it increases its workforce and its investments in this region, and it aims to set an example for its employees and community, both socially and environmentally.

At the same time, Virbac has also become a global company that derives over 60% of its revenue from outside Europe and whose subsidiaries are located in 33 countries across every continent. The company must ensure that this development complies with a number of major universal principles, regardless of the territories in which it operates, particularly in the economic, social and environmental spheres.

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

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

In the financial sphere, the company's objective is to pursue the consistent and profitable growth it has seen almost annually since it was founded. This development is based mainly on solid organic growth, driven by innovation and the strength of Virbac's customer relationships. The company regularly boosts its development through targeted acquisitions, whilst ensuring a controlled level of debt.

This strategy is pursued as part of a straightforward and clear governance structure, that guarantees shareholders with a high level of transparency. Without excessive communication, Virbac uses a genuine approach, targeting long-term development that respects customers, employees, shareholders, partners and its environment.

Sébastien Huron
Chairman of the executive board

## OUR VISION

### Our purpose

- Better feed the planet
- Protect the living
- Promote animal welfare

## OUR STRATEGIC AREAS OF FOCUS

**Choosing sustainability** (better balance between economic growth, respect for people and the environment)

**Ensuring the well-being of our employees** (high EHS standards, transparent governance, sharing value created through bonuses)

**Expanding internationally** (USA, China, Brazil, India, innovative products & services: busters, vaccines, pet care)

**Improving the competitiveness** of our industrial production and systems

### Key animal health sector issues

**Animal welfare**

**Feeding the planet** (food security & food safety)

**Digitalization and Big Data**

**Consolidation**

**Regulations**

**Quality**

**One Health**

**Diversification**

## OUR VALUE CREATION MODEL

### CREATE

**Sustainable innovation based on technological advances and listening to caregivers**

**R&D CENTERS IN 8 COUNTRIES**

- France
- United States
- Australia
- Mexico
- Vietnam
- Taiwan
- Chile
- Uruguay

**4 SPECIALIZED SEGMENTS**

- Companion animals
- Ruminants
- Aquaculture
- Swine

**PARTNERSHIPS**

Universities
Laboratories
Biotech

**RDL INVESTMENT**

Approx. **8%** of sales revenue

### MAKE

**Production facilities that meet the highest international quality standards**

**PLANTS IN 10 COUNTRIES**

**100%** GMP-certified sites

**RAW MATERIALS + PACKAGING**

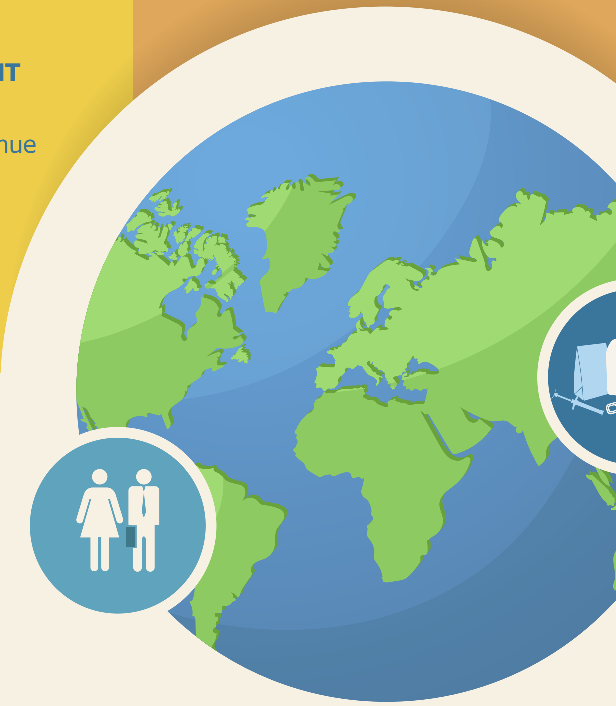
**800** suppliers
**120 M€** in purchases

**SUBCONTRACTED PROCESSING**

**75** subcontractors
**78 M€** in purchases

**PURCHASES OF FINISHED GOODS**

**56** suppliers
**46 M€** in purchases



**4,900 EMPLOYEES in 38 countries**

## SELL

**A personalized relationship with veterinarians, farmers, and owners in each country**

**ANIMALS**

**59%** companion animals

**41%** food producing animals

**CUSTOMERS**

**Users**

- Veterinarians
- Farmers
- Integrators
- Owners

**Intermediaries**

- Purchasing groups
- Distributors
- Wholesalers

**DISTRIBUTION CENTERS**

**Internal**

In countries with industrial facilities

**External**

Around the world

**8,688 REFERENCES**

Vaccines, antibiotics, parasiticides, anti-inflammatory drugs, dermatology, dental, specialties, diagnosis, nutrition

## OUR ACCOMPLISHMENTS

**HUMAN**

**78%** of employees trained

**79%** of employees proud to say they work at Virbac

**FINANCIAL**

**+6.6%** organic growth

Ebita **+3.0 pt** at constant rates

**88 M€** debt relief (at constant scope and rates)

**INTELLECTUAL**

Animal health awards

**INDUSTRIAL**

Virbac plants helped generate **65.2%** of Group revenue

**SOCIAL AND SOCIETAL**

Regionalized R&D Virbac Foundation projects

## OUR VALUE SHARING

**938 M€**

2019 REVENUE

**EMPLOYEES**

Remuneration **213.8 M€**

**STOCKHOLDERS**

**49.6%** founder's family
**50.4%** other

2019 change in share price: **+107.8%**

**ABILITY TO FUND FUTURE GROWTH**

Operating cash flow **156.5 M€**

**BANKS/DEBT**

Interest on debt **15.7 M€**

**SUPPLIERS**

**323.9 M€** in purchases group-wide

# CSR within Virbac

## GOVERNANCE AND ORGANIZATION

At Virbac, we feel that Corporate social responsibility (CSR) must be managed jointly by the departments that deal with the various economic, environmental and social issues. In conjunction with the Communications department, the Innovation, Hygiene-Safety-Environment, Financial Affairs and Human Resources departments are responsible for managing these topics and reporting them to the chairman of the executive board.

Because sustainable development has been close to our hearts for many years, we also set up an internal sustainable development working group headed by the chairman of the executive board more than ten years ago. Within this task force, all the company's departments are represented: Human Resources, Finance, Marketing, Risk, Security, Regulatory, Sourcing, Legal, Communications, etc. In 2019, this working group focused on identifying measurable commitments reflecting the company's CSR ambitions.

In terms of data collection, the working group relies on an optimized production and collection process, in particular through the formalization and standardization of indicators and reporting scope across the Group. This optimization also applies to the organization and training of a network of local correspondents specifically assigned to the major areas of sustainable development: environmental, social and economic.

### A CORPORATE RESPONSIBILITY POLICY BASED ON A STRONG ETHICAL COMMITMENT

The Virbac Group promotes strong values that are widely communicated on all our sites, and recalled at every major company event. In particular, they are systematically presented and explained by one of the Group's leaders to all newcomers. This presentation, entitled "The Virbac Way," outlines the company's values, our purpose and the key principles of Virbac's strategy, implemented across the Group's various entities.

At the same time, and for several years now, Virbac has been implementing and maintaining several legal compliance programs to ensure that internationally recognized standards for the prevention of corruption risk and the processing of personal data are complied with throughout the Group.

In 2015, Virbac implemented a code of conduct, drafted in 16 languages and disseminated to all of the Group's employees. This code of conduct, about thirty pages in length, describes the standards and rules to be adhered to in the main areas of company life, grouped under four main themes: conducting business, protection of assets, business and privacy and social responsibility of the company. At the end of 2019, Virbac began work on updating this code of conduct to make it more educational and understandable, enabling teams to take greater ownership.

- preventing corruption and influence-peddling

In 2016, Virbac started outlining the specific challenges surrounding the fight against corruption. Over the course of the year, we rolled out a Group-wide anti-corruption policy, now available in ten languages. Members of the executive board, members of the strategic committee, members of the France committee and the directors of the Group's subsidiaries and their executive committees signed a document formalizing their commitment to comply with this policy rigorously.

New employees of the Group's subsidiaries must also agree to comply strictly with this anti-corruption policy through their employment contract, which expressly refers to it. To comply with the requirements of the French Sapin II law of December 9, 2016, we approved an action plan to implement a program to prevent the risk of corruption. This led, for instance, to the integration of our anti-corruption policy into the internal regulations of French companies. Finally, in 2018, we finalized our corruption risk mapping using the Group's global risk mapping tools. As a result, we were able to determine the priority subsidiaries for the deployment of the action plan and set up a corruption prevention group. An additional analysis enabled us to identify the areas theoretically most at risk.

In 2019, we strengthened our whistleblowing system by designing a dedicated portal that allows us to collect reports from employees worldwide on an anonymous basis. This system, created with the protection of whistleblowers and the rights of individuals in mind, will be deployed in the first half of 2020 after approval by the CSE (Social & economic committee). Employees were trained on corruption issues in 2019, either in face-to-face, or e-learning format (146 senior managers trained during the last quarter of 2019, including all the main departments). This training initiative will continue to be rolled out in 2020.

To help us decide which controls need to be put in place to detect non-compliant situations, we engaged the services of a specialized external consultant. They confirmed the adequacy of a number of controls already in place, and the need to strengthen other controls. This analysis resulted in a specific action plan that will be implemented in 2020. An initial control system for monitoring the most at-risk partners, involving legal teams around the world, has also been put in place. This control system will be strengthened in 2020.

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

- respecting human rights

Virbac is cautious to the risks linked to non-respect of human rights and in particular with regard to modern slavery, child labor and other related subjects. We are attentive on the application of the provisions of international conventions on this subject and we have complied with local regulations relating to these subjects in all countries where specific preventive measures apply to us. The regulatory framework in which Virbac operates on a global level (Good laboratory, clinical or manufacturing practices) and which precisely, under the supervision of agencies, the skills and training of the personnel involved in our activities, seems favorable to prevent very broadly the use of illegal work such as child labor or modern slavery.

- protecting personal data

Virbac has also initiated an action plan to bring its personal data processing into compliance with the European regulation n°2016/679 known as the General data protection regulation (GDPR). As part of this process, in 2018, we trained employees likely to be involved in data processing and mapped data processing carried out in France and, by extension, data processing carried out at the Group level. As a result of this first step, we have established an action plan and set up working groups to correct existing discrepancies relating to the most sensitive processing operations. We have also set up a network of "data champions" with the representatives of the European subsidiaries in charge of these matters to share best practices.

In 2019, Virbac continued to upgrade its main data processing operations by working on information for data subjects, particularly its employees, personal data policies and the strengthening of data security. We have also integrated a privacy-by-design approach regarding the compliance of any new processing that results from our digitization plan. We have selected a tool to enable decentralized maintenance of our data processing register and to organize and document its compliance. This tool will be rolled out to the subsidiaries concerned in 2020.

The executive board is regularly informed of the progress of these various compliance programs.

- a responsible tax policy

Virbac applies the laws and regulations effective in the countries where the Group operates. The required tax returns are filed on time with the various tax authorities, and the amounts due are paid.

The Group created the position of Tax compliance officer in early 2019 to ensure that all entities comply with their tax obligations and that the tax due in each of the subsidiaries is properly accounted for. To do so, it relies on local finance directors, regional financial controllers and, in some countries, on tax consulting firms, and prepares a report for the audit committee.

In the area of transfer pricing, Virbac applies the Organization for economic cooperation and development (OECD) principles and the local regulations to entities involved in intra-group transactions. It aims for appropriate remuneration for all Group entities. Virbac's transfer pricing policy is documented and made available to the various tax authorities.

We strive to maintain transparent and constructive relations with tax or governmental authorities by submitting our "country-by-country reporting" to the French authorities on an annual basis. Our tax strategy, which is based on the reality of our operations, is aligned with our values, which prohibit tax evasion.

Income taxes are treated in accordance with international accounting rules in the consolidated financial statements and are commented on in the notes to the consolidated accounts.

- integrating corporate responsibility issues into stakeholder relations

Innovating and producing responsibly cannot be undertaken coherently without involving the entire Virbac ecosystem through regular dialogue with its 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 adopted policies and tools to ensure responsible purchasing practices consistent with its guiding principles (supplier charter, assessment questionnaires that include CSR criteria, targeted audits, follow-up on indicators related to CSR issues, etc.).

For every invitation to tender and for the main suppliers, Virbac administers a questionnaire evaluating their compliance with the environmental and social standards in force. Since 2015, new framework contracts have included a provision requiring compliance with these standards. In 2019, this assessment process carried out by Virbac with its new suppliers did not identify any relevant risks. If Virbac were to identify a supplier that was not in compliance, the Group would require it to comply or risk terminating its contract.

## MAIN CSR RISKS AND OPPORTUNITIES

Virbac undertook a strategic review of its corporate social responsibility and conducted a materiality analysis in order to assess the Group's key challenges in terms of sustainable development, particularly with regard to the social and environmental consequences of its activities, the effects of its activities on human rights and the fight against corruption and tax evasion.

To do this, we used a third-party expert, who directed the analyses and assessments. This matrix was updated in 2018, reassessing the key issues and their weighting.

This strategy was carried out using a methodology involving analysis of evidence-based information from credible external and internal sources:

- conducting interviews with industry experts to reflect on key CSR challenges;
- sharing information about internal and external surveys and communication materials;
- review of sectoral documentation;
- media analysis, etc.

Based on a materiality threshold defined at the confluence of internal expectations (impact of the key issues on Virbac's activity and business model) and external expectations (importance of the stakeholders' expectations), the results were summarized and submitted to the chairman of the executive board for approval. The consulting firm specializing in extra-financial reporting that supported the entire process guaranteed the independence and objectivity of the approach.

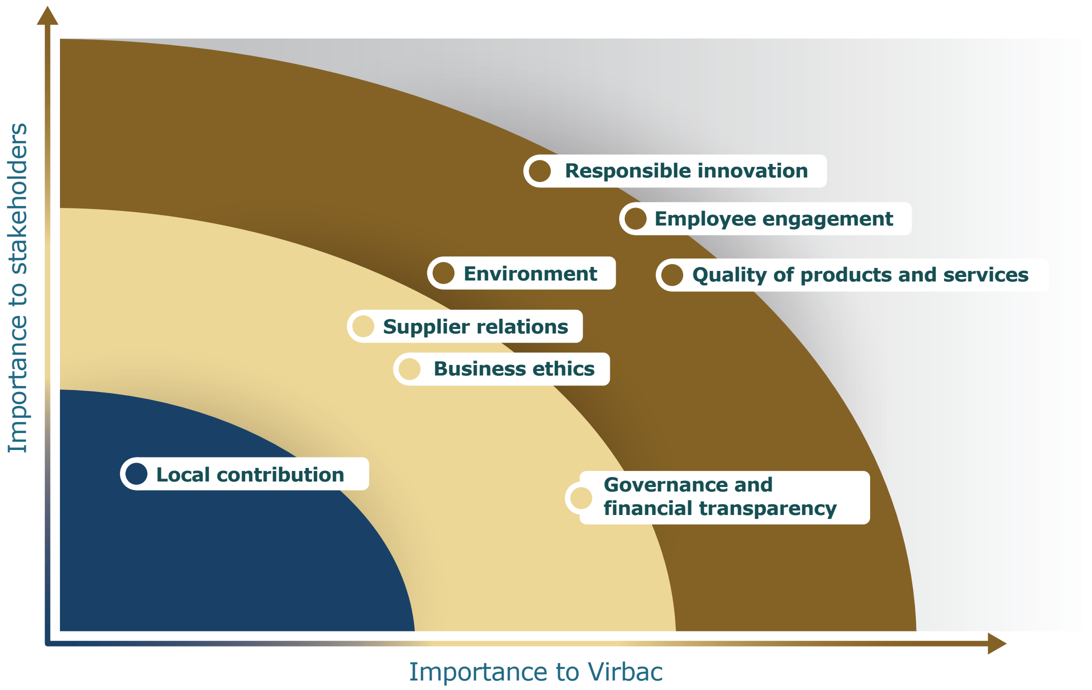
The themes deemed most material are reflected in detail through the four main commitments, as documented in the sections below.

Also reviewed were non-financial topics that, given our activity, do not concern us, particularly actions to combat food waste, food insecurity, responsible, fair and sustainable food compliance.

## OUR COMMITMENTS FOR THE FUTURE

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

**Virbac's matrix of materiality**
**Key issues**



The main associated CSR risks and opportunities are defined in the table below:

| CSR strategy focus | Definition |
|---|---|
| **Innovating responsibly** | |
| **Development of innovative products and services** | The veterinary pharmaceutical industry is very competitive. Every year, in order to respond to market developments and needs, maintain its market share and ensure its development, Virbac devotes significant resources to research and development. |
| **Animal ethics and welfare** | In an evolving environment, the Virbac Group must provide an innovative, safe range of products and services, developed and produced in keeping with animal well-being. |
| **Strengthening employee engagement** | |
| **Attracting and retaining talent** | 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.<br>In addition to competition amongst employers, the headquarters' geographical location can represent a barrier to hiring, given the small employment pool for spouses, as well as the high cost-of-living in the region, especially real estate. Meanwhile, in emerging countries, the job market is very dynamic, and Virbac's size and reputation cannot always attract the best. |
| **Health and safety at work** | Given the industrial nature of Virbac's business, the possibility of an accident at work (classic or linked to the risk of contamination by the products) cannot be ruled out. |
| **Diversity** | Increasing diversity is a way of demonstrating the Group's ability to integrate differences. Virbac has always considered the contribution of the different generations and cultures of the countries in which the Group is established as a real asset. These qualities must be demonstrated within the organization and in all relationships with stakeholders. |
| **Ensuring the quality of products and services** | |
| **Quality and safety of products and services** | The Group may be subject to a temporary or permanent suspension of the production of its products if, in the opinion of the competent authorities, they present critical deviations from the regulations in force concerning them.<br>Virbac's product liability may also be called into question if undesirable side effects of the drugs (not detected during pre-marketing clinical trials) or quality failures occur. The consequences of such events could be the recall of marketed batches, or loss, temporary or permanent, of the Marketing authorization (MA). |
| **Protecting the environment** | |
| **Sustainable use of resources (energy, water, materials)** | Virbac intends to optimize the resources used to control the consumption (energy, materials) involved in the manufacturing processes. |
| **Climate change** | Virbac attaches particular importance to measures that help mitigate its carbon footprint, thus contributing to the fight against the risks linked to climate change. |
| **Discharges into the environment (effluents & waste)** | 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 transport). These risks could, if they materialize, cause damage to persons, property and the environment. |

| Performance indicators | 2018 | 2019 | Quantified objectives | Progress |
|---|---|---|---|---|
| **Innovating responsibly** | | | | |
| **Development of innovative products and services** | | | | |
| **% of RDL biology/total expenditures** | 40.6% | 33.0% | Maintain a ratio of RDL biology/total expenditure > 30% | ●○○ |
| **% of RDL expenditures/Group revenue** | 8.4% | 8.1% | Maintain a ratio of RDL spending/Group total > 7% | ●●● |
| **Animal ethics and welfare** | | | | |
| **Number of animals used for quality controls** | 36,361 | 27,917 | Reduce the number of animals used for quality control by 50% by 2025 | ●●○ |
| **Strengthening employee engagement** | | | | |
| **Attracting and retaining talent** | | | | |
| **Trust Index Great Place to Work** | 65% | - | Achieve Great Place to Work satisfaction rate > 70% by 2025 | ●○○ |
| **Health and safety at work** | | | | |
| **Frequency of work accidents** | 5.61 | 6.96 | Achieve a frequency rate < 5 by 2025 | ●○○ |
| **Ensuring the quality of products and services** | | | | |
| **Quality and safety of products and services** | | | | |
| **Number of non-compliances:** | out of 8,333 products references | out of 8,688 products references | Improve the performance of our product quality system in order to limit customer complaints and product recalls | ●●○ |
| regulations and voluntary codes | 16 | 25 | | |
| packaging | 8 | 12 | | |
| promotion | 3 | 13 | | |
| **Protecting the environment** | | | | |
| **Sustainable use of resources** | | | | |
| **Gas consumed (MWh)** | 33,101 | 32,515 | Reduce energy consumption by 5% by 2025 | ●●○ |
| **Electricity consumed (MWh)** | 50,060 | 47,176 | | |
| **Climate change** | | | | |
| **Scope 1 & 2 GHG (tons $CO_2$ equivalent)** | 23,681 | 22,200 | Reduce scope 1 and 2 greenhouse gas emissions by 10% by 2025 | ●●○ |
| **Environmental discharges** | | | | |
| **COD (tons)** | 121 | 93 | Reduce total waste generated by 5% by 2025 | ●●○ |
| **Volume of hazardous industrial waste (tons)** | 2,966 | 2,493 | | |
| **Volume of ordinary industrial waste (tons)** | 2,270 | 2,376 | | |

*Methodology note*
*2018 serves as the reference year for evaluating the achievement of the quantified objectives as reflected in the dashboard above.*
*The principles for reporting this information are based on the GRI standard guidelines (essential compliance option) in place since 2011.*
*The scope of the workforce for 2019 covers 16 countries and represents 4,097 employees, or 84% of total staff.*
*For the main environmental indicators, the scope covers all production sites, which in 2019 will account for nearly 60% of the Group's sales: South Africa, Australia, the United States, France, Mexico, New Zealand, Uruguay and Vietnam (excluding Chile, which is a joint-venture). RDL: Research, development and licensing.*

# Innovating responsibly

In an evolving environment, the Virbac group must provide an innovative, safe range of products and services, developed and produced in keeping with animal well-being. Veterinarians, farmers and animal owners are becoming increasingly mindful of their impact on the environment and human health.

As a result, we are naturally driven to shape our activities accordingly. We are committed to steer our research on a long-term horizon and to develop innovative solutions that address a variety of pathologies and production needs, according to the particularities of each geographical area where they occur. We strive every day to find the best way to achieve this while remaining true to health quality requirements.

## DEVELOPMENT OF INNOVATIVE PRODUCTS AND SERVICES

The veterinary pharmaceutical industry is highly competitive. Each year, to respond to market developments and needs, maintain our market share and ensure our development, we devote significant resources to research and development. We attach particular importance to the search for continuous improvement in the innovative solutions proposed and in the way they are developed.

### OUR KEY OBJECTIVES

- developing alternatives to antibiotics
- developing modern alternatives to traditional treatments

### GOVERNANCE

The organization in charge of Group innovation is structured as research centers, divided by type and global regions. This close proximity to our customers and their needs in the various global markets enables us to offer a range of relevant and adapted products and services.

## OUR POLICIES AND ACTION PLANS

### Developing alternatives to antibiotics

The development of prevention, in particular through vaccination, is one way of reducing the use of antibiotics in animal production. Virbac's recent investments in research and production centers dedicated to vaccines for food producing animals in France, Australia, Chile, Uruguay and Taiwan reflect this desire to strengthen the Group's development in this area. We have also initiated several partnership programs with public research institutes and private companies to advance together in the development of innovative products (immunostimulants, micronutrition, biocides), some of which may replace antibiotics or help reduce their use.

### Developing modern alternatives to traditional treatments

Mindful of the balance of ecosystems and environmental protection, we aim to develop alternatives to certain traditional therapies. As part of our responsible innovation process, we have taken a further step forward with the discovery of a new treatment which offers a real alternative to surgical castration in dogs, thanks to hormonal regulation that neutralizes the animal's reproductive capacity for six months or a year. The animal's well-being is preserved and, in the interest of the animal and its owner, any irreversible surgical procedure becomes unnecessary.

## OUR RESULTS

| Performance indicators | 2018 | 2019 |
|---|---|---|
| **% of RDL biology/total expenditures** | 40.6% | 33.0% |
| **% of RDL expenditures/Group revenue** | 8.4% | 8.1% |

** Vaccines, immunological products and biopharmaceutical products*

# ANIMAL ETHICS AND WELFARE

Virbac's stakeholders (veterinarians, farmers, employees, etc.) are increasingly concerned about the impact of our products on the entire value chain. This is why we conduct our innovation process and our operations within a strong ethical framework, by promoting in vitro testing as much as possible and by involving our various partners and stakeholders: suppliers, regulatory authorities, professional associations, etc.

## ANIMAL STUDIES

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

### These animal studies include:

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

### Preclinical and clinical studies

- pre-clinical studies (studies carried out in animal units, under standardized and controlled conditions) are governed by regulations covering all aspects of animal studies: approval of the establishments where the studies are carried out, staff training and qualification, the origin of the animals and their traceability, prior ethical evaluation of the studies and their follow-up, controls by the authorities, ethics committees and audits carried out by Virbac teams. These studies allow the effectiveness and safety of the products to be verified under strict conditions.
- then the clinical studies (carried out on companion animals or food producing animals) aim to confirm the effectiveness and safety of the products under field conditions and are subject to regulatory submission or prior trial authorization (depending on the country) and are conducted under the responsibility of veterinarians.

In the Group's animal units, the different categories of animals were distributed as follows in 2019: rodents 96.3%, rabbits 2.5%, food producing animals 0.6%, domestic carnivores 0.6%.

## OUR KEY OBJECTIVES

Our key objective is to reduce the number of animals used in R&D studies and quality control by eliminating studies or replacing them with alternative methods. Specifically, Virbac is committed to reducing the number of animals used for quality control by 14,000 (*i.e.* a reduction of 50%) by 2025.

## GOVERNANCE

The Innovation department defines the strategic resource areas for the performance of animal studies and the development of alternative methods. These areas are implemented by the corporate animal ethics department in the form of policies, action plans and control processes. This department is also in charge of promoting and ensuring respect for ethics and animal welfare within the Group and among its partners.

## OUR POLICIES AND ACTION PLANS

### An ethical charter and policies to manage animal studies

The Group has drawn up an ethical charter relating to animal studies, which consists of ten points and applies to all employees of the Group and its subcontractors. This charter is based on the international principles of the 3Rs: Reduce, Replace, Refine animal studies.

Furthermore, there are two Group policies governing animal studies: Animal ethics committee and Animal welfare*.*

- the Animal ethics committees defines the field of action, the roles and responsibilities, the organization, the ethical rules and the functioning of Virbac's ethics committees.
- the Animal welfare policy, defines the roles and responsibilities of personnel in terms of animal welfare. Based on the principles of the 3Rs and the Virbac code of animal care, it describes the standards to be applied to animals, studies and animal units within the Group. These standards are also required of the Group's partners when conducting animal studies.

### Control process

- ethics committees are established in all areas where animal studies may be conducted. They are all governed by the same ethical principles (independence, impartiality, absence of conflict of interest) and operating principles (imposed membership categories, ethical evaluation of studies, deliberation, voting, etc.). They review 100% of the studies, which can only be conducted after obtaining their approval.
- with regard to outsourced studies, the Group imposes the same level of requirements on its partners: CRO (Contract research organizations), universities, etc. These requirements include the setting up of ethics committees within their own bodies, as well as the deployment of strict procedures for monitoring their studies and compliance with animal welfare and regulations.
- in France, the structure in charge of animal welfare (*SBEA*) is responsible for advising on welfare and the application of the 3Rs, and for verifying the application of measures and the conduct of studies in accordance with the authorizations issued.

### Main actions implemented

- the 3Rs rule is our guiding principle to substitute animal studies and controls as much as possible in our laboratories, but also to promote alternative methods to regulatory agencies around the world. In particular, where possible, *in vitro* tests should be carried out instead of *in vivo* tests or by capitalizing on reproducible tests, bibliographical research or computer modeling.

  For example, the leptospirosis vaccine release quality control hamster test was replaced in 2019 by a fully *in vitro* test (Elisa test) for countries accepting this test.
- furthermore, studies are carried out on the species for which the health products are intended (effectiveness 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 and regulatory quality controls.
- various initiatives (including negotiations with regulatory agencies to eliminate routine testing, production of batches dedicated to countries that do not require animal testing, etc.) have led to an 86% reduction in domestic carnivores used for quality control testing (regulatory requirements for vaccine batch release).

In addition, since 2013, we have set up a post-study animal adoption program in collaboration with the leading French association dedicated to the adoption of laboratory animals.

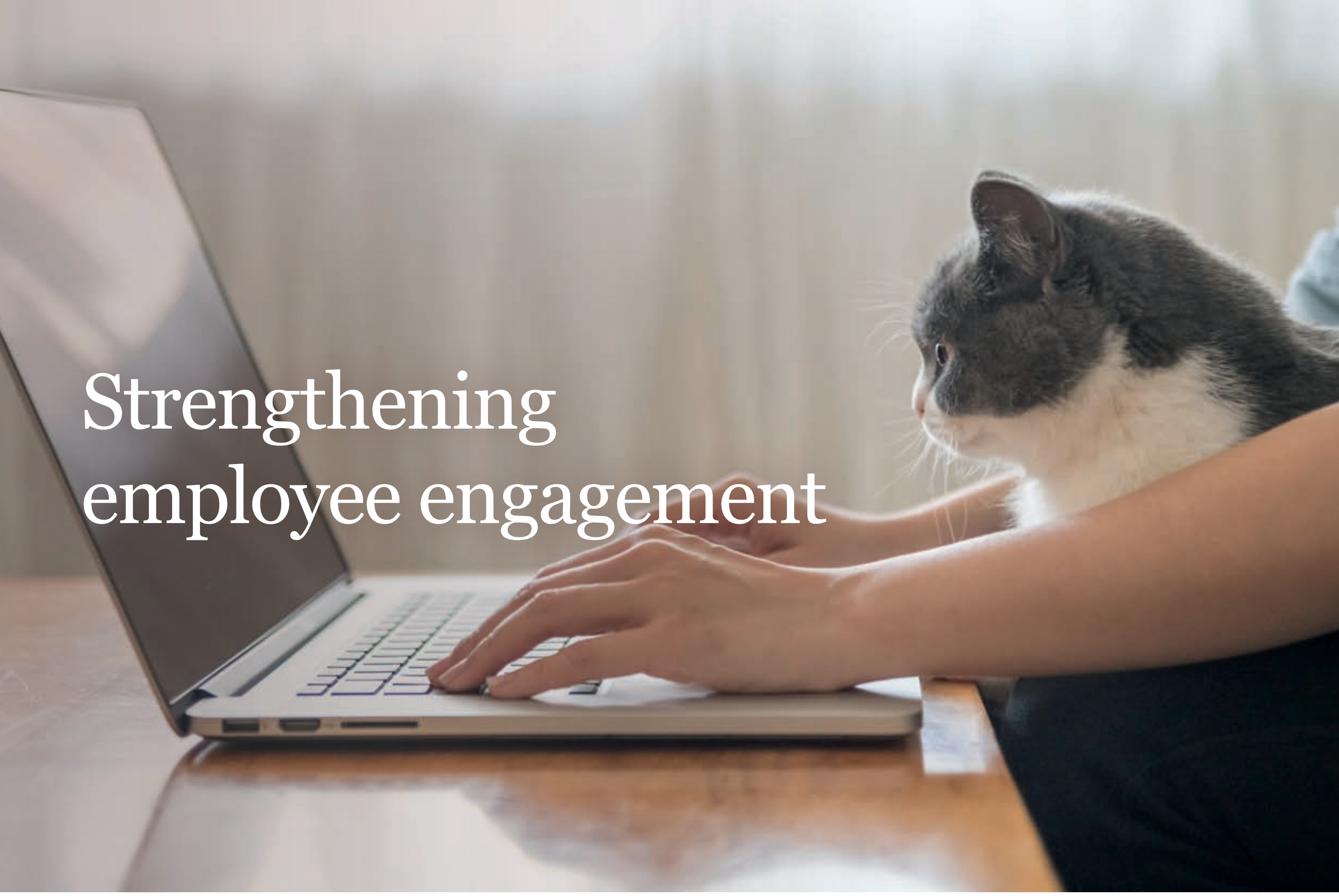
Our objective through this approach, which was to guarantee a foster family for 100% of adoptable dogs and cats, has been achieved.

| Adoptions | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | Grand total |
|---|---|---|---|---|---|---|---|---|
| Dogs | 135 | 183 | 56 | 68 | 50 | 83 | 66 | 641 |
| Cats | 62 | 45 | 1 | 19 | 7 | 6 | 12 | 152 |
| Total | 197 | 228 | 57 | 87 | 57 | 89 | 78 | **793** |

## OUR RESULTS

| Performance indicators | 2018 | 2019 |
|---|---|---|
| **Number of animals used for R&D studies** | 5,773 | 6,664 |
| **Number of animals used for quality controls** | 36,361 | 27,917 |

# Strengthening employee engagement



Our success is directly linked to the engagement of our employees, an engagement that stems from the role played by the women and men at the heart of Virbac when major decisions are made. Every day, we strive to change the way we operate and meet the ongoing challenges of globalization, market developments and new technologies, while respecting our values of proximity to each of our customers.

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.

## GROUP GOVERNANCE AND HR POLICY

Virbac's policy on this issue of human capital is based on three complementary pillars which are:

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

We remain attentive to the opinions of our employees and draw inspiration from them to define our policies and areas for improvement. This enables us to unite around strong values, thereby increasing 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 relate to the CSR challenges of human resources.

This year, we asked employees to work together to develop concrete actions to improve the sense of belonging and the quality of working life in each country, using as a basis the major internal opinion survey we conducted at the end of 2018. Specific action plans have been drawn up in line with the strengths and areas for improvement.

# ATTRACTING AND RETAINING TALENT

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 this competition amongst employers, the small employment pool for spouses, as well as the region's high cost-of-living, can represent a barrier to hiring. Meanwhile, in emerging countries, the job market is very dynamic, and Virbac's size and reputation cannot always attract the best.

## OUR KEY OBJECTIVES

- promoting employee engagement and loyalty.
- continuing with training initiatives aimed at improving skills and employability.

## OUR POLICIES AND ACTION PLANS

### Recruitment policy

To support our growth, we are recruiting in all countries and functions. To ensure the consistency and relevance of these new hires, the Group has been developing digital tools for several years now to provide better visibility of the professional opportunities available. Nevertheless, recruitment remains an activity closely linked to the profiles and cultural specifics of each country. For this reason, the search for target profiles is mainly managed by local teams to better attract talent in the different markets.

One of the approaches shared within Virbac throughout the world is the involvement of employees in the recruitment of new talent. To reinforce this practice, we have developed co-option programs in several countries to thank employees for their contribution in identifying profiles likely to meet our needs.

### Skills development policy

We offer 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 courses, 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 2.65% of payroll, or an investment of €1,857,580.

Developing employees also means offering more career opportunities within the Group. In order to encourage an increase in internal and international mobility, we have developed a comprehensive and fair international mobility policy aimed at building employee loyalty around the world, promoting cross-functionality and efficiency through the sharing of experiences across cultures and business lines, and securing key positions by capitalizing on the transmission of skills and knowledge internally.

### Performance evaluation and recognition

Within Virbac, we have developed a process for managing the performance and evolution of employees called Perf (Performance, evaluation, compensation, training). It has several components, including the setting of individual objectives and annual achievements assessed by line managers. This digital collaborative tool is available in 14 languages and 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.

Despite the digital evolution of our tools, we encourage face-to-face meetings, which remain privileged and essential moments in the follow-up and support of our employees. 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.

Within the annual performance committee, the executive board shares the assessments, remuneration and professional development possibilities of 60 key individuals in the Group, as well as the potential top performers identified through the Perf process.

In France, for example, during the 2019 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. To this end, several mechanisms are already in place, such as a triennial incentive agreement concluded 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 Group savings plan (*Plan d'épargne entreprise*) or in the Group retirement savings plan *(Plan d'épargne pour la retraite collectif)*; as of 2016, unused vacation days can also be paid into the Group retirement savings plan, with a limit of ten days per year.

### OUR RESULTS

| Performance indicators | 2018 | 2019 |
|---|---|---|
| **Absenteeism rate (%)** | 2.68% | 3.59% |
| **Staff turnover rate** | 14.08% | 13.91% |
| **Trust Index Great Place to Work** | 65% | - |
| **Number of employees present on 31/12 who have taken at least one training/total workforce** | 80% | 78% |

## HEALTH AND SAFETY AT WORK

This is a priority area for the Group and has become ingrained in the corporate culture year after year. Our priority actions are to ensure the compliance of industrial equipment and the risks associated with the use of chemical products with local regulations. These actions are carried out by the EHS department.

### OUR KEY OBJECTIVES

- increase the safety of employees in the workplace by implementing action plans such as better protection against potentially hazardous materials, improved ergonomics and management of psychosocial risks, which aim to reduce the number of workplace accidents and thus achieve a frequency rate of less than 5.

### GOUVERNANCE

In January 2015, we created a Corporate EHS department, reporting to the Group's chairman.

### EHS POLICY

Virbac has put in place a rigorous policy to identify and evaluate safety risks and to develop means of prevention and methods for monitoring their effectiveness. Severity and frequency criteria have been defined by the EHS department in order to better target the actions to be implemented to reduce the number of accidents and to integrate human and organizational factors into the in-depth analysis of these events. The objective is to avoid any recurrence of accidents and to develop a safety culture for all Virbac personnel, the personnel of external companies and temporary workers.

## OUR ACTION PLANS

### Safety culture

In line with previous years, in 2019, new training courses were given to managers and technicians of the industrial organization. Safety and environmental management has also been strengthened at the Carros sites in France by the introduction of EHS focal points in all production departments and in major industrial support functions.

In 2019, the Intranet tool continued to be enriched with new procedures and new forms on the topics of production site safety in France and the security of interventions on installations or premises. This tool gives all employees access to all types of documents on the subject of people, facilities and products.

In the second half of 2019, the Corporate EHS department, supported by the Industrial Corporate department, contracted with a company specializing in support for the implementation of a safety culture. The first step in this process involves conducting a diagnosis, which began in December 2019 with initial interviews and field observations. It will continue in the first quarter of 2020 with the deployment of a questionnaire intended for the entire French industrial organization (*i.e.* nearly 600 people) and will lead to the development of a support plan to be rolled out in 2020.

In all countries, we are committed to implementing a wide range of measures to ensure the health and safety of our employees. Multi-year action plans on the conformity of production machinery are therefore in place at all major industrial sites (Australia, United States, Mexico and, of course, France). Chemical risk management is also taken into account as early as the product design stage, starting with the choice of components and the number and type of analyses that must be carried out at the various stages of the process.

### Psychosocial risk management

On the subject of psychosocial risks, the various departments, supported by HR teams and defined relays (social partners, occupational medicine, etc.), are moving towards a holistic approach to quality of life at work. Various actions, complementary to the Great Place to Work actions related mainly to working conditions, training of managers and the dissemination of good practices, particularly with regard to workloads, 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.

## OUR RESULTS

| Performance indicators | 2018 | 2019 |
|---|---|---|
| **Frequency of work accidents** | 5.61 | 6.96 |
| **Work accident severity rate** | 0.17 | 0.19 |

*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 accident that resulted in a minimum of one lost workday, divided by the number of hours worked, multiplied by one thousand.*

The frequency rate of work accidents deteriorated sharply (+24%) over 2019 due to poor results in Asia, particularly in India (+53%), and in the Pacific region (+50%) in Australia and New Zealand. Europe, on the other hand, improved very slightly (-2%) with a rate of 4.83.

The severity rate of work accidents is increasing to a lesser extent (+10%) as a result of the deterioration in the countries and regions mentioned above. Europe, on the other hand, made significant progress with -5%.

# DIVERSITY

Increasing diversity within Virbac will allow us to demonstrate our ability to integrate differences. Openness and the capacity for integration are fundamental elements for innovation, business adaptation and the identification of opportunities. We must demonstrate these qualities both within the organization and externally.

## OUR KEY OBJECTIVES

- encouraging diversity and equal treatment of employees.

## GOVERNANCE

For Virbac, professional equality 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.

## OUR POLICIES AND ACTION PLANS

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

### Gender equality

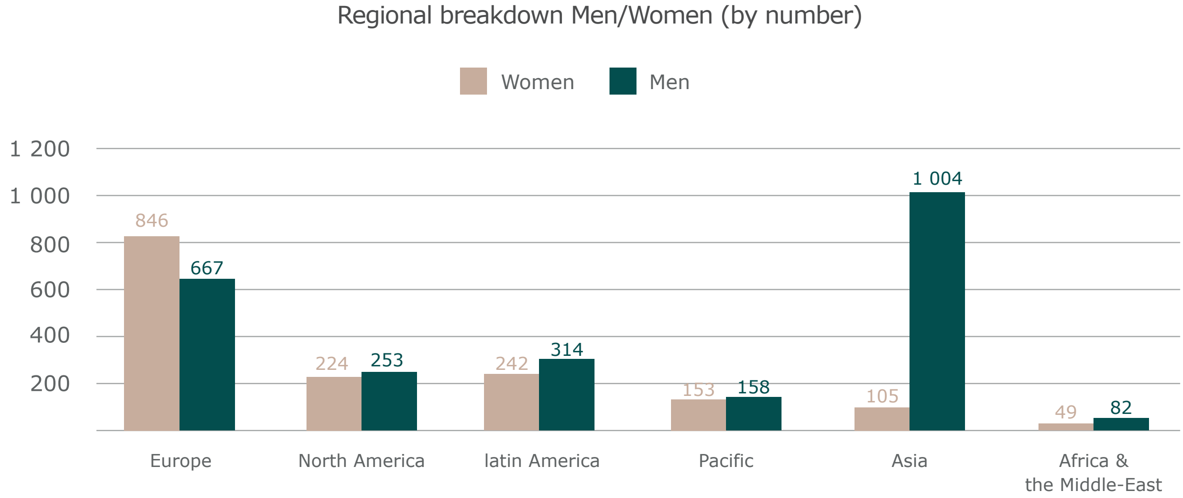
For Virbac, professional equality between women and men is fundamental and requires that no form of discrimination exists and is tolerated, both in terms of access to employment and promotions, wage policy and other determinants of working conditions.

At the global level, Colombia, Spain and especially the United States are the countries with the fewest unfavorable pay gaps for women in all professional categories. On average, the female/male base salary ratio is equal to 82% for leaders, 88% for managers, 110% for technicians/employees and 90% for workers.

With regard to equal pay for women and men, we take action to measure the gaps, identify the causes and take action. In France, for example, we signed an agreement in 2012 that enshrines the principles of equality between women and men in professional careers (access to professional training, equal pay between women and men in equivalent professions and for the same level of skills, and work-life balance).

In 2019, ten countries were provided with 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.

When recruiting for key positions, we give preference to internal and local candidates. Recruitment decisions (internal or external) are based exclusively on the skills and qualification criteria for the position. The applicant's nationality, gender and age are not relevant to the decision. However, where possible, we appoint local managers to take on leadership positions in order to be nearer to clients and the market culture. In 2019, out of the sixteen company subsidiaries, 88% of senior managers were local hires, and seven subsidiaries had full local management.




Europe remains the only geographical area where women are in the majority (56% of the workforce). The Pacific area with 49% and North America with 47% are proportionally balanced. Latin America with 44% and Africa-Middle East, with 37%, show a more significant imbalance. Asia has the lowest number of women in the workforce (9%). This very low level of representation can be attributed to India, which has only 16 women for 871 men, or 1.8% of the workforce. This country remains a special case: the sales teams, for reasons pertaining to local culture, job stress and security (visits to farms on two wheels) are more naturally composed of men. Excluding India, the Asia area accounts for 222 employees and consists mostly of men at 60%.

### Disabled workers

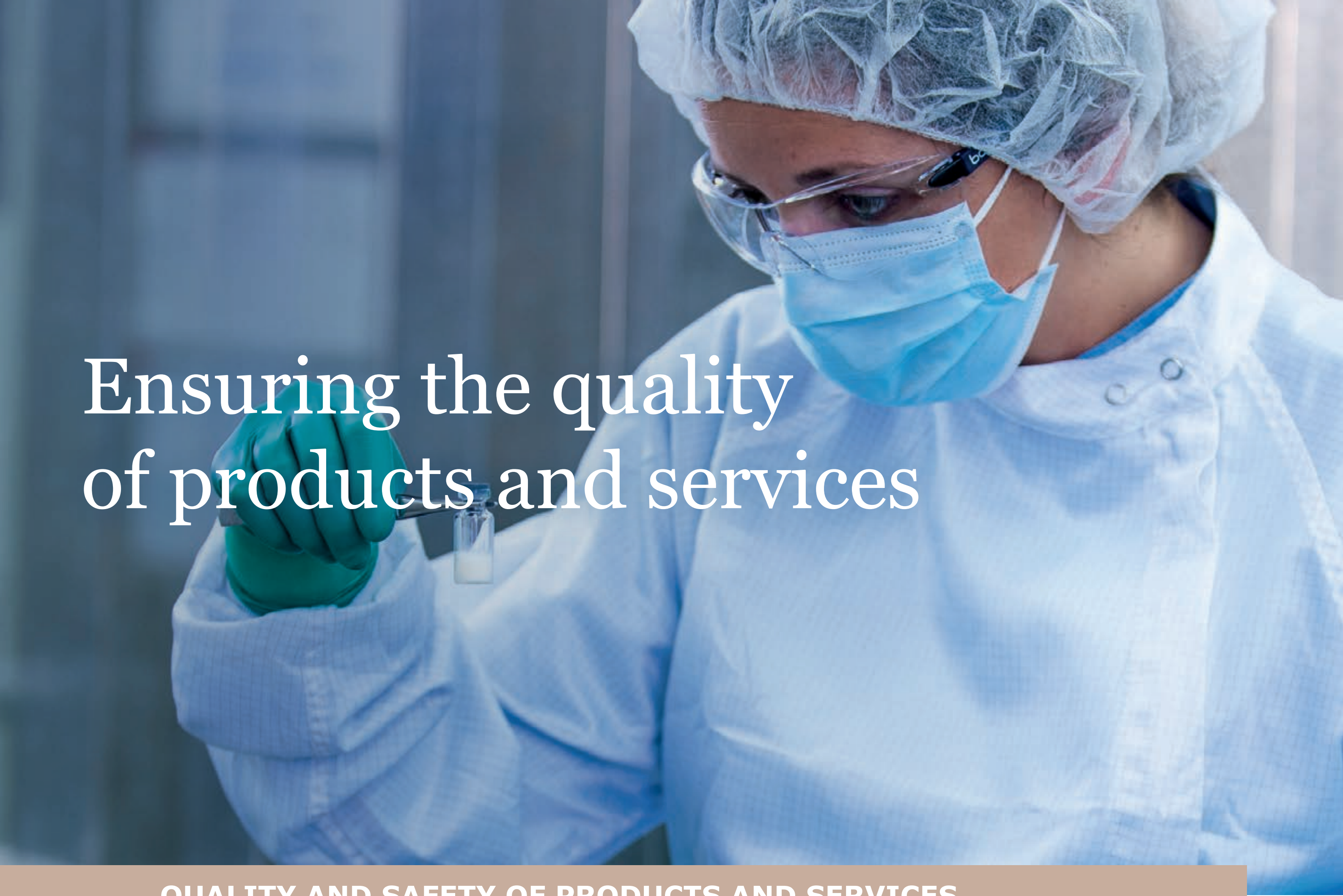
The disabilities agreement, signed in 2014 and renewed in 2017, aims to recruit, integrate and train people with disabilities; to communicate, raise awareness among employees and managers, and build a network of in-house disability stakeholders acting as ambassadors; and to maintain and develop subcontracting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

Taking a cross-functional approach to these issues related to this major CSR challenge for the Group, compliance by our employees with 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. Within the framework of the extended company, our partners' understandable apprehension regarding rules related to employment practices are taken into consideration by the Virbac departments involved.

| Performance indicators | 2018 | 2019 |
| --- | --- | --- |
| **Female to male salary ratio for the leaders category** | 87% | 82% |



# Ensuring the quality of products and services

## QUALITY AND SAFETY OF PRODUCTS AND SERVICES

In our quest for continuous improvement, we attach paramount importance to the quality of our products and services in order to offer high standards to our stakeholders: veterinarians, farmers and pet owners. The demand for food is growing in the world, due to the population's growth, which is increasingly concerned about its diet. Faced with this trend, we aim to work towards the constant improvement of food producing animal health in order to contribute to a global supply of better quality and more affordable meat and milk.

As far as companion animals are concerned, we are working hard to offer veterinarians and animal owners medicines, vaccines, health products and a range of foods adapted to the carnivorous diet (respecting the needs of animals) that help extend the life span 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.

### OUR KEY OBJECTIVES

- securing the quality of the products and their use.

### GOVERNANCE

#### 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 across three areas: product control, pharmaceutical compliance and sustainable economic performance.

The goal is to raise 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. At the same time, this quality system enables us to detect, trace and efficiently process all quality incidents inherent to the pharmaceutical activity.

### OUR POLICIES AND ACTION PLANS

In compliance with the regulations of each country, Virbac meets the highest applicable quality-security-efficiency standards required, particularly to obtain MA for its products. These standards cover every stage of the product life cycle, meaning before they are marketed and after they are placed on the market.

Through our product quality policy, we are committed to maintaining a high level of product and service quality in a right first time approach to reduce waste and destruction throughout the manufacturing process.

## TESTS THROUGHOUT THE PRODUCT LIFE CYCLE

### KEY ACTIONS TAKEN BEFORE THE MARKETING PHASE

#### Pre-development and development phases

Virbac implements Good laboratory practices (GLP) relating in particular to data traceability and then selects CROs working in compliance with these GLP.

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

#### Purchasing and subcontracting

Our teams systematically assess the materials purchased from suppliers (active ingredients, excipients, packaging) in terms of quality and reliability. Whenever possible, they identify several sources to limit the risk of shortages and give preference to purchases from the leaders in pharmaceutical equipment. Finally, we outsource to subcontractors specialized by pharmaceutical form.

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

#### Production phase

During the production phase, we implement Good manufacturing practices (GMP), applied in particular through the certification of all our industrial sites. Actions are also implemented at the level of the manufacturing line in order to ensure finished product quality 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.
- 100% of employees are trained in manufacturing processes.

#### Distribution phase

For the transporting of drugs, we apply Good distribution practices (GDP), such as compliance with the cold chain when required by the nature of the products. With regard to the organization of transport according to the regulations for the transport of high-risk products, safety data sheets for raw materials and finished products are made available to the personnel as well as to the carriers. Dangerous goods are transported in packaging that meets applicable standards.

#### Packaging and promotion

The development or selection of specific packaging is determined on the basis of a product safety assessment. We strive to develop appropriate diagrams and pictograms and communication materials for an optimal understanding of the information essential to consumer health and safety.

For all promotional communications, Virbac respects the scientific and technical claims demonstrated during the product development stages. Finally, any product claim shall be scientifically substantiated and made available to regulatory agencies in accordance 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 supported with advice and guidance for the product users.

## KEY ACTIONS OCCURRING AFTER MARKET LAUNCH

### Pharmacovigilance

In accordance with regulatory obligations, we monitor the safety and effectiveness of the pharmaceutical and nutritional products we place on the market. This is achieved through a dedicated organization comprising a qualified pharmacovigilance person (veterinarian) and an interim qualified person, who collects the cases, analyses them and decides whether or not these adverse reactions are attributable to the use of the medicinal product or food in question, and officially reports these cases to the regulatory authorities if necessary.

By taking into account the results of pharmacovigilance, Virbac is able to improve the knowledge of its products (*e.g.* by adding precautions for use) and thus make 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 pharmacovigilance and nutrivigilance system.

### Continuous stability studies

To ensure the sustained effectiveness 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 the national level with *SIMV* in France, NOAH in the United Kingdom, *BfT* in Germany, etc.;
- at the regional level with AnimalhealthEurope, AHI (Animal health institute) in the United States;
- at the global level with HealthforAnimals (Global animal medicines association).

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

### Key actions related to the Group's quality strategy

The quality benchmark was designed on a collaborative basis that integrates standards for all production and research facilities, in all departments and all subsidiaries, while taking into account regulations and the diversity of products and dosage forms. The Virbac quality system (VQS) was then extended to include the Group's organizations, processes, tools and quality standards repository (core model).

We have identified and updated more precisely 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. Finally, we have deployed a multidisciplinary team (research and development, production and quality assurance), focused on delivering products on time and with the expected level of quality to meet our customers' expectations.

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

## OUR RESULTS

| Performance indicators | 2018 | 2019 |
|---|---|---|
| **Number of non-compliances:** | out of 8,333 product references: | out of 8,688 product references: |
| regulations and voluntary codes | 16 | 25 |
| packaging | 8 | 12 |
| promotion | 3 | 13 |

There were no cases of non-compliance with regulations and voluntary codes that posed a danger to animal health. There were no packaging non-conformities that affected the distribution of the products.


ULWCD 0,30
OLYMPUS
JAPAN

# Protecting the environment

Protecting the environment is a growing challenge and a priority for the Virbac Group. Beyond initiatives deployed at the subsidiary level, our ambition is grounded in proactive efforts to reduce the environmental footprint of all our activities and products.

### GROUP GOVERNANCE AND ENVIRONMENT POLICY

From an organizational point of view, the creation of a Corporate EHS department, reporting to the chairman, supports this route. One of this department's initiatives involves re-framing the scope and methods of reporting, a prerequisite for gaining a Group-wide perspective of exposure to environmental risks.

Virbac is also committed to developing a training and awareness program dedicated to environmental issues for both existing employees and newcomers. 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 quest for consistency in the deployment of a Group-driven strategy.

## SUSTAINABLE USE OF RESOURCES

In an effort to optimize the resources we use, we seek to control the consumption of energy, water and materials used in our manufacturing processes.

## OUR KEY OBJECTIVES

- reducing energy consumption by 5% by 2025.
- controlling water withdrawals.
- reducing the overall share of materials, including all packaging placed on the market.

## OUR ACTION PLANS

### Energy

For several years, Virbac has been working to reduce energy consumption by replacing equipment for better efficiency, thermal insulation and optimizing air conditioning. We have also introduced consumption indicators as close as possible to the end-users for better control of energy expenses. At all of our industrial sites around the world, we seek to take energy consumption into account by using the Best available techniques (BAT) applicable to our business, whether in the choice of new equipment or through ongoing monitoring.

A few examples of our work:

**Virbac in France**

We rolled out an Energy savings plan (ESP) with three main components: improved temperature management, in particular for the storage of raw materials and finished products at Carros, the installation of a heat recovery unit at the water treatment plant and, finally, the installation of additional insulation on all steam circuits.

At the Carros industrial sites, we implemented this approach as part of an industrial performance plan, which enabled us to reduce consumption at the main site by 9%. In addition, in November 2017, the commissioning of the heat recovery unit at the Carros water treatment plant helped reduce our gas consumption. Through these various projects, we have reduced our electricity consumption by 37% over the last 11 years.

**Virbac Australia**

Thanks to the installation of solar panels and optimized power management, the Australian sites in Penrith and Crockwell have reduced their electricity consumption by 28% over a seven-year period. Gas consumption was also reduced over the same period by 32% with the implementation of an optimized maintenance plan for industrial boilers.

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. Therefore, reduction in water consumption at French sites (representing more than 50% of the Group's production) reached almost 12% over the past 11 years.

We integrate the environmental context of the areas in which we operate into our analyses. Apart from the site in South Africa, located in a water stress zone using the criteria of the FAO (Food and agriculture organization) and the WRF (Water risk filter), none of the Group's production plants are situated in water stress zones identified as such.

### Raw materials and packaging

Always with a view to the sustainable use of resources, we are committed to optimize our consumption of active ingredients, excipients and packaging items, thus avoiding product wastage or the multiplication of packaging and wrapping.

We have also given new impetus, with the help of our strategic suppliers, towards innovation capable of reducing packaging. This involves optimized supply management to limit warehousing and internal movements. We are also making progress to optimize the flow and timing of shipments. Finally, we have launched a project to minimize wastage at all stages of the industrial process.

Primary packaging that comes in contact with medicines is subject to strict pharmaceutical industry quality standards that limit the use of materials originating from recycling channels. On the other hand, we are focusing on eco-design principles for secondary or tertiary packaging, right from the research and development stage, in partnership with our suppliers. These efforts enabled us to reduce the packaging on the new petfood packaging by 40%, and to use recycled materials for 100% of the overpack boxes used at the main production site in France.

### OUR RESULTS

| Performance indicators | 2018 | 2019 |
|---|---|---|
| **Gas consumed (MWh)** | 33,101 | 32,515 |
| **Electricity consumed (MWh)** | 50,060 | 47,176 |
| **Water withdrawn from sources ($m^3$)** | 237,462 | 234,691 |
| **Volume of packaging placed on the market (tons)** | 4,682 | 4,555 |

As a result of action plans carried out at several industrial sites, particularly in France at the Carros site, the quantity of gas fell slightly (-2%) and more significantly for electricity (-6%). Total energy consumption in relation to activity fell by 5%.

Following actions to optimize the cleaning of production equipment at the St. Louis site in the United States (-19%) and Guadalajara in Mexico (-29%), the Group's water consumption decreased slightly.

## ENVIRONMENTAL DISCHARGES

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 development and marketing process, from R&D to manufacturing, storage and transport.

To limit these risks, which could cause harm to people, property 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's manufacturing sites and research and development facilities are also regularly inspected by the competent authorities.

Due to the nature of its pharmaceutical manufacturing activity (especially containment technologies), Virbac does not generate any visual, noise or odor pollution. We therefore focus on the real consequences of our business (atmospheric emissions, effluents or hazardous waste resulting from our activities or products) by investing increasingly in environmental protection: taking into account EHS impacts in the management of industrial projects, improving the environmental performance of existing facilities, etc.

In addition, the Group's environmental principles are adapted to each country in accordance with local regulations. Here again, the objective is to identify good practices at the subsidiary level to be consolidated within the Group context.

### OUR KEY OBJECTIVES

- limit the volume of water discharged and its COD content (Chemical oxygen demand).
- reduce by 5% the total amount of waste generated by 2025.

### OUR ACTION PLANS

#### Effluents

For effluents as for other discharges into the environment, our aim is to facilitate the consolidation at Group level of the various local initiatives and subject to specific regulatory frameworks, particularly with regard to optimizing the cleaning frequency of our facilities. In this regard, the Group's oversight leads to conservative guidelines. For example, many sites must recover and treat a large portion of their process water discharges to hazardous waste standards.

Following the example of the new Ph regulation station on one of the Carros industrial sites in France, we are making regular investments in all our facilities to treat the wastewater coming directly from our activities, and the cleaning of equipment, as efficiently as possible. Our objective in this area is to reduce the proportion of COD, the main pollutant in discharged industrial water.

### Hazardous 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;
- 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).

## OUR RESULTS

| Performance indicators | 2018 | 2019 |
|---|---|---|
| **COD (tons)** | 121 | 93 |
| **Volume of hazardous industrial waste (tons)** | 2,966 | 2,493 |
| **Volume of ordinary industrial waste (tons)** | 2,270 | 2,376 |

The quantity of COD discharged decreased significantly (-23%). This was due, on the one hand, to an improvement in the quality of water discharge at the Carros site in France, and on the other hand to a decrease in the quantity of COD discharged at industrial sites in the United States following the optimization of the number of cleaning operations between different batches of manufactured products.

The total quantity of waste generated fell by 7%, most notably for hazardous industrial waste (-16%), mainly due to improved productivity at Australian and American sites, but also to the optimization of processes in Australia and France, which had a negative impact on the quantity of non-hazardous waste generated (+5%).

# CLIMATE CHANGE

The risks linked to the effects of climate change encourage Virbac to contribute to the reduction of greenhouse gas emissions.

For Virbac, the direct and indirect emissions of greenhouse gases (scope 1 and 2) represent emissions related to the consumption of the various forms of energy (in this case, gas and electricity) on all industrial sites worldwide, as well as the greenhouse gas emissions related to refrigerants.

Other indirect greenhouse gas emissions (scope 3) correspond to emissions related to the transport of finished products from all sites to the end customer.

## OUR KEY OBJECTIVES

- reduce greenhouse gas emissions from scopes 1 and 2 by 10% by 2025.

## OUR ACTION PLANS

### Greenhouse gas emissions

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

Actions :

- optimization of energy consumption: insulation of installations, energy recovery system on the effluent treatment plant for biological production units (Carros), solar boiler for industrial hot water (Mexico), extension of plans to replace lighting with LEDs on almost all industrial sites;
- with regard to refrigerant gas emissions: reinforcement of maintenance plans at industrial sites in Australia and France, as well as a program to replace the most polluting fluids with lower $CO_2$ emissions.

**Scope 3: emissions from the transport of finished goods**

Actions :

- the new calculation method implemented in 2018 has enabled us to improve the reliability of the data from the subsidiaries data according to the emission coefficients provided by the French environment and energy management agency (*Ademe*, see website www.bilans-ges.ademe.fr);
- transport of finished goods: destination grouping;
- employee transportation: inter-site shuttles, outside shuttles, incentive policies to limit the carbon impact of company vehicles, carpooling, etc.

## OUR RESULTS

| Performance indicators | 2018 | 2019 |
|---|---|---|
| **Scope 1 & 2 GHG (tons $CO_2$ equivalent)** | 23,681 | 22,200 |
| **Scope 3 GHG (tons $CO_2$ equivalent)** | 16,927 | 27,790 |

Scope 1 & 2 emissions have decreased by 6% over one year and by nearly 8% since 2017, as a result of reduced energy consumption over the same periods (by 4% and 5% respectively), and action plans on the management of refrigerants and the installations using them allowing a reduction of 6% between 2017 and 2019.

As of 2018, the Group has improved the harmonization of the calculation of Scope 3 emissions (from the transport of finished products only), which has led to greater accuracy in most subsidiaries, particularly in the United States, Vietnam and, to a lesser extent, Uruguay and Australia. The change in 2019 data versus 2018 reflects this more accurate view.

## Report of one of the statutory auditors, appointed as independent third party, on the consolidated non-financial statement

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

For the year ended December 31, 2019

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, 2019 (hereinafter the "Statement"), presented in the group management report pursuant to the legal and regulatory provisions of articles L. 225102-1, R. 225-105 and R. 225-105-1 of the French commercial code (*Code de commerce*).

### Company's responsibility

The executive board 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 has been 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 the requirements of article L. 822-11-3 of the French commercial code and the French code of ethics for statutory auditors (*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 the requirements of 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 nor on the compliance of products and services with the applicable regulations.

### Nature and scope of procedures

We performed our work in accordance with articles A. 2251 *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 assessed the suitability of the Guidelines with respect to 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. 2251021 governing social and environmental affairs, the respect for human rights and the fight against corruption and tax evasion ;
- we verified that the Statement provides the information required under article R. 225-105 II of the French commercial code, where relevant with respect to the principal risks, and includes, where applicable, an explanation for the absence of the information required under article L. 225-102-1 III, paragraph 2 of the French commercial code ;
- we verified that the Statement presents the business model and a description of principal risks associated with all the entity's activities, including where relevant and proportionate, the risks associated with its business relationships, its products or services, as well as its policies, measures and the outcomes thereof, including key performance indicators associated to the principal risks ;
- we referred to documentary sources and conducted interviews to
  - assess the process used to identify and confirm the principal risks as well as the consistency of the outcomes, including the key performance indicators used, with respect to the principal risks and the policies presented, and
  - corroborate the qualitative information (measures and outcomes) that we considered to be the most important[1] ; concerning certain risks (Ensuring the quality of products and services and Innovating responsibly), our work was carried out on the consolidating entity, for the others risks, our work was carried out on the consolidating entity and on a selection of entities.
- 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 obtained an understanding of internal control and risk management procedures the entity has put in place and assessed the data collection process to ensure the completeness and fairness of the Information.
- we carried out, for the key performance indicators and other quantitative outcomes [2] that in our judgment were of most significance:

- 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 [3] and covered between 25% and 85% of the consolidated data for the key performance indicators and outcomes selected for these tests.

- 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 eight people between December 2019 and April 2020.

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**

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 revenues of the Group.

Paris-La Défense, April 6, 2020
One of the statutory auditors,
Deloitte & Associés

Philippe Battisti - Partner, Audit
Eric Dugelay - Partner, Sustainability Services

[1] Qualitative information selected: key actions related to the group's quality strategy; reducing animal studies in R&D studies and quality controls; integration of corporate responsibility issues in stakeholders relationship.

[2] Quantitative social information selected: staff turnover rate; number of employees present on 12/31 who have taken at least one training session/total staff on 12/31; ratio of female/male salaries by socio-professional group; frequency and severity rate of work accidents; absenteeism rate.

Quantitative environmental information selected: water withdrawn by source; COD content; volume of hazardous waste; volume of non-hazardous waste Total of packaging placed on the market ; gas consumption ; electricity consumption ; direct and indirect greenhouse gas emissions (Scope 1, 2 & 3).

[3] Virbac SA, Virbac France, Virbac Do Brasil Industria E Comercio Ltda (social indicators), Virbac Vietnam Co Ltd (environmental indicators).

# FINANCIAL REPORT

# Covid-19 - Virbac status report

**Situation updated on April 15, 2020**

Our thoughts go out to people around the world who are directly or indirectly affected by this coronavirus pandemic (Covid-19).

Our top priority is the health and safety of our employees and we are following the evolution of this pandemic very closely. All of our efforts are focused on finding the best ways to protect our teams and taking every action possible to help slow the spread of the virus and avoid overwhelming healthcare systems. Because animal health is at the heart of public health, we are also striving to ensure continuity as much as possible with regard to our commitments to veterinarians, farmers and animal owners. We warmly thank them all, especially veterinarians and farmers, who are on the front lines every day, continuing their essential work to feed the planet and protect animals.

To address this situation, we quickly assembled a dedicated committee that coordinates all positions and maintains contact with all subsidiaries to monitor the situation as it evolves, and to quickly and effectively make the best decisions. Measures have been introduced at various Group sites: communications on how the virus is spread and the barrier gestures to be followed, monitoring of evocative symptoms, social distancing and contact prohibition, flow control, moving work stations to different locations (production, R&D, administrative), guided management of outside providers, personal protective equipment such as masks and gloves for those in the most exposed positions, etc. These measures were designed based on recommendations by the World health organization and country-specific health authorities.

Our business continuity plans have been triggered. Projects have been prioritized and a new work organization has been established by dividing the teams and spreading the time slots to avoid any overlap, as well as imposing teleworking for all eligible positions. Our remote communication channels have also been strengthened to better communicate with veterinarians and farmers as well as with employees, all to ensure continuity in our activity and our commitments to our customers in the animal care and feeding chain.

To date we have several cases of Covid-19 in our global workforce, most of them in France. We are continuously monitoring their health progress and that of their relatives. The majority of these cases are in our industrial teams at our major production sites in France (50% of our global productions) and in the United States. After a temporary shutdown of our Carros site during the last week of March, we partially re-started production (current activity rate ~50%), with additional constraints, reduced staff and slower work rates. Our St. Louis site (current activity rate ~70%), as well as several of our other industrial sites are working at a slower rate, and we are unable at this point to determine when we can resume normal operations.

In terms of supply, we were able to mitigate impacts in the first quarter. However, we anticipate possible worldwide strain on the delivery of certain components or even certain products in the second quarter. For our Chinese suppliers, we are seeing a very gradual return of our supplies after a period of sharp slowdown. Our Indian subsidiary (the Group's number 3 subsidiary), which sources locally, will very likely be affected by the country's complex situation in terms of health and economics and recently mandated containment measures. With respect to our inventory, except for the companion animal vaccines for which we have temporarily stopped production, we have safety stocks on our main products that should cover us until the end of June 2020.

Meanwhile, we expect our business to slow during containment periods, even if disparities may exist between segments. In many countries, our sales representatives are confined to their homes, with less frequent contact with veterinary clinics for companion animals. Those clinics have reduced activity or may even only be seeing patients by appointment and for essential and urgent interventions. Overall, the food producing animal segment could be less impacted.

## SUSPENSION OF THE 2020 OUTLOOK

Given these elements, at this point, we anticipate a decline in our activity and profitability in the second quarter of 2020, and most likely throughout all of 2020. As a result, due to uncertainties related to the number of countries affected by containment measures, the magnitude of the impact of these measures on our activity, the length of time that the outbreak continues to grow, and thus the duration of containment periods, we are not able to accurately assess the extent of the decline in our activity over the entire year. Consequently, it is also difficult to confirm at this stage the objective of an Ebit[1] ratio around 15% around 2022 at constant rates and scope.
In addition to the measures we initiated to freeze spending and investment, government support measures for businesses, and the non-payment of dividends in 2020, we have the assets to deal with this crisis, including a solid financial structure, no significant repayment of debt in 2020, a drawing capability on our lines of credit that remains significant (~€250 million) and a positive cash position at the end March of ~€50 million. Lastly, thanks to our very diverse activity, our worldwide footprint (33 subsidiaries and a presence in over 100 countries via distributors), our highly engaged and supportive teams, and the stability of our shareholding, we remain very confident in the future.

[1] *Ebita: current operating profit before depreciations of assets arising from acquisitions*

# Management report

## 2019 KEY EVENTS

### Group: changes in governance bodies

Cyrille Petit was appointed as a member of the supervisory board effective June 18, 2019. In December, he also joined the audit committee, replacing Olivier Bohuon, while Grita Loebsack resigned from the supervisory board.
In addition, Jean-Pierre Dick decided to take his career in a different direction and left the executive board in November 2019.

### Group: return to the initial conditions of the financial covenant

In the first quarter of 2018, in order to obtain more flexibility, Virbac applied for a waiver to have the financial covenant compliance clause relaxed for 2018. This request was granted by all banking partners and *Schuldschein* investors. As such, the ratio of net debt to Ebitda (Earnings before interest, taxes, depreciation and amortization) was expected to be below 5.0 at the end of June 2018 and below 4.25 at the end of December 2018. With 2019 marking the return to the initial contract terms, the ratio was then expected to be below 4.25 by June 30, 2019, and below 3.75 by December 31, 2019.
The thresholds were respected, reaching 3.00 on June 30, 2019 and 2.29 on December 31, 2019, and the related financial conditions are more favorable.

### Group: amendment to the defined-benefit retirement plan

Following the March 12, 2019 decision by the supervisory board, an amendment to the defined-benefit pension plan for members of the executive board was signed on June 14, 2019. This amendment redefines the beneficiaries of the plan, and the new applicable annuity rate.
The exit of beneficiaries no longer meeting the required conditions, combined to the decrease in the annuity rate has from 22.0% to 10.5% of the reference salary, generated income of €3.4 million before taxes in the consolidated financial statements (including the employer social contribution of €0.6 million).

### Group: additional impairment of the CaniLeish asset

As part of the asset value loss tests performed in 2019, the Group reviewed the recoverable value of the Leishmaniosis vaccine CGU. This test led to the recognition in the 2019 financial statements of an impairment of the CGU's intangible assets in the amount of €7.2 million, which breaks down as follows: €9.7 million in intangible assets (marketing authorizations) and -€2.5 million in deferred tax liabilities.

### United States: the FDA confirms Bridgeton's GMP status

The inspection by the FDA (Food and drug administration) of the Virbac site in Bridgeton (United States) for GMP compliance was completed on November 25. This was the anticipated GMP monitoring inspection. These unannounced inspections take place at American production facilities with a renewal frequency of one to three years. This inspection concluded with a 483 report containing only two minor observations (laboratory quality controls and rigor of investigative procedures). After two weeks, the FDA confirmed the site's GMP status.

### United States: sale of the Fort Worth site

Virbac United States sold its Fort Worth administrative building, generating a net income of €1.1 million in the annual financial statements. The move to the new premises took place during the second half of 2019.

### Taiwan: improved response to the food needs of tomorrow

In November 2019, Taiwan celebrated the laying of the foundation stone initiating the construction of a new biology R&D center dedicated to supporting aquaculture and swine activities in Asia. This center will address the new animal health challenges in this region (mass vaccination, food safety, the emergence of new diseases). This new center should be operational within two years.

### Uruguay: strengthening R&D teams

In November 2019, a new R&D center, primarily dedicated to the development of vaccines for ruminants, opened in Uruguay. Designed by French and Uruguayan technicians, the new facilities will be used to carry out current and future projects that are consistent with good laboratory and production practices and thereby improve response to animal health issues in this region.

### Vietnam: a new R&D laboratory on the horizon

In November 2019, construction began on the new R&D center specializing in aquaculture at Virbac's production facility in Ho Chi Minh City. This new unit will develop diagnostic solutions, vaccines and immunostimulants to combat the main aquaculture diseases.

# EVENTS SUBSEQUENT TO DECEMBER 31, 2019

## Coronavirus health crisis

Between December 20, 2019, the date on which Virbac issued its 2020 outlook, and this communication, the coronavirus health crisis occurred. The situation is extremely evolving worldwide, and at this stage it is very difficult to anticipate what the impacts may be by the end of the year. The Group is working on contingency plans and has implemented appropriate measures for its employees, and also to meet the needs of its customers.

# RESEARCH & DEVELOPMENT ACTIVITY

The Group bases product innovation on:

- an analysis of future market needs and trends based on ongoing sophisticated customer feedback. Product development times require to anticipate future markets as well as societal and regulatory changes in order to provide customers and markets with products that are adapted to future contexts;
- technological advances: the scientific world is advancing at an increasingly rapid pace and offers possibilities for treatment and prevention in the health field. The Group seeks to use these possibilities to meet these needs. Today, Virbac has access to technological solutions that were not even being considered just five to ten years ago. These solutions can dramatically change existing prevention or treatments and may, at times, offer solutions to incurable diseases. The Group has permanent access to these technological solutions through numerous partnerships with local universities and biotechnology companies.

In addition to the projects resulting from this synergy between needs and technologies and developed by R&D teams around the world, Virbac also has an active business development and commercial licensing policy to enhance its product offering.

The R&D centers are located on all five continents so as to be as close as possible to production centers. These centers have specialized teams and, when necessary, work collaboratively with other Virbac R&D centers to broaden their skills in specific areas. Their activity is supported by dedicated laboratory facilities (analytical, formulation, biological, process, etc.) operating either in the biological field or in the pharmaceutical field, or both. Study opportunities are broadened by the regular use of external research & development centers (CROs - Contract research organizations) to which these studies can be entrusted.

In addition to these R&D centers, the Group has regulatory units dedicated to the national, and sometimes regional, registration of products developed by the Virbac Group. Teams in these units are smaller and mainly focused on regulatory affairs. These centers have neither a laboratory nor a production unit but can subcontract developments to CROs if specific local studies must be added to the main project file.

Since 2012, using regional R&D centers located around the world, the Group has adopted both a corporate biological R&D organization and a Pharmaceutical R&D organization. This global structuring makes it possible to allocate all the resources and skills of the R&D centers for major projects, boost exchanges and ensure a global vision in terms of regulations and R&D quality. The products developed mirror the Group’s strategic sectors: companion animals, ruminants, swine and aquaculture. The innovative products developed for these sectors can then be marketed in the countries and meet customers’ expectations.

# ANALYSIS OF CONSOLIDATED FINANCIAL STATEMENTS

## Performance of revenue

In 2019, the Group registered consolidated revenue of €938.3 million, an increase of 8.0% compared to last year at actual exchange rates and 6.6% at constant rates.

### Performance by segment

| in € million | 2019 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 | 149.4 | | | 4.0% | | | |
| Immunology | 75.5 | | -0.4% | | | | |
| Antibiotics/dermatology | 83.0 | | | | | 14.8% | |
| Specialties | 75.8 | | | | | 11.5% | |
| Equine | 26.9 | | | | 5.0% | | |
| Specialized petfood | 50.5 | | | | | | 24.8% |
| Others | 88.5 | | | | | | 16.6% |
| **Companion animals** | **549.7** | | | | **9.6%** | | |
| Bovine parasiticides | 49.7 | | | 3.1% | | | |
| Bovine antibiotics | 66.0 | | -3.0% | | | | |
| Other ruminants products | 143.3 | | | | 5.1% | | |
| Pig/poultry antibiotics | 35.8 | -9.1% | | | | | |
| Other pig/poultry products | 31.0 | | | | 6.6% | | |
| Aquaculture | 50.5 | | | | 9.0% | | |
| **Food producing animals** | **376.4** | | | **2.4%** | | | |
| **Other businesses** | **12.3** | | | | | **11.4%** | |
| **Revenue** | **938.3** | | | | **6.6%** | | |

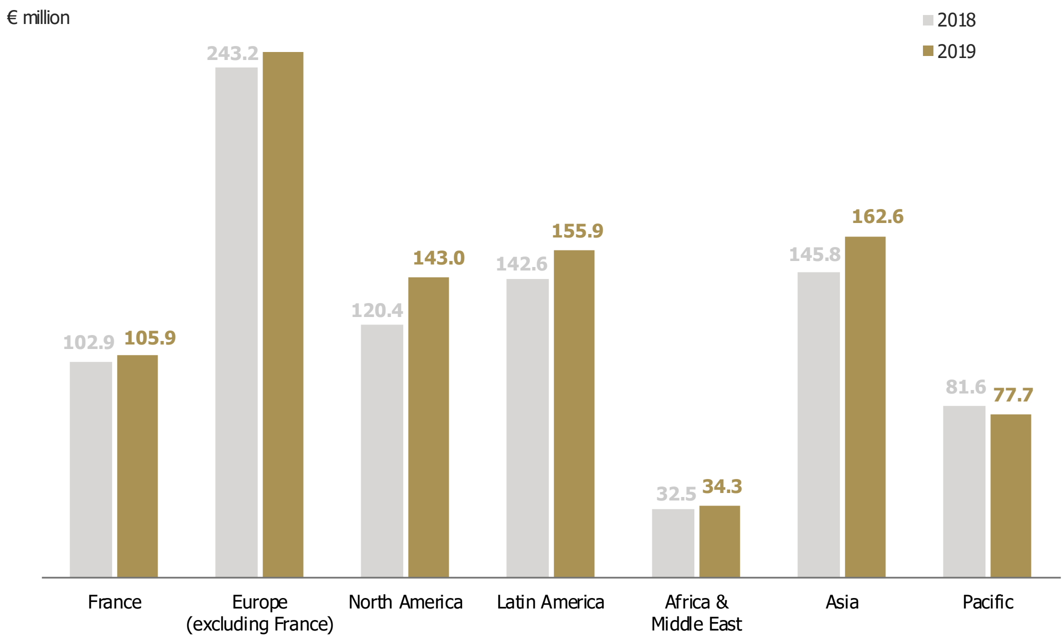
**Companion animals**
In 2019, this business line represented 59% of revenue, up 9.6% at constant exchange rates and scope compared with 2018.
The strongest growth came from the specialized petfood, antibiotic, dermatology and dental ranges, with vaccines remaining relatively stable over the period.

**Food producing animals**
In 2019, this activity accounted for 40% of Group revenue, up 2.4% at constant exchange rates and scope compared with 2018.
Growth was driven by aquaculture, which grew by 9.0% at constant exchange rates and scope. The ruminant segment also grew by 2.5% at constant exchange rates and scope, thanks, in particular, to sales of vaccines and food supplements for cattle. The industrial farming sector (pig and poultry) was down -2.5% at constant exchange rates, mainly impacted by the new regulations on antibiotic prescription in Italy and Spain.

**Other business lines**
These business lines, which represent 1.0% of consolidated revenue in 2019, 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.

## Performance by geographic regions

With the exception of the Pacific region, all regions contributed to sustained growth in 2019 compared to the same period in 2018. In the United States, activity increased by 18.8% at real rates (+13.6% at constant exchange rates). Outside the United States, the Group grew by 6.2%, or 5.5% at constant rates. Europe grew by 5.2% at constant exchange rates. The main contributors to this performance were Northern Europe countries (including Germany and the United Kingdom), France, which achieved strong results in the last quarter, and Spain, which compensated for Italy's withdrawal. Sales in the Africa-Middle East region were up 5.3%, an increase of 8.4% at constant rates, owing mainly to South Africa.
In the Asia Pacific region, growth at real rates was +5.7% (+4.0% at constant exchange rates). Growth was very strong in China and Japan and more moderate in India. However, Australia suffered from a difficult year-end that was heavily impacted by adverse weather conditions. In Latin America, excluding Chile, business grew by +11.1% at real rates (+9.7% at constant exchange rates), reflecting strong contributions from Brazil and Mexico. Lastly, in Chile, business showed good growth of +6.7% at real rates (+4.5% at constant rates).




The major contributions by geographical area are as follows:

**France**
In 2019, business in France was up 3.0% compared to 2018, thanks to the performance of specialized petfood and specialties in the companion animal segment. The food producing animal segment also grew despite lower sales of antibiotics.

**Europe (excluding France)**
Business in Europe grew over the period by 6.5% at real rates and 6.2% at constant rates. This growth was driven by good performances in the United Kingdom, Germany, the export area, Poland and Spain, offsetting difficulties in Italy.

- **United Kingdom**

The region showed growth of 5.5% at constant exchange rates, driven, in particular, by internal parasiticides with Milpro, companion animal vaccines, specialized petfood and the reproduction product range with Alizine and Suprelorin. In the food producing animal segment, growth was fueled by ruminant vaccines with the continued success of Bovigen Scour.

- **Germany**

The country achieved growth of 7.9%. The companion animal segment benefited from the performance of the reproduction range with Suprelorin, vaccines, the dermatological range with Easotic, the success of Luminal and the launch of Anibidiol. Growth in the food producing animal segment was driven by vaccine sales with Bovigen Scour and the launch of Syvazul in 2019, offsetting difficulties in the bovine intramammary segment due to regulations on the use of critical antibiotics.

- **Export area**

The export area grew by 9.7% in 2019, driven by sustained sales in Central Europe. The companion animal segment is mainly driven by diagnosis, specialized petfood, vaccines and reproduction products, and the food producing animal segment by the sale of bovine antibiotics.

■ **Poland**

Once again this year, the country recorded sustained growth of 23.2% at constant rates, still led by the success of Suramox in the food producing animal segment and Milpro in the companion animal segment.

■ **Spain**

In 2019, the country reported strong growth of 9.5% at constant rates. The companion animal segment showed double-digit growth, driven by external parasiticides, with the launch of the Prevendog collar, and specialized petfood. The food producing animal segment is also growing, mainly due to the sales of Bovigen Scour, and despite the decline in antibiotic sales.

■ **Italy**

Revenue in Italy fell 7.6% at constant rates this year, as it was particularly affected by new regulations on antibiotic prescriptions.

**North America**

In the United States, business grew by 18.8% at real rates (+13.6% at constant exchange rates), benefiting from a significant base effect already noticed at the end of June 2019 and linked to Sentinel's inventory reduction in distribution in the first half of 2018, which had affected ex-Virbac sales. Excluding this inventory effect, ex-Virbac sales growth in the United States was around 7% (with a decline in Sentinel offset by strong momentum in the dental, antibiotic and specialties ranges).

**Latin America**

In 2019, the Latin American area recorded growth of 7.6% at constant exchange rates. All areas are showing growth, particularly Brazil and Mexico.

■ **Brazil**

Brazil recorded growth at constant rates of 17.6%. As in 2018, both segments are growing steadily. The food producing animal segment is mainly driven by four products, namely Clostrisan (cattle vaccine), Fosfosal injectable (food supplement), Effipro bovis and Virbamec Platinum (bovine parasiticides). As for the companion animal segment, it is growing mainly thanks to the dermatology range and the internal parasiticide range.

■ **Mexico**

Mexico reported growth of 7.5% at constant exchange rates, driven by sales of Zoletil (an anesthetic), specialized petfood, the dermatology range and parasiticides in the companion animal segment. The food producing animal segment benefited from sales of swine and poultry antibiotics with Suramox 50% premix.

■ **Chile**

Business in Chile achieved overall growth of 4.5% at constant exchange rates, driven in particular by the increase in sales in the aquaculture segment, especially in parasiticides, injectable vaccines and food supplements.

**Asia**

In this region, revenue growth was 8.2% at constant rates, mainly due to very good performances in China, Japan and India, mitigated by the negative effects of African swine fever in South-East Asian countries.

■ **China**

In 2019, China reported the Group's strongest growth (+31.6% at constant exchange rates). This growth was driven by the dynamism of the companion animal segment, notably the dermatology range with Epiotic, specialties with Zoletil, dog vaccines and dental.

■ **Japan**

Growth of 13.8% at constant rates in 2019 was mainly due to the launch of Pronefra (food supplement) at the beginning of the year and the success of Moxiheart chewable (internal parasiticide).

■ **India**

Despite a year heavily impacted by very low milk prices, India recorded growth of 2.0% at constant rates. The food producing animal segment benefited from sales of cattle parasiticides and swine/poultry and sheep products. In the companion animal segment, growth was driven by sales of canine vaccines.

■ **South Korea**

Virbac Korea recorded growth of 11.3% at constant exchange rates, driven by electronic identification in the companion animal segment and the launch of the swine vaccine (Suigen PCV2) at the end of 2019 in the food producing animal segment.

■ **Philippines**

The area grew by 9.9% over the financial year, mainly driven by sales of Nutri-plus gel in the companion animal segment.

■ **Taiwan**

Virbac Taiwan grew by 11.6% at constant rates. The companion animal segment grew as a result of the launch of Milpro at the beginning of the year and good performances in the dermatology and specialty ranges. The food producing animal segment was supported by the range of bovine antibiotics, mainly Shotapen.

■ **Thailand**

Thailand grew by 4.6% at constant rates over the year, driven mainly by the ruminant segment thanks to antibiotics (Shotapen) and the reproduction range (Virbagest). The companion animal segment is in decline despite the growth of the dermatology range.

■ **Vietnam**

Vietnam showed limited growth of 1.6% at constant rates, mainly thanks to the good performance of the companion animal segment, including sales of Nutri-plus gel and Zoletil, as the food producing animal segment was particularly impacted by African swine fever.

**Africa & Middle East**

Growth at constant rates of 8.4% in this region was driven by South Africa, notably due to the success of Grofactor (a food supplement launched in 2018) in the food producing animal segment as well as increased sales of Browse Plus in the same segment. The companion animal segment is also growing, driven by the dermatology and specialties ranges.

**Pacific**

The Pacific region is the only region in decline, with a 4.8% drop in revenue at real rates (-3.5% at constant rates).

■ **Australia**

Australia declined by 3.6% at constant rates, particularly impacted this year by severe drought and major fires in the last quarter. In addition, the country faced increased distributor concentration in 2019, intensifying competition in the market.

■ **New Zealand**

New Zealand ended 2019 down 4.9% compared to 2018 at constant exchange rates. This decrease is mainly due to a late start to the intramammary products season and the loss of the Boviseal license.

## 2019 major launches

The major product launches and ranges in 2019 are:

- Evicto, an external and internal parasiticide for dogs and cats, was launched in Europe. Marketing authorizations (MA) were also obtained for Korea, Australia, New Zealand and Canada;
- Eradia, an antibiotic for dogs, was also launched in Europe in 2019;
- Prevendog, a parasiticide collar for companion animals, was launched in Spain, Portugal and Greece;
- the dental range in the United States was expanded with the launch of Veggiedent Flex and Veggiedent Zen, the latter also being introduced in Europe in 2019;
- Vet Aquadent Fr3sh was launched in the United States and Asia Pacific, notably in Japan and Australia;
- Anibidiol, a food supplement for companion animals already marketed in Switzerland since 2018, was launched in other European countries in 2019, notably in France, Germany and Benelux;
- Vetemex, an anti-vomiting agent for dogs and cats, was launched in the United Kingdom, France and Spain;
- Hyaloral, a food supplement for dogs to support joint mobility, was launched in Europe, particularly in France, Benelux and Italy;
- following its launch in Taiwan in 2018, marketing of the PCV2 swine vaccine was expanded in Asia, particularly in Korea, Thailand and the Philippines;
- Multimin was launched in France and the United Kingdom;
- Kriptazen, a halofuginone-based cattle parasiticide, was launched in most European countries;
- in Germany, the cattle vaccine Syvazul has been on the market since May 2019.

## Analysis of the results

### Changes in results

| in € million | 2019 | % | 2018 | % | *Variation* |
|---|---|---|---|---|---|
| **Revenue from ordinary activities** | **938.3** | **100.0** | **868.9** | **100.0** | *8.0%* |
| **Margin on purchasing costs** | **623.5** | **66.5** | **574.6** | **66.1** | *8.5%* |
| Current operating expenses | 463.0 | 49.3 | 457.8 | 52.7 | *1.1%* |
| Depreciations and provisions | 38.1 | 4.1 | 28.7 | 3.3 | *32.6%* |
| **Current operating profit before depreciation of intangible assets arising from acquisitions** | **122.4** | **13.0** | **88.1** | **10.1** | *39.0%* |
| Depreciations of intangible assets arising from acquisitions | 15.0 | 1.6 | 15.0 | 1.7 | *0.0%* |
| **Operating profit from ordinary activities** | **107.4** | **11.4** | **73.0** | **8.4** | *47.1%* |
| Other non-current income and expenses | 9.4 | | 8.0 | | *17.3%* |
| **Operating profit** | **98.0** | **10.4** | **65.0** | **7.5** | *50.7%* |
| Financial income and expenses | 20.3 | 2.2 | 24.1 | 2.8 | *-15.8%* |
| **Profit before tax** | **77.7** | **8.3** | **40.9** | **4.7** | *90.0%* |
| Income tax | 23.4 | | 20.4 | | *15.1%* |
| *Including non-current tax expense* | *-0.5* | | *2.4* | | *-118.8%* |
| Share from companies' result accounted for by the equity method | -0.2 | | -0.5 | | *-59.4%* |
| **Net result from ordinary activities** | **63.4** | **6.8** | **31.5** | **3.6** | *101.5%* |
| **Result for the period** | **54.4** | **5.8** | **21.0** | **2.4** | *159.3%* |
| Net result attributable to the non-controlling interests | 2.9 | | 0.9 | | *224.2%* |
| **Net result attributable to the owners of the parent company** | **51.5** | **5.5** | **20.1** | **2.3** | *156.5%* |

**Margin on purchasing costs**
The margin on purchasing costs increased by 8.5% at real rates, driven in particular by lower purchasing costs for certain materials as well as improved yields, particularly in the United States.

**Current operating expenses**
Current net operating expenses amounted to €463.0 million in 2019, an increase at real rates of €5.2 million (+1.1%) compared to 2018.
This change is mainly due to an increase in personnel costs (+5%), mostly targeted at commercial activities in all the regions. As a counterpart to this increase in personnel costs, non-recurring income was recorded in 2019, including the profit on the sale of Virbac United States' administrative premises, generating income of €1.1 million, and the application of an amendment to the defined benefit pension plan for members of the executive board. This amendment redefined both the beneficiaries of the plan and the new applicable annuity rate, and generated income of €3.4 million in the consolidated accounts.
Lastly, net expenses were also positively impacted by the decrease in rental expenses for €11.3 million under IFRS 16, which was offset by an increase in allowances for depreciations of rights of use for €10.5 million (*see note A5 to the consolidated accounts*).

**Current operating profit before depreciation of intangible assets arising from acquisitions**
Operating profit from ordinary activities before depreciation of intangible assets from acquisitions is up 39.0% compared with the previous year, rising from €88.1 million at the end of 2018 to €122.4 million on December 31, 2019. Operating profit from ordinary activities before depreciation of assets from acquisitions expressed as a percentage of revenue was 13.0% in 2019 at real exchange rates, and 13.1% at constant exchange rates. It is up three points compared to 2018, driven, apart from exceptional items representing an impact of half a point, by cost control and better absorption of fixed costs in a context of strong revenue-growth dynamics. All areas made a positive contribution to the Group's operating profit, particularly the United States, Europe with the United

Kingdom, Germany and Spain, Asia, India, Mexico, Brazil and Chile. Exchange rates had a positive impact of €1.1 million on the operating profit from ordinary activities before depreciation of intangible assets from acquisitions.

**Other non-current income and expenses**

Other non-current income and expenses represented a net expense of €9.4 million in 2019, compared to €8.0 million in 2018. Non-current expenses for 2019 were related to the impairment of the goodwill and patent of the leishmaniosis vaccine CGU in the amount of €9.7 million before tax (-€2.5 million) and to the cancellation of the debt on SBC shares representing an income of €0.2 million.

**Financial income and expenses**

Net financial expenses were €20.3 million, compared to €24.1 million in the previous financial year. The cost of net financial debt decreased from €16.7 million in 2018 to €15.7 million in 2019, but exchange rate effects, mainly on the Chilean peso, had a negative impact, affecting the 2019 financial result by €4.5 million.

**Taxes for the financial year**

The 2019 tax charge amounted to €23.4 million, compared with €20.4 million at the end of 2018. Taxes for the financial year were impacted by the depreciation of Virbac United States subsidiary's accounts deferred tax assets on tax losses carried forward for the 2019 financial year (€2.0 million), in accordance with the IAS 12 standard, which views the existence of a history of recent and unused tax losses as a strong indication that future taxable profits may not be usable.
The Group's effective tax rate decreased from 33.32% in 2018 to 28.27% in 2019. The change in this rate is explained in consolidated accounts note A28.

**Net result**

The net profit - Group share amounted to €54.4 million in 2019, compared to €21.0 million in the previous year, an improvement of €33.4 million at real rates.
The profit attributable to the non-controlling interests amounted to €2.9 million in 2019 compared with €0.9 million in 2018. This increase is explained by the stronger 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 2019 | Impairment of assets | Restructuring costs | Other | Non-current tax expense | Net result from ordinary activities 2019 |
|---|---|---|---|---|---|---|
| **Revenue from ordinary activities** | **938.3** | | | | | **938.3** |
| **Current operating profit before depreciation of intangible assets arising from acquisitions** | **122.4** | | | | | **122.4** |
| Depreciations of intangible assets arising from acquisitions | -15.0 | | | | | -15.0 |
| **Operating profit from ordinary activities** | **107.4** | **-** | **-** | **-** | **-** | **107.4** |
| Other non-current income and expenses | -9.4 | 9.7 | | -0.2 | | -0.0 |
| **Operating profit** | **98.0** | **9.7** | **-** | **-0.2** | **-** | **107.4** |
| Financial income and expenses | -20.3 | | | | | -20.3 |
| **Profit before tax** | **77.7** | **9.7** | **-** | **-0.2** | **-** | **87.1** |
| Income tax | -23.4 | -2.5 | | | 2.0 | -23.9 |
| Share from companies' result accounted for by the equity method | 0.2 | | | | | 0.2 |
| **Result for the period** | **54.4** | **7.2** | **-** | **-0.2** | **2.0** | **63.4** |

## Analysis of the financial situation

### Consolidated balance sheet

| in € million | 2019 | 2018 |
|---|---|---|
| Net assets | 859.7 | 856.1 |
| Operating WCR | 125.1 | 134.9 |
| **Invested capital** | **984.9** | **991.0** |
| Equity attributable to the owners of the parent company | 517.8 | 460.3 |
| Non-controlling interests and provisions | 98.7 | 104.6 |
| Net debt | 368.4 | 426.1 |
| **Financing** | **984.9** | **991.0** |

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

- **Goodwill**

This item amounted to €312.9 million at the end of 2019, compared to €309.7 million at the end of 2018. This increase was due to a positive exchange rate effect of €3.2 million.

- **Intangible assets**

This item amounted to €272.1 million at the end of 2019, compared to €295.0 million at the end of 2018. The investments recorded for a total amount of €6.7 million mainly involve IT projects at Virbac (parent company). Depreciation and impairments amounted to €29.8 million. The €9.7 million impairment loss recognized on assets with indefinite useful lives relates to the marketing authorizations of the leishmaniosis vaccine CGU and follows completion of the impairment tests described in Note A3 to the consolidated accounts.

- **Tangible assets**

This item amounted to €224.8 million at the end of 2019, compared to €236.7 million at the end of 2018. This evolution was due to investments of €19.2 million (building fixtures and various industrial equipment in France, the United States, Chile, Australia and Uruguay, as well as research and development equipment in France), offset by allowances for depreciation of €24.0 million. Disposals, whose net value of assets sold amounted to €4.7 million, relate mainly to Virbac United States, which recorded the sale of the Fort Worth administrative building, as well as the disposal of company vehicles as part of a change in car policy for employees in the United States.
Assets previously capitalized in accordance with IAS 17 (primarily Virbac's IT equipment as well as the vehicle fleets of some Group entities) were reclassified from "Other tangible assets" to " Rights of use" for a net amount of €3.1 million following the implementation of the new IFRS 16 standard.

- **Right of use**

This item amounted to €34.0 million at the end of 2019, including €3.1 million of assets previously capitalized in accordance with IAS 17.

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

This item amounted to €15.9 million at the end of 2019, mainly including loans granted and other fixed receivables (€7.4 million), foreign exchange and interest rate derivatives (€5.0 million) and investments accounted for by the equity method (€3.4 million). On December 31, 2018, the item amounted to €14.7 million and was distributed in roughly the same 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 amounted to €206.6 million at the end of 2019, compared to €195.8 million at the end of 2018. Excluding exchange rate effects, net inventories increased by €9.1 million, mainly in Australia following weak sales at the end of the year and built-up inventories of raw materials (before termination of the contract with the supplier), and to a lesser extent in Spain, South Africa and Chile, in anticipation of sales expected in the first months of the year 2020.

- **Trade receivables**

This item amounted to €99.4 million at the end of 2019, compared to €101.5 million at the end of 2018. The decrease in trade receivables stems mainly from the Chilean subsidiary, following the reduction in payment terms, from Italy in connection with decreased business activity, and from the United States subsidiary, which experienced a drop in sales volumes in December 2019 compared with those in December 2018. Currency conversion adjustments had a slight impact on the item, amounting to an increase of €0.3 million.

It should be noted that trade receivables that were deconsolidated due to being assigned as part of factoring contracts amounted to €42.5 million on December 31, 2019 (compared to €46.9 million on December 31, 2018).

- **Trade payables**

This item amounted to €95.8 million at the end of 2019, compared to €89.6 million at the end of 2018. This increase is particularly pronounced in France, due to a significantly higher volume of purchases and investments in the last quarter of 2019 than that of the same period in the previous financial year.

- **Other elements of WCR**

On December 31, 2019, this item represented a net liability of €98.1 million, compared to €82.8 million on December 31, 2018. The increase in this liability is mainly related to the year-end discounts granted to customers (+€12.3 million compared to the previous year).

**Net debt**

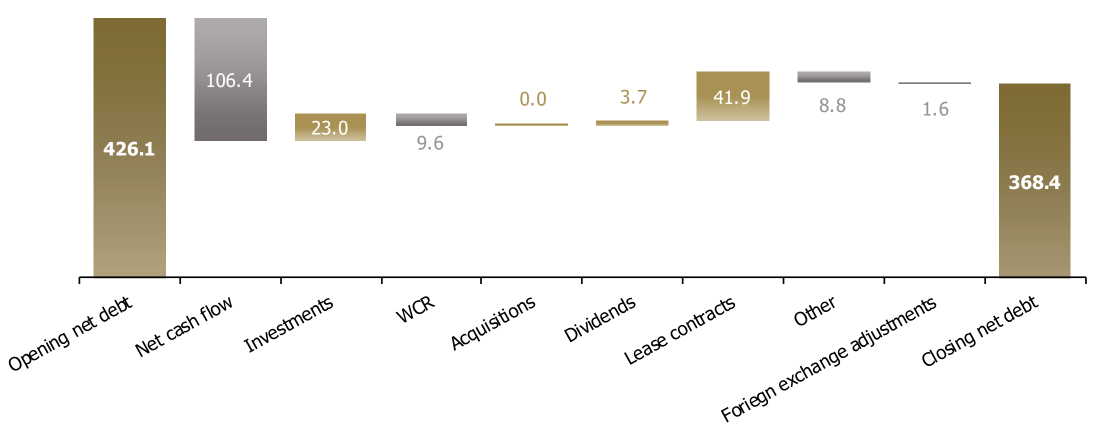
The calculation of the net debt is presented hereafter:

| in € million | 2019 | 2018 |
|---|---|---|
| Loans, non-current portion | 410.8 | 467.5 |
| Loans and other financial receivables | 13.8 | 19.2 |
| Lease liabilities | 34.7 | - |
| Currency and interest rate derivatives | 2.2 | 1.6 |
| Other elements of financial debt | 0.7 | 0.6 |
| Treasury and treasury equivalents | -93.7 | -62.8 |
| **Net debt** | **368.4** | **426.1** |
| Equity attributable to the owners of the parent company | 517.8 | 460.3 |
| **Net debt ratio** | **71.2%** | **92.6%** |

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

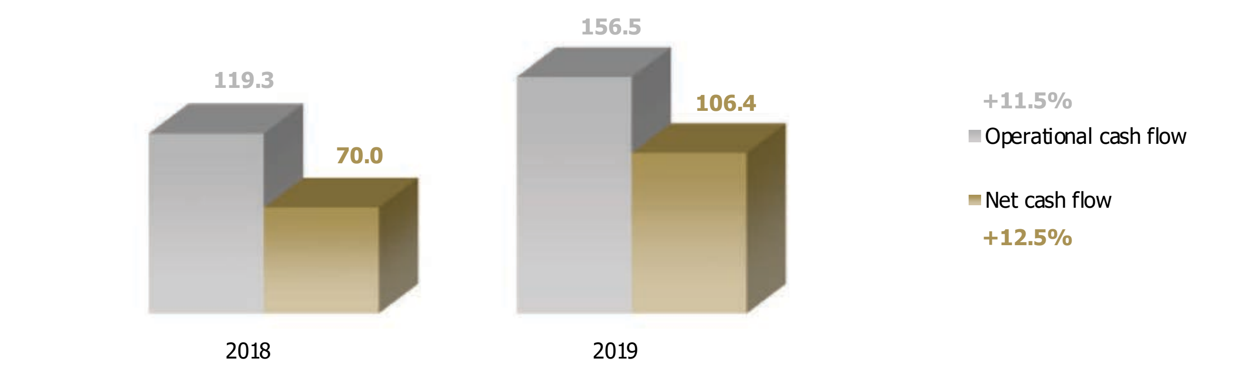
## Financing

**Changes in net debt**




The effect of exchange rates on closing net debt is unfavourable. At 2018 exchange rates, le net debt as at December 31, 2019 would amount to €338.0 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;
- 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, 2019, the position of the funding instruments was as follows:

- the syndicated loan was drawn for amounts of €52 million and US $136 million;
- the market-based contracts amounted to €15 million and US $15.5 million;
- the bilateral loans and BPI and EIB financing amounted to €60.1 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[2] for the same test period.

It should be noted that since January 1, 2019, Virbac has been applying the IFRS 16 standard, relating to the accounting treatment of lease contracts, which impacts the income statement accounting items used to determine Ebitda and the liability items on the balance sheet. The financial covenant is calculated by including the implications of this new standard.

As of December 31, 2019, the ratio was 2.29, which is below the contractual financial covenant ceiling of 3.75. This ratio is calculated by taking into account application of the IFRS 16 standard.

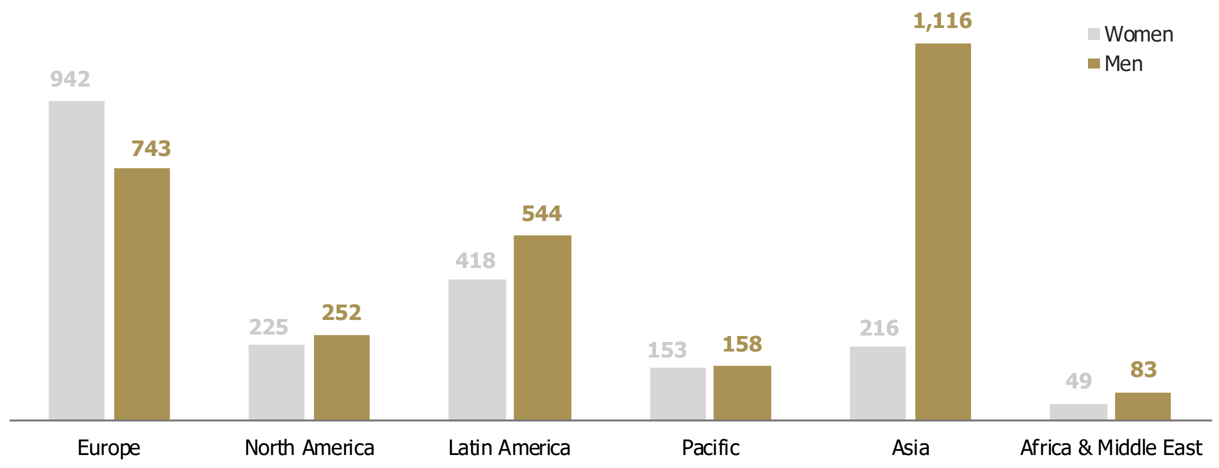
[1] Consolidated net debt refers, as defined in the contract, to the sum of other current and non-current financial liabilities, namely the following items: loans, bank loans, accrued interest liabilities, debts related to finance leases, profit sharing, interest rate and foreign exchange derivatives, 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

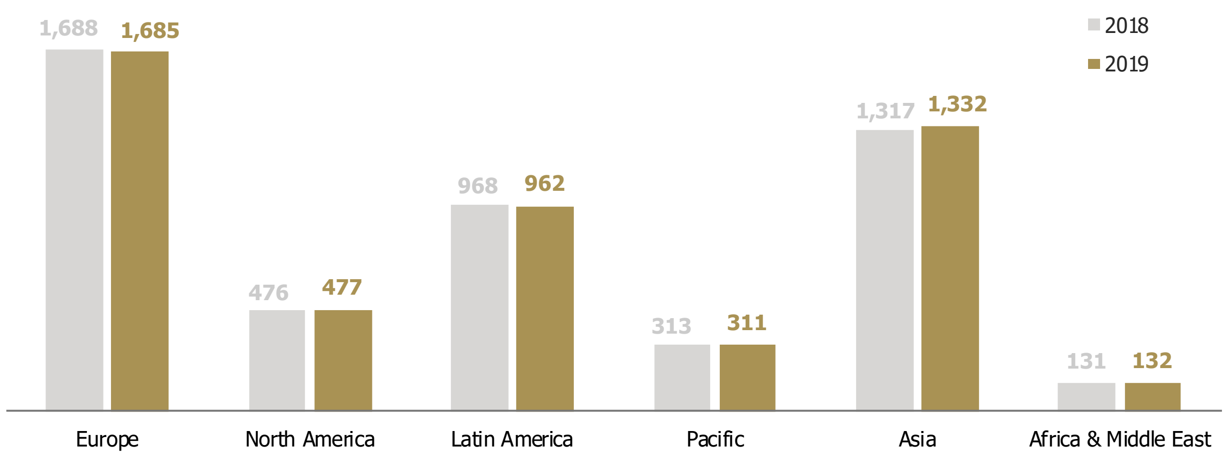
As of the end of December 2019, Virbac had 4,899 employees in 38 countries: 2,003 women (40.9%) and 2,896 men (59.1%).
34.4% of Group employees are in Europe, of which 1,322 are in France, or 27.0%.

The workforce as at December 31, 2019 is increasing by 0.1% compared with that as of December 31, 2018.

### Breakdown of Group employees by type




### Changes in Group employee numbers by region




### Changes to employee numbers by function

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Production | 1,749 | 35.7% | 1,748 | 35.7% |
| Administration | 562 | 11.5% | 582 | 11.9% |
| Commercial & marketing | 2,043 | 41.7% | 2,047 | 41.8% |
| Research & development | 545 | 11.1% | 516 | 10.5% |
| **Total** | **4,897** | **100.0%** | **4,893** | **100.0%** |

# ANALYSIS OF THE ACCOUNTS OF THE PARENT COMPANY

## Statutory accounts

Revenue for Virbac's parent company amounts to €276.1 million as at December 31, 2019 compared to €266.5 million in 2018, an increase of €9.6 million (3.6%).

The share of the revenue achieved by Virbac with the Group's subsidiaries accounted for 91.1% of its total sales. The remaining 8.8% involved direct sales by Virbac in countries where the company does not have a subsidiary.
In 2019, growth was driven by the companion animal segment, particularly the vaccine range, especially cat vaccines, external and internal parasiticides and the specialty range with Suprelorin. The food producing animal segment was down slightly, particularly the swine and poultry segment and the parasiticide and ruminant vaccine ranges.

On December 31, 2019, the financial result was up €8.8 million (+26.8%) compared with 2018. This change is due to a €12.0 million increase in dividends received and a €0.7 million increase in income from receivables (loans and current accounts). Interest expense on loans and lines of credit were down €1.7 million. Operations and provisions regarding exchange rates had a negative €5.0 million impact on profits. A provision for impairment of receivables amounting to €0.6 million was also recorded in the accounts for the 2019 financial year.

Non-recurring income showed a loss of €0.8 million, an improvement of €0.3 million compared to the 2018 financial year.
The reduction in special depreciation allowances over the financial year generated a net income of €1.0 million compared to 2018. A bonus on buybacks of treasury shares (liquidity contract) was recorded for an amount of €1.3 million over the financial year. Provisions for risks and charges were recorded for a total amount of €3.3 million.

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

| in € | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| **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 | 271,890,991 | 256,691,480 | 264,200,946 | 266,519,766 | 276,148,677 |
| Earnings before tax, employee profit sharing, depreciations and provisions | 51,424,402 | 61,235,284 | 44,522,664 | 53,987,017 | 56,521,273 |
| Income tax payable | -7,301,645 | -7,932,626 | -9,688,591 | -8,872,185 | -7,731,676 |
| employee profit sharing | - | - | - | - | - |
| Allowances for depreciations and provisions | 19,462,111 | 21,490,116 | 19,676,178 | 26,662,243 | 19,196,160 |
| Earnings after tax, employee profit sharing, depreciations and provisions | 39,263,936 | 47,677,793 | 34,535,077 | 36,196,959 | 45,056,789 |
| Earnings distributed | - | - | - | - | - |
| **Result from operations per share** | | | | | |
| Earnings after tax, employee profit sharing, before depreciations and provisions | 4.87 | 8.18 | 6.41 | 7.43 | 7.60 |
| Earnings after tax, employee profit sharing, depreciations and provisions | 4.64 | 5.64 | 4.08 | 4.28 | 5.33 |
| Dividend per share | - | - | - | - | |
| **Personnel** | | | | | |
| Average number of employees | 1,176 | 1,178 | 1,170 | 1,138 | 1,114 |
| Total payroll | 53,445,252 | 57,130,754 | 58,060,578 | 58,794,511 | 59,941,993 |
| Total benefits paid (social security, other employee benefits, etc.) | 25,317,677 | 27,095,012 | 27,353,031 | 27,583,283 | 28,818,016 |

No dividends were distributed over the last three years.

## Non-deductible expenses

Non tax-deductible expenses, consisting of vehicle rentals, amounted to €411,997 for the 2019 financial year.

## 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, 2019**

| 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 | 3,203 | | | | | 461 |
| Amount excluding tax of related invoices | 16,709,084 | 329,114 | 255,061 | 69,206 | 125,025 | 778,406 |
| Percentage of total purchases (excluding tax) for the period | 7.2% | 0.1% | 0.1% | 0.0% | 0.1% | 0.3% |
| **[B] Excluded invoices from [A] linked to contentious or non booked payables** | | | | | | |
| Number of excluded invoices | 132 | | | | | |
| Total amount of excluded invoices | 301,798 | | | | | |
| **[C] Used reference payment terms** | | | | | | |
| Payment terms used for the calculation of payment delays | Contractual terms : terms granted by the suppliers (agreements/invoices)<br>Legal 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 |
| Percentage 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 | Contractual terms : terms granted by the suppliers (agreements/invoices)<br>Legal terms : - | | | | | |

## Customer payment terms

- **As at December 31, 2019**

| in € | 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) |
|---|---|---|---|---|---|---|
| | Article D. 4411.-2 : issued invoices not paid at the closing date of the period, for which the maturity date has expired | | | | | |
| **[A] Portion in delay of payment** | | | | | | |
| Number of related invoices | 915 | | | | | 189 |
| Amount excluding tax of related invoices | 47,526,484 | 903,944 | 768,243 | 512,791 | 5,893,487 | 8,078,465 |
| Percentage of total sales (excluding tax) for the period | 16.2% | 0.3% | 0.3% | 0.2% | 2.0% | 2.8% |
| **[B] Excluded invoices from [A] linked to contentious or non booked receivables** | | | | | | |
| Number of excluded invoices | 10 | | | | | |
| Total amount of excluded invoices | 183,905 | | | | | |
| **[C] Used reference payment terms** | | | | | | |
| Payment terms used for the calculation of payment delays | Contractual terms : terms granted to the customers (agreements/invoices)<br>Legal terms : - | | | | | |

- **As at December 31, 2018**

| in € | 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) |
|---|---|---|---|---|---|---|
| | Article D. 4411.-2 : issued invoices not paid at the closing date of the period, for which the maturity date has expired | | | | | |
| **[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 |
| Percentage 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 | Contractual terms : terms granted to the customers (agreements/invoices)<br>Legal terms : - | | | | | |

## Share buyback program

The June 18, 2019 ordinary shareholders' meeting authorized the Virbac parent company to buy back its treasury shares in accordance with article L225-209 of the French commercial code.

On December 31, 2019, Virbac held a total of 26,178 treasury shares, acquired on the market for a total of €3,969,103 excluding fees, for an average price of €151.62 per share.
During the financial year, the company bought 75,362 treasury shares (at an average price of €174.48) and sold 85,134 treasury shares (at an average price of €177.08) as part of the market-making contract. In 2019, no share was purchased or sold as part of performance-related stock grants.

# 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 5, 2020.

## 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 French financial markets authority (*AMF*), 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 in note A40 of the consolidated accounts.

### 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 enhanced 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 set 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 with regard to 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 to 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 employees 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 practical 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 (blackout period), sanctions incurred for breaches of confidentiality related to the holding of this type of information.

- **Code of animal care**

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 employees 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 Global 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 well 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 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 on pages 102 to 116, 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.

In 2019, the special projects director decided to take his career in a different direction and left the Group. He was chairman of the Virbac Corporate Foundation, which is now entrusted to Xavier Yon.
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;
- Global 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 specific 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 66 and 67 of this 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 69 *et seq* of this 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 in 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. In 2019, the Financial Affairs department decided to make some organizational changes so as to be more efficient and further optimize its resources.
This organization now includes:

- a Financial Affairs department that oversees the following activities:
  - all accounting services (accounts receivable, accounts payable and general accounting). These services are grouped under the same management, which will increase synergies and cross-functionality;
  - the Treasury and Financing department, which is mainly responsible for coordinating and monitoring the Group's financial debt and financial result reporting. 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 Consolidation and Reporting department:
    - resulting from a merger of the statutory and management teams, this new department aims to streamline the preparation of financial information and analyses and improve data production times, both current and forecasted;
    - it now handles statutory consolidation as well as management consolidation, which allows for monitoring and analysis of the company's internal performance;
  - the Accounting and Tax Standards department:
    - this department, also newly-established, serves as an expert in international accounting and tax standards. It strengthens headquarters' presence within the subsidiaries to help them face ever-increasing regulatory challenges;
- a Management Control department responsible for the reporting and analysis of Business, Industrial, R&D and support services activities;
- a Financial Studies and Projects department: among other things, this department is responsible for ensuring financial support for acquisition projects. It is also responsible for system implementation and transformation, in partnership with the Information Systems Department. Lastly, it plays a major role in monitoring external financial communications and investor relations.

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. On a functional level, it reports to the Group's Director of Management Control.

### 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 Financial Affairs 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 (statutory) and management consolidation processes are now the responsibility of the Consolidation and Reporting department.

**Accounting consolidation process**
Information is generated via the half-yearly and annual consolidation process underpinned by accounting principles applicable to all subsidiaries, thereby ensuring consistency of methodology.

**Management consolidation process and reporting**
The Consolidation and Reporting department 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 consolidation and reporting department 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 118.
Thus Virbac's main shareholder, the Dick family group, holds 49.6% of shares and 63.2% 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 63-65 of this report.

**Executive board**

The executive board is responsible for defining and managing the approach to internal control and risk management, relying on the operational departments to implement these measures (*see pages 64-65 of this report*). The functional departments carry out investigations into operations in their respective areas through their network of experts or via regular audits (*see page 65 of this 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 reputation.

**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 time.

Throughout 2019, 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 2019, Virbac committed 8.1% 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 the emergence of a pandemic

**Risk factors**

Virbac is exposed to the emergence of the coronavirus (Covid-19). Some of its suppliers or production sites may be located in areas where the virus is circulating/will be circulating, and manufacturing operations could therefore be impacted. The same is true for the Group headquarters and those of the subsidiaries and therefore, some processes could be impacted. Lastly, the business could also be affected by a global slowdown or economic standstill caused by the emergence of Covid-19. This could occur, for example, due to a drop in visits to veterinarians or to a strain on the distribution of products.

**Risk management provisions**

A crisis unit has been set up to monitor the situation and make the necessary decisions. In particular, critical processes were reviewed and teleworking options anticipated for these processes. Inventory levels were examined and high-risk areas identified to prepare for the activation of alternative sources when appropriate.

### 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, five years ago the Group began a strategic project aimed at securing the major projects within the Group.
This project continued throughout 2019 and has seen many successful actions. It will continue in 2020 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 responsibility was to be confirmed relative to major 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 of 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 arise from 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 aligned on 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 for return on investment;
- 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 subject to 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 Statement of non-financial performance on pages 8 *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 Global Industrial and Corporate Quality Assurance department with the aim of developing and making industrial operations at Group level sustainable 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. Additionally, 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. In 2019, the FDA audited and upheld GMP status of this site. Finally, Virbac has taken out operating loss insurance, which also covers it for losses which take place with its suppliers.

### HSE risks (Health, safety and environment)

**Risk factors**
As part of its activities, Virbac is subject to a set of regulations related to health, safety and environmental issues.
The majority of the production sites in France are subject to operating regulations issued by the supervisory authorities. These regulations include requirements that all sites must meet regarding environmental matters, including waste management, the volume and quality of water discharges, and safety and risk prevention rules.
The operating regulations to which the company sites are subject are at declaration or authorization level. No site is subject to regulation of the European Seveso directive.
Failure to comply with these regulations could result in fines and financial burden and potentially lead to the closure of a site by the administrative authorities.
Meanwhile, given the nature of its activity, the Group may have an impact on the environment even if it does not cause visual, noise or odor pollution.

Finally, given the nature of Virbac's industrial activities, the possibility of an accident occurring at work (either conventional or related to the risk of contamination by products) cannot be ruled out even if the danger level of such activities must be considered relative to other industries deemed to be more dangerous.

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

In tangible terms, the exposure of employees is covered by specific measures presented on pages 26-27 of the sustainable development report:
- defining a clear and precise safety organization;
- establishing a prevention policy and a continuous improvement approach.

For this purpose, the Group has pursued the implementation of tools and means of support for all teams thanks to:
- the Reflex Prevention approach (awareness-raising and training of personnel in work safety);
- the analysis of accidents at work as a performance indicator;
- medical evaluation before each recruitment (for instance in the United States).

Finally, HSE problems are taken into account during the due diligence of acquisition of new sites.
Information related to the HSE topic is provided on page 34 *et seq.* of the Statement of non-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.

**Risk management mechanisms**

Generally speaking, the Virbac Group is strongly committed to preserving the environment. It therefore places particular importance on measures to reduce its carbon footprint, particularly in terms of energy consumption (*see Statement of non-financial performance pages 8 et seq.*).

## 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 Global 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 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 ISD regularly develops and updates all measures to preserve the confidentiality of data, protect information systems against intrusion and minimize the risk of service interruptions (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).

## 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 on this matter. Segregation of duties, as well as a central, regional and local management control mechanisms 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 regulations 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 A33 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 stringent 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 A33 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 OF NON-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 its Statement of non-financial performance (*pages 8 to 41 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.

# 2020 OUTLOOK

For 2020, the Group anticipates revenue growth at constant rates and scope of between 4% and 6% and an increase in the ratio of "current operating profit before depreciation of assets arising from acquisitions" to "revenue", of around 0.5 percentage points compared to 2019 (1.0 percentage point excluding exceptional items recognized in 2019).
From a financial standpoint, tight control of invested capital should allow further debt relief, which is expected to hover around €60 million, at constant rates, for the year.
Between December 20, 2019, the date on which the Group issued our 2020 outlook, and this communication, the coronavirus health crisis occurred. The situation is extremely evolving worldwide and even if at this stage Virbac has not detected a visible material impact, it is very difficult to anticipate what could be these impacts by the end of the year. The Group is working on contingency plans and has implemented appropriate measures for its employees, and also to meet the needs of its customers.

# PROVISIONAL TIMETABLE FOR FINANCIAL COMMUNICATION

The provisional timetable for 2020 is as follows:

- January 16, 2020 after the close of trading: communication of 2019 annual revenue;
- March 16, 2020 after the close of trading: communication of 2019 annual profit;
- April 15, 2020 after the close of trading: communication of revenue for the first quarter of 2020;
- June 22, 2020: annual shareholders' meeting;
- July 20, 2020 after the close of trading: communication of revenues for the second quarter of 2020;
- September 16, 2020 after the close of trading: communication of first half profits for 2020;
- October 14, 2020 after the close of trading: communication of revenues for the third quarter of 2020;
- January 19, 2021 after the close of trading: communication of 2021 annual revenue.

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

## As at December 31, 2019

| | Deloitte | | | | | Novances - David & Associés Nexia network | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| in € thousand | Audit | | Network | | Total | Audit | | Network | | Total |
| Issuer | 123.0 | 100% | - | -% | **123.0** | 52.9 | 100% | - | -% | **52.9** |
| Consolidated subsidiaries | - | -% | 688.9 | 100% | **688.9** | - | -% | 22.7 | 100% | **22.7** |
| **Audit and limited review of the individual and consolidated accounts** | **123.0** | **83%** | **688.9** | **98%** | **811.9** | **52.9** | **100%** | **22.7** | **100%** | **75.6** |
| Issuer | 25.0 | 100% | - | -% | **25.0** | - | -% | - | -% | **-** |
| Consolidated subsidiaries | - | -% | 12.0 | 100% | **12.0** | - | -% | - | -% | **-** |
| **Other services** | **25.0** | **17%** | **12.0** | **2%** | **37.0** | **-** | **-%** | **-** | **-%** | **-** |
| **Total fees** | **148.0** | **100%** | **700.9** | **100%** | **848.9** | **52.9** | **100%** | **22.7** | **100%** | **75.6** |

## As at December 31, 2018

| | Deloitte | | | | | Novances - David & Associés Nexia network | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| in € thousand | 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 | - | -% | 46.0 | 100% | **46.0** | - | -% | - | -% | **-** |
| **Other services** | **36.6** | **21%** | **46.0** | **6%** | **82.6** | **-** | **-%** | **-** | **-%** | **-** |
| **Total fees** | **177.8** | **100%** | **819.3** | **100%** | **997.1** | **52.9** | **100%** | **22.7** | **100%** | **75.6** |

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).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# Report on corporate governance

## CORPORATE GOVERNANCE

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 99 and 100 lists the measures of the Afep-Medef Code that the company has decided not to implement and gives the reasons for this.

| | | Public limited company with a supervisory board and an executive board |
|---|---|---|
| Executive officers | Executive officers | . Chairman of the executive board: Sébastien Huron<br><br>. Members of the executive board :<br>- Christian Karst, general manager;<br>- Habib Ramdani;<br>- Jean-Pierre Dick until November 14, 2019; |
| Non-excutive officers | Non-excutive officer | . Chairwoman of the supervisory board: Marie-Hélène Dick-Madelpuech |
| | Members of the supervisory board | . Members of the supervisory board:<br>- Pierre Madelpuech, vice-chairman;<br>- Olivier Bohuon, permanent representative of the company OJB Conseil;<br>- Philippe Capron;<br>- Grita Loebsack, permanent representative of the company Galix Conseils until December 20, 2019;<br>- Solène Madelpuech;<br>- Cyrille Petit, permanent representative of the company Cyrille Petit Conseil*;<br>- Sylvie Gueguen, employee representative. |

* Member of the supervisory board since his appointment by the shareholder's meeting dated on June 18, 2019. At its March 19, 2020 meeting, the supervisory board co-opted the Cyrille Petit Conseil company as a member of the supervisory board, replacing Cyrille Petit, who has resigned. A resolution will be presented at the shareholder's meeting.

# The supervisory board

## Responsibilities 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.

## 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-chairman exercises the role of the 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 are present, as well as the Group's area directors or functional directors on an *ad hoc* basis.

The terms held by members of the supervisory board are listed on pages 85 to 93 of the annual report.

Pursuant to Act n° 2018-727 of May 23, 2019 for business growth and transformation (known as the "Pacte" law), the supervisory board has implemented an internal control procedure for agreements related to routine transactions entered into under normal conditions in order to regularly assess whether these agreements meet and continue to meet these conditions (new paragraph 2 of article L225-87 of the French commercial code).
The procedure for assessing whether agreements can be regarded as routine and normal is applied when an agreement has been entered into either directly or through an intermediary:

- between the company and a member of the executive board or supervisory board and between the company or a shareholder holding a fraction of voting rights above 10% or if it is a shareholder company, the company controlling it under article L233-3 of the French commercial code;
- between the company and an enterprise, if one of the members of the executive or supervisory board of the company is the owner, partner with unlimited liability, manager, director, supervisory board member or, generally speaking, the head of that company;
- between two Group companies, except those wholly owned by the parent company.

The methodology used to assess whether these agreements are routine transactions entered into under normal conditions is as follows:

- the Financial Affairs department and the Legal department meet whenever necessary to review these new agreements and the relevance of the criteria used for the distinction between routine and regulated agreements, and with regard to current agreements, consider whether or not to reclassify them, due to circumstances that may result in modification of the criteria used upon conclusion.
  If agreements are classified as regulated agreements, the procedure provided for by law shall be applied under the supervision of the Legal department;
- the list and information regarding these current routine agreements are conveyed annually to the supervisory board to allow it to assess, when deemed necessary, whether the agreements still meet these normal and routine conditions.

Pursuant to the law, individuals directly or indirectly involved in any of these agreements do not participate in its evaluation.

## Policy of staggered terms for members of the supervisory board

Since 2014, supervisory board members' terms have been staggered to comply with the recommendations of the Afep-Medef Code.

## 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, operating procedures, responsibilities, the board's reporting procedures as well as the membership, operating procedures 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.

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.

### 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 2019.
All the members of the compensation committee attended these meetings.
At these meetings, the topics covered were:

- review of executive board members performance in 2018 in relation to their variable compensation;
- 2019 compensation of executive board members;
- review of compensation paid to the Group's key management;
- review of the free share plan introduced in 2016 and 2018;
- benefit pension plan closure.

#### Audit committee

The audit committee, chaired by Philippe Capron, an independent member of the supervisory board, met four times during 2019 with the chairman of the executive board, the Group 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 2019, the audit committee examined the 2018 annual financial statements and the 2019 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 management bodies.

| | Personnal information of the members of the supervisory board | | | | Position on the supervisory board | | | Participation in board committees |
|---|---|---|---|---|---|---|---|---|
| | Age | Gender | Nationality | Number of shares | indepen-dence | Initial date of appointment | Term of office expires | |
| Marie-Hélène Dick-Madelpuech Chairman of the supervisory board | 55 years | Female | French | 1,635 | | Year of 1st appointment: 1998 | 2022 | Compensation committee |
| Pierre Madelpuech Vice-chairman | 59 years | Male | French | 110 | | Year of 1st appointment: 1995 | 2021 | Audit committee |
| Olivier Bohuon Permanent representative of OJB Conseil | 61 years | Male | French | 10 | Independent member | Year of 1st appointment: 2011 Permanent representative of OJB Conseil since December 2018 | 2020 | Audit committee |
| Philippe Capron | 61 years | Male | French | 442 | Independent member * | Year of 1st appointment: 2004 | 2022 | Audit committee Compensation committee since 2020 |
| Grita Loebsack Permanent representative of Galix Conseils until 12/20/2019 | 49 years | Female | German | 20 | Independent member | Year of 1st appointment: 2014 Permanent representative of Galix Conseils since December 2017 | N/A** | Compensation committee until 12/20/2019 |
| Solène Madelpuech | 26 years | Female | French | 10 | | Year of 1st appointment: 2017 | 2020 | |
| Cyrille Petit Permanent representative of Cyrille Petit Conseil | 49 years | Male | French | 10 | Independent member | Year of 1st appointment: 2019 Permanent representative of Cyrille Petit Conseil since March 2020 | 2020 | Audit committee |
| Sylvie Gueguen Employee representative | 55 years | Female | French | 0 | N/A | Year of 1st appointment: 2018 | 2021 | |

| Non-voting advisor | | | | | | | |
|---|---|---|---|---|---|---|---|
| Xavier Yon Permanent representative of Xavier Yon Consulting Unipessoal Lda Censeur | 79 ans | Male | French | N/A | N/A | Year of 1st appointment: 2014 Permanent representative of Xavier Yon Consulting Unipessoal Lda since December 2017 | 2020 |

* Philippe Capron see pages 91 and 92 criteria of independence
** the company Galix Conseils resigned as member of the supervisory board on December 20, 2019

## Profile, experience and positions of the members of the surpervisory board

### Marie-Hélène Dick-Madelpuech, chairwoman of the supervisory board

| | |
|---|---|
| • Age et nationality | 55 years, French |
| • 1st appointment | 1998 |
| • Current term ends | 2022 |
| • Number of shares held | 1,635 |

- Chairman of the compensation committee

Doctor of veterinary medicine and holder of a MBA from the HEC business school, Marie-Hélène Dick-Madelpuech was appointed chairwoman of supervisory board in April 2006.

Head of the Panpharma group specializing in the field of injectable drugs intended for healthcare establishments.

**List of positions**

| **Current positions** | **Expired positions** Positions that have expired within the past five years |
|---|---|
| **Positions in Group companies:** | |
| · vice-chairwoman of the Virbac Corporate foundation (France). | |
| **Positions in companies outside of the Group:** | |
| · chairwoman and general manager of the company Okelen, SA (France);<br>· permanent representative of the company Okelen, charing Panmedica, SAS (France);<br>· chairwoman of the board of directors of Panpharma, SA (France);<br>· associate manager of the société civile Ilouet (France);<br>· officer of Panpharma Australia Pty Limited (Australia);<br>· officer of Panpharma UK Limited (United Kingdom);<br>· co-manager of the société civile immobilière Samakeur MH (France);<br>· manager of the société civile Investec (France);<br>· co-manager of the société civile Du Regard (France).<br>None of these companies is listed on a stock exchange. | Nil |

## Pierre Madelpuech, vice-chairman of the supervisory board

| | |
|---|---|
| • Age et nationality | 59 years, French |
| • 1st appointment | 1995 (personally) and 2005 (as permanent representative of the company Asergi). |
| • Current term ends | 2021 |
| • Number of shares held | 110 |

Member of the supervisory board acting as vice-chairman, 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 the supervisory board until September 5, 2017.

- Member of the audit committee

Ensam engineering graduate and holds an MBA from the HEC business school.

**List of positions**

| Current positions | Expired positions<br>Positions that have expired within the past five years |
|---|---|
| **Positions in Group companies:**<br>Nil | |
| **Positions in companies outside of the Group:**<br>. manager of the company Asergi, SARL (France);<br>. director of the company Panpharma, SA (France);<br>. director of the company Okelen, SA (France);<br>. general manager of the company Panmedica, SAS (France);<br>. manager of the company Arteis Développement, SARL (France);<br>. general manager of the company RPG, SAS (France);<br>. associate manager of the société civile immobilière Igresa (France);<br>. manager of the company Art'Pro, SARL (France);<br>. manager of the company Crearef, SARL (France);<br>. manager of the company Crea Négoce, SARL (France);<br>. manager of the company Color'I, SARL (France);<br>. Manager of the société civile P2LM (France);<br>. chairman of the company Fra Angelico, SASU (France);<br>· associate manager of the société civile Du Regard (France).<br>None of these companies is listed on a stock exchange. | Nil |

## Olivier Bohuon, permanent representative of the company OJB Conseil member of the supervisory board

| | |
|---|---|
| • Age et nationality | 61 years, French |
| • 1st appointment | 2011 |
| • Current term ends | 2020 |
| • Number of shares held by the company | 10 |

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 the supervisory board until December 14, 2018, the date of his resignation.

Doctorate in pharmacy and MBA graduate of HEC business school, Olivier Bohuon is a member of the National pharmacy academy and the Academy of technologies.

**List of positions**

| Current positions | Expired positions<br>Positions that have expired within the past five years |
|---|---|
| **Positions in Group companies:**<br>Nil | |
| **Positions in companies outside of the Group:**<br>· chairman of the company OJB Conseil SAS (France);<br>· director of the company Takeda PLC (Japan), company listed on the Tokyo et New-York stock exchanges;<br>· director of the company Smiths Group (United kingdom), company listed on London stock exchange;<br>· director of the company Biotech Promise SCA SICAV-SIF company (Luxembourg);<br>· chairman of the board of directors of the company Leo Pharma A/S (Denmark). | . director of the company Shire PLC (Ireland).<br>. director of the company Smith&Nephew PLC (United Kingdom); |

## Philippe Capron, member of the supervisory board

| | |
|---|---|
| • Age et nationality<br>• 1st appointment<br>• Current term ends<br>• Number of shares held | 61 years, French<br>2004<br>2022<br>442 |

• Chairman of the audit committee and member of the compensation committee

Graduate of the HEC business school and of IEP Paris, Philippe Capron is a alumnus of 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.

**List of positions**

| **Current positions** | **Expired positions**<br>Positions that have expired within the past five years |
|---|---|
| **Positions in Group companies:** | |
| Nil | |
| **Positions in companies outside of the Group:** | |
| . director of the company Econocom Group SA/NV (Belgique), company listed on Euronext Bruxelles stock exchange. | . director of the company Veolia Energie International (France);<br>. chairman of the board of directors of the company Veolia Environnement Serves Re (France);<br>. member of the supervisory board of the company Veolia Eau-Compagnie Générale des Eaux (France);<br>. director of the Institut Veolia (France);<br>. director of the company Véolia Environnement UK LTD (United Kingdom);<br>. chairman of the board of directors of the company Veolia North America Inc (United States);<br>. deputy CEO of the company Veolia Environnement (France);<br>. director of the *Fondation d'Entreprise* Veolia Environnement (corporate foundation) (France). |

## Grita Loebsack, permanent representative of the company Galix Conseils until December 20, 2019, date of the resignation of Galix Conseils

| | |
|---|---|
| • Age et nationality<br>• 1st appointment<br>• Current term ends<br>• Number of shares held by company | 49 years, German<br>2014<br>Resignation of Galix Conseils on December 20, 2019<br>20 |

• Member of the compensation committee

Graduated with a London School of Economics degree and a MBA from INSEAD. Since 2018, she has acted in the capacity of Marketing director at Essilor International, SA.

**List of positions**

| **Current positions** | **Expired positions**<br>Positions that have expired within the past five years |
|---|---|
| **Positions in Group companies:** | |
| Nil | |
| **Positions in companies outside of the Group:** | |
| . president of the company Galix Conseils, SAS (France).<br>This company is not a listed company. | . non-voting advisor of the company Kering (France);<br>. director of the company Balenciaga SA (France);<br>. director of the company Autumn Paper Ltd (United Kingdom);<br>. director of the company Christopher Kane Ltd (United Kingdom);<br>. director of the company Brioni SpA (Italy);<br>. director of the company Stella McCartney Ltd (United Kingdom);<br>. director of the company Tomas Maier Holding LLC (United States);<br>. director of the company Altuzarra LLC (United States);<br>. director of the company Kicks Kosmetikkedjan AB (Sweden). |

## Solène Madelpuech, member of the supervisory board

| | |
|---|---|
| • Age et nationality | 26 years, French |
| • 1st appointment | 2017 |
| • Current term ends | 2020 |
| • Number of shares held | 10 |

Member of the supervisory board of Virbac, appointed by decision (cooptation) of the supervisory board of September 5, 2017 as a replacement of Jeanine Dick, who resigned.

Graduated with a BSc in management from Warwick business school and a Master in management from London business school. Solène is UK general manager of Sight Diagnostic.

**List of positions**

| **Current positions** | **Expired positions**<br>Positions that have expired within the past five years |
|---|---|
| **Positions in Group companies:**<br>Nil | |
| **Positions in companies outside of the Group:**<br>· co-manager of the société civile immobilière Samakeur MH (France);<br>· member of the supervisory board of the société civile Investec (France);<br>. general manager UK of the company Sight Diagnostics (United Kingdom).<br>None of these companies is listed on a stock exchange. | Nil |

## Cyrille Petit, permanent representative of the company Cyrille Petit Conseil, member of the supervisory board since March 19, 2020

| | |
|---|---|
| • Age et nationality | 49 years, French |
| • 1st appointment | 2019 (personally) |
| • Current term ends | N/A |
| • Number of shares held by company | 10 |
| • Member of the audit committee | Personally until his resignation and since March 19, 2020 as legal representative of the company Cyrille Petit Conseil |

Professional experience
. Since 2019: development and Strategy director (Bracco Group)
· 2019 strategy and mergers & acquisitions consulting
· 2012-2018: director of Development and chairman of Global Business Services and member of the executive committee (Smith & Nephew plc)
· 2008-2012: director of World Development and member of the board of management (General Electric Transportation).
· 2002-2008: Director of Development (General Electric Healthcare)

**List of positions**

| **Current positions** | **Expired positions**<br>Positions that have expired within the past five years |
|---|---|
| **Positions in Group companies:**<br>Nil | |
| **Positions in companies outside of the Group:**<br>· president of the company Cyrille Petit Conseil, SAS (France);<br>· director of the company Reapplix A/S (Denmark);<br>· director of the company Flowonix Inc (United States);<br>· manager of the société civile immobilière Caducée (France);<br>· gérant of the société civile immobilière Berteaux 2000 (France);<br>· manager of the société civile immobilière Familiale du Manoir de Kerminizy (France);<br>· director of the company Blue Earth Diagnostics Ltd (United kingdom);<br>· director of the company Blue Earth Diagnostics Inc (United States).<br>None of these companies is listed on a stock exchange. | Nil |

## Sylvie Gueguen, member of the supervisory board employee representative

| | |
|---|---|
| • Age et nationality | 55 years, French |
| • 1st appointment | 2018 |
| • Current term ends | 2021 |
| • Number of shares held | 0 |

Director of Virbac's Preclinical and Clinical Biological Product Development department.

**List of positions**

| **Current positions** | **Expired positions** Positions that have expired within the past five years |
|---|---|
| **Positions in Group companies:** Nil | Nil |
| **Positions in companies outside of the Group:** Nil | |

## Changes that have occurred within the membership of the supervisory board and committes during the financial year Situation as at March 19, 2020

| | Departure | Appointment | Reappointment |
|---|---|---|---|
| Supervisory board | Company Galix Conseils represented by Grita Loebsack | | . Marie-Hélène Dick-Madelpuech<br>. Philippe Capron<br>. Company OJB Conseil represented by Olivier Bohuon |
| | Cyrille Petit | Company Cyrille Petit Conseil represented by Cyrille Petit and appointed by decision (cooptation) of supervisory board of March 19, 2020 | |
| Audit committee | Cyrille Petit | Company Cyrille Petit Conseil | |
| Compensation committee | Company Galix Conseils represented by Grita Loebsack | Philippe Capron | |

## Criteria of independence

At its meetings on March 5 and 19, 2020, the supervisory board reviewed the independence criteria of its members based on the criteria of the Afep-Medef Code.
Criteria of independence of the corporate governance code of Afep-Medef:

| Criterion 1: employee company officer within the previous five years |
|---|
| Not to be and not to have been within the previous five years:<br>• an employee or executive officer of the company;<br>• an employee, executive officer or director of a company consolidated within the corporation;<br>• an employee, executive officer or director of the company's parent company or a company consolidated within this parent company. |
| **Criterion 2: cross-directorships** |
| Not to be an executive officer of a company in which the corporation holds a directorship, directly or indirectly, or in which an employee appointed as such or an executive officer of the Corporation (currently in office or having held such office within the last five years) holds a directorship. |
| **Criterion 3: significant business relationships** |
| Not to be a customer, supplier, commercial banker, investment banker or consultant:<br>• that is significant to the corporation or its group;<br>• or for which the corporation or its group represents a significant portion of its activity.<br>The evaluation of the significance or otherwise of the relationship with the company or its group must be debated by the board and the quantitative and qualitative criteria that led to this evaluation (continuity, economic dependence, exclusivity, etc.) must be explicitly stated in the annual report. |
| **Criterion 4: family ties** |
| Not to be related by close family ties to a company officer. |
| **Criterion 5: auditor** |
| Not to have been an auditor of the corporation within the previous five years. |
| **Criterion 6: period of office exceeding twelve years** |
| Not to have been a director of the corporation for more than twelve years. Loss of the status of independent director occurs on the date of the 12th anniversary. |
| **Criterion 7: status of non-executive officer** |
| A non-executive officer cannot be considered independent if he or she receives variable compensation in cash or in the form of securities or any compensation linked to the performance of the corporation or group. |
| **Criterion 8: status of the major shareholder** |
| Directors representing major shareholders of the corporation or its parent company may be considered independent, provided these shareholders do not take part in the control of the corporation. Nevertheless, beyond a 10% threshold in capital or voting rights, the board, upon a report from the nominations committee, should systematically review the qualification as independent in the light of the make-up of the corporation's capital and the existence of a potential conflict of interest. |

The supervisory board noted that Philippe Capron reached twelve years seniority in August 2016, but considers that, based on the seniority criteria, a member of the supervisory board with more than twelve years of seniority does not automatically loose 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 three members of the supervisory board, apart from the member of the supervisory board representing the employees, namely:

- Philippe Capron;
- Olivier Bohuon permanent representative of the company OJB Conseil;
- Cyrille Petit, permanent representative of the company Cyrille Petit Conseil;

meet all the independence criteria of the Afep-Medef Code, with the exception of that of length of tenure of Philippe Capron, 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.

| Criteria[1] | Marie-Hélène Dick-Madelpuech | Pierre Madelpuech | Solène Madelpuech | Philippe Capron | Olivier Bohuon permanent representa-tive of OJB Conseil | Grita Loebsack permanent reprentative of Galix Conseils until 12/20/19 | Cyrille Petit permanent representa-tive of Cyrille Petit Conseil |
|---|---|---|---|---|---|---|---|
| **Criterion 1**: employee corporate officer within the past five years | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Criterion 2**: cross-directorships | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Criterion 3**: significant business relationships | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Criterion 4**: family tiesl | X | X | X | ✓ | ✓ | ✓ | ✓ |
| **Criterion 5**: auditor | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Criterion 6**: period of office exceeding twelve years | ✓ | ✓ | ✓ | see above explanation | ✓ | ✓ | ✓ |
| **Criterion 7**: status of non-executive officer | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Criterion 8**: status of the major shareholder | X | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

[1] In this table, ✓ signifies that a criterion for independence is satisfied and ✗ signifies that a criterion for independence is not satisfied

### Regular attendance of the members of the supervisory board in 2019

| | Regular attendance on the supervisory board (4 meetings per year) | Regular attendance on the audit committee (2 meetings per year) | Regular attendance on the compensation committee (1 meeting per year) |
|---|---|---|---|
| Marie-Hélène Dick-Madelpuech | Attended 4 meetings | N/A | Attended meeting |
| Pierre Madelpuech | Attended 4 meetings | Attended 2 meetings on March and September | N/A |
| Olivier Bohuon, permanent representative of the company OJB Conseil | Attended 4 meetings | Attended 2 meetings on March and September | N/A |
| Philippe Capron | Attended 3 meetings | Attended 2 meetings on March and September | N/A |
| Grita Loebsack, permanent representative of the company Galix Conseils until Décember 20, 2019, resignation date | Attended 4 meetings | N/A | Attended meeting |
| Cyrille Petit appointed on June 18, 2019 | Attended 1 meeting on September | Attended 1 meeting on September | N/A |
| Sylvie Gueguen, employee representative | Attended 4 meetings | N/A | N/A |

# The non-voting advisor

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

| | |
|---|---|
| • Age et nationality | 79 years, French |
| • 1st appointment | 2014 |
| • Current term ends | 2020 |

Graduate of the Faculté des Sciences de Paris and the Harvard business school, formely president and CEO of Laboratoires Galderma.
Since June 2019 he acts as president of the *Fondation d'Entreprise* Virbac (corporate foundation).
He as been member of the supervisory board, either personally or as a legal representative of the XYC company, from 2004 until the end of 2013.
Since 2014 he is permanent representative of the company XYC, and then of the company Xavier Yon Consulting Unipessoal Lda, acting as non-voting advisor.

# The executive board

## 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 2019, the executive board held ten formal meetings.

The assignment of functions and missions to the executive board members is as follows:

- Sébastien Huron is the chairman of the executive board, supervising global marketing and commercial operations, human resources, communications, environment, health and safety 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; business development, corporate sourcing, public affairs and the CreA function;
- Habib Ramdani is the Group chief financial officer and is responsible for Group financial policy. He supervises financial and legal duties, as well as information systems and risk management.

| | Personnal information of the members of the executive board | | | | Position on the executive board | |
|---|---|---|---|---|---|---|
| | Age | Gender | Nationality | Number of shares | Initial date of appointment | Term of office expires |
| Sébastien Huron<br>Chairman of the executive board | 49 years | Male | French | 969 | Year of the 1st appointment:<br>. as chairman: 2017<br>. as member of the executive board: 2012 | December 2020 |
| Christian Karst<br>General manager | 61 years | Male | French | 5,575 | Year of the 1st appointment:<br>. as member of the executive board: 1996<br>. as general manager: 2013 | December 2020 |
| Habib Ramdani | 44 years | Male | French | 0 | Year of the 1st appointment: 2016 | December 2020 |
| Jean-Pierre Dick | 54 years | Male | French | 880 | Year of the 1st appointment: 1996<br>Date of resignation: November 14, 2019 | N/A |

## Profile, experience and positions of the members of the executive board

### Sébastien Huron, chairman of the executive board

| | |
|---|---|
| • Age et nationality | 49 years, French |
| • First appointment | . as chairman: 2017<br>. as member of the executive board: 2012 |
| • Current term ends | December 2020 |
| • Number of shares held | 969 |

Doctor of veterinary medicine, he joined the Virbac Group in 2006.

**List of positions**

| **Current positions** | **Expired positions**<br>Positions that have expired within the past |
|---|---|
| **Positions in Group companies:**<br>. director of the company Bioanimal Corp S.A. (Chile);<br>. director of the company Productos Quimicos Ehlinger S.A. (Chile);<br>. director of the company Virbac Limited (United Kingdom);<br>. director of the company Holding Salud Animal S.A. (Chile).<br>**Positions in companies outside of the Group:**<br>. manager of the company société civile immobilière P.A.T.H. (France).<br>This company is not a listed company | Nil |

### Christian Karst, member of the executive board and general manager

| | |
|---|---|
| • Age et nationality | 61 years, French |
| • First appointment | . as member of the executive board: 1996<br>. as general manager: 2013 |
| • Current term ends | December 2020 |
| • Number of shares held | 5 575 |

Doctor of veterinary medicine, he joined Virbac in 1984.

**List of positions**

| **Current positions** | **Expired positions**<br>Positions that have expired within the past five years |
|---|---|
| **Positions in Group companies:**<br>. director of the company Bioanimal Corp. S.A. (Chile);<br>. director of the company Productos Quimicos Ehlinger S.A. (Chile);<br>. director of the company Virbac Limited (United Kingdom);<br>· director of the company Holding Salud Animal S.A. (Chile);<br>. director of the company Asia Pharma Limited (Hong-Kong).<br>**Positions in companies outside of the Group:**<br>. manager of the company société civile immobilière Karst (France);<br>. manager of the company société civile immobilière SCI Pierre Karst (France).<br>None of these companies is listed on a stock exchange. | Nil |

## Habib Ramdani, member of the executive board

| | |
|---|---|
| • Age et nationality | 44 years, French |
| • First appointment | As member of the executive board: june 2016 |
| • Current term ends | December 2020 |
| • Number of shares held | 0 |

Graduate of the Ecole Centrale de Paris, was appointed deputy director of Financial Affairs effective February 2016 and subsequently director of Financial affairs effective April 2016.

**List of positions**

| Current positions | Expired positions<br>Positions that have expired within the past five years |
|---|---|
| **Positions in Group companies:**<br>. director of the company Asia Pharma Limited (Hong Kong);<br>· chairman of the company Interlab, SAS (France) ;<br>. permanent representative of Virbac, director of the company Virbac Chile Spa (Chili);<br>. permanent representative of Virbac, director of the company Virbac Patagonia Limitada (Chili);<br>. director of the company Virbac Corporation (United States).<br>**Positions in companies outside of the Group:**<br>Nil | Nil |

## Jean-Pierre Dick, member of the executive board until November 14, 2019 date of his resignation

| | |
|---|---|
| • Age et nationality | 54 years, French |
| • First appointment | December 1996 |
| • Current term ends | N/A |
| • Number of shares held | 880 |

Doctor of veterinary medicine and holds a MBA from the HEC business school.

**List of positions**

| Current positions | Expired positions<br>Positions that have expired within the past five years |
|---|---|
| **Positions in Group companies:**<br>· director of the Fondation d'Entreprise Virbac (corporate foundation) (France);<br>**Positions in companies outside of the Group:**<br>. gérant de la société Absolute Dreamer SARL + (France);<br>. joint manager of the company société civile immobilière Terre du Large (France);<br>. manager of the company société civile immobilière Samakeur JP (France).<br>None of these companies is listed on a stock exchange. | Nil |

## Changes that have occurred within the membership of the executive board situation as at December 31, 2019

| | Departure | Appointment | Reappointment |
|---|---|---|---|
| member of the executive board | Jean-Pierre Dick | N/A | N/A |

## 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 department;
- Global Industrial Operations and Corporate Quality Assurance department;
- Corporate Product Innovation department;
- Group Legal department;
- Corporate Sourcing department;
- 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 4 women and 13 men.

The supervisory board took note in its meeting of September 10, 2019, that the rate of feminization on the strategic committee should be improved.

### The France committee

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

- Corporate Financial Affairs department;
- Corporate Human Resources;
- French Industrial Operations department;
- Global Industrial Operations and 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 department;
- Group Legal department;
- Creations and Regulatory Affairs department;
- Global Marketing and Business Optimization (GMBO) department;
- Corporate EHS 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 5 women and 10 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.

In France, the percentage of women in 10% of positions of responsibility is at 33%. 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.

## 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 company reserves the right to modify these procedures for the general meeting to be held in 2020 due to the Covid-19 epidemic, in accordance with the legislative and regulatory provisions taken to take account of these exceptional circumstances.

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 and the global compensation of the members of the supervisory 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.

# TABLE SUMMARIZING EXCEPTIONS TO RECOMMANDATIONS 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**<br>(Article 3.2 of the code)<br>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 83-84 |
| **Member of the supervisory board deemed to be independent**<br>(Article 8.5.6 of the code)<br>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.<br>Indeed, the supervisory board considers:<br>· 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;<br>· 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;<br>· 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 83-84 |
| **Creation of an appointments committee**<br>(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 85 |
| **Compensation committee chaired by an independent member**<br>(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 84 |
| **Director's fees for attending supervisory board meetings**<br>(Article 20.1 of the code)<br>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**<br>(Article 24.3.3 of the Code)<br>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.)<br>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.<br>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 112 |
| **Severance pay**<br>(Article 24.5.1 of the Code)<br>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 104 |
| **Non-competition payment**<br>(article 23.5 of the code)<br>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.<br>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 104 |
| **Supplementary pension schemes**<br>(Article 23.2.6 of the Code)<br>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.<br>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 104 |

# COMPENSATION OF THE MEMBERS OF THE SUPERVISORY BOARD AND THE MEMBERS OF THE EXECUTIVE BOARD

The law n° 2019-486 of May 22, 2019 known as the “Pacte” law, and for its implementation, by ordinance n° 2019-1234 of November 27, 2019 and decree n° 2019-1235 of the same day, has modified the rules of the compensation of corporate officers.
In accordance with article L225-82-2 of the French commercial code, the supervisory board examines, on the recommendation of the compensation committee, the compensation of members of the executive board.

The principles and criteria for determining, distributing and allocating the fixed, variable and exceptional elements making up the total compensation and the benefits of all kinds attributable to the members of the executive board and its chairman are presented below.

The supervisory board and the compensation committee take into account and apply the principles recommended by the Afep-Medef Code, namely comprehensiveness, balance between the compensation components, comparability, consistency, understandability of the rules, proportionality. They ensure that the compensation policy is in line with the social interest of the company, contributes to its sustainability and is part of its commercial strategy.

The supervisory board also examines the compensation of its members each year.
The shareholder’s meeting will be asked to vote on the compensation policy for corporate officers for their mandate, for the 2019 financial year, as described below.

At the shareholders’ meeting resolutions will be submitted in order to vote on the compensation policy for corporate officers for the 2019 financial year, as described below.

# COMPENSATION OF THE MEMBERS OF THE SUPERVISORY BOARD AND THE NON-VOTING ADVISOR

## Payment policy for compensation 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 relating to the compensation of the members of the supervisory board.

In fact, it does not appear desirable to the company that the compensations of the members of the supervisory board should consist of a variable portion. The involvement of the members of the supervisory board in the supervision activities of the company is not limited to their participation in the formal periodic debates of the supervisory board. The duration of the supervisory board meetings, which take place over a full day, as well as the high participation rate of its members, confirm that the attendance of the supervisory board members can be guaranteed without resorting to a mechanism of complex distribution based on a variable part of their remuneration.

Regarding the distribution method of the global amount of the annual fixed sum voted by the shareholders’ meeting, it is, in particular, taken into account to determine this distribution between the members of the following criteria:
- attendance at formal meetings;
- the presence or not of at the board committees;
- the participation in preparatory meetings of the formal meetings.

For information, it should be noted that the supervisory board has decided to allocate higher compensation to Philippe Capron for his duties as chairman of the audit committee.
A summary table located on pages 99 and 100 shows the recommendations of the Afep-Medef Code which have not been adopted by the company and explains the reasons for them.
The compensation policy is identical with regard to the censor who participates in formal and informal meetings of the supervisory board.
The elements of this compensation policy will be subject to a vote at the shareholder’s meeting.

## Remuneration for supervisory board members and the non-voting advisor in respect of 2019 financial year

The June 18, 2019 shareholders' general meeting approved the payment of a total sum of €157,000 as remuneration (formerly director's fees) to members of the supervisory board.

In its September 10, 2019 meeting, the supervisory board elected to distribute this amount between its members (*see table below*). At this meeting, the supervisory board also elected to grant the board's chairwoman the sum of €95,000 for her duties as chairwoman. This amount has been unchanged since 2013.

Elements of the remuneration policy for members of the supervisory board, be subject to the general shareholders' meeting vote.

| | Amount due in respect of 2019 | | Amount due in respect of 2018 | |
|---|---|---|---|---|
| in € | Compensation | Directors' fees | Compensation | Directors' fees |
| Marie-Hélène Dick | €116,000 | | €95,000 | €21,000 |
| Pierre Madelpuech | €21,000 | | - | €21,000 |
| Philippe Capron | €24,000 | | - | €24,000 |
| Olivier Bohuon | €21,000 | | - | €21,000 |
| Société Galix Conseils représentée par Grita Loebsack | €21,000 | | - | €21,000 |
| Solène Madelpuech | €21,000 | | - | €21,000 |
| Censeur, société Xavier Yon Consulting Unipessoal Lda représentée par Xavier Yon | €21,000 | | - | €21,000 |
| **Total** | **€245,000** | | **€95,000** | **€150,000** |

The components of the compensation paid during the 2019 financial year or allocated for the same financial year to the chairwoman of the supervisory board will be submitted to a vote at the general meeting of shareholders.

It will also be proposed to the vote of the general meeting of shareholders of June 22, 2020 to allocate to the members of the supervisory board the global sum of €160,000, for the 2020 financial year. This sum will be distributed by the supervisory board among its members according to the criteria described above.

# COMPENSATION OF THE MEMBERS OF THE EXECUTIVE BOARD

## 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.
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:

- revenues of the Group;
- Group’s operating profit from ordinary activities;
- changes in the Group net deb;
- 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 page 100 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 a private unemployment insurance for corporate directors (*Garantie sociale des chefs d'entreprise*) 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.

At its meeting on March 12, 2019, the supervisory board elected 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 framework, 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.

As a result of Jean-Pierre Dick’s November 14, 2019 resignation from his term of office as a member of the executive board, and given that Sébastien Huron and Habib Ramdani did not meet the conditions to benefit from the plan as amended on December 31, 2019, only Christian Karst, who already met certain conditions under this plan (including the fact that he has reached the age of 60 and meets the company seniority conditions and is a member of the executive board), is now eligible for the rights that were maintained at the closing of the plan.

**Forced retirement severance pay**
The 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 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).

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.

It should be noted that Christian Karst and Habib Ramdani each have an employment contract, the conditions of which comply with ordinary law.

A summary table on pages 99 and 100 lists the provisions of the Afep-Medef Code not adopted by the company and explains the reasons for this.

## Seventeenth resolution: approval of the compensation policy for the chairwoman and members of the supervisory board for the 2020 financial year

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, having acquainted itself with the corporate governance report referred to in article L225-68 of the French commercial code, describing elements of the compensation policy for corporate officers, approves, pursuant to article L225-82-2 III. of the French commercial code, the compensation policy for members of the supervisory board and its chairwoman for the 2020 financial year, as presented in the corporate governance report (page 101).

## Eighteenth resolution: approval of the compensation policy for the chairman and members of the executive board for the 2020 financial year

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, having acquainted itself with the corporate governance report referred to in article L225-68 of the French commercial code, describing elements of the compensation policy for corporate officers, approves, pursuant to article L225-82-2 II. of the French commercial code, the compensation policy for members of the executive board and their chairman for the 2020 financial year, as presented in the corporate governance report (pages 102 to 105).

## Total compensation due to members of the executive board in respect of 2019 financial year

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

### Summary of the gross amounts due or allocated for the 2019 financial year

| in € | Compensation due in respect of 2019 | Value of stock options granted in 2019 | Value of stock grants awarded for 2019[1] | Total compensation |
|---|---|---|---|---|
| Sébastien Huron | €555,361 | - | - | **€555,361** |
| Christian Karst | €479,184 | - | €672,800 | **€1,151,984** |
| Habib Ramdani | €298,770 | - | - | **€298,770** |
| Jean-Pierre Dick | €16,460 | - | - | **€16,460** |
| **Total** | **€1,349,775** | **-** | **-** | **€2,022,575** |

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

## Summary of the gross amounts due or allocated 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

## Gross compensation Sébastien Huron

| in € | Financial year 2019 | | Financial year 2018 | |
|---|---|---|---|---|
| | 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 | €325,000 | €325,000 | €365,726 |
| Variable compensation | €180,000 | €166,250 | €166,250 | €18,125 |
| Extraordinary compensation | - | - | - | - |
| Directors' fees[1] | €35,000 | €35,000 | €25,000 | €25,000 |
| Benefits in kind | €15,361 | €15,361 | €11,781 | €11,781 |
| **Total** | **€555,361** | **€541,611** | **€528,031** | **€420,632** |

[1] Paid by a Group subsidiary

**Compensation components owed or awarded in respect of 2019**

| Nature | Amounts or valuation to be voted on | Presentation |
|---|---|---|
| Fixed compensation | €325,000 | The supervisory soard of March 12, 2019, on a proposal from the compensation committee, decided to maintain the annual fixed compensation at € 325,000. |
| Annual variable compensation | €180,000 | The supervisory board of March 5, 2020 approved the elements of variable compensation for 2019. It amounts to 55.4% of his fixed compensation. For more details, see pages 102-103 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 | NA | No performance share allocated for the fiscal year 2019. For more information, refer to pages112-113 of the financial report. |
| Directors' fees | €35,000 | Directors' fees received with respect to terms held in the Group's subsidiaries in 2019. |
| Valuation of benefits in kind | €15,361 | 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 108 of the financial report. |
| Non-competition payment | No payment | For more information, refer to page 104 of the financial report. |
| Supplementary pension plan | NA | For more information, refer to page 104 of the financial report. |

## Calculation criteria for the variable portion

For the 2019 financial year 2019, the allocation criteria for the variable portion the compensation of Sébastien Huron were set 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 deleveraging, amounting to 10% of the target variable portion;

For the financial year 2019, 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 2019 financial year, Sébastien Huron should be paid the following variable compensation: €180,000, representing 50% of his fixed compensation (including directors’ fees paid by Group subsidiaries):

The payment of the variable compensation is subject to the approval by the next ordinary shareholders’ meeting of the compensation elements in compliance with the provisions of article L225-100 of the French commercial code.

## Unemployment insurance scheme

The chairman of the executive board is covered by a private unemployment insurance for corporate directors (*Garantie sociale des chefs d'Entreprise*) 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 annual contributions for 2019 amounts €12,781.

**Forced retirement severance pay**

Sébastien Huron 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 2019 | | Financial year 2018 | |
|---|---|---|---|---|
| | 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 | €273,000 | €273,000 | €265,000 | €265,000 |
| Variable compensation | €159,000 | €147,250 | €147,250 | €19,375 |
| Extraordinary compensation | - | - | - | - |
| Directors' fees[1] | €45,000 | €45,000 | €45,000 | €45,000 |
| Benefits in kind | €2,184 | €2,184 | €2,832 | €2,832 |
| **Total** | **€479,184** | **€467,434** | **€460,082** | **€332,207** |

**Compensation components owed or awarded in respect of 2019**

| Nature | Amounts or valuation to be voted on | Presentation |
|---|---|---|
| Fixed compensation | €273,000 | The supervisory board of March 12, 2019, on a proposal from the compensation committee, decided to increase the annual fixed compensation to € 273,000, an increase of 3%. |
| Annual variable compensation | €159,000 | The supervisory board of March 5, 2020 approved the elements of variable compensation for 2019. It amounts to 58.2% of his fixed compensation. For more details, see pages 102-103 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 | €672,800 | 4 000 performance share allocated for the fiscal year 2019. For more information, refer to page 112-113 of the financial report. |
| Directors' fees | €45,000 | Directors' fees received with respect to terms held in the Group's subsidiaries in 2019. |
| Valuation of benefits in kind | €2,184 | 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 104 of the financial report. |
| Non-competition payment | NA | For more information, refer to page 104 of the financial report. |
| Supplementary pension plan | No payment | For more information, refer to page 104 of the financial report |

**Calculation criteria for the variable portion**

For the 2019 financial year 2019, the allocation criteria for the variable portion of the compensation of Christian Karst were set 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 deleveraging, amounting to 10% of the target variable portion;

For the financial year 2019, 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 2019 financial year, Sébastien Huron should be paid the following variable compensation: €159,000, representing 50% of his fixed compensation (including directors' fees paid by Group subsidiaries):

The payment of the variable compensation is subject to the approval by the next ordinary shareholders' meeting of the compensation elements in compliance with the provisions of article L225-100 of the French commercial code.

**Supplementary pension plan**

At its meeting on March 12, 2019, the supervisory board elected to terminate the defined benefit pension plan benefiting members of the executive board 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 framework, 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 previously in effect.

Only Christian Karst, who already met certain conditions under this plan when it ended (including the fact that he had reached the age of 60 and met the company seniority conditions and was a member of the executive board), enjoys the rights that have been maintained at the closing of the plan, with no increase in these rights in connection with the carrying out of his duties during the 2019 financial year.

**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

| in € | Financial year 2019 | | Financial year 2018 | |
|---|---|---|---|---|
| | 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 | €213,000 | €213,000 | €203,000 | €203,000 |
| Variable compensation | €85,200 | €77,140 | €77,140 | €7,613 |
| Extraordinary compensation | - | - | - | - |
| Directors' fees | - | - | - | - |
| Benefits in kind | €570 | €570 | €888 | €888 |
| **Total** | **€298,770** | **€290,710** | **€281,028** | **€211,501** |

**Compensation components owed or awarded in respect of 2019**

| Nature | Amounts or valuation to be voted on | Presentation |
|---|---|---|
| Fixed compensation | €213,000 | The supervisory board of March 12, 2019, on a proposal from the compensation committee, decided to increase the annual fixed compensation to € 213,000, an increase of 4.9%. |
| Annual variable compensation | €85,200 | The supervisory board of March 5, 2020 approved the elements of variable compensation for 2019. It amounts to 40.0% of his fixed compensation. For more details, see page 102-103 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 | NA | No performance share allocated for the fiscal year 2019. For more information, refer to pages 112-113 of the financial report. |
| Directors' fees | NA | No directors' fees received in 2019. |
| Valuation of benefits in kind | €570 | 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 | For more information, refer to page 104 of the financial report. |
| Non-competition payment | NA | For more information, refer to page 104 of the financial report. |
| Supplementary pension plan | NA | For more information, refer to page 104 of the financial report. |

**Calculation criteria for the variable portion**

For the 2019 financial year 2019, the allocation criteria for the variable portion of the compensation of Habib Ramdani were set 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 deleveraging, amounting to 10% of the target variable portion;

For the financial year 2019, the maximum potential variable portion of Habib Ramdani's compensation represents, as a percentage of his fixed compensation (including directors' fees paid by Group subsidiaries): 40.0%

For the 2019 financial year, Sébastien Huron should be paid the following variable compensation: €85,200, representing 40% 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.

## Total compensation of Jean-Pierre Dick, member of the executive until November 14, 2019

| | Financial year 2019 | | Financial year 2018 | |
|---|---|---|---|---|
| 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 | €15,700 | €15,700 | €18,000 | €18,000 |
| Variable compensation | - | - | - | - |
| Extraordinary compensation | - | - | - | - |
| Directors' fees | - | - | - | - |
| Benefits in kind | €760 | €760 | €840 | €840 |
| **Total** | **€16,460** | **€16,460** | **€18,840** | **€18,840** |

Jean-Pierre Dick has no variable compensation.

**Compensation components owed or awarded in respect of 2019**

| Nature | Amounts or valuation to be voted on | Presentation |
|---|---|---|
| Fixed compensation | €15,700 | The supervisory board of March 12, 2019, on a proposal from the compensation committee, decided an annual fixed compensation of € 15,700, a decrease of 12.8%. |
| Annual variable compensation | NA | No payment of variable compensation for 2019 according to decision of the Supervisory Board of March 5, 2020. |
| 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 2019.<br>For more information, refer to pages 112-113 of the financial report. |
| Directors' fees | NA | No directors' fees received in 2019. |
| Valuation of benefits in kind | 760 | 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 | For more information, refer to page 104 of the financial report. |
| Non-competition payment | NA | For more information, refer to page 104 of the financial report. |
| Supplementary pension plan | No payment | For more information, refer to page 104 of the financial report. |

## Shares subscription or purchase options

The company has no shares subscription or purchase option plan

## Performance-related stock grants

### Allocated performance-related stock grants

It should be noted that:

- throughout the past 5 financial years, performance-related stock grants were allocated in 2016, 2018 and 2019;
- throughout the last five financial years, no performance-related stock grants have been acquired;

In regards to the 2016 performance-related stock grants plan, the acquisition of the shares was postponed until the end of the 2019 financial year. The executive board deemed that given the financial projections for this new horizon, achievement of the performance indicator objectives would only entitle plan beneficiaries to 50% of the shares allocated.

The Group took note of this observation and the expense corresponding to the 2016 plan, which had previously been canceled in the 2018 financial year, was recognized in the 2019 financial year.

### Performance-related stock grants plan awarded to executive board members

The table below, based on a five-year history (2015 to 2019), presents the three plans in effect as of December 31, 2019, including 2019 plan granted as of June 30, 2019.

**Plan 2016**

| | Number of stock options granted | Value of stock grants[1] | Acquisition date[2] | Availability date |
|---|---|---|---|---|
| Sébastien Huron | 1,000 | €185,050 | 2020 | 2022 |
| Christian Karst | 1,000 | €185,050 | 2020 | 2022 |
| Habib Ramdani | 400 | €74,020 | 2020 | 2022 |
| **Total** | **2,400** | **€444,120** | | |

[1] Based on the method used for the consolidated accounts
[2] Following the postponement of one year. Acquisition of 50% only, taking into account the level of performance achieved.

**Plan 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).

**Plan 2019**

| | Number of stock options granted | Value of stock grants[1] | Acquisition date | Availability date |
|---|---|---|---|---|
| Christian Karst | 4,000 | €672,800 | 2021 | 2023 |
| **Total** | **4,000** | **€672,800** | | |

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

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.

The components of the compensation and benefits of any kind paid during the 2019 financial year or allocated for the same financial year to the chairman of the executive board and to the members of the executive board will be submitted to a vote at the general meeting of shareholders.

## Compensation ratios and annual evolution of Virbac's compensation and performance ratios

| Changes in the compensation of the members of the executive board (€) | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| **Eric Maree**[1] | | | | | |
| **Total compensation due or awarded for the year** | €460,088 | €480,644 | €443,560 | - | - |
| Evolution/N-1 | -% | 4% | -8% | -% | -% |
| **Sébastien Huron** | | | | | |
| **Total compensation due or awarded for the year**[4] | €291,476 | €503,101 | €310,705 | €718,751 | €555,361 |
| Evolution/N-1 | -% | 73% | -38% | 131% | -23% |
| **Michel Garaudet**[2] | | | | | |
| **Total compensation due or awarded for the year** | €262,498 | €80,801 | - | - | - |
| Evolution/N-1 | -% | -69% | -% | -% | -% |
| **Christian Karst** | | | | | |
| **Total compensation due or awarded for the year**[4] | €335,911 | €555,161 | €332,207 | €603,122 | €1,151,984 |
| Evolution/N-1 | -% | 65% | -40% | 82% | 91% |
| **Habib Ramdani**[3] | | | | | |
| **Total compensation due or awarded for the year**[4] | - | €221,736 | €211,501 | €400,228 | €298,770 |
| Evolution/N-1 | -% | -% | -5% | 89% | -25% |
| **Jean-Pierre Dick** | | | | | |
| **Total compensation due or awarded for the year** | €41,781 | €55,554 | €41,840 | €18,840 | €16,460 |
| Evolution/N-1 | -% | 33% | -25% | -55% | -13% |
| **Total compensation due or awarded to the members of the executive board members** | **€1,391,754** | **€1,896,997** | **€1,339,813** | **€1,740,941** | **€2,022,575** |
| Evolution/N-1 | -% | 36% | -29% | 30% | 16% |

[1]Eric Marée was the chairman of the executive board until December 20, 2017 (date of retirement).

[2]Michel Garaudet was a member of the executive board until 20 April 30, 2016 (date of retirement).

[3]Habib Ramdani joined the executive board in June 2016.

[4]This amount includes the value of the performance shares awarded under the 2016 and 2018 plans.

| | | | | | |
|---|---|---|---|---|---|
| **Compensation due or awarded to the chaiwoman of supervisory board (€)** | **€116,000** | **€116,000** | **€116,000** | **€116,000** | **€116,000** |
| Evolution/N-1 | - | -% | -% | -% | -% |

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| **Virbac average earnings (€)** | **€48,834** | **€50,553** | **€50,914** | **€53,343** | **€55,537** |
| Evolution/N-1 | -% | 4% | 1% | 5% | 4% |
| **Average ratio[5]** | **31** | **40** | **29** | **35** | **39** |
| Evolution/N-1 | - | 9 points | -11 points | 4 points | -7 points |

[5](compensation of the chairwoman of supervisory board + total compensation of executive board members) / Virbac average earnings

| | | | | | |
|---|---|---|---|---|---|
| **Current operating profit before depreciation of assets arising from acquisitions (k€)** | **€57,460** | **€82,860** | **€80,341** | **€88,076** | **€122,447** |
| Evolution/N-1 | -% | 44% | -3% | 10% | 39% |
| **Net result (k€)** | **€12,668** | **€37,867** | **€1,759** | **€20,985** | **€54,422** |
| Evolution/N-1 | -% | 199% | -95% | 1093% | 159% |

Under article L225-37-3 of the French commercial code, for the calculation of average remuneration, the scope used is that of the Virbac company whose reference staff amounted to 1,179 employees in 2019, including 584 executives. This scope is representative of Virbac's various lines of business. For the sake of comparison, and in accordance with Afep's recommendations, the staff used to calculate average remuneration corresponds to a 12-month permanent full-time equivalent staff, excluding executive officers.

Compensation is calculated using all amounts paid or awarded in the financial year in question.

Given the compensation structure at Virbac, median compensation and average compensation are very comparable. Therefore, ratios were calculated only against average 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 :<br>chairman of the executive board<br>Term start date of chaiman's mandate:<br>December 2014<br>Term end date :<br>December 2020 | No | No | Yes | Yes |
| **Christian Karst** | | | | |
| Position :<br>member of the executive board and general manager<br>Term start date :<br>December 2014<br>Term end date :<br>December 2020 | Yes | Yes | Yes | No |
| **Habib Ramdani** | | | | |
| Position :<br>member of the executive board<br>Term start date :<br>June 2016<br>Term end date :<br>December 2020 | Yes | No | No | No |
| **Jean-Pierre Dick** | | | | |
| Position :<br>member of the executive board<br>Term start date :<br>December 2014<br>Term end date :<br>December 2020 | Terminated on November 14, 2019 | No, due to the termination of his mandate and employment contract within the Group | No | No |

[1] The supervisory board of March 12, 2019 decided to end the defined benefit pension plan for members of the executive board with effect from December 31, 2019 (page 104 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 | 250 | €29,300 |
| **Purchases** | **250** | **€29,300** |
| Sébastien Huron | 8,657 | €1,653,007 |
| Christian Karst | 250 | €54,130 |
| **Sales** | **8,907** | **€1,707,137** |

## By members of the supervisory board and related parties

| | Number of shares | Cumulated amount of transactions |
|---|---|---|
| Pierre Madelpuech | 100 | €13,640 |
| **Purchases** | **100** | **€13,640** |
| **Sales** | **0** | **€0** |

# SHARE CAPITAL STRUCTURE

## As of December 31, 2019

| | Shares | Voting rights | Capital | Voting rights |
|---|---|---|---|---|
| Dick family group | 4,201,916 | 8,402,087 | 49.68% | 63.35% |
| Company savings plan | 53,644 | 107,288 | 0.63% | 0.81% |
| Public | 4,176,262 | 4,754,195 | 49.38% | 35.84% |
| Treasury shares | 26,178 | - | 0.31% | - |
| **Total** | **8,458,000** | **13,263,570** | **100.00%** | **100.00%** |

## As of December 31, 2018

| | Shares | Voting rights | Capital | Voting rights |
|---|---|---|---|---|
| Dick family group | 4,201,916 | 8,402,087 | 49.68% | 65.83% |
| Company savings plan | 66,338 | 132,676 | 0.78% | 1.04% |
| Public | 4,153,796 | 4,229,253 | 49.11% | 33.13% |
| Treasury shares | 35,950 | - | 0.43% | - |
| **Total** | **8,458,000** | **12,764,016** | **100.00%** | **100.00%** |

## Delegation granted by the shareholders' meeting concerning capital increases

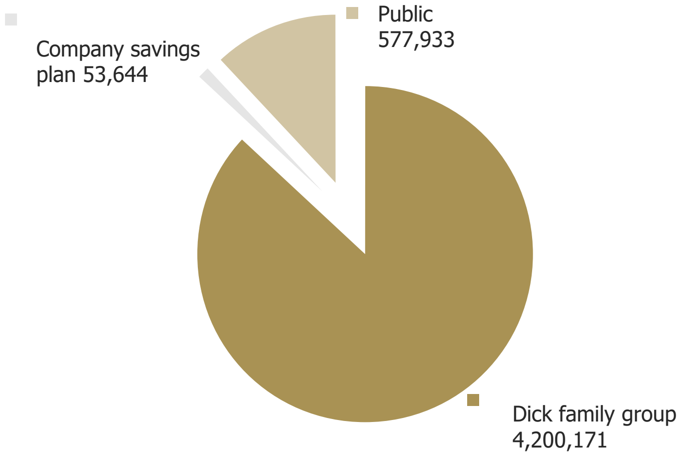
There is no delegation of authority granted by the shareholders' meeting in the area of capital increases; the company did not experience any capital increase.

## 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 (26,178 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 March 18, 2020, Invesco increased its holdings of Virbac capital above the 1% threshold. As of that date, it owned 85,571 shares, or 1.01% of the total number of shares and 0.64% of the voting rights.

**Stock market data**

| in € | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Highest share price | €257.95 | €223.80 | €177.30 | €150.80 | €250.00 |
| Lowest share price | €153.60 | €127.00 | €102.10 | €103.00 | €112.20 |
| Average share price | €205.43 | €162.29 | €141.43 | €126.18 | €169.82 |
| Closing share price | €219.80 | €167.20 | €123.50 | €113.80 | €236.50 |

## Shareholder structure and stock market performance

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

This information is relayed by means of financial announcements published in the French media, press releases published on financial websites and the *AMF* website, and publication of Group quarterly revenue figures and 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 78,404 Virbac shares, representing a share capital of 0.94%, which were held through an employee savings plan and registered performance-related stock grants as of December 31, 2019.

## Relations with individual investors

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

## Relations with institutional investors

The managers are widely 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, 2019 to the supervisory board, which duly acquainted itself therewith.

In 2019, the Group registered consolidated revenue of €938.3 million, up 8.0% and 6.6% 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 39% compared with the previous financial year, rising from €88.1 million at the end of 2018 to €122.4 million as of December 31, 2019. It profited from good performances in all regions, particularly in the United States and Europe. Furthermore, sound cost control and a better absorption of fixed costs have also contributed to improving our operating margin for the period. Lastly, our first half results are favorably impacted by the recognition of exceptional items such as the profit from the sale of the American subsidiary’s office space, amounting to €1.1 million, and the positive impact of the application of a rider to executive board members’ defined benefit retirement plan, amounting to €3.4 million, recognized at the end of June 2019. Excluding these exceptional elements, our profitability to revenue ratio grew by 2.5 points compared to the end of December, 2018, as result of the excellent directing of the business over the year, operational implementation of the competitiveness strategy, and to a lesser degree, the favorable base effect in the United States.

The net profit - Group share amounted to €51.5 million in 2019, compared to €20.1 million in the previous year, an improvement of 156.5% at actual rates.

The Group’s net debt as of December 31, 2019 decreased and amounted to €368.4 million despite an unfavorable impact related to the application of the new IFRS16 standard on accounting for lease contracts, which increased the Group net debt by €31 million.

The share price, closing at €236.5 at the end of 2019, increased sharply from the end of 2018, when it was at €113.8.

At the shareholders’ meeting, a proposal will be made not to distribute a dividend for the 2019 financial year. The willingness to re-balance the financial position by continuing to reduce debt accounts for the absence of a dividend payment for 2019.

Jean-Pierre Dick, after having been a member of the executive board for 23 years, has decided, with effect from November 14, 2019, to resign from his mandate as member of the executive board, in order to redirect his career and devote himself exclusively to maritime projects as well as a consulting activity for executives. The Supervisory Board thanks Jean-Pierre Dick for his contribution to the development and reputation of Virbac. Jean-Pierre Dick was an example for all Virbac employees through his commitment, his passion and his perseverance. Jean-Pierre will continue to help and support the *Fondation d’Entreprise* Virbac, which he chaired until 2019 and in which he practices as a director.

The supervisory board welcomed Cyrille Petit as a member of the supervisory board from the general meeting in June 2019. Cyrille Petit also replaced Olivier Bohuon on the audit committee. On March 19, 2020 the Supervisory Board co-opted the company Cyrille Petit Conseil, following the resignation of Cyrille Petit. As a permanent representative of Cyrille Petit Conseil, Cyrille Petit is a member of the audit committee.

The supervisory board took note of the resignation of the company Galix Conseils represented by Mrs. Grita Loebsack. The supervisory board thanks Ms. Loebsack for her contribution to the service of Virbac for six years.

The supervisory board would like to thank the members of the executive board, the management teams and all of Virbac's employees worldwide for the work accomplished and the recovery initiated in recent years, as well as the shareholders for their loyalty to the Group.

# Consolidated accounts

## CONSOLIDATED FINANCIAL STATEMENTS

### Statement of financial position

| in € thousand | Notes | 2019 | 2018 |
|---|---|---|---|
| Goodwill | **A1-A3** | 312,882 | 309,711 |
| Intangible assets | **A2-A3** | 272,134 | 295,016 |
| Tangible assets | **A4** | 224,792 | 236,685 |
| Right of use | **A5** | 34,003 | - |
| Other financial assets | **A6** | 12,195 | 10,771 |
| Share in companies accounted for by the equity method | **A7** | 3,392 | 3,140 |
| Deferred tax assets | **A8** | 12,991 | 9,936 |
| **Non-current assets** | | **872,390** | **865,259** |
| Inventories and work in progress | **A9** | 206,582 | 195,776 |
| Trade receivables | **A10** | 99,386 | 101,507 |
| Other financial assets | **A6** | 346 | 768 |
| Other receivables | **A11** | 50,899 | 46,686 |
| Cash and cash equivalents | **A12** | 93,656 | 62,810 |
| Assets classified as held for sale | **A13** | - | - |
| **Current assets** | | **450,869** | **407,549** |
| **Assets** | | **1,323,259** | **1,272,807** |
| Share capital | | 10,573 | 10,573 |
| Reserves attributable to the owners of the parent company | | 507,210 | 449,735 |
| **Equity attributable to the owners of the parent company** | **A14** | **517,783** | **460,307** |
| Non-controlling interests | **A14** | 34,096 | 35,567 |
| **Equity** | | **551,878** | **495,875** |
| Deferred tax liabilities | **A8** | 34,658 | 36,423 |
| Provisions for employee benefits | **A15** | 20,294 | 20,294 |
| Other provisions | **A16** | 8,551 | 10,532 |
| Lease liability | **A17** | 26,090 | - |
| Other financial liabilities | **A18** | 306,869 | 375,900 |
| Other payables | **A19** | 2,427 | 2,520 |
| **Non-current liabilities** | | **398,889** | **445,669** |
| Other provisions | **A16** | 1,055 | 1,778 |
| Trade payables | **A20** | 95,769 | 89,572 |
| Lease liability | **A17** | 8,573 | - |
| Other financial liabilities | **A18** | 120,556 | 112,995 |
| Other payables | **A19** | 146,538 | 126,919 |
| **Current liabilities** | | **372,492** | **331,265** |
| **Liabilities** | | **1,323,259** | **1,272,807** |

## Income statement

| in € thousand | Notes | 2019 | 2018 | *Variation* |
|---|---|---|---|---|
| **Revenue from ordinary activities** | **A21** | **938,342** | **868,932** | *8.0%* |
| Purchases consumed | **A22** | -314,805 | -294,289 | |
| External costs | **A23** | -173,037 | -179,068 | |
| Personnel costs | | -280,819 | -267,255 | |
| Taxes and duties | | -13,328 | -11,931 | |
| Depreciations and provisions | **A24** | -38,113 | -28,745 | |
| Other operating income and expenses | **A25** | 4,207 | 432 | |
| **Current operating profit before depreciation of assets arising from acquisitions[1]** | | **122,447** | **88,076** | *39.0%* |
| Depreciations of intangible assets arising from acquisitions | **A24** | -15,048 | -15,043 | |
| **Operating profit from ordinary activities** | | **107,399** | **73,033** | *47.1%* |
| Other non-current income and expenses | **A26** | -9,429 | -8,040 | |
| **Operating result** | | **97,970** | **64,993** | *50.7%* |
| Financial income and expenses | **A27** | -20,298 | -24,104 | |
| **Profit before tax** | | **77,672** | **40,889** | *90.0%* |
| Income tax | **A28** | -23,438 | -20,366 | |
| *Including non-current tax expense* | | *459* | *-2,438* | |
| Share from companies' result accounted for by the equity method | **A7** | 188 | 462 | |
| **Net result from ordinary activities[2]** | **A29** | **63,391** | **31,463** | *101.5%* |
| **Result for the period** | | **54,422** | **20,985** | *159.3%* |
| attributable to the owners of the parent company | | 51,550 | 20,099 | *156.5%* |
| attributable to the non-controlling interests | | 2,872 | 886 | *224.2%* |
| Profit attributable to the owners of the parent company, per share | **A30** | 6.11 € | 2.39 € | *156.2%* |
| Profit attributable to the owners of the parent company, diluted per share | **A30** | 6.11 € | 2.39 € | *156.2%* |

[1] In order to provide a clearer picture of its economic performance, the Group has 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 (see note A24).

[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.

As of December 31, 2019, the line, "Including non-current tax expense" applies to:

- the deferred tax income on the additional impairment of the Leishmaniosis vaccine CGU (Cash generating unit) for €2,493,000;
- the impairment of the deferred tax asset (-€2,034,000), recognized under tax losses for the period in the Virbac United States subsidiary (*see note A29*).

Some items in the income statement were impacted by the implementation of IFRS 16 (see the paragraph on new standards and interpretations). It concerns the following lines:

- "External costs", which include the cancellation of rental charges equal to €11.3 million;
- "Depreciations and provisions", impacted by the amortization of the right of use over the period for €10.5 million;
- "Financial income and expenses", with the recognition of interest costs on lease liability for €1.4 million.

## Comprehensive income statement

| in € thousand | 2019 | 2018 | *Variation* |
|---|---|---|---|
| **Result for the period** | **54,422** | **20,985** | *159.3%* |
| Conversion gains and losses | 5,489 | 3,455 | |
| Effective portion of gains and losses on hedging instruments | -2,645 | -562 | |
| **Items subsequently reclassifiable to profit and loss** | **2,844** | **2,892** | *-1.7%* |
| Actuarial gains and losses | -1,027 | -459 | |
| **Items not subsequently reclassifiable to profit and loss** | **-1,027** | **-459** | *124.0%* |
| **Other items of comprehensive income (before tax)** | **1,817** | **2,433** | *-25.3%* |
| Tax on items subsequently reclassifiable to profit and loss | 840 | 194 | |
| Tax on items not subsequently reclassifiable to profit and loss | 326 | -17 | |
| **Comprehensive income** | **57,405** | **23,596** | *143.3%* |
| attributable to the owners of the parent company | 56,605 | 25,277 | *123.9%* |
| attributable to the non-controlling interests | 800 | -1,682 | *-147.6%* |

## 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 12/31/2017** | **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** |
| 2018 allocation of net income | - | - | 20,099 | - | -20,099 | **-** | - | **-** |
| Distribution of dividends | - | - | - | - | - | **-** | -1,756 | **-1,756** |
| Treasury shares | - | - | 2,411 | - | - | **2,411** | - | **2,411** |
| Changes in scope | - | - | - | - | - | **-** | - | **-** |
| Other variations | - | - | -1,540 | - | - | **-1,540** | -516 | **-2,056** |
| Comprehensive income | - | - | -2,507 | 7,562 | 51,550 | **56,605** | 800 | **57,405** |
| **Equity as at 12/31/2019** | **10,573** | **6,534** | **458,114** | **-8,986** | **51,550** | **517,783** | **34,096** | **551,878** |

The ordinary shareholders' meeting of June 18, 2019 decided not to pay a dividend for the financial year 2018.

The line "Other variations" includes the following items:

- the impact of restated leases at the opening for a total of €0.2 million, related to the first-time application of IFRS 16 using the simplified retrospective approach;
- the recognition of tax liabilities of €0.9 million related to uncertain tax positions for previous years with respect to the first-time application of IFRIC 23;
- a correction to the calculation of the deferred tax liability related to assets in the Chilean subsidiary for a global amount of €1.0 million split between equity attributable to the owners of the parent company and the non-controlling interests.

## Cash position statement

| in € thousand | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents | 62,810 | 48,378 |
| Bank overdraft | -19,173 | -16,689 |
| Accrued interests not yet matured | -49 | -40 |
| **Opening net cash position** | **43,588** | **31,649** |
| Cash and cash equivalents | 93,656 | 62,810 |
| Bank overdraft | -13,770 | -19,173 |
| Accrued interests not yet matured | -37 | -49 |
| **Closing net cash position** | **79,849** | **43,588** |
| Impact of currency conversion adjustments | 261 | -68 |
| Impact of changes in scope | - | - |
| **Net change in cash position** | **36,000** | **12,009** |

## Statement of change in cash position

| in € thousand | Notes | 2019 | 2018 |
|---|---|---|---|
| **Result for the period** | | **54,422** | **20,985** |
| Elimination of share from companies' profit accounted for by the equity method | **A7** | -188 | -462 |
| Elimination of depreciations and provisions | **A16-A24** | 59,629 | 56,110 |
| Elimination of deferred tax change | **A8** | -4,711 | -2,331 |
| Elimination of gains and losses on disposals | **A25** | -2,503 | -1,887 |
| Other income and expenses with no cash impact | | -292 | -2,378 |
| **Cash flow** | | **106,357** | **70,036** |
| Effect of net change in inventories | **A9** | -9,074 | -12,639 |
| Effect of net change in trade receivables | **A10** | 2,460 | 9,633 |
| Effect of net change in trade payables | **A20** | 2,705 | -11,163 |
| Effect of net change in other receivables and payables | **A11-A19** | 13,460 | 11,077 |
| *Including income tax accrued for the period* | | *28,149* | *22,697* |
| *Including income tax paid* | | *-26,784* | *-24,821* |
| **Effect of change in working capital requirements** | | **9,550** | **-3,092** |
| Net financial interests paid | **A28** | 15,702 | 16,678 |
| **Net cash flow generated by operating activities** | | **131,609** | **83,623** |
| Acquisitions of intangible assets | **A2-A20** | -6,276 | -8,047 |
| Acquisitions of tangible assets | **A4-A20** | -16,717 | -25,822 |
| Disposals of intangible and tangible assets | **A25** | 7,304 | 5,862 |
| Change in financial assets | **A6** | -437 | 1,511 |
| Change in debts relative to acquisitions | | - | -1,282 |
| Acquisitions of subsidiaries or activities | | - | - |
| Disposals of subsidiaries or activities | | - | - |
| Withholding tax on distributions | | - | - |
| Dividends received | **A7** | - | 617 |
| **Net cash flow allocated to investing activities** | | **-16,126** | **-27,161** |
| Dividends paid to the owners of the parent company | | - | - |
| Dividends paid to the non-controlling interests | | -3,740 | -4,820 |
| Change in treasury shares | | 1,926 | 314 |
| Increase/decrease of capital | | - | - |
| Cash investments | | - | - |
| Debt issuance | **A18** | 67,564 | 67,118 |
| Repayments of debt | **A18** | -120,292 | -90,387 |
| Repayments of lease obligation | **A17** | -9,239 | - |
| Net financial interests paid | **A28** | -15,702 | -16,678 |
| **Net cash flow from financing activities** | | **-79,483** | **-44,453** |
| **Change in cash position** | | **36,000** | **12,009** |

The implementation of IFRS 16 from January 1, 2019 onwards generated some changes in the presentation of the cash flow statement. Lease payments previously reported in net cash flow generated by operating activities are now included in net cash flow from financing activities (repayments of lease obligations and net financial interests disbursed – see notes A17 and A27).

# 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 A 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 2019 consolidated accounts were approved by the executive board on February 28, 2020. They will be submitted for approval to the shareholders' general meeting on June 22, 2020; 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

### Return to the initial conditions of the financial covenant

In the first quarter of 2018, in order to obtain more flexibility, 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.
With 2019 marking the return to the initial terms of the contract, the ratio should from now on be below the threshold of 4.25 on June 30, 2019 and below 3.75 on December 31, 2019.
The financial conditions linked to these thresholds, which were at 3.00 on June 30, 2019 and 2.29 on December 31, 2019, are fulfilled more favorable.

### Amendment to the defined-benefit retirement plan

Following the March 12, 2019 decision by the supervisory board, an amendment to the defined benefit pension plan for members of the executive board was signed on June 14, 2019. This amendment redefines the beneficiaries of the plan, and the new applicable annuity rate.
Due to the exit of beneficiaries no longer meeting the required conditions, the annuity rate has dropped from 22.0% to 10.5% of the reference salary, generating income of €3.4 million before taxes in the consolidated financial statements (including the employer social contribution of €0.6 million).

### Additional impairment of the Leishmaniosis vaccine intangible asset

As part of the asset value loss tests performed in 2019, the Group reviewed the recoverable value of the Leishmaniosis vaccine CGU. This test led to the recognition in the 2019 financial statements of an impairment of the CGU's intangible assets in the amount of €7.2 million, which breaks down as follows: €9.7 million in intangible assets (marketing authorizations) and -€2.5 million in deferred tax liabilities.

### Sale of the Fort Worth real estate

Virbac United States sold its Fort Worth administrative building, generating a net income of €1.1 million in the annual financial statements. The move to the new premises took place gradually over the course of the second half of 2019.

## Significant events after the closing date

### Coronavirus health crisis

Between December 20, 2019, the date on which Virbac issued its 2020 outlook, and this communication, the coronavirus health crisis occurred. The situation is extremely evolving worldwide, and at this stage it is very difficult to anticipate what the impacts may be by the end of the year. The Group is working on contingency plans and has implemented appropriate measures for its employees, and also to meet the needs of its customers.

## Accounting principles and methods applied

### Compliance and basis for preparing the consolidated financial statements

In accordance with regulation No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards, Virbac presents its consolidated financial statements using the international accounting standards. These standards encompass the IFRS (International financial reporting standards), the IAS (International accounting standards), as well as applicable interpretations by the SIC (Standards interpretations committee) and the IFRIC (International financial reporting interpretations committee) as required on December 31, 2019.

Virbac's consolidated financial statements on December 31, 2019 were drawn up in accordance with the standards published by the IASB (International accounting standards board) and the standard adopted by the European Union on December 31, 2019. The IFRS standard adopted by the European Union on December 31, 2019 is available under the heading "IAS/IFRS interpretations and standards", on the following website:
https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/financial-reporting_en

The consolidated financial statements were drawn up in accordance with the IFRS' general principles: true picture, business continuity, accrual basis accounting, consistency of presentation, materiality and consolidation.

### New standards and interpretations

**Mandatory standards and interpretations effective January 1, 2019**

For the presentation of the consolidated accounts for the 2019 financial year, the Group applied all standards and interpretations in force Europe-wide, applicable to financial years beginning on or after January 1, 2019. These standards and interpretations are as follows:

- **IFRS 16. Leases**

On January 13, 2016, the IASB published IFRS 16 to redefine how lease contracts are recognized, measured and presented. IFRS 16 replaces IAS 17 and related IFRIC and SIC interpretations and will remove, for lessees, the distinction previously made between "operating lease" and "finance lease". Lessees are now 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. The application of this standard is technically a change in accounting policy.

In 2018, the Group accounted for all of these leases and equipped itself with a solution aimed at the monitoring of contracts and the calculation of the financial impacts of the standard. This solution, rolled out across all of the Group's subsidiaries, enables these entities to provide ongoing updates on the lease situation should there be a new lease or an event impacting the initial conditions governing the identified leases (revision of rents, terms, etc.). An impact analysis of the IFRS 16 standard was provided in the 2018 annual financial report.

Virbac chose the simplified retrospective approach consisting of the restatement of the liability arising from the residual lease payments on the transition date, and the recognition of this impact into the opening equity without any restatement of the comparative figures. It was also decided to use the simplification measures set out in the standard and to not 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 non-cancellable periods, completed by renewal options when applicable, the exercise of which the Group deems reasonably certain. Depreciation periods for the right of use in question reflect the residual lease periods.

Discounted rates used apply to the initial term of the contracts and were determined, with the support of an actuarial firm, by taking into account the country's risk, through the currency in which the contract is denominated, by category of the underlying asset (the three major categories considered being buildings, cars and other assets), based on an average contract duration by asset category.

In anticipation of the future amendment to IAS 12, the Group chose not to recognize the deferred tax effect generated from the restated IFRS 16 standard.

It should be noted that the implementation of IFRS 16 and therefore the consideration of the new assets into the CGU or groups of CGU's had no impact on the impairment tests that were performed.

Regarding the presentation of the financial statements, Virbac decided to isolate the right of use as well as the lease liability on separate lines of the statement of financial position.
The impacts of this new standard on the Group's consolidated accounts and on the main performance indicators are presented in the notes A5, A17 and A27.

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

This interpretation clarifies principles for recognizing and measuring uncertain tax positions pursuant to IAS 12.
At the close of the financial year, Virbac conducted a review of the risks and pending litigation throughout the Group's companies. The analysis of all the cases led to the identification of two specific cases:

- risks already known prior to the implementation of the standard and for which the amount recorded was updated as of December 31, 2019;
- emerging risks identified in the financial year and accounted for in the financial statements in accordance with the current standards.

Uncertainty over income tax treatments, previously classified under provisions, are now listed in other current payables (see note A19).
IFRIC 23 does not significantly impact the methods used to measure tax uncertainty, as applied by Virbac up to now.

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

This amendment states that the cost of services provided and the defined-benefit net interest for the period should be determined as of the date of the amendment by using the assumptions relied upon on that date.

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

This amendment specifies how IFRS 9 is applied to all other financial instruments to which the equity method is not applied, including the long-term financial assets that are part of the net investment in an associated company or a joint-venture.

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

This amendment indicates cases in which a financial asset with a symmetrical early redemption clause can be assessed at amortized cost or fair value within other comprehensive income.

**Annual improvement process - 2015-2017 cycle**

These amendments were issued for IAS 12 (income tax consequences of payments on financial instruments classified as equity), IAS 23 (borrowing costs eligible for capitalization), as well as IFRS 3 and IFRS 11 (previously held interests in a joint operation).

With the exception of IFRS 16 and the interpretation of IFRIC 23, these new standards had no impact on the Group's accounts.

**Standards and interpretations available for early adoption as of January 1, 2019**

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.

**Amendments to IAS 1 and IAS 8. Definition of material**

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.

## Consolidation rules

**Scope and consolidation methods**

Pursuant to IFRS 10 "Consolidated financial statements", the Group's consolidated financial statements include all of the entities controlled, directly or indirectly, by Virbac, whatever equity stake it may have in these entities. An entity is controlled by Virbac once the following three criteria are cumulatively met:

- 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.

Determining control takes into account potential voting rights if they are substantive, in other words, whether they can be exercised in a timely fashion when decisions about the entity's relevant activities should be taken.

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.

Pursuant to IFRS 11 "Partnerships", the Group classifies partnerships under joint ventures. Depending on the partnerships, Virbac exercises:

- joint control over a partnership when decisions regarding the partnership's relevant activities require unanimous consent from Virbac and the other parties sharing control;
- significant influence over an associated company when it has the power to participate in financial and operational decisions, albeit without having the power to control or exercise joint control over these policies.

Joint-ventures and associated companies are consolidated using the equity method in accordance with IAS 28 “Investments in associated companies and joint ventures” standard.

The consolidated financial statements as of December 31, 2019 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 A40.

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

**Foreign exchange conversion methods**

■ **Conversion of foreign currency operations in the accounts of consolidated companies**

Fixed assets and inventories acquired using foreign currency are converted into functional currency using the exchange rates in effect on the date of acquisition. All monetary assets and liabilities denominated in foreign currency are converted using the exchange rates in effect on the year-end date. The resulting exchange rate gains and losses are recorded in the income statement.

■ **Conversion of foreign company accounts**

Pursuant to the IAS 21 “Effects of changes in foreign exchange rates” standard, each Group entity accounts for its operations in its functional currency, the currency that most clearly reflects their business environment.
The Group’s consolidated financial statements are presented in euros. 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.

## 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. 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 eleven 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. It should be noted that, this year, the Group refined its method by regionalizing the calculation of discounted rates with the support of a valuation firm.

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;
- 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 projects 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.
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.

**Right of use**

The Group posts assets related to those leases falling within the scope of the IFRS 16 standard. Virbac chose to isolate the right of use on a dedicated balance sheet line. The right of use is depreciated over the residual lease period.

**Financial assets**

The Group's other financial assets include mainly loans, 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, 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 IFRS 9. 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 consist primarily of bank loans and financial debts. Loan and debt instruments are valued initially at the fair value of the consideration received, minus the transaction costs directly attributed to the operation. Thereafter, they are valued at their amortized cost.

**Lease liability**

The Group posts a debt related to those leases falling within the scope of the IFRS 16 standard. Virbac chose to isolate lease liabilities, for their current and non-current part, on a dedicated balance sheet line. These debts are discounted on the basis of rates determined with the support of an actuary, according to the country risk, the category of the underlying asset and the lease period.

**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 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 receivables, 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, 2019, no asset was classified as held for sale.

**Revenue from ordinary activities**

Pursuant to IFRS 15, recognition of income takes into account notions of performance obligations and transfer of control. 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.
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.

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 until 2018).

**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 A26):

- 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**

Financial expenses mainly include interest paid for Virbac group financing, interest on lease liabilities, negative changes in the fair value of financial instruments recognized in income, as well as realized and unrealized foreign exchange losses.
Financial income includes interest collected, positive changes in the fair value of financial instruments recognized in income, realized and unrealized foreign exchange gains, as well as gains and losses on disposal of financial assets.

**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 applied” 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, 2019, the net total goodwill was €312,882,000 and the value of the intangible assets was €272,134,000.

**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 A15, 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 €20,294,000 as of December 31, 2019.

**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, 2019, the amount of other provisions was €9,606,000.

**Uncertainty surrounding tax treatment**

The implementation of IFRIC 23 as of January 1, 2019 requires the valuation and recognition of tax liabilities and tax assets in the balance sheet on the basis of tax position uncertainty. The standard creates a 100% risk of detection and introduces the following methods: the most likely amount or mathematical expectation corresponding to the weighted average of the various assumptions.

The analysis conducted by the Group led to the recognition of a tax debt of €0.9 million in the accounts as of December 31, 2019 in addition to the tax risks for which a provision was previously made by the Group pursuant to IAS 37 and IAS 12 and re-evaluated as of December 31, 2019.

## A1. Goodwill

### Change in goodwill by CGU

| in € thousand | Gross value as at 12/31/2018 | Impairment value as at 12/31/2018 | Book value as at 12/31/2018 | Increases | Sales | Impair-ment | Conversion gains and losses | Book value as at 12/31/2019 |
|---|---|---|---|---|---|---|---|---|
| United States | 225,010 | -3,581 | **221,429** | - | - | - | 4,226 | **225,655** |
| Chile | 29,655 | - | **29,655** | - | - | - | -1,764 | **27,891** |
| New Zealand | 14,892 | -152 | **14,740** | - | - | - | 356 | **15,096** |
| India | 14,291 | - | **14,291** | - | - | - | -76 | **14,215** |
| SBC | 7,329 | - | **7,329** | - | - | - | 219 | **7,548** |
| Denmark | 4,643 | - | **4,643** | - | - | - | - | **4,643** |
| Uruguay | 4,154 | - | **4,154** | - | - | - | 81 | **4,235** |
| Peptech | 3,379 | - | **3,379** | - | - | - | 48 | **3,427** |
| Australia | 3,215 | -308 | **2,907** | - | - | - | 23 | **2,930** |
| Colombia | 1,729 | - | **1,729** | - | - | - | 15 | **1,744** |
| Italy | 1,585 | - | **1,585** | - | - | - | - | **1,585** |
| Greece | 1,358 | - | **1,358** | - | - | - | - | **1,358** |
| Leishmaniosis vaccine | 5,421 | -5,421 | **-** | - | - | - | - | **-** |
| Other CGUs | 4,224 | -1,712 | **2,512** | - | - | - | 43 | **2,555** |
| **Goodwill** | **320,885** | **-11,174** | **309,711** | **-** | **-** | **-** | **3,171** | **312,882** |

The change in this item is solely related to an exchange rate effect, generating a €3.2 million increase in the item. The results of the UGT tests are presented 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 12/31/2018** | **162,293** | **227,779** | **62,041** | **9,745** | **461,858** |
| Acquisitions and other increases | 47 | 553 | 2,744 | 3,326 | **6,669** |
| Disposals and other decreases | - | -40 | -7 | -138 | **-185** |
| Changes in scope | - | - | - | - | **-** |
| Transfers | -2 | 1,412 | 608 | -1,455 | **563** |
| Conversion gains and losses | -1,455 | 1,303 | 135 | 82 | **65** |
| **Gross value as at 12/31/2019** | **160,883** | **231,007** | **65,521** | **11,561** | **468,971** |
| **Depreciation as at 12/31/2018** | **-6,324** | **-111,293** | **-48,849** | **-375** | **-166,841** |
| Depreciation expense | - | -16,059 | -4,185 | - | **-20,244** |
| Impairment losses (net of reversals) | -9,653 | 20 | - | 120 | **-9,513** |
| Disposals and other decreases | - | 40 | 7 | - | **47** |
| Changes in scope | - | - | - | - | **-** |
| Transfers | - | 4 | 54 | - | **59** |
| Conversion gains and losses | - | -253 | -80 | -11 | **-345** |
| **Depreciation as at 12/31/2019** | **-15,977** | **-127,540** | **-53,053** | **-266** | **-196,836** |
| **Net value as at 12/31/2018** | **155,969** | **116,486** | **13,192** | **9,369** | **295,016** |
| **Net value as at 12/31/2019** | **144,906** | **103,466** | **12,468** | **11,294** | **272,134** |

The other intangible assets relate essentially to IT projects, in several Group subsidiaries. They all have defined useful lives. The €6.1 increase in items "Other intangible assets" and "Intangible assets in progress" is primarily due to investments in IT projects carried out by Virbac (parent company).

The "Transfers" line indicates the commissioning of these projects.

Depreciations and impairments amounted to €29.8 million. The impairment of €9.7 million recognized on assets with indefinite life relates to the Leishmaniosis vaccine CGU's 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, 2019, 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 | 44,597 | 20,509 | 39,834 | 9,525 | **114,464** |
| SBC | 2015 | - | 3,863 | 2,079 | - | **5,942** |
| Uruguay: Santa Elena | 2013 | 3,490 | 9,388 | - | - | **12,877** |
| Australia: Axon | 2013 | 900 | 1,076 | - | - | **1,977** |
| Australia: Fort Dodge | 2010 | 1,512 | 450 | - | - | **1,962** |
| New Zealand | 2012 | 3,183 | 769 | - | 2,287 | **6,239** |
| Centrovet | 2012 | 18,961 | 32,306 | - | 6,918 | **58,186** |
| Multimin | 2011-2012 | 3,314 | 4,437 | - | - | **7,751** |
| Peptech | 2011 | 968 | - | - | - | **968** |
| Colombia: Synthesis | 2011 | 1,681 | - | 634 | - | **2,315** |
| Schering-Plough Europe | 2008 | 4,879 | 62 | 3,337 | - | **8,278** |
| India: GSK | 2006 | 11,234 | - | - | - | **11,234** |
| Leishmaniosis vaccine | 2003 | - | 1,568 | - | - | **1,568** |
| Others | 0 | 7,015 | 2,254 | 4,299 | 1,043 | **14,610** |
| **Total intangible assets** | | **101,734** | **76,682** | **50,183** | **19,773** | **248,372** |

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, 2019**

| in € thousand | Intangible assets with indefinite life | Intangible assets with finite life | Total |
|---|---|---|---|
| Brands | 101,734 | - | **101,734** |
| Patents and know-how | 39,911 | 36,771 | **76,682** |
| Marketing authorizations and registration rights | 3,206 | 46,977 | **50,183** |
| Customers lists and others | 56 | 19,717 | **19,773** |
| **Total intangible assets** | **144,906** | **103,465** | **248,372** |

**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** |

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

## A3. Impairment of assets

At end of the 2019 fiscal year, 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.

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 Discounted cash-flow (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 main assumptions of impairment tests 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 (eleven 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 market authorizations and patents. The infinite growth rate was calculated at 2% for companies based in mature markets such as Europe, North America, Japan and Australia, at 3% for Chile and at 5% for emerging markets such as India. In the specific case of the Leishmaniosis vaccine CGU, the rate used is -1%.

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.
It is worth noting that, this year, the Group refined its method by regionalizing the calculation of discount rates with the support of a valuation firm.
For the 2019 financial year, the discount rates used are the following:

- 8.5% for the United States;
- 8.4% for Europe;
- 9.4% for Chile and 9.2% for the rest of Latin America;
- 9.5% for India and 8.3% for the rest of Asia;
- 7.7% for Oceania and South Africa.

On June 30, 2019, the Group reassessed the recoverable value of the Leishmaniosis vaccine CGU and confirmed this value on December 31, 2019. In fact, since 2017, when a new competitor emerged for this product, Virbac saw a gradual decline in its market share. Each year, the Group revises the business plans based on annual profit. The assumptions used for the test that was conducted include a declining market share outlook over the next four years, then a slow erosion reflected by an infinite growth rate of -1%. Thus, the test resulted in a CGU intangible asset impairment being recognized in the amount of €7.2 million. As there is a 100% goodwill impairment, the impairment loss was allocated to intangible assets and more specifically to marketing authorizations for a gross amount of €9.7 million and to the resulting deferred tax liabilities amounting to -€2.5 million. The net carrying amount of the CGU, which amounts to €7.2 million, relates for the most part to buildings and equipment likely to be re-purposed for other activities.

It should be noted that the Group included the effects of IFRS 16 in the calculation of the discount rates and impairment tests. The addition of the right of use to the CGU amount and the restatement of future lease expenses were taken into consideration. The change of method did not have a material impact on the results of the impairment tests that were conducted.

### 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 of these changes in key assumptions would not result in any impairment of the tested assets, with the exception of the Chilean CGU for which an impairment of €8.6 million would need to be recognized if the discount rate were to increase by 2.0 points.

Moreover, for the five most significant CGUs (which accounted for 88% of the gross value of intangible assets and goodwill as at December 31, 2019), Virbac conducted sensitivity tests relating to a change in the Ebit after tax to revenue ratio. In the event this ratio drops by 4.0 points, the Chilean CGU would require an impairment of €6.0 million. It is worth noting that a ratio drop of 4.0 points would not result in the recognition of a United States CGU impairment, the Group's first net asset value CGU.
In addition, a sensitivity test was performed on the Leishmaniosis vaccine CGU. Assuming a drop of 4.0 points in the Ebit after tax to revenue ratio, an impairment of €0.7 million should be recognized.

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 12/31/2019 | Discount rate, combined into a zero perpetual growth rate, from which impairment is established |
|---|---|---|
| United States | 434,596 | 10.0% |
| Chile | 150,618 | 9.1% |
| India | 45,164 | 45.7% |
| Australia | 32,383 | 34.4% |
| New Zealand | 30,248 | 16.9% |
| Uruguay | 22,729 | 21.1% |
| SBC | 20,786 | 9.9% |
| Antigenics | 16,981 | 67.1% |
| Multimin | 10,734 | 79.4% |
| Schering-Plough Europe | 9,495 | 28.3% |
| Peptech | 8,584 | 181.2% |
| Denmark | 7,518 | 50.7% |
| Leishmaniosis vaccine[1] | 7,197 | 7.1% |

[1] The net carrying amount of the Leishmaniosis vaccine CGU presented here equates to the value after the recognition of the impairment amounting to €7.2 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 up until 2018 (last year during which the IAS 17 standard applied).

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

- the lands;
- 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 | Lands | Buildings | Technical facilities, materials and equipment | Other intangible assets | Intangible assets in progress | Intangible assets |
|---|---|---|---|---|---|---|
| **Gross value as at 12/31/2018** | **18,872** | **187,695** | **195,674** | **32,195** | **25,803** | **460,238** |
| Acquisitions and other increases | - | 2,404 | 7,205 | 1,871 | 7,756 | **19,237** |
| Disposals and other decreases | -527 | -7,784 | -1,131 | -1,483 | -146 | **-11,071** |
| Changes in scope | - | - | - | - | - | **-** |
| Transfers | - | 6,683 | 11,607 | -4,373 | -21,317 | **-7,399** |
| Conversion gains and losses | 98 | 69 | 1,033 | 219 | 378 | **1,798** |
| **Gross value as at 12/31/2019** | **18,443** | **189,067** | **214,389** | **28,428** | **12,476** | **462,803** |
| **Depreciation as at 12/31/2018** | **-** | **-92,296** | **-108,948** | **-21,404** | **-905** | **-223,553** |
| Depreciation expense | - | -8,335 | -13,120 | -2,576 | - | **-24,032** |
| Impairment losses (net of reversals) | - | - | 63 | -131 | - | **-68** |
| Disposals and other decreases | - | 4,241 | 1,025 | 1,141 | - | **6,408** |
| Changes in scope | - | - | - | - | - | **-** |
| Transfers | - | 26 | -64 | 2,848 | 927 | **3,738** |
| Conversion gains and losses | - | -121 | -216 | -144 | -22 | **-503** |
| **Depreciation as at 12/31/2019** | **-** | **-96,484** | **-121,260** | **-20,266** | **-** | **-238,010** |
| **Net value as at 12/31/2018** | **18,872** | **95,399** | **86,726** | **10,790** | **24,898** | **236,685** |
| **Net value as at 12/31/2019** | **18,443** | **92,583** | **93,129** | **8,162** | **12,476** | **224,793** |

Acquisitions registered for 2019 in the amount of €19.2 million are primarily related to building fixtures and industrial equipment in France, the United States, Chile, Australia and Uruguay, as well as equipment earmarked for research and development in France.

Disposals, for which the net book value amounts to €4.7 million, relate mainly to Virbac United States, which recorded the sale of the Fort Worth administrative building (see significant events over the period), as well as the disposal of company vehicles as part of a change in car policy for US employees.

The "Transfers" column indicates both the commissioning and reclassification of certain assets after implementation of the new IFRS 16 standard. In fact, assets previously capitalized in accordance with IAS 17 (primarily Virbac SA's base of IT equipment as well as the fleet of vehicles from a few of the Group's entities) were reclassified from "Other tangible assets" to "Right of use" for a net amount of €3.1 million.

## A5. Right of use

In presenting its financial statements, Virbac chose to isolate, on a dedicated statement of financial position line, the right of use resulting from those contracts that fall into the scope of the IFRS 16 standard.

Changes in the right of use during 2019 are analyzed as follows:

| in € thousand | Right of use |
|---|---|
| **Gross value as at 12/31/2018** | **-** |
| Impact of first adoption | 31,387 |
| New contracts | 13,639 |
| Termination of contracts | -6,955 |
| Changes in scope | - |
| Transfers | 5,762 |
| Conversion gains and losses | 58 |
| **Gross value as at 12/31/2019** | **43,891** |
| **Depreciation as at 12/31/2018** | **-** |
| Impact of first adoption | -35 |
| Allowances | -10,455 |
| Impairment losses (net of reversals) | - |
| Termination of contracts | 3,282 |
| Changes in scope | - |
| Transfers | -2,658 |
| Conversion gains and losses | -23 |
| **Depreciation as at 12/31/2019** | **-9,888** |
| **Net value as at 12/31/2018** | **-** |
| **Net value as at 12/31/2019** | **34,003** |

The table below shows the right of use for each asset category:

| in € thousand | Lands and buildings | Technical facilities, materials and equipment | Transportation equipment | Hardware /software | Office equipment and others | Total |
|---|---|---|---|---|---|---|
| **Gross value as at 12/31/2018** | - | - | - | - | - | - |
| Impact of first adoption | 21,890 | 1,710 | 6,928 | 223 | 635 | **31,387** |
| New contracts | 7,409 | 769 | 3,743 | 1,645 | 72 | **13,639** |
| Termination of contracts | -1,729 | -411 | -1,533 | -3,214 | -68 | **-6,955** |
| Changes in scope | - | - | - | - | - | **-** |
| Transfers | 261 | 372 | 1,319 | 3,810 | - | **5,762** |
| Conversion gains and losses | 51 | -9 | 14 | 1 | 2 | **58** |
| **Gross value as at 12/31/2019** | **27,883** | **2,431** | **10,471** | **2,465** | **640** | **43,891** |
| **Depreciation as at 12/31/2018** | - | - | - | - | - | - |
| Impact of first adoption | -12 | 62 | -15 | -18 | -52 | **-35** |
| Allowances | -4,144 | -650 | -4,514 | -888 | -258 | **-10,455** |
| Termination of contracts | 220 | 95 | 806 | 2,158 | 3 | **3,282** |
| Changes in scope | - | - | - | - | - | **-** |
| Transfers | -191 | -84 | -474 | -1,910 | - | **-2,658** |
| Conversion gains and losses | -14 | -0 | -6 | -1 | -1 | **-23** |
| **Impairment as at 12/31/2019** | **-4,141** | **-578** | **-4,203** | **-658** | **-308** | **-9,888** |
| **Net value as at 12/31/2018** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Net value as at 12/31/2019** | **23,743** | **1,853** | **6,268** | **1,806** | **332** | **34,003** |

The "Transfers" columns indicate the reclassification of assets previously capitalized in accordance with IAS 17 into "Right of use" in keeping with IFRS 16, for a net amount of €3.1 million.

Depreciations over the period amounted to €10.5 million.

## Analysis of the residual rent liability

The table below shows the rent payments resulting from non-capitalized leases under exemptions set out in the standard:

| in € thousand | Residual rental costs |
|---|---|
| Variable rental costs | -147 |
| Rental costs on short-term contracts | -999 |
| Rental costs on assets of low value | -1,133 |
| **Residual rental costs** | **-2,279** |

This new standard positively impacts the Ebitda, a key performance indicator, since a depreciation expense as well as financial costs shall supersede the rent liability. The impact on the 2019 financial year is estimated to be €11.3 million.

# A6. Other financial assets

## Change in other financial assets

| in € thousand | 2018 | Increases | Decreases | Changes in scope | Transfers | Conversion gains and losses | 2019 |
|---|---|---|---|---|---|---|---|
| Loans and other financial receivables | **6,990** | 1,308 | -1,008 | - | - | 104 | **7,393** |
| Currency and interest rate derivatives | **3,699** | 969 | - | - | - | - | **4,668** |
| Restricted cash | **39** | 49 | - | - | - | 2 | **89** |
| Other | **43** | 22 | - | -20 | - | - | **45** |
| **Other financial assets, non-current** | **10,771** | **2,347** | **-1,008** | **-20** | **-** | **105** | **12,195** |
| Loans and other financial receivables | **29** | 1 | -26 | - | - | - | **3** |
| Currency and interest rate derivatives | **740** | - | -398 | - | - | - | **342** |
| Restricted cash | **-** | - | - | - | - | - | **-** |
| Other | **-** | - | - | - | - | - | **-** |
| **Other financial assets, current** | **768** | **1** | **-424** | **-** | **-** | **-** | **345** |
| **Other financial assets** | **11,539** | **2,348** | **-1,432** | **-20** | **-** | **105** | **12,541** |

Changes in the line "Loans and other long-term financial receivables" are secondary to the factoring contract holdbacks, primarily on American (+€1.0 million) and Australian (-€0.6 million) entities.
The change in value of €1.0 million related to currency and interest rate derivatives is primarily related to the increase in the Chilean peso (CLP) hedge market value, with this currency declining substantially since the introduction of hedging on January 1, 2019.

## Other financial assets classified according to their maturity

**As at December 31, 2019**

| in € thousand | Payments: less than 1 year | Payments: from 1 to 5 years | Payments: more than 5 years | Total |
|---|---|---|---|---|
| Loans and other financial receivables | 3 | 7,393 | - | **7,397** |
| Currency and interest rate derivatives | 342 | 4,668 | - | **5,010** |
| Restricted cash | - | 89 | - | **89** |
| Other | - | - | 45 | **45** |
| **Other financial assets** | **345** | **12,151** | **45** | **12,541** |

**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 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** |

## A7. Information about IFRS 12

### Information about non-controlling interests

The information below relates to 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 €33,870,000, including €2,861,000 in profit for the period.

The table below provides a summary of the financial position of the HSA sub-group as of December 31, 2019.

| | in CLP thousand | in € thousand |
|---|---|---|
| Goodwill | 23,563,558 | 27,891 |
| Intangible assets | 49,741,910 | 58,877 |
| Tangible assets | 21,041,917 | 24,906 |
| Right of use | 547,611 | 648 |
| **Non-current assets** | **94,894,996** | **112,322** |
| Inventories and work in progress | 15,392,465 | 18,219 |
| Trade receivables | 12,394,809 | 14,671 |
| Other financial assets | 3,507,191 | 4,151 |
| Cash and cash equivalents | 1,087,342 | 1,287 |
| **Current assets** | **32,381,807** | **38,328** |
| **Assets** | **127,276,803** | **150,650** |
| **Equity** | **81,970,504** | **97,024** |
| Non-current financial liabilities | 427,570 | 506 |
| Other non-current liabilities | 16,286,156 | 19,277 |
| **Non-current liabilities** | **16,713,726** | **19,783** |
| Current financial liabilities | 20,420,815 | 24,171 |
| Other current liabilities | 8,171,758 | 9,672 |
| **Current liabilities** | **28,592,573** | **33,843** |
| **Liabilities** | **127,276,803** | **150,650** |

The net increase in cash position during the financial year amounted to €754,000.

Dividends paid out by the HSA Group in 2019 totaled €3,445,000 (including €1,688,000 paid out to owners of non-controlling interests).

The table below provides a summarized income statement of the HSA sub-group for 2019.

| | in CLP thousand | in € thousand |
|---|---|---|
| **Revenue from ordinary activities** | **49,497,040** | **63,007** |
| Other operating income and expenses | -41,096,112 | -52,313 |
| **Operating result** | **8,400,927** | **10,694** |
| Financial result | -2,082,330 | -2,651 |
| **Profit before tax** | **6,318,597** | **8,043** |
| Income tax | -1,725,377 | -2,196 |
| **Result for the period** | **4,593,221** | **5,847** |

### 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 | - | - | 3,208 | 220 |
| GPM Virbac | NA | NA | - | - | 184 | -33 |
| **Share in companies accounted for by the equity method** | | | | | **3,392** | **188** |

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.

## A8. 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 | 2018 | Variations | Changes in scope | Transfers | Conversion gains and losses | 2019 |
|---|---|---|---|---|---|---|
| Deferred tax assets | **23,130** | -276 | - | -842 | -189 | **21,823** |
| Deferred tax liabilities | **49,617** | -5,827 | - | 1,053 | -1,354 | **43,489** |
| **Deferred tax offset** | **-26,487** | **5,550** | **-** | **-1,895** | **1,165** | **-21,666** |

The variation in deferred taxes shown above includes deferred taxes on the effective share of the profits and losses on hedging instruments, which totaled €840,000 over the 2019 yearand was recognized in the comprehensive income statement.

## Deferred taxes broken down by nature

The table below indicates deferred tax positions as of December 31, 2019, depending on their nature:

| in € thousand | Deferred tax assets |
|---|---|
| Internal margin on inventories | 9,272 |
| Retirement and end of career severance commitments | 4,841 |
| Sales adjustments (IFRS 15) | 1,117 |
| Inventory adjustments (IAS 2) | 982 |
| Other non-deductible provisions | 1,129 |
| Other charges with deferred deduction | 4,481 |
| Tax loss carryforwards | - |
| **Total by nature** | **21,822** |
| Impact of compensation by fiscal entity | -8,831 |
| **Deferred net tax assets** | **12,991** |

| in € thousand | Deferred tax assets |
|---|---|
| Adjustments on intangible assets | 28,771 |
| Adjustments on tangible assets | 6,545 |
| Adjustments on fiscal provisions | 7,311 |
| Activation of expenses linked to acquisitions | 810 |
| Other income taxed in advance | 52 |
| **Total by nature** | **43,489** |
| Impact of compensation by fiscal entity | -8,831 |
| **Deferred net tax liabilities** | **34,658** |

## Deferred tax asset use horizon

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

| en k€ | Deferred tax assets as at 12/31/2019 | Use horizon | | |
|---|---|---|---|---|
| | | less than 1 year | from 1 to 5 years | more than 5 years |
| Deferred tax on other charges with deferred deduction in Chile | **349** | 349 | - | - |
| Deferred tax on retirement and end of career severance commitments | **4,841** | 172 | 808 | 3,862 |
| Deferred tax on other bases | **16,632** | 16,391 | 210 | 31 |
| **Total deferred tax assets** | **21,822** | **16,913** | **1,017** | **3,893** |

The net deferred tax assets on loss carryforwards of Virbac United States as of December 31, 2019 have been impaired in full in keeping with the position adopted by the Group as at the 2017 year end. Hence, it does not contribute to the total deferred tax asset balance sheet (see note A29). As of December 31, 2019, this fully impaired and non-recognized receivable amounted to US $32.6 million, including US $2.3 million generated in the course of the period.

## A9. 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 12/31/2018** | **69,914** | **15,136** | **128,911** | **213,961** |
| Variations | 799 | -524 | 6,742 | **7,017** |
| Changes in scope | - | - | - | **-** |
| Transfers | - | - | - | **-** |
| Conversion gains and losses | 420 | -34 | 1,603 | **1,990** |
| **Gross value as at 12/31/2019** | **71,134** | **14,577** | **137,256** | **222,967** |
| **Depreciation as at 12/31/2018** | **-4,722** | **-1,192** | **-12,271** | **-18,184** |
| Allowances | -2,232 | -696 | -4,963 | **-7,891** |
| Reversals | 1,699 | 1,192 | 7,058 | **9,948** |
| Changes in scope | - | - | - | **-** |
| Transfers | -13 | - | 15 | **1** |
| Conversion gains and losses | -67 | - | -192 | **-259** |
| **Depreciation as at 12/31/2019** | **-5,335** | **-696** | **-10,354** | **-16,386** |
| **Net value as at 12/31/2018** | **65,192** | **13,944** | **116,640** | **195,776** |
| **Net value as at 12/31/2019** | **65,798** | **13,881** | **126,902** | **206,582** |

Excluding the exchange rate effect, net inventories increased by €9.1 million, mainly in Australia, due to sluggish year-end sales and built-up inventories of raw materials (before terminating the contact with the supplier) and, to a lesser extent in Spain, South Africa and Chile, in anticipation of sales forecast in the early months of 2020.

## A10. Trade receivables

| in € thousand | Trade receivables |
|---|---|
| **Gross value as at 12/31/2018** | **104,754** |
| Variations | **-2,884** |
| Changes in scope | **-** |
| Transfers | **-** |
| Conversion gains and losses | **338** |
| **Gross value as at 12/31/2019** | **102,207** |
| **Depreciation as at 12/31/2018** | **-3,247** |
| Allowances | **-1,023** |
| Reversals | **1,447** |
| Changes in scope | **-** |
| Transfers | **-** |
| Conversion gains and losses | **1** |
| **Depreciation as at 12/31/2019** | **-2,822** |
| **Net value as at 12/31/2018** | **101,507** |
| **Net value as at 12/31/2019** | **99,386** |

The decrease in trade receivables mainly arises from the Chilean subsidiary following a reduction of customer payment terms, a decline in the level of activity in Italy, as well as a drop in sales volume experienced by the American subsidiary in December 2019 compared with that in December 2018. Currency conversion adjustments had a slight impact on the item, amounting to €0.3 million.

It should be noted that the trade receivables that were deconsolidated due to being assigned as part of factoring contracts amount to €42.3 million as of December 31, 2019 (compared to €46.9 million on December 31, 2018).

The credit risk from trade receivables and other receivables is presented in note A33.

## A11. Other receivables

| in € thousand | 2018 | Variations | Transfers | Change in standard | Conversion gains and losses | 2019 |
|---|---|---|---|---|---|---|
| Income tax receivables | **2,818** | 3,209 | 13 | - | -125 | **5,914** |
| Social receivables | **605** | -120 | - | - | 3 | **488** |
| Other receivables to the State | **24,487** | -1,142 | - | - | 135 | **23,481** |
| Advances and prepayments on orders | **2,090** | 1,217 | - | - | -56 | **3,251** |
| Depreciation on various other receivables | **-** | - | - | - | - | **-** |
| Prepaid expenses | **5,258** | 1,145 | 13 | -260 | 63 | **6,219** |
| Other various receivables | **11,429** | 54 | 3 | - | 61 | **11,547** |
| **Other receivables** | **46,686** | **4,363** | **29** | **-260** | **80** | **50,899** |

Changes in deferred tax assets and other State receivables mainly arise from the tax asset recognized over the course of 2019 by the Chilean subsidiary and the repayment of advances and contributions to the latter in 2018.
The increase in prepaid expenses are due primarily to insurance and maintenance contracts. This same item was impacted by €260,000 from the effect of rent payment due dates attributable to the first-time adoption of IFRS 16.

## A12. Cash and cash equivalents

| in € thousand | 2018 | Variations | Transfers | Change in scope | Conversion gains and losses | 2019 |
|---|---|---|---|---|---|---|
| Available funds | **35,624** | 11,729 | - | - | 711 | **48,065** |
| Marketable securities | **27,187** | 18,851 | - | - | -447 | **45,592** |
| **Cash and cash equivalents** | **62,810** | **30,581** | **-** | **-** | **264** | **93,656** |
| Bank overdraft | **-19,173** | 5,408 | - | - | -4 | **-13,769** |
| Accrued interests not yet matured | **-49** | 12 | - | - | - | **-37** |
| **Overdraft** | **-19,222** | **5,419** | **-** | **-** | **-4** | **-13,807** |
| **Net cash position** | **43,588** | **36,000** | **-** | **-** | **260** | **79,849** |

The increase in marketable securities related mainly to a Group subsidiary, which invested €41,752,000 at the 2019 year-end.

## A13. Assets classified as held for sale

During the 2019 financial year, as in 2018, no asset was classified as held for sale.

## A14. Equity

| in € thousand | 2019 | 2018 |
|---|---|---|
| Capital | 10,573 | 10,573 |
| Premiums linked to capital | 6,534 | 6,534 |
| Legal reserve | 1,089 | 1,089 |
| Other reserves and retained earnings | 415,449 | 379,381 |
| Consolidation reserves | 47,364 | 64,268 |
| Conversion reserves | -8,986 | -16,548 |
| Actuarial gains and losses | -5,789 | -5,088 |
| Result for the period | 51,549 | 20,099 |
| **Equity attributable to the owners of the parent company** | **517,783** | **460,307** |
| Other reserves and retained earnings | 43,272 | 44,658 |
| Conversion reserves | -12,049 | -9,977 |
| Result for the period | 2,872 | 886 |
| **Non-controlling interests** | **34,096** | **35,567** |
| **Equity** | **551,878** | **495,875** |

### Capital management policy
Within the framework of capital management, the Group aims to preserve the continuity of operations, to provide 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;
- 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 compared 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, 4,543,413 have double voting rights.

### Share buyback program
The ordinary shareholders' meeting of June 18, 2019 granted the Virbac parent company authorization to buy back shares in accordance with Articles L225-209 *et seq.* of the French commercial code.

As of December 31, 2019, Virbac held 26,178 treasury shares acquired on the market for a total of €3,969,103 excluding fees, for an average price of €151.62 per share.

During the financial year, the company bought 75,362 treasury shares (at an average price of €174.48) and sold 85,134 treasury shares (at an average price of €177.08) as part of the market-making contract. In 2019, no share was purchased or sold as part of performance-related stock grants.
As of December 31, 2019, treasury shares accounted for 0.31% of Virbac's capital. They are earmarked for market-making and performance-related stock grants, in accordance with the seventeenth resolution adopted by the shareholders' meeting of June 18, 2019.

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.

## A15. 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

| en k€ | 2018 | Dotations | Reprises | Transferts | Capitaux propres | Écarts de conversion | 2019 |
|---|---|---|---|---|---|---|---|
| France | **7,864** | 517 | -268 | - | 864 | - | **8,977** |
| Italie | **904** | 99 | -5 | - | -52 | - | **946** |
| Allemagne | **555** | 33 | - | - | - | - | **589** |
| Grèce | **165** | 11 | - | - | - | - | **176** |
| Mexique | **87** | 27 | -20 | - | 52 | 6 | **152** |
| Corée du Sud | **165** | 231 | -317 | - | 119 | -2 | **196** |
| Taïwan | **849** | 65 | -13 | - | 106 | 37 | **1,044** |
| Thaïlande | **217** | 417 | -10 | 718 | - | 66 | **1,407** |
| Philippines | **-** | - | - | 71 | -4 | 1 | **68** |
| Uruguay | **551** | 86 | - | - | - | -70 | **567** |
| **Indemnités de fin de carrière et indemnités de départ** | **11,357** | **1,487** | **-633** | **789** | **1,085** | **38** | **14,123** |
| France | **3,755** | - | -2,774 | - | - | - | **981** |
| Japon | **2,104** | 264 | -50 | - | 6 | 67 | **2,392** |
| **Régimes de retraite à prestations définies** | **5,859** | **264** | **-2,824** | **-** | **6** | **67** | **3,373** |
| Afrique du Sud | **944** | 105 | -50 | - | -155 | 38 | **883** |
| **Couverture médicale** | **944** | **105** | **-50** | **-** | **-155** | **38** | **883** |
| Inde | **550** | 310 | -505 | - | 91 | -1 | **444** |
| **Indemnités compensatoires pour absence** | **550** | **310** | **-505** | **-** | **91** | **-1** | **444** |
| Australie | **1,373** | 194 | -218 | - | - | 19 | **1,368** |
| Autriche | **159** | 4 | -106 | - | - | - | **57** |
| Espagne | **53** | - | -6 | - | - | - | **47** |
| **Autres avantages long terme** | **1,584** | **198** | **-331** | **-** | **-** | **19** | **1,472** |
| **Provisions pour avantages du personnel** | **20,294** | **2,364** | **-4,343** | **789** | **1,027** | **161** | **20,294** |

Key implications for equity in France and are due primarily to actuarial adjustments (data update) and a decrease in discount rates.

## Amendment to the defined-benefit pension plans in France

Following the decision of the supervisory board on March 12, 2019, an amendment to the defined-benefit pension plan for members of the executive board was signed on June 14, 2019. This amendment redefines the beneficiaries of the plan and the new applicable pension rate.
The impact of the exit from the plan of beneficiaries no longer meeting the required conditions resulted in the decrease in the pension rate from 22.0% to 10.5% of the reference salary, generating an income of €3.4 million before taxes in the consolidated financial statements (including the employer social contribution of €0.6 million).

## Main commitments

The main employee benefit plans are in France, Japan, Thailand, Australia and Taiwan. As of December 31, 2019, they contributed 49%, 12%, 7%, 7% 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 plan resulted in the payment of an insured-directed pension, whereby 60% of the annuity continues to the surviving spouse (or surviving ex-spouse), the allocation of which is contingent on the following:

- over ten years of service in the Group, including nine years as a member of the executive board or 15 years for a benefit of 10.5% of the reference salary (compared to 22.0% in the former plan);
- at least 60 years-old;
- ended his/her career in the Group.

#### 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, 2019

| | Discount rate | Future salary growth |
|---|---|---|
| France | 0.60% | 2.00% |
| South Africa | 9.57% | N/A |
| Japan | 0.30% | 3.00% |
| India | 6.70% | 7.00% |

### 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% |

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 €791,000 or an increase of approximately €844,000 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 €723,000 or a reduction of approximately €831,000 recognized with a balancing entry in other comprehensive income.

## Allowance for the year

| in € thousand | 2019 allowance |
|---|---|
| Cost of services rendered | 2,008 |
| Financial cost | 397 |
| Expected return on assets | -131 |
| Change of scheme | 87 |
| Immediate recognition of actuarial gains and losses in the year | - |
| Administrative costs recognized in expenses | 2 |
| **Net cost or gain (-) recognized in income** | **2,363** |

Employer contributions (including benefits paid directly by the employer) in 2019 totaled €4,434,000 and are estimated to reach €1,057,000 for 2020.

### 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, 2019** | **22,855** |
| Benefits paid by employer | -4,135 |
| Benefits paid by funds | -208 |
| Cost of services rendered and financial cost | 2,409 |
| Termination/end of contract | - |
| Actuarial gains and losses due to demographic assumptions | 15 |
| Actuarial gains and losses due to financial assumptions | 187 |
| Actuarial experience gains and losses | 867 |
| Change of scheme | 87 |
| Other variations | - |
| Transfers | 789 |
| Conversion gains and losses | 183 |
| **Present value as at December 31, 2019** | **23,050** |

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, 2019** | **2,561** |
| Contributions paid | 584 |
| Benefits paid by funds | -208 |
| Interest income | -131 |
| Actuarial gains and losses | -27 |
| Tax on premiums paid | -2 |
| Other variations | - |
| Conversion gains and losses | -22 |
| **Fair value as at December 31, 2019** | **2,755** |

| in € thousand | Employee benefits |
|---|---|
| Fair value of hedging assets | -2,755 |
| Present value of actuarial liability | 23,050 |
| **Assets (-) or liabilities recognized in provisions as at December 31, 2019** | **20,294** |

| in € thousand | Employee benefits |
|---|---|
| **Provision to liabilities as at January 1, 2019** | **20,294** |
| Charge or gain recognized in income - allowance | 2,364 |
| Amount recognized in equity | 1,027 |
| Employer contributions/benefits paid - reversal | -4,343 |
| Other events | - |
| Transfers | 789 |
| Conversion gains and losses | 161 |
| **Provision to liabilities as at December 31, 2019** | **20,294** |

## A16. Other provisions

| in € thousand | 2018 | Allowances | Reversals | Changes in scope | Transfers | Conversion gains and losses | 2019 |
|---|---|---|---|---|---|---|---|
| Trade disputes and industrial tribunals | **4,157** | 1,469 | -934 | - | - | 1 | **4,693** |
| Fiscal disputes | **1,196** | 90 | -535 | - | - | -9 | **742** |
| Various risks and charges | **5,178** | 247 | -2,309 | - | - | - | **3,116** |
| **Other non-current provisions** | **10,531** | **1,805** | **-3,777** | **-** | **-** | **-8** | **8,551** |
| Trade disputes and industrial tribunals | **510** | 402 | -477 | - | - | 4 | **439** |
| Fiscal disputes | **-** | - | - | - | - | - | **-** |
| Various risks and charges | **1,268** | - | -657 | - | - | 5 | **615** |
| **Other current provisions** | **1,778** | **402** | **-1,135** | **-** | **-** | **8** | **1,055** |
| **Other provisions** | **12,309** | **2,208** | **-4,912** | **-** | **-** | **-** | **9,606** |

In the context of dispute with a competitor and the two instances of infringement and unfair competition currently underway at national and European level, the risk resulting from the remaining uncertainty has been analyzed and the provision recognized in the opening accounts maintained in the accounts at December 31, 2019.

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

- **Contingent liabilities**

No provisions are established if the company considers that the liability is contingent (as defined by IAS 37). Only one provision reflecting an estimate of the cost of proceedings was recognized in certain cases (see note A39).

## A17. Lease liability

### Change in lease liability

| in € thousand | 2018 | New contracts and renewals | Repayments and cancellations | Impact of transition | Transfers | Conversion gains and losses | 2019 |
|---|---|---|---|---|---|---|---|
| Lease liability - Non-current | - | 10,488 | -808 | 23,328 | -6,937 | 18 | **26,090** |
| Lease liability - Current | - | 2,433 | -11,386 | 7,715 | 9,798 | 13 | **8,573** |
| **Lease liability** | **-** | **12,922** | **-12,194** | **31,043** | **2,861** | **32** | **34,663** |

IFRS 16 introducing a single lessee accounting model for the lease contracts meeting the criteria of application, the new lease liability shelters the debts arising from contracts previously capitalized pursuant to IAS 17.

## Lease liabilities classified according to their maturity

| in € thousand | Payments | | | Total |
|---|---|---|---|---|
| | less than 1 year | from 1 to 5 years | more than 5 years | |
| Lease liability - Non-current | - | 15,958 | 10,133 | **26,090** |
| Lease liability - Current | 8,573 | - | - | **8,573** |
| **Lease liability** | **8,573** | **15,958** | **10,133** | **34,663** |

## Information related to financial activities

| in € thousand | 2018 | Cash flows | Non-cash flows | | | | | 2019 |
|---|---|---|---|---|---|---|---|---|
| | | Repay ments | Impact of transition | Increase | Decrease | Transfers | Conversion gains and losses | |
| Lease liability | - | -9,239 | 31,043 | 13,639 | -3,673 | 2,861 | 32 | **34,663** |
| **Lease liability** | **-** | **-9,239** | **31,043** | **13,639** | **-3,673** | **2,861** | **32** | **34,663** |

Decreases correspond to early terminations with no cash impact.
The items "Transfers" and "Reclassifications" include reclassification of debts related to financial leases (previously recognized in compliance with IAS 17) into the lease liability pursuant to IFRS 16.

## Reconciliation between off-balance sheet commitments and lease liability at opening date

The table below shows the bridge between the minimum future lease payments disclosed as of December 31, 2018 and the lease liability on the transition date.

| in € thousand | Total |
|---|---|
| **Future lease payments communicated as at December 31, 2018** | **26,880** |
| Difference in lease commitments assessment | 965 |
| Impact of renewal or early termination options | 3,267 |
| Short-term contracts or assets of low value | -69 |
| **Transition impact to IFRS 16 (present value of the debt)** | **31,043** |
| Financial leases as recognized into December 31, 2018 statements | 2,784 |
| **Lease liability as of January 1st, 2019** | **33,828** |

As a result of the implementation of the IFRS 16 standard, the Group re-examined all its lease agreements. Consequently, the components and durations of the contracts were analyzed and revised when necessary.

## A18. Other financial liabilities

### Change in other financial liabilities

| in € thousand | 2018 | Increase | Decrease | Changes in scope | Transfers | Conversion gains and losses | 2019 |
|---|---|---|---|---|---|---|---|
| Loans | **373,317** | 63 | -34,705 | - | -32,618 | -695 | **305,362** |
| Debt relating to leasing contracts | **1,618** | - | -112 | - | -1,520 | 14 | **-** |
| Employee profit sharing | **2** | 6 | - | - | - | - | **8** |
| Currency and interest rate derivatives | **963** | 536 | - | - | - | - | **1,499** |
| Other | **-** | - | - | - | - | - | **-** |
| **Other non-current financial liabilities** | **375,900** | **605** | **-34,817** | **-** | **-34,138** | **-681** | **306,869** |
| Loans | **91,435** | 66,953 | -84,938 | - | 32,707 | -700 | **105,457** |
| Bank overdrafts | **19,173** | - | -5,408 | - | - | 4 | **13,769** |
| Accrued interests not yet matured | **49** | - | -12 | - | - | - | **37** |
| Debt relating to leasing contracts | **1,167** | - | -43 | - | -1,139 | 15 | **-** |
| Employee profit sharing | **532** | 536 | -493 | - | - | 29 | **604** |
| Currency and interest rate derivatives | **639** | 44 | - | - | - | - | **683** |
| Other | **-** | 6 | - | - | - | - | **6** |
| **Other current financial liabilities** | **112,995** | **67,539** | **-90,894** | **-** | **31,569** | **-651** | **120,556** |
| **Other financial liabilities** | **488,895** | **68,143** | **-125,711** | **-** | **-2,570** | **-1,332** | **427,425** |

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;
- 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, 2019, the position of the funding instruments was as follows:
- the syndicated loan was drawn for amounts of €52 million and US $136 million;
- the market-based contracts amounted to €15 million and US $15.5 million;
- the bilateral loans and BPI and EIB financing amounted to €60.1 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.
It is worth noting that since January 1, 2019, Virbac has been applying the IFRS 16 standard, relating to the recognition of leases. This standard impacts income statement accounting items used to determine the Ebitda as well as balance sheet liability items. The financial covenant is calculated by including the implications of this new standard. Therefore, as of December 31, 2019, the ratio amounted to 2.29, which is below the contractual financial covenant ceiling of 3.75. This ratio is calculated by taking into account the application of the IFRS 16 standard.

(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 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, 2019**

| in € thousand | Payments | | | Total |
|---|---|---|---|---|
| | less than 1 year | from 1 to 5 years | more than 5 years | |
| Loans | 105,457 | 224,270 | 81,092 | **410,819** |
| Bank overdrafts | 13,769 | - | - | **13,769** |
| Accrued interests not yet matured | 37 | - | - | **37** |
| Employee profit sharing | 604 | 8 | - | **612** |
| Currency and interest rate derivatives | 683 | 1,499 | - | **2,181** |
| Other | 6 | - | - | **6** |
| **Other financial liabilities** | **120,556** | **225,776** | **81,092** | **427,425** |

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

**As at December 31, 2018**

| in € thousand | Payments | | | Total |
|---|---|---|---|---|
| | less than 1 year | from 1 to 5 years | more than 5 years | |
| 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 | - | **1,602** |
| Other | - | - | - | **-** |
| **Other financial liabilities** | **112,995** | **291,323** | **84,577** | **488,895** |

## Information related to financial activities

| in € thousand | 2018 | Cash flows | | Non-cash flows | | | 2019 |
|---|---|---|---|---|---|---|---|
| | | Issuance | Repayments | Fair value | Transfers | Conversion gains and losses | |
| Non-current financial liabilities | **373,317** | 63 | -34,705 | - | -32,618 | -695 | **305,362** |
| Current financial liabilities | **91,435** | 66,953 | -84,938 | - | 32,707 | -700 | **105,457** |
| Debt relating to leasing contracts | **2,785** | - | -156 | - | -2,659 | 30 | **1** |
| Employee profit sharing | **534** | 542 | -494 | - | - | 29 | **611** |
| Currency and interest rate derivatives | **1,601** | - | - | 579 | - | - | **2,180** |
| Others | **-** | 6 | - | - | - | - | **6** |
| **Other financial liabilities** | **469,672** | **67,564** | **-120,292** | **579** | **-2,570** | **-1,336** | **413,618** |

## A19. Other payables

| in € thousand | 2018 | Variations | Change in standard | Transfers | Conversion gains and losses | 2019 |
|---|---|---|---|---|---|---|
| Income tax payables | **-** | - | - | - | - | **-** |
| Social payables | **-** | - | - | - | - | **-** |
| Other fiscal payables | **-** | - | - | - | - | **-** |
| Advances and prepayments on orders | **-** | - | - | - | - | **-** |
| Prepaid income | **943** | 402 | - | - | 12 | **1,357** |
| Various other payables | **1,578** | -509 | - | - | 2 | **1,071** |
| **Other non-current payables** | **2,520** | **-107** | **-** | **-** | **14** | **2,427** |
| Income tax payables | **6,744** | 4,573 | 408 | - | -69 | **11,656** |
| Social payables | **43,252** | 5,206 | - | -718 | 264 | **48,003** |
| Other fiscal payables | **11,160** | -738 | 520 | - | 191 | **11,133** |
| Advances and prepayments on orders | **276** | 953 | - | - | -4 | **1,225** |
| Prepaid income | **746** | 363 | - | - | 5 | **1,113** |
| Various other payables | **64,742** | 7,870 | - | -2 | 798 | **73,407** |
| **Other current payables** | **126,920** | **18,227** | **928** | **-720** | **1,183** | **146,538** |
| **Other payables** | **129,440** | **18,120** | **928** | **-720** | **1,197** | **148,966** |

The implementation of the IFRIC 23 standard led the company, in conjunction with its tax advisors, to reassess, at year end, the risks and uncertainties related to corporate taxes across all Group entities and to recognize a debt of €928,000.
This debt was recognized in accordance with the first-time adoption provisions of IFRIC 23, through the opening reserves (see column "change of standard" in the table above).

This debt is based on situations that could involve a fiscal dispute risk in the event of an audit that would encompass previous periods not yet audited or under audit at the beginning of the financial year. Each situation was analyzed and documented, and the risk was assessed.

A transferred amount of €718,000 reflects the reclassification of a provision for retirement benefit commitments into the item "Employee benefits".

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 | 2018 | Variations | Changes in scope | Transfers | Conversion gains and losses | 2019 |
|---|---|---|---|---|---|---|
| Advances and prepayments on orders | **276** | 953 | - | - | -4 | **1,225** |
| Customers - credits to be issued | **56,347** | 11,681 | - | - | 659 | **68,687** |
| **Customer liabilities** | **56,623** | **12,635** | **-** | **-** | **655** | **69,913** |

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.

## A20. Trade payables

| in € thousand | 2018 | Variations | Changes in scope | Transfers | Conversion gains and losses | 2019 |
|---|---|---|---|---|---|---|
| Current trade payables | **86,803** | 2,965 | -5 | -163 | 468 | **90,066** |
| Trade payables - suppliers of intangible assets | **1,831** | 393 | - | - | 20 | **2,244** |
| Trade payables - suppliers of tangible assets | **938** | 2,520 | - | - | 1 | **3,459** |
| **Trade payables** | **89,572** | **5,878** | **-5** | **-163** | **489** | **95,769** |

The increase in this item is particularly prevalent in France, resulting from purchases and investments over the last quarter in 2019 that are higher than that during the same period in the previous financial year.

## A21. Revenue from ordinary activities

| in € thousand | 2019 | 2018 | *Change* |
|---|---|---|---|
| Sales of finished goods and merchandise | 1,069,373 | 986,599 | *8.4%* |
| Services | 45 | 30 | *49.5%* |
| Additional income from activity | 2,435 | 3,463 | *-29.7%* |
| Royalties paid | 382 | 350 | *9.2%* |
| **Gross sales** | **1,072,235** | **990,442** | ***8.3%*** |
| Discounts, rebates and refunds on sales | -109,764 | -95,979 | *14.4%* |
| Expenses deducted from sales | -17,728 | -17,727 | *0.0%* |
| Financial discounts | -6,386 | -7,741 | *-17.5%* |
| Provisions for returns | -15 | -62 | *-76.3%* |
| **Expenses deducted from sales** | **-133,893** | **-121,510** | ***10.2%*** |
| **Revenue from ordinary activities** | **938,342** | **868,932** | ***8.0%*** |

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.

### Analysis

In 2019, the Group registered consolidated revenue of €938.3 million, up 8.0% at actual rates and 6.6% at constant rates.
With the exception of the Pacific zone, all regions contributed to sustained growth in 2019 compared to the same period in 2018. In the United States, activity increased by +18.8% at actual rates (+13.6% at constant exchange rates). Outside the United States, the Group posted +6.2% growth (+5.5% at constant exchange rates). Europe posted growth of 5.2% at constant exchange rates. The main contributors to this performance were Northern European countries (including Germany and the United Kingdom), France, which achieved strong results in the last quarter, and Spain, which compensated for Italy's withdrawal. Sales in the Africa-Middle East region were up 5.3%, an increase of 8.4% at constant exchange rates, mainly thanks to South Africa.
In the Asia Pacific region, growth at actual rates was +5.7% (+4.0% at constant exchange rates). Growth was very strong in China and Japan, or with India achieving more moderate growth, while Australia and New Zealand ended the year down compared to 2018. In Latin America, excluding Chile, business grew by +11.1% at actual rates (+9.7% at constant exchange rates), reflecting strong contributions from Brazil and Mexico. Finally, in Chile, business achieved healthy growth of +6.7% at actual rates (+4.5% at constant exchange rates), fueled mainly by sales of parasiticides and injectable vaccines for salmon.

## A22. Purchases consumed

| in € thousand | 2019 | 2018 | *Change* |
|---|---|---|---|
| Inventoried purchases | -298,050 | -280,509 | *6.3%* |
| Non-inventoried purchases | -22,108 | -22,616 | *-2.2%* |
| Supplementary charges on purchases | -4,367 | -4,211 | *3.7%* |
| Discounts, rebates and refunds obtained | 646 | 407 | *58.8%* |
| **Purchases** | **-323,879** | **-306,928** | ***5.5%*** |
| Change in gross inventories | 7,017 | 15,185 | *-53.8%* |
| Allowances for depreciation of inventories | -7,891 | -9,119 | *-13.5%* |
| Reversals of depreciation of inventories | 9,948 | 6,573 | *51.4%* |
| **Net variation in inventories** | **9,074** | **12,639** | ***-28.2%*** |
| **Consumed purchases** | **-314,805** | **-294,289** | ***7.0%*** |

The increase in purchases consumed was attributed to business growth. However, they increased to a lesser degree than revenue from ordinary activities, improving the margin after cost of purchases by 8.5% at actual rates. These positive developments were mainly due to a decrease in the purchase cost of certain materials as well as improved returns, in particular in the United States.

## A23. External costs

The decrease recognized in this item was driven primarily by the first-time adoption of IFRS 16 that led the Group to restate a lease charge of €11.3 million.

Within this item, external research and development costs recognized during the 2019 financial year totaled €14,814,000 compared to €13,102,000 in 2018.

## A24. Depreciation, impairment and provisions

| in € thousand | 2019 | 2018 | *Change* |
|---|---|---|---|
| Allowances for depreciation of intangible assets[1] | -5,196 | -4,549 | *14.2%* |
| Allowances for impairment of intangible assets | -120 | -140 | *-14.3%* |
| Allowances for depreciation of tangible assets | -24,066 | -23,143 | *4.0%* |
| Allowances for impairment of tangible assets | -604 | -542 | *11.4%* |
| Allowances for depreciation of right of use | -10,455 | - | *-%* |
| Reversals for depreciation of intangible assets | - | - | *-%* |
| Reversals for impairment of intangible assets | 260 | - | *-%* |
| Reversals for depreciation of tangible assets | 34 | - | *-%* |
| Reversals for impairment of tangible assets | 536 | 620 | *-13.5%* |
| **Depreciation and impairment** | **-39,610** | **-27,754** | ***42.7%*** |
| Allowances of provisions for risks and charges | -2,208 | -3,165 | *-30.3%* |
| Reversals of provisions for risks and charges | 3,705 | 2,174 | *70.4%* |
| **Provisions** | **1,497** | **-991** | ***-251.1%*** |
| **Depreciations and provisions** | **-38,113** | **-28,745** | ***32.6%*** |

[1] Excluding allowances for depreciation of intangible assets resulting from acquisitions.

The change in this item was mainly due to the first-time adoption of IFRS 16 that resulted in the recognition of right of use depreciations amounting to €10.5 million.

### Allowances for depreciation of assets arising from acquisitions

| in € thousand | 2019 | 2018 |
|---|---|---|
| United States: Sentinel | -10,216 | -9,765 |
| SBC | -62 | -63 |
| Uruguay: Santa Elena | -145 | -138 |
| Australia: Axon | -123 | -125 |
| New Zealand | -411 | -484 |
| Centrovet | -2,378 | -2,467 |
| Multimin | -531 | -542 |
| Peptech | 0 | -69 |
| Colombia: Synthesis | -105 | -110 |
| Schering-Plough Europe | -1,078 | -1,279 |
| **Depreciations of intangible assets arising from acquisitions** | **-15,048** | **-15,043** |

## A25. Other operating income and expenses

| in € thousand | 2019 | 2018 | *Change* |
|---|---|---|---|
| Royalties paid | -3,427 | -3,745 | *-8.5%* |
| Grants received (including research tax credit) | 7,445 | 7,478 | *-0.4%* |
| Allowances for depreciation of receivables | -1,023 | -513 | *99.4%* |
| Reversals of depreciation of receivables | 1,447 | 751 | *92.7%* |
| Bad debts | -1,411 | -995 | *41.9%* |
| Net book value of disposed assets | -4,801 | -2,324 | *106.6%* |
| Income from disposal of assets | 7,304 | 387 | *1787.1%* |
| Other operating income and expenses | -1,328 | -608 | *118.4%* |
| **Other operating income and expenses** | **4,207** | **432** | ***873.7%*** |

The amount of research tax credits posted as subsidies for the financial year ending December 31, 2019 was €7,426,000.

Disposals, which resulted in a gain of €2.5 million, applied primarily to Virbac United States, which recognized the sale of the Fort Worth administrative building (see significant events over the period) as well as the disposal of company vehicles, which were converted to allowances paid to employees for the purchase of their company car.

## A26. Other non-current income and expenses

As of December 31, 2019, this item breaks down as follows:

| in € thousand | 2019 |
|---|---|
| Impairment of MA held by BVT on Leishmaniosis vaccine | -9,653 |
| Cancellation of the debt on SBC shares | 224 |
| **Other non-current income and expenses** | **-9,429** |

In accordance with the IAS 36 standard, the Group tested CGU values as at December 31, 2019. These tests led the Group to recognize an additional gross impairment of the Leishmaniosis vaccine CGU, totaling €9.7 million, due to new market share losses forecast in the business plan (see note A3).
As reminder, a net accumulated impairment of €10.0 million had been recognized for the previous financial years, after the arrival in 2017 of a new player in the field of vaccines against leishmaniosis.

## A27. Financial income and expenses

| in € thousand | 2019 | 2018 | *Change* |
|---|---|---|---|
| Gross cost of financial debt | -17,803 | -17,793 | *0.1%* |
| Income from cash and cash equivalents | 2,101 | 1,114 | *88.6%* |
| **Net cost of financial debt** | **-15,702** | **-16,678** | ***-5.9%*** |
| Foreign exchange gains and losses | -7,258 | -10,011 | *-27.5%* |
| Changes in foreign currency derivatives and interest rate | 2,644 | 2,523 | *4.8%* |
| Other income or expenses | 17 | 62 | *-72.9%* |
| **Other financial income or expenses** | **-4,597** | **-7,425** | ***-38.1%*** |
| **Financial income and expenses** | **-20,298** | **-24,103** | ***-15.8%*** |

Pursuant to the IFRS 16 standard that came into force on January 1, 2019, the cost of financial debt now includes the interest cost on lease liabilities, which amounts to €1,425,000 as of December 31, 2019.
Excluding the impact of IFRS 16, the net cost of financial debt decreased by €2.4 million, due to a lower net debt and increased cash derived from investments in a subsidiary.

Foreign exchange gains and losses, which amounted to -€4.6 million, are heavily impacted by the adverse currency trends of the Chilean peso in relation to the euro or American dollar and their effects not only on the revaluation of the loan contracted by Virbac SA and granted to the Chilean subsidiary, but also on the revaluation of the Chilean subsidiary’s debt in dollars. This -€5.2 million devaluation was partially offset by the impact of the revaluation of hedging instruments, in accordance with the IFRS 9 standard, which generated an overall gain of €2.6 million in 2019.

## A28. Income tax

| in € thousand | 2019 Base | 2019 Tax | 2018 Base | 2018 Tax |
|---|---|---|---|---|
| **Profit before tax** | **77,672** | | **40,889** | |
| Adjustment for tax credits | -7,426 | | -8,815 | |
| Adjustment of non-recurring items | 11,048 | | 30,195 | |
| **Profit before tax, after adjustments** | **81,294** | | **62,269** | |
| Tax currently payable for French companies | | -5,078 | | -1,160 |
| Tax currently payable for foreign companies | | -23,070 | | -21,537 |
| **Tax currently payable** | | **-28,149** | | **-22,697** |
| Deferred tax for French companies | | 3,250 | | 1,854 |
| Deferred tax for foreign companies | | 1,461 | | 477 |
| **Deferred tax** | | **4,711** | | **2,331** |
| **Tax accounted for** | | **-23,438** | | **-20,366** |
| Restatement of adjustments on tax currently payable | | 416 | | -304 |
| Restatement of adjustments on deferred tax | | 37 | | -75 |
| Depreciation of deferred tax assets | | - | | - |
| **Tax after restatements** | | **-22,985** | | **-20,745** |
| *Effective tax rate* | | *28.27%* | | *33.32%* |
| *Theoretical tax rate* | | *34.43%* | | *34.43%* |
| **Theoretical tax** | | **-27,989** | | **-21,439** |
| **Difference between theoretical tax and recorded tax** | | **-4,552** | | **-1,073** |

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

The decrease in the Group's effective tax rate is mainly due to the very strong contribution to consolidated income made by the subsidiary in India, which saw a decrease of 9.0 points in the local tax rate in effect, dropping from 34.94% in 2018 to 25.17% in 2019. This lower effective tax rate was accompanied by strong performances on the part of other entities based in countries where the tax rate is lower than the theoretical tax rate, especially in Chile.

Taxes for the financial year were also impacted by the failure to record in the Virbac United States subsidiary's accounts deferred tax assets on tax losses carried forward for the 2019 financial year (€2.0 million), in accordance with the IAS 12 standard, which covers the existence of a history of recent and unused tax losses as a strong indication that future taxable profits may not be used.

### 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 2019 financial year. These restatements are described here after.

**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 for French entities as well as similar 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 permanent differences between entities in France and those abroad (€3.7 million);
- as well as Virbac United States' tax deficit for the 2019 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 described here after.

**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 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).

## A29. Bridge from net result to net result from ordinary activities

2019 net profit from ordinary activities is presented below:

| in € thousand | Net result IFRS | Impairment of assets | Restructuring costs | Other items | Non-current tax expense | Net result from ordinary activity |
|---|---|---|---|---|---|---|
| **Revenue from ordinatry activities** | **938,342** | | | | | **938,342** |
| **Current operating profit before depreciation of assets arising from acquisitions** | **122,447** | | | | | **122,447** |
| Depreciation of intangible assets arising from acquisitions | -15,048 | | | | | -15,048 |
| **Operating profit from ordinary activites** | **107,399** | | | | | **107,399** |
| Other non-current income and expenses | -9,429 | 9,653 | | -224 | | - |
| **Operating result** | **97,970** | **9,653** | **-** | **-224** | **-** | **107,399** |
| Financial income and expenses | -20,298 | | | | | -20,298 |
| **Profit before tax** | **77,672** | **9,653** | **-** | **-224** | **-** | **87,101** |
| Income tax | -23,438 | -2,493 | | | 2,034 | -23,897 |
| Share from companies' result accounted for by the equity method | 188 | | | | | 188 |
| **Result for the period** | **54,422** | **7,159** | **-** | **-224** | **2,034** | **63,391** |

Net profit from ordinary activities corresponds to net profit restated for the following items:
- the line "Other non-current income and expenses" disclosed in more detail in note A26;
- 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 2018 financial year was as follows:

| in € thousand | Net result IFRS | Impairment of assets | Restructuring costs | Other items | Non-current tax expense | Net result from ordinary activity |
|---|---|---|---|---|---|---|
| **Revenue from ordinatry activities** | **868,932** | | | | | **868,932** |
| **Current operating profit before depreciation of assets arising from acquisitions** | **88,076** | | | | | **88,076** |
| Depreciation of intangible assets arising from acquisitions | -15,043 | | | | | -15,043 |
| **Operating profit from ordinary acti** | **73,033** | | | | | **73,033** |
| Other non-current income and expenses | -8,040 | 6,595 | 1,445 | | | - |
| **Operating result** | **64,993** | **6,595** | **1,445** | **-** | **-** | **73,033** |
| Financial income and expenses | -24,104 | | | | | -24,104 |
| **Profit before tax** | **40,889** | **6,595** | **1,445** | **-** | **-** | **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** | **5,000** | **924** | **-** | **4,554** | **31,463** |

In 2018, the non-recurring charge reflected the impairment of the deferred tax asset on losses carried forward of Virbac United States, amounting to US $5.2 million.

## A30. Earnings per share

| | 2019 | 2018 |
|---|---|---|
| **Profit attributable to the owners of the parent company** | **51,549,499 €** | **20,099,108 €** |
| Total number of shares | 8,458,000 | 8,458,000 |
| Impact of dilutive instruments | - | - |
| Number of treasury shares | 26,178 | 35,950 |
| Outstanding shares | 8,431,822 | 8,422,050 |
| **Profit attributable to the owners of the parent company, per share** | **6.11 €** | **2.39 €** |
| **Profit attributable to the owners of the parent company, diluted per share** | **6.11 €** | **2.39 €** |

## A31. Operating segments

In accordance with IFRS 8, the Group provides industry information as used internally by the executive board, 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, 2019**

| in € thousand | France | Europe (excluding France) | Latin America | North America | Asia | Pacific | Africa & Middle East | Total |
|---|---|---|---|---|---|---|---|---|
| Revenue from ordinary activities | 139,104 | 236,754 | 156,665 | 142,938 | 156,908 | 78,554 | 27,419 | **938,342** |
| Current operating profit before depreciation of assets arising from acquisitions | 17,194 | 15,414 | 26,234 | 14,152 | 24,455 | 20,691 | 4,307 | **122,447** |
| Result attributable to the owners of the parent company | 4,339 | 11,094 | 8,001 | -7,933 | 19,726 | 13,391 | 2,931 | **51,549** |
| Non-controlling interests | -3 | - | 2,875 | - | - | - | - | **2,872** |
| **Group consolidated result** | **4,337** | **11,094** | **10,875** | **-7,933** | **19,726** | **13,391** | **2,931** | **54,422** |

| in € thousand | France | Europe (excluding France) | Latin America | North America | Asia | Pacific | Africa & Middle East | Total |
|---|---|---|---|---|---|---|---|---|
| Assets by geographic area | 678,720 | 48,856 | 210,402 | 159,607 | 130,577 | 87,269 | 7,828 | **1,323,259** |
| Intangible investment | 5,468 | 24 | 108 | 790 | 123 | 157 | - | **6,669** |
| Tangible investment | 9,635 | 262 | 4,006 | 3,155 | 1,189 | 823 | 166 | **19,237** |

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 €7.2 million net of taxes.

**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** |

# A32. 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, 2019**

| in € thousand | Assets held 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 | - | - | - | 4,668 | **4,668** | 2 |
| Other non-current financial assets | - | 7,527 | - | - | **7,527** | - |
| Trade receivables | - | 99,386 | - | - | **99,386** | - |
| Other receivables[1] | - | 38,766 | - | - | **38,766** | - |
| Current derivative financial instruments | - | - | 209 | 133 | **342** | 2 |
| Other current financial assets | - | 3 | - | - | **3** | - |
| Cash and cash equivalents | - | 48,065 | 45,592 | - | **93,656** | 1 |
| **Financial assets** | **-** | **193,747** | **45,800** | **4,801** | **244,348** | |

**As at December 31, 2018**

| in € thousand | Assets held 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 | - | 112,976 | - | - | **112,976** | - |
| Other receivables[1] | - | 45,671 | - | - | **45,671** | - |
| Current derivative financial instruments | - | - | 969 | 375 | **1,344** | 2 |
| Other current financial assets | - | 97 | - | - | **97** | - |
| Cash and cash equivalents | - | 33,399 | 14,979 | - | **48,378** | 1 |
| **Financial assets** | **-** | **200,639** | **15,948** | **1,704** | **218,291** | |

[1] 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, 2019**

| in € thousand | Loans and debts | Financial liabilites at fair value through income | Financial liabilites at fair value through equity | Total | Fair value hierarchy |
|---|---|---|---|---|---|
| Non-current derivative financial instruments | - | - | 1,499 | **1,499** | 2 |
| Other non-current financial liabilities | 305,370 | - | - | **305,370** | - |
| Trade payables | 95,769 | - | - | **95,769** | - |
| Other payables[1] | 134,840 | - | - | **134,840** | - |
| Current derivative financial instruments | - | 383 | 299 | **682** | 2 |
| Bank overdrafts and accrued interests not yet matured | 13,769 | 37 | - | **13,807** | 2 |
| Other current financial liabilities | 106,067 | - | - | **106,067** | - |
| **Financial liabilities** | **655,815** | **420** | **1,798** | **658,033** | |

[1] Excluding prepaid income and income tax debt.

**As at December 31, 2018**

| in € thousand | Loans and debts | Financial liabilites at fair value through income | Financial liabilites 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[1] | 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** | |

[1] Excluding prepaid income and income tax debt.

As of December 31, 2019, the gross cost of financial debt amounted to €17,803,000.
As of December 31, 2018, it was €17,793,000.

## A33. 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, 2019, the Group's maximum exposure to credit risk was €99,386,000, 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, 2019**

| in € thousand | Receivables due | Receivables overdue for | | | | Impaired | Total |
|---|---|---|---|---|---|---|---|
| | | < 3 months | 3-6 months | 6-12 months | > 12 months | | |
| France | 20,253 | 791 | 220 | - | - | 537 | **21,800** |
| Europe (excluding France) | 17,385 | 1,947 | 207 | 2 | - | 1,553 | **21,094** |
| Latin America | 23,270 | 6,315 | 21 | - | - | 584 | **30,189** |
| North America | 3,433 | - | - | - | - | 1 | **3,433** |
| Asia | 13,465 | 982 | 95 | 24 | 16 | 142 | **14,725** |
| Pacific | 7,627 | 88 | - | - | - | 1 | **7,716** |
| Africa & Middle East | 2,948 | 298 | - | - | - | 3 | **3,248** |
| **Trade receivables** | **88,380** | **10,422** | **543** | **27** | **16** | **2,822** | **102,207** |

**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** |

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).

As of December 31, 2019, the ratio amounted to 2.29, which is below the contractual financial covenant threshold of 3.75. This ratio is calculated by taking into account the application of the IFRS 16 standard (see note A18).

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 | 2019 | 2018 |
|---|---|---|
| Fair value hedges | -93 | -361 |
| Cash flow hedges | -146 | 204 |
| Net investment hedges | - | - |
| Derivatives not qualifying for hedges | -80 | -57 |
| **Derivative financial exchange instruments** | **-320** | **-214** |

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 €298 million as at December 31, 2019. These lines are indexed to the Euribor and US$ Libor rates.
Borrowing in the United States is indexed to the US$ Libor rate.

The current amount on the credit lines is the following:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| in € thousand | Average real interest rate | Book value | Average real interest rate | Book value |
| Chile | 3.116% | 23,971 | 3.724% | 29,720 |
| Mexico | - | - | 9.440% | 2,001 |
| Uruguay | 5.392% | 2,753 | 5.698% | 2,764 |
| France | 2.062% | 44,468 | 2.291% | 49,900 |
| **Fixed rate debt** | | **71,193** | | **84,385** |
| Vietnam | 2.170% | 215 | 2.170% | 430 |
| France | 1.978% | 298,015 | 2.920% | 347,731 |
| United States | 3.614% | 32,936 | 4.070% | 30,568 |
| New Zealand | - | - | 4.443% | 1,466 |
| Australia | 1.943% | 8,128 | - | - |
| Philippines | 7.550% | 158 | 7.840% | 150 |
| Other | - | 173 | - | 23 |
| **Variable rate debt** | | **339,626** | | **380,368** |
| Bank overdrafts | | 13,770 | | 19,173 |
| **Loans and bank overdrafts** | | **424,589** | | **483,925** |

Interest rate derivatives are shown below, at market value:

| in € thousand | 2019 | 2018 |
|---|---|---|
| Fair value hedges | - | - |
| Cash flow hedges | 3,148 | 3,050 |
| Net investment hedges | - | - |
| Derivatives not qualifying for hedges | - | - |
| **Derivative financial rate instruments** | **3,148** | **3,050** |

■ **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, 2019, the unrealized gains and losses in equity for the period accounted for a net loss of €2,411,000. The ineffective share recorded as profit for this cash flow hedging reflected a profit of €2,424,000.

| | Nominal | | Positive fair value | | Negative fair value | |
|---|---|---|---|---|---|---|
| in € thousand | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Forward exchange contract | 48,477 | 39,494 | 227 | 295 | 467 | 525 |
| OTC option exchange | 29,621 | 21,693 | 92 | 137 | 173 | 121 |
| **Exchange instrument** | **78,098** | **61,187** | **319** | **432** | **640** | **646** |
| Swap rate | 100,362 | 145,175 | 39 | 1,212 | 1,386 | 581 |
| Interest rate options | 105,606 | 179,336 | 1 | 528 | 156 | - |
| Cross currency swap | 44,423 | 44,423 | 4,650 | 2,267 | - | 375 |
| **Interest rate instruments** | **250,391** | **368,934** | **4,690** | **4,006** | **1,542** | **956** |
| **Derivative financial instruments** | **328,489** | **430,121** | **5,010** | **4,439** | **2,181** | **1,602** |

## 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.

The beginning of 2020 has been impacted by the coronavirus health crisis. This situation is very much evolving throughout the world, and while at this stage the Group has not detected any material effects, it is very difficult to predict how it might impact the supply chain by the end of the year.

## A34. Composition of Virbac share capital

| | 2018 | Increase | Decrease | 2019 |
|---|---|---|---|---|
| Number of authorized 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 | **8,422,050** | 85,134 | -75,362 | **8,431,822** |
| Treasury shares | **35,950** | 75,362 | -85,134 | **26,178** |
| Nominal value of shares | **€1.25** | - | - | **€1.25** |
| **Virbac share capital** | **€10,572,500** | | | **€10,572,500** |

## A35. 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.

The 2016 performance-related stock grants plan, allocated on September 15, 2016, initially valued at €2,248,358 (12,150 shares at €185.05 each), was deferred over a vesting period of 39.5 months. The impact recognized in the income statement as of December 31, 2019 amounted to €1,138,000, including contribution, and reflects the best estimate of shares that could be distributed based on achievement of the performance criteria.

The 2018 performance-related stock grants plan, allocated on August 1, 2018, was valued at €1,788,000, which translates into 15,000 shares amounting to €119.20 each. This amount was initially deferred over the vesting period of 41 months. The impact recognized in the income statement as of December 31, 2019 amounted to €702,000, including social contributions.

The 2019 performance-related stock grants plan, allocated on June 30, 2019, is valued at €672,800, which translates into 4,000 shares at €168.20 each. This amount was deferred over a vesting period of 24 months. The impact recognized in the income statement as of December 31, 2019 amounted to €216,000, including social contributions.

## A36. Dividends

In 2019, 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 2019 financial year.

# A37. Workforce

## Evolution of workforce by geographic area

| | 2019 | 2018 | *Variation* |
|---|---|---|---|
| France | 1,323 | 1,340 | *-1.3%* |
| Europe (excluding France) | 363 | 349 | *4.0%* |
| Latin America | 961 | 968 | *-0.7%* |
| North America | 477 | 476 | *0.2%* |
| Asia | 1,331 | 1,317 | *1.1%* |
| Pacific | 311 | 313 | *-0.6%* |
| Africa & Middle-East | 131 | 130 | *0.8%* |
| **Workforce** | **4,897** | **4,893** | ***0.1%*** |

## Distribution of workforce by position

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Manufacturing | 1,749 | *35.7%* | 1,748 | *35.7%* |
| Administration | 561 | *11.5%* | 582 | *11.9%* |
| Business | 2,042 | *41.7%* | 2,047 | *41.8%* |
| Research & Development | 545 | *11.1%* | 516 | *10.5%* |
| **Workforce** | **4,897** | ***100.0%*** | **4,893** | ***100.0%*** |

# A38. Information on related parties

## Compensation of supervisory board members

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Compensation | Directors' fees | Compensation | Directors' fees |
| Marie-Hélène Dick | €95,000 | €21,000 | €95,000 | €21,000 |
| Pierre Madelpuech | - | €21,000 | - | €21,000 |
| Solène Madelpuech | - | €21,000 | - | €21,000 |
| Philippe Capron | - | €24,000 | - | €24,000 |
| Olivier Bohuon | - | €21,000 | - | €21,000 |
| Cyrille Petit | - | €7,000 | - | - |
| Company Galix Conseils represented by Grita Loebsack | - | €21,000 | - | €21,000 |
| Non-voting advisor Company XYC Unipessoal Lda represented by Xavier Yon | - | €21,000 | - | €21,000 |
| **Total** | **€95,000** | **€157,000** | **€95,000** | **€150,000** |

## Compensation of executive board members

**As at December 31, 2019 - Gross amount due**

| | Fixed compensation (including benefit in kind) | Compensation linked to terms of office for administrator in Group companies | Variable compensation | Total compensation |
|---|---|---|---|---|
| Sébastien Huron | €340,361 | €35,000 | €180,000 | **€555,361** |
| Christian Karst | €275,184 | €45,000 | €159,000 | **€479,184** |
| Habib Ramdani | €213,570 | - | €85,200 | **€298,770** |
| Jean-Pierre Dick | €16,460 | - | - | **€16,460** |
| **Total** | **€845,575** | **€80,000** | **€424,200** | **€1,349,775** |

**As at December 31, 2018 - Gross amount due**

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

Compensation paid for the 2019 financial year represents fixed compensation paid in 2019, compensation paid in 2019 in relation to terms of office for directors in Group companies, variable compensation paid in 2020 in relation to 2019 and benefits in kind granted in 2019 (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

Following the decision of the supervisory board dated March 12, 2019, an amendment to the defined-benefit pension plan for members of the executive board was signed on June 14, 2019. This amendment redefines the beneficiaries of the plan and the new applicable pension rate.
The allocation conditions are now as follows:

- more than ten years of service in the Group, including nine years as a member of the executive board or 15 years for a benefit of 10.5% of the reference salary (compared to 22.0% in the former plan);
- at least 60 years-old;
- ended his/her career in the Group.

The impact of the exit from the plan of the beneficiaries no longer meeting the required conditions, resulted in a decrease in the pension rate from 22.0% to 10.5% of the reference salary, generating income of €3.4 million, including contributions, in the 2019 consolidated accounts.

### ■ 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%).

The severance payment can only be paid in the event of a forced departure, on the initiative of 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.

### ■ 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 | Number of shares 2019 Plan |
|---|---|---|---|
| Sébastien Huron | 1,000 | 1,600 | 0 |
| Christian Karst | 1,000 | 1,200 | 4,000 |
| Habib Ramdani | 400 | 1,000 | 0 |
| **Total** | **2,400** | **3,800** | **4,000** |

Throughout the 2014, 2015 and 2017 financial years, no performance-related stock grants were allocated.

## A39. 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 | 2019 | 2018 |
|---|---|---|---|---|
| PP Manufacturing Corporation | NDNE 9/90 Corporate Center LLC | 30/09/2026 | 5,984 | 6,695 |
| Virbac Uruguay | Banco de la Republica Oriental del Uruguay | - | 3,561 | 3,493 |
| **Guarantees given** | | | **9,544** | **10,188** |

- **Contingent liabilities**

Virbac and its subsidiaries are at times involved in disputes, or other legal proceedings, generally linked to disputes related to intellectual property rights, disputes involving competition law and tax matters.

Each situation is analyzed under IAS 37 or IFRIC 23, when it concerns relative uncertainty surrounding tax treatment. 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.

As for pending tax disputes involving Virbac and its subsidiaries, a provision has been recognized in accordance with current standards (see note A19). Where the company deems that an adjustment proposal is unwarranted and that it has a strong enough case in this regard, it treats each of these cases as a contingent liability.

## A40. Scope of consolidation

| Company name | Locality | Country | 2019 | | 2018 | |
|---|---|---|---|---|---|---|
| | | | 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[1] | 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 | 100.00% | Full |
| **North America** | | | | | | |
| Virbac Corporation[1] | Fort Worth | United States | 100.00% | Full | 100.00% | Full |
| PP Manufacturing Corporation | Framingham | United States | 100.00% | Full | 100.00% | Full |

[1] Pre-consolidated levels

| Company name | Locality | Country | 2019 Control | 2019 Consolidation | 2018 Control | 2018 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 Quimicos 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 | Taipei | Taiwan | 100.00% | Full | 100.00% | Full |
| AVF Animal Health Co Ltd Hong-Kong | Hong Kong | Hong Kong | 50.00% | Equity | 50.00% | Equity |
| AVF Chemical Industrial Co Ltd China | Jinan (Shandong) | China | 50.00% | Equity | 50.00% | Equity |
| **Pacific** | | | | | | |
| Virbac (Australia) Pty Ltd[1] | 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[1] | Centurion | South Africa | 100.00% | Full | 100.00% | Full |
| GPM Virbac | Constantine | Algeria | 42.85% | Equity | 42.85% | Equity |

[1] Pre-consolidated levels

# Statutory auditors' report on the consolidated financial statements

Year ended December 31, 2019

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, 2019. These financial statements were prepared by the executive board on February 28, 2020 based on available information up to this date, in the changing context of the Covid-19 related health crisis.
In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as of December 31, 2019 and of the results of its operations for the year then ended in accordance with IFRS 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, 2019 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.

## EMPHASIS OF MATTER

Without qualifying the above opinion, we draw your attention to note IFRS 16 "Leases" and IFRIC 23 "Uncertainty over income tax treatments" to the consolidated financial statements, which describes the impacts of the first-time application of IFRS 16 standard and IFRIC 23 interpretation.

## 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, prepared in the context mentioned above, 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, 2019, goodwill and indefinite-life intangible assets are recorded in the Group's consolidated balance sheet in the amount of €312.9 million and €144.9 million, respectively.

Goodwill and indefinite-life intangible assets of the Group's American subsidiary (Virbac United States) are valued at €225.7 million and €49.2 million, respectively, while those of the Chilean subsidiary (Centrovet) are valued at €27.9 million (goodwill, Group share excluding minority interests) and €46.0 million, respectively. Those relating to the CGU of Leishmaniosis vaccine are fully impaired.

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 specified that the executive 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

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations of the Group's information in the management report of the management board prepared on February 28, 2020. Regarding events that occurred and information known after the date of preparation of the financial statements in relation with the Covid-19 crisis, the management has confirmed to us that they will be communicated at the shareholders' meeting held to approve the financial statements for the year ended December 31, 2019.

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 verified neither the fair presentation nor the consistency with the financial statements of the information contained in this statement which has to be subject to a report by an independent third party.

# 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, 2019, Novances-David & Associés and Deloitte & Associés were in the 21st year and 16th 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 6, 2020

The statutory auditors
French original signed by

**Novances-David & Associés**
Jean-Pierre Giraud

**Deloitte & Associés**
Philippe Battisti

# Statutory accounts

## FINANCIAL STATEMENTS

### Balance sheet - Assets

| in € thousand | Notes | Gross amount | Depreciation and provisions | 2019 Net amount | 2018 Net amount |
|---|---|---|---|---|---|
| Concessions, patents, licences and brands | | 50,413 | 35,079 | 15,334 | 15,818 |
| Other intangible assets | | 57,687 | 45,114 | 12,573 | 12,078 |
| **Intangible assets** | **B1** | **108,100** | **80,193** | **27,907** | **27,896** |
| Land | | 1,683 | - | 1,683 | 1,683 |
| Buildings | | 109,922 | 70,480 | 39,442 | 41,323 |
| Technical facilities, materials and industrial equipment | | 110,686 | 74,005 | 36,681 | 36,514 |
| Other tangible assets | | 5,542 | 3,969 | 1,573 | 1,284 |
| Prepayments on assets and assets in progress | | 5,284 | - | 5,284 | 5,931 |
| **Tangible assets** | **B2** | **233,117** | **148,454** | **84,663** | **86,735** |
| Shares in companies and other receivables | | 459,010 | 1,466 | 457,544 | 454,575 |
| Other long-term securities | | - | - | - | - |
| Loans | | 170,232 | - | 170,232 | 188,933 |
| Other financial assets | | 1,807 | - | 1,807 | 1,769 |
| **Financial assets** | **B3** | **631,049** | **1,466** | **629,583** | **645,277** |
| **Total fixed assets** | | **972,266** | **230,113** | **742,153** | **759,908** |
| Raw materials | | 25,201 | 1,806 | 23,395 | 23,856 |
| Work in progress | | 13,060 | 696 | 12,364 | 12,635 |
| Semi-finished and finished goods | | 12,926 | 572 | 12,354 | 11,784 |
| **Inventories and work in progress** | **B4** | **51,187** | **3,074** | **48,113** | **48,275** |
| Trade receivables and related accounts | | 56,782 | 184 | 56,598 | 57,867 |
| Employee-related receivables | | 52 | - | 52 | 51 |
| Income tax receivables | | 3,847 | - | 3,847 | 6,746 |
| Other social and state receivables | | 4,134 | - | 4,134 | 3,305 |
| Other receivables | | 106,823 | 601 | 106,222 | 99,818 |
| **Current receivables** | **B5** | **171,638** | **785** | **170,853** | **167,787** |
| Advances and prepayment on orders | | 336 | - | 336 | 143 |
| Marketable securities | **B6** | 6,677 | 1 | 6,676 | 5,062 |
| Available funds | **B7** | 13,903 | - | 13,903 | 12,386 |
| **Cash and cash equivalents** | | **20,916** | **1** | **20,915** | **17,591** |
| Prepaid expenses | | 2,280 | - | 2,280 | 2,240 |
| Deferred charges | | 741 | - | 741 | 1,047 |
| Unrealised foreign exchange losses | | 24,652 | - | 24,652 | 18,205 |
| **Accruals and other assets** | **B8** | **27,673** | **1** | **27,673** | **21,492** |
| **Total assets** | | **1,243,680** | **233,974** | **1,009,707** | **1,015,053** |

## Balance sheet - Liabilities

| in € thousand | Notes | 2019 | 2018 |
|---|---|---|---|
| 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 | | 343,095 | 306,898 |
| Result for the period | | 45,057 | 36,197 |
| Investment grants | | 194 | 203 |
| Regulated provisions | | 32,479 | 32,465 |
| **Equity** | **B9** | **511,704** | **466,642** |
| Government loans | | - | - |
| **Other equity** | | **-** | **-** |
| Provisions for contingencies | | 19,270 | 19,372 |
| Provisions for foreign exchange losses | | 4,341 | 3,324 |
| Provisions for litigations | | - | - |
| **Provisions for liabilities and charges** | **B10** | **23,611** | **22,696** |
| Bonds | | - | - |
| Bank borrowings | | 344,723 | 400,176 |
| Bank overdrafts - current | | 13,582 | 18,534 |
| Bank overdrafts - other | | - | - |
| Other borrowings and financial liabilities | | 61 | 41 |
| Related borrowings and financial liabilities | | 30,061 | 30,014 |
| **Financial liabilities** | **B5 & B11** | **388,427** | **448,765** |
| Trade payables and related accounts | | 39,588 | 37,048 |
| Employee-related payables | | 13,630 | 11,782 |
| Social payables | | 8,418 | 8,166 |
| Income tax payables | | - | - |
| Value added tax | | 673 | 984 |
| Other social and state payables | | 2,160 | 3,037 |
| Payables to fixed assets suppliers and related accounts | | - | - |
| Other payables | | 1,200 | 1,024 |
| **Current liabilities** | **B5** | **65,669** | **62,041** |
| Prepaid income | | - | - |
| Unrealised foreign exchange gains | **B8** | 20,296 | 14,909 |
| **Accruals and other liabilities** | **B12** | **20,296** | **14,909** |
| **Total liabilities** | | **1,009,707** | **1,015,053** |

## Income statement

| in € thousand | Notes | 2019 | 2018 | *Variation* |
|---|---|---|---|---|
| Sales of goods and services | | 276,149 | 266,519 | |
| **Net sales** | **R1** | **276,149** | **266,519** | *3.6%* |
| Production transferred to inventory | | -150 | 3,453 | |
| Capitalization of expenses | | 1,357 | 891 | |
| Government grants | | - | 6 | |
| Reversals of provisions and depreciations, expense transfers | | 7,611 | 5,622 | |
| Other operating income | | 2,989 | 2,718 | |
| **Operating income** | **R2** | **11,807** | **12,690** | *-7.0%* |
| Purchases of goods | | -34,869 | -31,613 | |
| Purchases of raw materials and other supplies | | -58,995 | -59,465 | |
| Change in inventories (raw materials and supplies) | | 281 | 453 | |
| Other purchases and external expenses | | -73,484 | -72,278 | |
| Taxes and other contributions | | -6,712 | -6,593 | |
| Wages and salaries | | -59,942 | -58,795 | |
| Social contributions | | -28,818 | -27,583 | |
| Depreciations and provisions of fixed assets | | -16,768 | -16,469 | |
| Provisions for current assets | | -3,258 | -2,781 | |
| Provisions for risks and charges | | -2,162 | -3,023 | |
| Other operating expenses | | -5,303 | -5,000 | |
| **Operating expenses** | **R2** | **-290,030** | **-283,147** | *2.4%* |
| **Net operating income** | | **-2,074** | **-3,938** | *-47.3%* |
| Dividends received | | 41,751 | 29,722 | |
| Other interest receivable and similar income | | 13,977 | 13,318 | |
| Reversals of provisions and expense transfers | | 3,628 | 4,104 | |
| Foreign exchange gains | | 34,499 | 39,002 | |
| Net income on the disposals of marketable securities | | - | - | |
| **Financial income** | **R3** | **93,855** | **86,146** | *8.9%* |
| Depreciations and provisions | | -5,871 | -4,166 | |
| Other interest paid and similar expenses | | -12,228 | -13,929 | |
| Foreign exchange losses | | -34,029 | -35,155 | |
| Net expenses on the disposals of marketable securities | | -4 | -3 | |
| **Financial expenses** | **R3** | **-52,132** | **-53,253** | *-2.1%* |
| **Net financial income** | | **41,723** | **32,893** | *26.8%* |
| **Profit before tax** | | **39,649** | **28,955** | *36.9%* |
| Non-recurring income from operations | | 112 | 2,789 | |
| Non-recurring income from capital transactions | | 3,880 | 6,051 | |
| Reversals of provisions and expense transfers | | 6,988 | 4,888 | |
| **Non-recurring income** | **R4** | **10,980** | **13,728** | *-20.0%* |
| Non-recurring expenses from operations | | -524 | -809 | |
| Non-recurring expenses from capital transactions | | -2,738 | -1,000 | |
| Depreciations and provisions | | -8,529 | -13,079 | |
| **Non-recurring expenses** | **R4** | **-11,791** | **-14,888** | *-20.8%* |
| **Net non-recurring income** | | **-811** | **-1,160** | *-30.1%* |
| Employee profit-sharing | | -1,513 | -470 | |
| Income tax | **R5** | 7,732 | 8,872 | |
| **Result for the period** | | **45,057** | **36,197** | *24.5%* |

## Cash flow statement

| in € thousand | 2019 | 2018 |
|---|---|---|
| **Result for the period** | **45,057** | **36,197** |
| Elimination of depreciations and provisions | 18,116 | 27,176 |
| Elimination of gains and losses on disposals | 185 | -4,850 |
| Other income and expenses with no cash impact | -578 | -881 |
| **Cash flow** | **62,780** | **57,642** |
| Effect of net change in inventories | 162 | -3,956 |
| Effect of net change in trade receivables | 1,269 | 3,029 |
| Effect of net change in trade payables | 2,540 | -13,365 |
| Effect of net change in other receivables and payables | -4,188 | -11,467 |
| **Effect of change in working capital requirements** | **-217** | **-25,759** |
| **Net cash flow generated by operating activities** | **62,563** | **31,883** |
| Acquisitions of intangible assets | -5,459 | -4,071 |
| Acquisitions of tangible assets | -8,014 | -8,142 |
| Acquisitions of financial assets | -18,115 | -12,434 |
| Disposals of intangible and tangible assets | 32,540 | 20,719 |
| **Net flow allocated to investing activities** | **952** | **-3,928** |
| Dividends paid to the owners of the parent company | - | - |
| Increase/decrease in capital | - | - |
| Merger premium | - | - |
| Other increases related to merger | - | - |
| Investment grants | - | 6 |
| Other equity | - | - |
| Issuance/repayments of debt | -55,432 | -27,252 |
| **Net cash from financing activities** | **-55,432** | **-27,246** |
| **Change in cash position** | **8,083** | **709** |

### Statement of change in cash position

| in € thousand | 2019 | 2018 |
|---|---|---|
| Marketables securities | 1,614 | -3 |
| Available funds | 1,517 | 3,365 |
| **Change in cash position assets** | **3,131** | **3,362** |
| Bank overdrafts - current | 4,952 | -2,653 |
| **Change in cash position liabilities** | **4,952** | **-2,653** |
| **Net change in cash position** | **8,083** | **709** |

# APPENDICES TO THE STATUTORY ACCOUNTS

## Significant events of the financial year

In the first quarter of 2018, in order to obtain more flexibility, 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. With 2019 marking the return to the initial contract terms, the ratio was now expected to be below 4.25 by June 30, 2019 and below 3.75 by December 31, 2019. These levels relate to more favorable financial terms.
Following the March 12, 2019 decision by the supervisory board, an amendment to the defined benefit pension plan for members of the executive board was signed on June 14, 2019. This amendment redefines the beneficiaries of the plan and the new applicable annuity rate. Due to the exit of beneficiaries who no longer meet the required conditions, the annuity rate dropped from 22.0% to 10.5% of the reference salary, generating an output of €3.4 million before tax in the financial year statements (including €0.6 million in employer social security contributions).
Over the 2019 financial year, Virbac bought 100% of the shares of the Taiwan-based SBC Virbac Biotech company for €5,6 million. This year, following impairment tests, shares in Virbac subsidiaries Alfamed and GMP Virbac (Algeria) were downgraded by a total amount of €928,000. The Virbac Distribution subsidiary (a company that has been inactive since May of 2018, following the transfer of its business goodwill) was subject to the impairment of its current account by €601,000. The Virbac New Zealand subsidiary bought back its own shares for €2.5 million.

## Events subsequent to the financial year-end

### Coronavirus health crisis

Between December 20, 2019, the date on which Virbac issued its 2020 outlook, and this communication, the coronavirus health crisis occurred. The situation is extremely evolving worldwide, and at this stage it is very difficult to anticipate what the impacts may be by the end of the year. The Group is working on contingency plans and has implemented appropriate measures for its employees, and also to meet the needs of its customers.

## Accounting rules and methods

The accounts for the financial year ended December 31, 2019 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 based on the weighted average cost of the Group’s capital. This is a post-tax rate applied to post-tax cash flows. For the 2019 fiscal year, the discount rate used for France is 8.4%.

The other intangible assets include, in particular, computer software:

- standard office software is amortized on a straight-line basis, as soon as it is capitalized, over four years, which corresponds to its economic useful life;
- expenditure items relating to information technology projects that, in addition to license acquisition costs, include significant consultancy expenditures are recorded as assets as and when they are incurred. These information technology projects are depreciated on a straight-line basis, starting as soon as the information system is operational.

Research and development costs are fully booked as expenses.

| Depreciation period of intangible assets | |
|---|---|
| Trademarks | non-depreciable |
| Patents, licences and know-how | between 10 and 15 years |
| Marketing authorisations | between 10 and 15 years |
| Distribution rights | contract duration |
| Softwares | 4 years |
| Movex ERP software | between 7 and 14 years |
| Other intangible assets | between 4 and 10 years |

## Tangible assets

Tangible assets are recorded at cost and include acquisition costs. The loan costs associated with the acquisition or the production of the assets are not capitalized.

The company proceeds as following:

- breakdown by components (buildings and fittings);
- breakdown by components of the industrial equipment with a gross value over €50 000;
- definition of depreciation schedules according to useful lives.

The depreciation periods applied correspond to the economic useful lives summarized in the table below.
Furthermore, the company continues to use the useful lives defined by the tax authorities and, where possible, applies the declining balance depreciation method. The differences resulting from the application of specific fiscal depreciation methods and periods, including the declining balance, are recorded as non-recurring depreciations.

| Depreciation period of tangible assets | |
|---|---|
| Buildings | between 10 and 40 years |
| Facilities | between 10 and 20 years |
| Equipments | between 5 and 20 years |
| Other tangible assets | between 4 and 10 years |

## Financial assets

**Shares in company**

Shares in company basically correspond to capital investments in the subsidiaries and are recorded at cost, excluding incidental expenses. Incidental acquisition costs booked as expenses in the financial year are fiscally restated and their deduction is spread over five years.
At the end of each financial year, a provision may be made to reflect the impairment of the value of a subsidiary's securities. The company conducts an impairment test at each year-end. A provision is formed when the value-in-use of the securities is less than the net book value on the balance sheet.
The value in use takes into account the proportion of the subsidiary's equity as well as the cash flow position based on the profits for the four most recent financial years, and a terminal value calculated based on a 2% perpetuity growth rate, discounted by region at the following rates :

- 8.5% for the United States;
- 8.4% for Europe;
- 9.4% for Chile and 9.2% for the rest of Latin America;
- 9.5% for India and 8.3% for the rest of Asia;
- 7.7% for Oceania and South Africa.

**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 | 2018 | Increases | Decreases | Transfers | 2019 |
|---|---|---|---|---|---|
| Trademarks and filing fees for trademarks | 5,332 | - | - | - | 5,332 |
| Patents and licences | 16,283 | 350 | - | - | 16,633 |
| Marketing authorisations (AMM) | 26,310 | - | - | 1,195 | 27,505 |
| Domain names | 4 | - | - | - | 4 |
| Distribution rights | 898 | - | - | - | 898 |
| Goodwill | 442 | - | - | - | 442 |
| Other intangible assets | 40 | - | - | - | 40 |
| Softwares | 49,228 | 2,429 | - | 1,653 | 53,310 |
| Advances, prepayments on intangible assets and assets in progress | 4,307 | 2,679 | -202 | -2,848 | 3,936 |
| **Gross value** | **102,844** | **5,458** | **-202** | **-** | **108,100** |
| Depreciation | -74,538 | -5,385 | - | - | -79,923 |
| Provisions | -410 | -120 | 260 | - | -270 |
| **Depreciation and provisions** | **-74,948** | **-5,505** | **260** | **-** | **-80,193** |
| **Net value** | **27,896** | **-47** | **58** | **-** | **27,907** |

The main patents, licenses and marketing authorizations are as follows (gross values):

- the Alpha Laval patent at €2,479,000;
- the FeLV patent at €2,628,000;
- the Alizine patent at €2,592;
- the Antigenics patent at €3,394,000;
- the Oridan patent at €3,000,000;
- the Doxycycline 50% Marketing authorization at €690,000 (net value after impairment and depreciation: zero);
- the Schering-Plough Marketing authorization at €18,334,000;
- the Virbamec, Equimax and Eraquell Marketing authorizations at €4,000,000;
- the Cyclosporin Marketing authorization at €1,500,000;
- the Suramox and Stabox Marketing authorizations at €463,000;
- the Cyclosporin cat Marketing authorization at €195,000;
- the Halofuginone Marketing authorization at €1,000,000;
- the Repropharm licence at €350,000.

The business goodwill (Alizine) acquired for a value of €442,000 on October 19, 1998 has been fully depreciated since December 31, 2008.

With regard to computer programs, changes have been made to various systems, in particular, the establishment of hyperconvergence (security, backup and storage) for €392,000, Third-party application maintenance (TPM) for €200,000, as well as improvements to Movex reporting for €120,000.

Various ongoing intangible projects were recorded for the year for a total amount of €1,118,000.
In addition, on December 31, 2019, personnel costs for IT projects were capitalized in the amount of €1,148,000.

## B2. Tangible assets

| in € thousand | 2018 | Increases | Decreases | Transfers | 2019 |
|---|---|---|---|---|---|
| Land | 1,683 | - | - | - | 1,683 |
| Buildings | 106,931 | 2,048 | - | 943 | 109,922 |
| Equipment and tools | 104,984 | 4,426 | -303 | 1,579 | 110,686 |
| Other tangible assets | 4,950 | 592 | -1 | 1 | 5,542 |
| Tangible assets in progress | 3,195 | 698 | - | -2,523 | 1,370 |
| Pending invoices for fixed assets | 1,777 | 931 | - | - | 2,708 |
| Advances and prepayment orders | 959 | 247 | - | - | 1,206 |
| **Gross value** | **224,479** | **8,942** | **-304** | **-** | **233,117** |
| Land | - | - | - | - | - |
| Buildings | -65,608 | -4,872 | - | - | -70,480 |
| Equipment and tools | -68,470 | -6,373 | 838 | - | -74,005 |
| Other tangible assets | -3,666 | -304 | 1 | - | -3,969 |
| Tangible assets in progress | - | - | - | - | - |
| Pending invoices for fixed assets | - | - | - | - | - |
| Advances and prepayment orders | - | - | - | - | - |
| **Depreciation and provisions** | **-137,744** | **-11,549** | **839** | **-** | **-148,454** |
| Land | 1,683 | - | - | - | 1,683 |
| Buildings | 41,323 | -2,824 | - | 943 | 39,442 |
| Equipment and tools | 36,514 | -1,947 | 535 | 1,579 | 36,681 |
| Other tangible assets | 1,284 | 288 | - | 1 | 1,573 |
| Tangible assets in progress | 3,195 | 698 | - | -2,523 | 1,370 |
| Pending invoices for fixed assets | 1,777 | 931 | - | - | 2,708 |
| Advances and prepayment orders | 959 | 247 | - | - | 1,206 |
| **Net value** | **86,735** | **-2,607** | **535** | **-** | **84,663** |

Investments were made on the various sites during the 2019 financial year, including renovation or improvement work at:

- VB1 for €540,000;
- VB7 for €599,000;
- VB3 for €80,000;
- Bio buildings for €249,000.

Installation of an air treatment center was undertaken at VB6 for a total amount of €150,000.

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

- a new bagging machine, a new clipping filler, as well as an extractor at VB6 for a total of €563,000;
- modification of a blister packaging machine at VB1 for €167,000;
- a labeling conveyor and a vial rectifier at VB1 for a total amount of €286,000.

A provision for impairment of equipment has been recognized since 2012. In the financial statements as of December 31, 2019, this impairment amounted to €405,000 for decommissioned filtration systems and to €67,000 for unused equipment. The impact of the adjustment of this provision on the result for the 2019 financial year is €64,000 (income), taking into account depreciation recognized elsewhere.

## B3. Financial assets

| in € thousand | 2018 | Increases | Decreases | Transfers | 2019 |
|---|---|---|---|---|---|
| Long-term investments | 455,113 | 6,423 | -2,526 | - | 459,010 |
| Related account receivable | - | - | - | - | - |
| Other equity securities | - | - | - | - | - |
| Loans and other financial assets | 190,702 | 11,534 | -30,197 | - | 172,039 |
| **Gross value** | **645,815** | **17,957** | **-32,723** | **-** | **631,049** |
| Impairment of financial assets | -538 | -928 | - | - | -1,466 |
| **Provisions** | **-538** | **-928** | **-** | **-** | **-1,466** |
| **Net value** | **645,277** | **17,029** | **-32,723** | **-** | **629,583** |

### Equity investments

Over the 2019 financial year, Virbac bought 100% of the shares of the Taiwan-based SBC Virbac Biotech company for €5.6 million. The Virbac subsidiary in Turkey, Virbac Sagligi Limited Sirketi, saw an €800,000 capital increase, the Virbac New Zealand subsidiary bought back its own shares for a total amount of €2.5 million.
Shares of subsidiaries Alfamed (France) and GMP Virbac (Algeria) were 100% impaired during the fiscal year for respective values of €688,000 and €240,000.

| in € thousand | 2019 |
|---|---|
| SBC Virbac Limited | 5,623 |
| Virbac Hayan Sagligi Limited Sirketi | 800 |
| **Capital increases, acquisitions and start-ups** | **6,423** |

| in € thousand | 2019 |
|---|---|
| Virbac New Zealand | 2,526 |
| **Disposals and redemptions** | **2,526** |

### Other financial assets

The ordinary shareholders' meeting of June 18, 2019 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.*:

- €55.1 million to Virbac Chile;
- €224,000 to Virbac Hayan Sagligi Limited Sirketi (Turkey);
- €103.3 million (or US $116 million) to Virbac United States;
- €11.3 million to SBC Virbac Biotech (Taiwan).

Loans made to Virbac Japan for a value on December 31, 2018 of €715,000 and to SBC Virbac Ltd (Hong-Kong) for an amount, also on December 31, 2018 of €4,474,000, were completely repaid over the 2019 financial year. These loans, granted in local currencies, were covered by foreign 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. The loan to Virbac United States was not hedged; rather it was covered by a *de facto* hedge matched by the American dollar loan of the same amount and the same repayment date.

## B4. Inventories and work in progress

| in € thousand | 2019 Gross | 2018 Gross | Change in inventories of raw materials and other supplies | Change in inventories of work-in-progress and |
|---|---|---|---|---|
| Raw materials and supplies | 25,201 | 24,920 | 281 | - |
| Work-in-progress | 13,060 | 13,827 | - | -767 |
| Finished goods | 12,926 | 12,309 | - | 617 |
| **Inventories and work-in-progress** | **51,187** | **51,056** | **281** | **-150** |

As of December 31, 2019, provisions for inventory depreciation amounted to:

- raw materials: €1.8 million;
- manufacturing work-in-progress: €696,000;
- finished goods: €572,000.

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

## B5. Receivables and payables

| in € thousand | 2019 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 | 170,232 | 29,663 | 140,569 | - |
| Other financial assets | 1,807 | - | 1,807 | - |
| **Total fixed assets** | **172,039** | **29,663** | **142,376** | **-** |
| Accounts receivable and related accounts* | 56,782 | 56,782 | - | - |
| Other receivables | 114,856 | 114,856 | - | - |
| Prepaid expenses | 2,280 | 2,280 | - | - |
| **Current assets** | **173,918** | **173,918** | **-** | **-** |
| **Total receivables** | **345,957** | **203,581** | **142,376** | **-** |
| Bank loans | 344,723 | 38,147 | 225,469 | 81,107 |
| Current bank overdrafts | 13,582 | 13,582 | - | - |
| Bank overdraft | - | - | - | - |
| Loans and miscellaneous financial debts | 61 | 1 | 60 | - |
| Owed to subsidiaries (current accounts) | 30,061 | 30,061 | - | - |
| **Borrowings** | **388,427** | **81,791** | **225,529** | **81,107** |
| Accounts payable and related accounts** | 39,588 | 39,588 | - | - |
| Tax and social payables | 24,881 | 24,881 | - | - |
| Payables to fixed assets suppliers and related accounts | - | - | - | - |
| Other payables | 1,200 | 1,200 | - | - |
| Prepaid income | - | - | - | - |
| **Operating liabilities** | **65,669** | **65,669** | **-** | **-** |
| **Total payables** | **454,096** | **147,460** | **225,529** | **81,107** |

*including assignment of receivables (factoring): €1.5 million
**of which bills of exchange payable: none

As of 31 December, 2019, the amount of receivables assigned amounted to €1.5 million (classified as a reduction of trade receivables) and the on-going funding to €1.5 million.

A provision for the impairment of trade receivables was recorded in December of 2019 in the amount of €184,000. No provision had been recorded in December of 2018. Bad debts totaling €42,000 were recognized as expenses during the financial year.

## B6. Marketable securities

As of December 31, 2019, this item includes *SICAV* for €2,708,000, the treasury shares of the 2016 performance plan for an amount of €705,000, those of the 2018 performance plan for an amount of €1.9 million, as well as those of the liquidity contract for €1.4 million.

| in € thousand | 2018 | Increases | Decreases | Transfers | 2019 |
|---|---|---|---|---|---|
| *SICAV* | **789** | 1,919 | - | - | **2,708** |
| Treasury shares (liquidity contract) | **1,983** | - | -608 | - | **1,375** |
| Performance-related stock grants | **1,889** | - | - | 705 | **2,594** |
| Treasury shares pending (cancelled plans) | **705** | - | - | -705 | - |
| **Marketable securities** | **5,366** | **1,919** | **-608** | **-** | **6,677** |

As of December 31, 2019, Virbac is recording an insignificant unrealized capital loss on SICAV (€1,000). Concerning treasury shares, an unrealized capital gain of €47,000 was realized on the liquidity contract.
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 2016 performance plan was partially reconstituted (5,165 treasury shares) and provisioned based on the attainment of objectives for a total amount of €705,000.

## B7. Available funds

As of December 31, 2019, available funds consisted only of the credit balances in the bank account which amounted to €366,000 and to financial instruments in the amount of €13.5 million (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 2020 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 €24.6 million 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 €14 million in account 478700. A provision for the amount of the unhedged financial risk was booked for a value of €4.3 million as of December 31, 2019. 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 naturally hedged by a bank draft in the same currency and on the same repayment terms.

| in € thousand | Trade receivables and payables | Financial receivables and payables | Derivative financial | Total |
|---|---|---|---|---|
| Unrealized foreign exchange losses | 1,270 | 23,262 | 120 | **24,652** |
| Change in value of financial instruments | -22 | -14,021 | | **-14,043** |
| Others hedges (natural) | - | -6,148 | | **-6,148** |
| Provision for foreign exchange losses | 1,248 | 3,093 | | **4,341** |

# B9. Equity

## Share capital

As of December 31, 2019, 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, 2019, Virbac held 26,178 treasury shares acquired on the market for a total of €4 million excluding fees, for an average price of €151.62 per share. During the financial year, the company bought 75,362 treasury shares and sold 85,134 as part of the market-making contract. The ordinary shareholders' meeting of June 18, 2019 decided not to pay dividends. The entire profit for the previous financial year was allocated to retained earnings.

| | Prior to appropriation of results | 2018 allocation of net income | After allocation of net income | Increases | Decreases | 2019 |
|---|---|---|---|---|---|---|
| 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 | 2018 allocation of net income | After allocation of net income | Increases | Decreases | 2019 |
|---|---|---|---|---|---|---|
| Share capital | **10,573** | - | 10,573 | - | - | **10,573** |
| Share and merger premiums | **6,534** | - | 6,534 | - | - | **6,534** |
| Financial year results | **36,197** | -36,197 | - | 45,057 | - | **45,057** |
| 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 | **306,898** | 36,197 | 343,095 | - | - | **343,095** |
| Distribution of dividends | **-** | - | - | - | - | **-** |
| Investment grants | **203** | - | - | - | -9 | **194** |
| Regulated provisions | **32,465** | - | 32,465 | 3,704 | -3,690 | **32,479** |
| **Equity** | **466,642** | **-** | **466,439** | **48,761** | **-3,699** | **511,704** |

## 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 | 2018 | Allowances | Reversals of amounts used | Reversals of amounts not used | 2019 |
|---|---|---|---|---|---|
| Retirement and severance pay allowances | 6,310 | 900 | - | - | 7,210 |
| Provisions for supplementary pensions schemes | 4,635 | - | -3,418 | - | 1,217 |
| Provisions for foreign exchange losses | 3,324 | 4,341 | -3,324 | - | 4,341 |
| Provisions for stock grants | 259 | 1,903 | - | - | 2,162 |
| Provisions for risks and charges | 8,168 | 3,736 | -3,223 | - | 8,681 |
| **Provisions for risks and charges** | **22,696** | **10,880** | **-9,965** | **-** | **23,611** |
| Impairment of fixed assets | 1,484 | 1,520 | -796 | - | 2,208 |
| Impairment of current assets | 3,085 | 3,860 | -3,085 | - | 3,860 |
| **Provisions for impairment** | **4,569** | **5,380** | **-3,881** | **-** | **6,068** |
| **Provisions** | **27,265** | **16,260** | **-13,846** | **-** | **29,679** |

During the financial year, the company recognized €900,000 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: 0.6%;
- 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:

| | Managerial personnel | Non-managerial personnel |
|---|---|---|
| Retirement age | 65 ans | 62 ans |
| Salary adjustment rate | 2% | 2% |

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 €5.4 million in the financial year 2019.
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 2019 financial year, this provision was taken up for a total of €3.4 million including €644,000 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 €90,000 as of December 31, 2019.
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, a provision was once again included in the statements regarding the 2016 performance plan in the amount of €888,000, including €183,000 in employer contributions in view of the objectives attained. As for the 2018 performance plan, it is subject to a provision over the financial year for the amount of €732,000, including an employer contribution of €179,000. The vesting period is set at December 31, 2021. A new plan was established for 2019, a provision in the amount of €284,000, including €47,000 in employer contributions were recorded for the financial year. The period for the allocation of rights is set for June 30, 2021. The other provisions for risks and charges specifically include a provision of €615,000 for commercial disputes, a provision of €394,000 for industrial disputes, a provision of €150,000 for disputes following reimbursement of the *Schuldschein* contract, a provision of €2,000,000 for disputes with one of our main competitors, a provision of €2,098,000 for miscellaneous risks partly related to tax disputes, as well as a provision of €2,693,000 related to the production of intramammaries at the Carros site. The Group decided to gradually close this workshop and outsource production. Costs related to this production transfer were subject to a provision over the prior financial year, and resulted in a partial reversal of this provision in 2019 in the amount of €1,207,000.

The provision for impairment of tangible assets mainly involves unused or decommissioned equipment in the amount of €473,000 (see note B2) as well as on Virbac Distribution company's’ equity securities in the amount of €538,000, a company that has not been active since May of 2018 (following the transfer of its business goodwill), Alfamed for €688,000 and the Virbac GPM company (Algeria) for €240,000. Impaired current assets correspond to inventories and work in progress in the amount of €3,074,000, with accounts receivable of €184,000 as well as the impairment of the Virbac Distribution company’s current account of €601,000.

## B11. Financial liabilities

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

- a syndicated loan of €420 million, drawn in euros and dollars, contracted with a pool of banks and repayable in full upon maturity in April 2020, with the option to extend the term to April 9, 2022;
- 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 Public investment bank (PIB) financing.
As of December 31, 2019, the position of the funding instruments was as follows:

- the syndicated loan was drawn for amounts of €52 million and US $136 million;
- the market-based contracts amounted to €15 million and US $15.5 million;
- the bilateral loans and PIB and EIB financing amounted to €61.5 million and US $90 million respectively.

These funding instruments include a financial covenant compliance clause that requires the borrower to adhere to financial ratios calculated based on the consolidated accounts and reflecting the consolidated net debt* for the period in question on the consolidated Ebitda (Earnings before interest, taxes, impairment and amortization)** for the same test period. It should be noted that since January 1st, 2019, Virbac has been applying the IFRS 16 standard concerning the recognition of finance leases, which impacts accounting items in the income statement used to determine the Ebitda and on debt items on the balance sheet. As a result, calculating the financial covenant is established by taking the impact of this new standard into account. Thus, on December 31, 2019, the ratio reached 2.29, which is below the contractual financial covenant ceiling of 3.75.

*For the purpose of calculating the covenant, 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 allowances for depreciation 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 2019 financial year.

### Conversion gains

These correspond to unrealized foreign exchange gains following the revaluation of currency receivables and payables at the closing price for €20.3 million. These gains are offset by unrealized exchange losses in the amount of €120,000 obtained on financial derivatives, enabling the principle of symmetry to be complied with and recorded in the assets *(section: Accruals and deferred income)* in account 478600.

| in € thousand | Trade receivables and payables | Financial receivables and payables | Derivative financial | Total |
|---|---|---|---|---|
| Unrealized foreign exchange gains | 97 | 6,156 | 14,043 | **20,296** |
| Change in value of financial instruments | -112 | -8 | | **-120** |
| Latent exchange gains | -15 | 6,148 | | **6,133** |

## R1. Sales

### Breakdown of revenue between French and export sales

| in € thousand | 2019 | 2018 |
|---|---|---|
| France | 62,542 | 61,916 |
| Export | 213,607 | 204,604 |
| **Sales** | **276,149** | **266,520** |

### Breakdown of revenue by type

| in € thousand | 2019 | 2018 |
|---|---|---|
| Sales of finished goods and merchandise | 264,235 | 255,274 |
| Services | 11,914 | 11,246 |
| **Sales** | **276,149** | **266,520** |

## 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, 2019, subcontracted research and development costs amounted to 10.2 million.

### Competitiveness and employment tax credit

The *CICE* was abolished on January 1st, 2019.

### Foreign exchange differences

In accordance with the ANC 2015-05 regulation, implemented over the 2017 financial year, the impacts of hedging have been recognized in operating profit for the operational flows and in financial result for the financial flows. The impact of the balance of foreign exchange differences re-categorized in operations over the 2019 financial year amounts to €1,192,000:

- foreign exchange gains in the amount of €1,840,000 booked in accounts 756;
- foreign exchange losses in the amount of €3,031,000 booked in accounts 656.

## R3. Financial income and expenses

As of December 31, 2019, the financial result was up €8.8 million (+26.8%) compared with 2018. This change is due to the €12 million increase in dividends received and the €0.7 million increase in income from receivables. Interest expense on loans and credit lines were down €1.7 million. Operations and provisions regarding exchange rates had a negative impact of €5 million on profits. This year, a provision was also noted in the statements for the impairment of accounts receivable in the amount of €0.6 million.

### Financial expenses

| in € thousand | 2019 | 2018 |
|---|---|---|
| Provisions for foreign exchange losses | -4,341 | -3,324 |
| Provisions for subsidiaries shares dépréciations | -929 | -842 |
| Provisions for currents accounts depreciations | -601 | - |
| **Allowances for amortisation and provisions** | **-5,871** | **-4,166** |
| Interest, loans and credit lines | -12,006 | -13,569 |
| Other financial charges | -226 | -363 |
| Foreign exchange losses | -34,029 | -35,155 |
| **Other interest paid and similar expenses** | **-46,261** | **-49,087** |
| **Financial expenses** | **-52,132** | **-53,253** |

### Financial income

| in € thousand | 2019 | 2018 |
|---|---|---|
| Income from capital share | 41,751 | 29,722 |
| Reversal of provisions | 3,628 | 4,104 |
| Foreign exchange gains | 34,499 | 39,003 |
| Net income from sales of marketable securities | - | - |
| Income from various receivables | 13,977 | 13,317 |
| **Financial income** | **93,855** | **86,146** |

## R4. Non-recurring expenses and income

The company posted a net non-recurring income of €0.8 million, an improvement of €0.3 million compared with the 2018 financial year.
There was a reduction in allowances for extraordinary depreciation generating a net product of €1.02 million compared to 2018. A bonus on the buyback of treasury shares (liquidity contract) was recorded for the amount of €1.3 million over the financial year. Provisions for contingencies were recorded for a total amount of €3.3 million.

### Non-recurring expenses

| in € thousand | 2019 | 2018 |
|---|---|---|
| Net values of fixed asset disposals | -2,738 | -1,000 |
| Tax penalties | -39 | -3 |
| Other non-recurring | -486 | -806 |
| Allowances for regulated provisions | -3,704 | -4,936 |
| Allowances for provisions for risks and charges | -4,232 | -7,467 |
| Allowances for other provisions | -592 | -676 |
| **Non-recurring expenses** | **-11,791** | **-14,888** |

### Non-recurring income

| in € thousand | 2019 | 2018 |
|---|---|---|
| Income from disposal of fixed assets | 2,342 | 6,051 |
| Reversals of regulated provisions | 3,690 | 3,475 |
| Reversals of provisions for risks and charges | 2,502 | 792 |
| Reversals of provisions for extraordinary impairments | 796 | 620 |
| Transfers of extraordinary expenses | - | - |
| Miscellaneous income | 1,650 | 2,790 |
| **Non-recurring income** | **10,980** | **13,728** |

## R5. Income tax

As of December 31, 2019, the tax savings realized by Virbac as a result of tax losses incurred by consolidated subsidiaries and which may return if the subsidiaries become profitable again amounted to €555,000. As of December 31, 2019, a €6,623,000 research tax credit and a €37,500 corporate sponsorship tax credit were recognized. If Virbac had been taxed separately, it would have only recognized a total tax income equivalent to €6,661,000 of tax credits. As a result of tax consolidation, Virbac this year recognized a tax savings of €833,000.

### Increases and decreases of the future tax liability

The 2019 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 2020 with a rate reduced to 32.02%, versus 34.43%, as of 2019.
Given this reduction and the prospects for use, tax relief and tax increases are calculated based on a rate of 32.02% for 2020, beyond which the rate of 25.83% will apply.

| in € thousand | | 2019 | | 2018 |
|---|---|---|---|---|
| **Tax rate** | **32.02%** | **25.83%** | **32.02%** | **25.83%** |
| Special depreciation allowances | 1,222 | 7,403 | 1,172 | 7,440 |
| Unrealised foreign exchange losses | 5 | - | - | - |
| **Increases related to timing differences** | | **8,630** | | **8,612** |
| Solidarity contribution | 132 | - | 128 | - |
| Unrealised gains on investments of cash | - | - | - | - |
| Unrealised foreign exchange gains | - | - | 9 | - |
| Retirement obligations | - | 2,177 | - | 2,827 |
| Corporate sponsorship tax credit | 75 | - | 38 | - |
| Other provisions | 272 | 17 | 188 | 17 |
| **Total decreases by tax rate** | **479** | **2,194** | **363** | **2,844** |
| **Total decreases related to timing differences** | | **2,673** | | **3,207** |
| Tax carry forwards | - | -9,803 | - | -9,190 |
| **Items to be charged to the tax** | | **-9,803** | | **-9,190** |

### Exceptional tax evaluations and profit

**Tax rate 34.43%**

| 2019<br>in € thousand | Gross | Taxes | Net |
|---|---|---|---|
| **Financial year results** | **28,465** | **7,732** | **45,057** |
| Special depreciation allowances | 14 | -5 | 9 |
| Other regulated provisions | - | - | - |
| **Exceptional evaluations (allowances and reversals)** | **14** | **-5** | **9** |
| **Net income excluding exceptional tax evaluations** | **28,479** | **7,727** | **45,066** |

**Tax rate 34.43%**

| 2018<br>in € thousand | Gross | 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 2019 income tax

| in € thousand | Profit before taxes | Tax owed | Net income after taxes |
|---|---|---|---|
| Operating profit from ordinary activities | 38,136 | 1,505 | **39,641** |
| Non-recurring result | -811 | -434 | **-1,245** |
| Miscellaneous tax credits | - | 6,661 | **6,661** |
| **Net income for accounting purposes** | **37,325** | **7,732** | **45,057** |

## A1. Lease finance and operating lease transactions

### Operating lease agreements

Virbac signed operating lease agreements for computers. As of December 31, 2019, the commitment in terms of capital amounted to €1.4 million.

## A2. Off-balance sheet commitments

| in € thousand | 2019 | 2018 |
|---|---|---|
| Securities, deposits, letters of comfort and guarantees | 46,547 | 46,904 |
| -of which extended to related companies | 46,547 | 46,904 |
| **Commitments given** | **46,547** | **46,904** |
| Forward exchange contracts | 48,477 | 39,494 |
| OTC options exchange | 29,621 | 21,693 |
| Swap rate | 100,362 | 145,175 |
| Interest rate options | 105,606 | 179,336 |
| Crossed currencies swap | 44,423 | 44,423 |
| **Reciprocal commitments** | **328,489** | **430,121** |
| Real property finance leases | - | - |
| Finance leases | 1,438 | 2,062 |
| **Others commitments** | **1,438** | **2,062** |

### Contingent liabilities

At times, Virbac is involved in litigation or other legal proceedings, generally involving disputes related to intellectual property rights, disputes involving competition law and tax matters. A risk provision is recognized where appropriate. No provision is made when the company considers the liability to be contingent.
This is particularly true of a claim made at the end of 2016 by one of the Group's competitors seeking compensation for alleged harm resulting from an attack on the reputation of one of its trademarks and an infringement of this trademark. In this case, Virbac considers the application to be legally unfounded and disproportionate in terms of the amount claimed as compensation for the harm. It is, therefore, a contingent liability for which a significant outflow of resources is unlikely. The same applies to tax disputes. Where the company deems that a proposed remedy is unjustified and feels that its case is sufficiently strong, it treats each of these cases as a contingent liability.

## 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, 2019:

| 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** | 4,235 | 466 | 61 | 38 | 165 | 184 | **5,149** |

As of December 31, 2019, the Group's highest exposure to credit risk was €57.9 million, which represents the trade receivables as presented in the Group's consolidated financial statements. The risk on trade receivables between Group companies or €52.8 million 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, 2019, the amount of receivables assigned amounted to €1.5 million (classified as a reduction of trade receivables) and current funding was €1.4 million.

**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).
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 | 2019 | 2018 |
|---|---|---|
| Fair value hedges | -93 | -361 |
| Cash flow hedges | -146 | 204 |
| Net investment hedges | - | - |
| Derivatives not qualifying for hedge | -80 | -57 |
| **Exchange derivatives** | **-319** | **-214** |

## 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 | 2019 | 2018 |
|---|---|---|
| Fair value hedges | - | - |
| Cash flow hedges | 3,148 | 3,050 |
| Net investment hedges | - | - |
| Derivatives not qualifying for hedges | - | - |
| **Rate derivatives** | **3,148** | **3,050** |

## 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, 2019 qualified for hedge. Virbac therefore does not hold any isolated open position instrument.

| in € thousand | Nominal 2019 | Nominal 2018 | Positive fair value 2019 | Positive fair value 2018 | Negative fair value 2019 | Negative fair value 2018 |
|---|---|---|---|---|---|---|
| Forward exchange contracts | 48,477 | 39,494 | 227 | 295 | 467 | 525 |
| OTC options exchange | 29,621 | 21,693 | 92 | 137 | 173 | 121 |
| **Exchange instruments** | **78,098** | **61,187** | **319** | **432** | **640** | **646** |
| Swap rate | 100,362 | 145,175 | 39 | 1,212 | 1,386 | 581 |
| Interest rate options | 105,606 | 179,336 | 1 | 528 | 156 | - |
| Cross currency Swaps | 44,423 | 44,423 | 4,650 | 2,267 | - | 375 |
| **Interest rate instruments** | **250,391** | **368,934** | **4,690** | **4,007** | **1,542** | **956** |
| **Derivative financial instruments** | **328,489** | **430,121** | **5,009** | **4,439** | **2,182** | **1,602** |

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

| | 2019 | 2018 |
|---|---|---|
| Managers | 512 | 513 |
| Supervisors and technicians | 386 | 403 |
| Workers | 179 | 188 |
| Employees | 15 | 17 |
| Apprentices | 22 | 17 |
| **Workforce** | **1,114** | **1,138** |

## 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 | 2019 | 2018 |
|---|---|---|
| Accrued interest on employee profit-sharing | 2 | 1 |
| Accrued interest on credit line | 1,189 | 1,307 |
| **Loans and financial debts** | **1,191** | **1,308** |
| Provisions for pending invoices | 18,250 | 16,406 |
| Provisions for representation offices | 43 | 76 |
| Unrealised exchange differences | 1,270 | 1,291 |
| **Accounts payable and related accounts** | **19,563** | **17,773** |
| Third-party discounts, rebates and refunds to be obtained | 73 | 12 |
| Group discounts, rebates and refunds to be invoiced | - | 2 |
| **Discounts, rebates and refunds to be invoiced** | **73** | **14** |
| Provision for paid holidays (including social charges) | 7,963 | 7,835 |
| Provision for various bonuses (including social charges) | 8,747 | 7,748 |
| Provision for profit-sharing bonus | 2,035 | 564 |
| Provision for other accrued social charges | 120 | 522 |
| Provision for various accrued tax charges | 443 | 148 |
| Provision for professional training | 172 | 568 |
| Provision for the construction effort | 266 | 256 |
| Provision for the apprenticeship tax | 59 | 441 |
| Provision for the payroll taxes | -10 | 55 |
| Provision for the business added value assessment (CVAE) | 6 | 121 |
| Provision for the business property tax (CFE) | - | - |
| Provision for taxes and various duties | 149 | 142 |
| Provision for the solidarity contribution | 416 | 398 |
| **Tax and social payables** | **20,366** | **18,798** |
| Provision for various accrued tax charges | 229 | 234 |
| Bank overdrafts and accrued interest not yet matured | 37 | 49 |
| **Other payables** | **266** | **283** |
| **Accrued expenses** | **41,459** | **38,176** |

### Breakdown of accrued income

| in € thousand | 2019 | 2018 |
|---|---|---|
| Provision for interest accrued on loans | 298 | 748 |
| **Other financial assets** | **298** | **748** |
| Pending third-party receivable invoices | 148 | 84 |
| Pending Group receivable invoices | 205 | 496 |
| Unrealized third-party exchange differences | 97 | 70 |
| **Accounts receivable and related accounts** | **450** | **650** |
| Miscellaneous accrued income | - | - |
| Pending supplier credit note invoices | - | - |
| Accrued interest | 4 | 404 |
| **Other receivables** | **4** | **404** |
| **Accrued income** | **752** | **1,802** |

## A7. Related parties

### Compensation of corporate officers

The expense recognized by the company during the 2019 financial year and related to directors' attendance fees and the various compensation of the supervisory board amounted to €252,000. The expense recognized for the total compensation of the members of the executive board amounted to €1 269,775 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 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.

**Defined benefit retirement plan**

Following the decision of the supervisory board, on March 12, 2019, an amendment to the defined benefit pension plan for members of the executive board was signed on June 14, 2019. This amendment redefines the beneficiaries of the plan and the new applicable annuity rate. The plan resulted in the payment of an annuity to the insured, whereby 60% of the annuity continues to the spouse (or ex-spouse) under the following eligibility conditions:

- over 10 years' service in the Group, including 9 years as a member of the executive board or 15 years for a benefit of 10.5% of the reference salary (compared to 22.0% in the former plan);
- 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, 2019

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<br>in thousand currency | | Reserves and retained earnings before appropriation of net income<br>in thousand currency | | Loans and advances extended<br>€ thousand | Endorsements and deposits<br>€ thousand | Share of the capital held<br>% |
|---|---|---|---|---|---|---|---|---|
| **French subsidiaries** | | | | | | | | |
| Interlab | France | 63 463 | kEUR | 256 720 | kEUR | -36 | - | 100,00% |
| Virbac France | France | 240 | kEUR | 35 | kEUR | -25 280 | - | 99,95% |
| Virbac Distribution | France | 382 | kEUR | -1 047 | kEUR | 601 | - | 99,84% |
| Virbac Nutrition | France | 547 | kEUR | 329 | kEUR | -6 758 | - | 99,99% |
| Bio Véto Test | France | 200 | kEUR | 1 162 | kEUR | -795 | - | 100,00% |
| Alfamed | France | 40 | kEUR | 466 | kEUR | 221 | - | 99,60% |
| **Foreign subsidiaries** | | | | | | | | |
| Virbac Nederland BV | Netherlands | 45 | kEUR | 2 480 | kEUR | 254 | - | 100,00% |
| Virbac (Switzerland) AG | Switzerland | 200 | kCHF | 2 043 | kCHF | - | - | 100,00% |
| Virbac Ltd | United Kingdom | 2 | kGBP | 1 109 | kGBP | -3 144 | - | 100,00% |
| Virbac SRL | Italy | 1 601 | kEUR | 466 | kEUR | -1 522 | - | 100,00% |
| Virbac do Brasil Indústria e Comercio Ltda | Brazil | 22 032 | kBRL | 15 649 | kBRL | - | - | 100,00% |
| Virbac Danmark A/S | Denmark | 498 | kDKK | 9 667 | kDKK | - | 709 | 100,00% |
| Virbac Mexico SA de CV | Mexico | 6 197 | kMXN | 509 154 | kMXN | - | - | 99,60% |
| Laboratorios Virbac Mexico SA de CV | Mexico | 4 000 | kMXN | 27 243 | kMXN | - | - | 99,99% |
| Virbac Pharma Handelsgesellshaft mbH | Germany | 102 | kEUR | 11 | kEUR | - | - | 100,00% |
| Virbac Tierarzneimittel GmbH | Germany | 440 | kEUR | 1 897 | kEUR | -2 165 | - | 100,00% |
| Virbac Sp. z o.o. | Poland | 5 | kPLN | 445 | kPLN | - | - | 100,00% |
| Virbac Hungary Kft | Hungary | 3 000 | kHUF | 53 757 | kHUF | - | - | 100,00% |
| Virbac Uruguay S.A. | Uruguay | 2 173 | kUSD | 27 719 | kUSD | - | - | 99,18% |
| Virbac Trading (Shanghai) Co. Ltd | China | 22 454 | kCNY | -12 723 | kCNY | - | - | 100,00% |
| Virbac HK Trading Co Ltd | Hong Kong | 517 | kHKD | -310 | kHKD | - | - | 100,00% |
| Asia Pharma Ltd | Hong Kong | 16 055 | kHKD | 2 364 | kHKD | - | - | 100,00% |
| SBC Virbac Limited | Hong Kong | 0 | kHKD | 86 041 | kHKD | - | - | 100,00% |
| SBC Virbac Biotech | Taiwan | 188 835 | kTWD | -182 016 | kTWD | 11 338 | | 100,00% |
| Virbac Hellas SA | Greece | 300 | kEUR | 1 494 | kEUR | - | - | 100,00% |
| Animedica SA | Greece | 96 | kEUR | -56 | kEUR | - | - | 100,00% |
| Virbac España SA | Spain | 601 | kEUR | 401 | kEUR | -262 | - | 100,00% |
| Virbac Österreich GmbH | Austria | 36 | kEUR | - | kEUR | -208 | - | 50,00% |
| Virbac Korea Co. Ltd | South Korea | 1 600 000 | kKRW | 811 128 | kKRW | - | - | 100,00% |
| Virbac (Thailand) Co. Ltd | Thailand | 20 000 | kTHB | 79 331 | kTHB | - | - | 91,00% |
| Virbac (Taiwan) Co. Ltd | Taiwan | 18 000 | kTWD | 11 599 | kTWD | - | - | 100,00% |
| Virbac Colombia Ltda | Colombia | 7 404 486 | kCOP | 10 121 100 | kCOP | - | - | 99,98% |
| Virbac Philippines Inc. | Philippines | 48 500 | kPHP | -6 584 | kPHP | - | 250 | 100,00% |
| Virbac Japan Co. Ltd | Japan | 130 000 | kJPY | 338 929 | kJPY | - | 1 476 | 100,00% |
| Laboratorios Virbac Costa Rica SA | Costa Rica | 178 750 | kCRC | 863 240 | kCRC | - | - | 100,00% |
| Virbac Asia Pacific Co. Ltd | Thailand | 10 000 | kTHB | 4 993 | kTHB | - | - | 100,00% |
| Virbac de Portugal Laboratorios Lda | Portugal | 5 | kEUR | 546 | kEUR | 740 | - | 95,00% |
| Virbac Vietnam Co. Ltd | Vietnam | 22 606 324 | kVND | 156 358 566 | kVND | - | - | 100,00% |
| Virbac RSA (Proprietary) Ltd | South Africa | 54 | kZAR | 85 893 | kZAR | - | - | 100,00% |
| Virbac Animal Health India Private Limited | India | 3 839 | kINR | 4 196 373 | kINR | - | - | 100,00% |
| PP Manufacturing Corporation | United States | 0 | kUSD | 6 799 | kUSD | 623 | 5 984 | 100,00% |
| Virbac (Australia) Pty Ltd | Australia | 2 500 | kAUD | 45 955 | kAUD | - | - | 100,00% |
| Virbac New Zealand Ltd | New Zealand | 14 290 | kNZD | 25 320 | kNZD | - | - | 100,00% |
| Virbac Chile SpA | Chile | 1 000 | kCLP | 5 709 406 | kCLP | 55 400 | - | 100,00% |
| Virbac Patagonia Ltda | Chile | 57 398 882 | kCLP | 478 144 | kCLP | - | - | 1,00% |
| Virbac Latam Spa | Chile | 1 000 | kCLP | 137 476 | kCLP | - | - | 100,00% |
| GPM Virbac | Algeria | 70 000 | KDZD | -2 327 | kDZD | - | - | 42,86% |
| Virbac Hayvan Sagligi Limited Sirketi | Turkey | 4 990 | KTRY | -1 165 | kTRY | 236 | - | 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 | 2019 currency-to-EUR foreign exchange rate | |
|---|---|---|---|---|---|---|---|---|---|---|
| € thousand | € thousand | | | in thousand currency | | in thousand currency | | € thousand | closing | average |
| 276 785 | 276 785 | 4 230 849 | 4 230 849 | - | kEUR | -1 | kEUR | - | - | - |
| 40 761 | 40 761 | 10 434 | 10 439 | 74 172 | kEUR | 1 691 | kEUR | 9 453 | - | - |
| 538 | - | 5 741 | 5 750 | - | kEUR | 64 | kEUR | - | - | - |
| 2 933 | 2 933 | 68 349 | 68 354 | 46 411 | kEUR | 6 884 | kEUR | 4 648 | - | - |
| 17 601 | 17 601 | 30 939 | 30 939 | 6 255 | kEUR | 690 | kEUR | - | - | - |
| 688 | - | 1 004 | 1 008 | 11 065 | kEUR | -3 555 | kEUR | - | - | - |
| 10 443 | 10 443 | 89 | 89 | 22 921 | kEUR | 2 095 | kEUR | 1 914 | - | - |
| 115 | 115 | 2 000 | 2 000 | 16 803 | kCHF | 764 | kCHF | 184 | 1,085 | 1,111 |
| 3 | 3 | 2 000 | 2 000 | 39 967 | kGBP | 1 350 | kGBP | 1 353 | 0,851 | 0,879 |
| 5 046 | 5 046 | 179 900 | 179 900 | 26 005 | kEUR | 257 | kEUR | 1 000 | - | - |
| 11 390 | 11 390 | 22 032 352 | 22 032 353 | 141 125 | kBRL | 11 846 | kBRL | - | 4,516 | 4,425 |
| 5 350 | 5 350 | 500 | 500 | 99 637 | kDKK | 4 172 | kDKK | 215 | 7,472 | 7,466 |
| 1 240 | 1 240 | 6 171 776 | 6 196 830 | 1 027 212 | kMXN | 57 842 | kMXN | 374 | 21,220 | 21,551 |
| 2 974 | 2 974 | 3 999 543 | 4 000 000 | - | kMXN | -90 | kMXN | - | 21,220 | 21,551 |
| 71 | 71 | 2 000 | 2 000 | 32 | kEUR | 1 | kEUR | - | - | - |
| 1 593 | 1 593 | 861 200 | 861 200 | 52 175 | kEUR | 3 499 | kEUR | 2 088 | - | - |
| 1 | 1 | 100 | 100 | 39 296 | kPLN | 549 | kPLN | 228 | 4,257 | 4,297 |
| 10 | 10 | 1 | 1 | 295 791 | kHUF | 2 680 | kHUF | - | 330,530 | 326,258 |
| 14 581 | 14 581 | 99 175 | 100 000 | 16 981 | kUSD | 1 744 | kUSD | 534 | 1,123 | 1,118 |
| 2 850 | 2 850 | 100 | 100 | 121 432 | kCNY | 2 783 | kCNY | - | 7,821 | 7,738 |
| 50 | 50 | 517 355 | 517 355 | 366 | kHKD | -145 | kHKD | - | 8,747 | 8,768 |
| 1 766 | 1 766 | 3 | 3 | - | kHKD | -172 | kHKD | 289 | 8,747 | 8,768 |
| 13 829 | 13 829 | 102 | 102 | - | kHKD | -4 758 | kHKD | - | 8,747 | 8,768 |
| 5 623 | 5 623 | 18 883 500 | 18 883 500 | 85 548 | kTWD | -52 286 | kTWD | | 33,668 | 34,580 |
| 1 290 | 1 290 | 100 000 | 100 000 | 6 778 | kEUR | 464 | kEUR | 240 | - | - |
| 125 | 125 | 32 000 | 32 000 | - | kEUR | -3 | kEUR | - | - | - |
| 912 | 912 | 99 999 | 100 000 | 27 875 | kEUR | 950 | kEUR | 700 | - | - |
| 18 | 18 | 18 170 | 36 340 | 6 139 | kEUR | 339 | kEUR | 122 | - | - |
| 1 329 | 1 329 | 320 000 | 320 000 | 10 374 180 | kKRW | 715 419 | kKRW | - | 1 296,280 | 1 305,896 |
| 429 | 429 | 9 100 | 10 000 | 274 918 | kTHB | 14 983 | kTHB | - | 33,415 | 34,663 |
| 485 | 485 | 1 800 000 | 1 800 000 | 361 377 | kTWD | 14 215 | kTWD | 424 | 33,668 | 34,580 |
| 3 408 | 3 408 | 5 659 | 5 660 | 40 539 148 | kCOP | 1 613 807 | kCOP | - | 3 685,000 | 3 669,008 |
| 1 156 | 1 156 | 37 999 997 | 38 000 000 | 205 537 | kPHP | 12 100 | kPHP | - | 56,900 | 57,826 |
| 2 834 | 2 834 | 6 400 | 6 400 | 1 979 204 | kJPY | 35 074 | kJPY | - | 121,940 | 121,804 |
| 432 | 432 | 420 658 | 420 658 | 2 328 922 | kCRC | 249 787 | kCRC | 1 083 | 640,640 | 656,223 |
| 209 | 209 | 99 998 | 100 000 | 197 192 | kTHB | 11 121 | kTHB | 458 | 33,415 | 34,663 |
| 5 | 5 | 380 | 400 | 7 101 | kEUR | 17 | kEUR | - | - | - |
| 2 977 | 2 977 | 1 000 | 1 000 | 295 224 068 | kVND | 4 388 688 | kVND | - | 25 977,000 | 26 028,032 |
| 5 305 | 5 305 | 56 684 | 56 684 | 443 552 | kZAR | 47 938 | kZAR | 2 247 | - | - |
| 66 | 66 | 383 899 | 383 900 | 7 036 480 | kINR | 1 498 311 | kINR | - | 80,187 | 78,788 |
| 4 946 | 4 946 | 100 | 100 | 7 661 | kUSD | -546 | kUSD | - | 1,123 | 1,118 |
| 4 346 | 4 346 | 2 499 997 | 2 500 000 | 108 778 | kAUD | 14 542 | kAUD | 14 197 | 1,600 | 1,610 |
| 11 451 | 11 451 | 14 290 000 | 14 290 000 | 29 194 | kNZD | 5 112 | kNZD | - | 1,665 | 1,702 |
| 2 | 2 | 1 000 | 1 000 | - | kCLP | 1 112 120 | kCLP | - | 844,850 | 785,579 |
| - | - | 1 | 100 | - | kCLP | 1 362 544 | kCLP | - | 844,850 | 785,579 |
| 1 | 1 | 1 000 | 1 000 | 810 452 | kCLP | 34 867 | kCLP | - | 844,850 | 785,579 |
| 240 | - | 300 | 700 | - | kDZD | -10 194 | kDZD | - | 133,642 | 133,628 |
| 802 | 802 | 100 | 100 | 7 291 | kTRY | -1 159 | kTRY | - | 6,684 | 6,317 |

# Statutory auditors' report on the financial statements

For the year ended December 31, 2019

*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 English 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 Virbac annual general meeting,

## 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, 2019. These financial statements were prepared by the management board on February 28, 2020 based on available information up to this date, in the changing context of the Covid-19 related health crisis.
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, 2019 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, 2019 to the issuance 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, prepared in the context mentioned above, 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, 2019, equity investments have a net carrying amount of €457.5 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, the discounted present value of forecast cash flows, which is based on the net result of the last four years, and the terminal value.
Impairment tests performed by management to calculate the value in use of equity investments require management to make significant judgments and assumptions, notably concerning:

- discount rates applied to cash flows;
- and the terminal growth rate applied to assess the terminal value.

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;
- verified that the net results used for the determination of future cash flows agree with the entity accounts audited;
- assessed the discount rates adopted by management, comparing it with our own estimated rates, prepared with the assistance of our valuation specialists;
- assessed the reasonableness of the long-term growth rate used to determine the terminal value;
- sample tested the arithmetical accuracy of the impairment tests performed by the company;
- 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.

## VERIFICATION OF THE MANAGEMENT REPORT AND OF THE OTHER DOCUMENTS PROVIDED TO SHAREHOLDERS

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

### Information given in the management report and other documents provided to shareholders with respect to the financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the executive board and in the other documents provided to shareholders with respect to the financial position and the financial statements.

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 contains the information required by articles L225-37-3 and L225-37-4 of 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 directors and any other commitments made in their favor, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

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, 2019, Novances-David & Associés and Deloitte & Associés were in the 21st year and 16th 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 6, 2020
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, 2019.

To the Virbac annual general meeting,

in our capacity as statutory auditors of your company, we hereby report to you on regulated agreements and commitments.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or which we may have discovered during the course of our audit, as well as the reasons justifying that such commitments and agreements are in the company's interest, without expressing an opinion on their usefulness and appropriateness or identifying other such agreements and commitments, if any. It is your responsibility, pursuant to article R225-58 of the French commercial code (*Code de commerce*), to assess the interest involved in respect of the conclusion of these agreements and commitments for the purpose of approving them.

Our role is also to provide you with the information stipulated in article R225-58 of the French commercial code relating to the implementation during the past year of agreements and commitments previously approved by the shareholders' meeting, if any.
We performed the procedures that we considered necessary with regard to the professional guidelines of the French national institute of statutory auditors (*Compagnie nationale des commissaires aux comptes*) relating to this engagement. These procedures consisted in agreeing the information provided to us with the relevant source documents.

## AGREEMENTS AND COMMITMENTS SUBMITTED TO THE APPROVAL OF THE SHAREHOLDERS' MEETING

### Agreements and commitments authorized during the year

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 authorized during the years

We hereby inform you that we have not been advised of any agreement or commitment previously approved by shareholders' meetings which remained in force during the year.

Nice and Marseille, April 6, 2020
The statutory auditors

| | |
|---|---|
| **Novances-David & Associés** | **Deloitte & Associés** |
| Jean-Pierre Giraud | 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 17, 2020

Sébastien Huron, chairman of the executive board

# Ordinary shareholders' meeting of June 22, 2020

# Explanatory statement and draft resolutions

## 1. Approval of the statutory accounts of the financial year 2019

### Statement

### Resolutions 1, 2 and 3: approval of the annual accounts (parent company and consolidated), allocation of profit from the 2019 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 €45,056,789.42 in 2019;
- the consolidated accounts from the 2019 financial year, with details and explanations appearing on pages 122 to 187;
- allocation of profit.

At the shareholders' meeting a proposal will be made not to distribute a dividend for the financial year 2019.
Profit for the financial year, which amounted to €45,056,789.42 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 2019.

### Resolutions

### First resolution: approval of the statutory accounts for the 2019 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, 2019 showing a net profit of €45,056,789.42, 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 €411,997. 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 2019 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, 2019, approves, as they were presented, the consolidated accounts for this financial year, showing a net profit of €51,549,499 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 2019 |
|---|---|
| Net result for the period | 45,056,789.42 |
| Retained earnings carried forward | 343,094,605.91 |
| **Distributable result** | **388,151,395.33** |
| Retained earnings for the period | 45,056,789.42 |

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 2016 | - | - |
| In respect of 2017 | - | - |
| In respect of 2018 | - | - |

## 2. Regulated agreements

### Statement

### Resolution 4: agreements and commitments known as “regulated”, pursuant to article L225-86 et seq. of the French commercial code

No agreements or undertakings subject to the provisions of article L225-86 of the French commercial code have been entered into or renewed in the 2019 financial year, and there is no agreement or commitment already approved by the shareholders’ meeting that would continue during the past financial year.
However, a resolution will be presented at the shareholders’ meeting to acknowledge the absence of regulated agreements and commitments.

### 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 noting the absence of agreements and commitments subject to the provisions of article L225-86 of the French commercial code, shall simply take note of them.

## 3. Supervisory board - renewal and ratification of the appointment of members

### Statement

### Resolutions 5 to 7

- Solène Madelpuech’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 Solène 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, 2022 (resolution 5).

- The mandate of the OJB Conseil company, represented by Olivier Bohuon, a member of the supervisory board, expires at the end of this shareholders’ meeting.
  Accordingly, we propose that you renew the OJB Conseil company’s mandate 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, 2022 (resolution 6).

- At its March 19, 2020 meeting, the supervisory board co-opted the Cyrille Petit Conseil company as a member of the supervisory board, replacing Cyrille Petit, who has resigned.
  Accordingly, we propose that you ratify the appointment of the Cyrille Petit Conseil company, represented by Cyrille Petit, as a member of the supervisory board for the remainder of Cyrille Petit’s term of office, until the end of the shareholders' meeting convened to approve the accounts for the financial year ending December 31, 2021 (resolution 7).

Information involving members of the supervisory board appears on pages 82 to 93 of the corporate governance report.

## Resolutions

### Fifth resolution: renewal of Solène 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 Solène Madelpuech's term of office as a member of the supervisory board for an additional period of three years that will expire at the close of the shareholders' meeting convened to approve the accounts for the financial year ending December 31, 2022.

### Sixth resolution: renewal of the term of office of the OJB Conseil company 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 the OJB Conseil company represented by Olivier Bohuon, as a member of the supervisory board for an additional period of three years that will expire at the close of the shareholders' meeting convened to approve the accounts for the financial year ending December 31, 2022.

### Seventh resolution: ratification of the appointment of the Cyrille Petit Conseil company 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 Cyrille Petit Conseil company, represented by Cyrille Petit, as a member of the supervisory board, temporarily appointed by the supervisory board at its meeting of March 19, 2020, replacing Cyrille Petit.
The Cyrille Petit Conseil company will hold its office for the remainder of Cyrille Petit'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, 2021.

# 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 2020 financial year.

## Resolution

### 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, 2020.

Information regarding the non-voting advisor appears on page 93 of the corporate governance report.

## 5. Appointment of a deputy auditor

### Statement

### Resolution 9

The deputy statutory auditor, Laurent Gilles, expressed his willingness to resign his duties as deputy statutory auditor. A proposal will be made at the shareholders' general meeting to vote on the appointment of a new deputy statutory auditor, the Novances-Dechant et Associés company, for the time remaining in the term of its predecessor, until the end of the shareholders' meeting which will approve the accounts for the 2021 financial year.

### Resolution

### Ninth resolution: appointment of the Novances-Dechant et Associés company as deputy statutory auditor

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, decides to appoint the Novances-Dechant et Associés company as deputy statutory auditor, replacing Laurent Gilles, who is resigning, for the time remaining in the term of its predecessor, until the end of the ordinary shareholders' meeting which will approve the 2021 financial year accounts.

## 6. Compensation

### Statement

### Resolutions 10 to 16

Pursuant to article L225-100 II. of the French commercial code, the information referred to in article L. 225-37-3 I. of the French commercial code which is contained in the corporate governance report and concerns the remuneration of corporate officers, is subject to resolutions submitted at the shareholders' meeting.

Pursuant to the provisions of article L225-100 III. of the French commercial code, the elements making up total compensation and other benefits paid during the 2019 financial year or assigned under the same financial year to the chairwoman of the supervisory board, to the chairman of the executive board and to the other members of the executive board, are subject to the approval of the shareholders' meeting as they appear in the corporate governance report (pages 101 to 116).

In accordance with the provisions of article L225-82-2 of the French commercial code, payment of the variable portion of compensation for 2019 to the members of the executive board and its chairman is subject to approval during the June 22, 2020 shareholders' meeting as provided for in article L225-100 II. of the French commercial code.

### Resolutions

### Tenth resolution: approval of the information referred to in article L225-37-3 I. of the French commercial code appearing in the corporate governance report involving members of the supervisory board

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, after having acquainted itself with the corporate governance report referred to in article L225-68 of the French commercial code, approves, pursuant to article L225-100 II of the French commercial code, information involving supervisory board members, referred to in article L225-37-3 I. of the French commercial code, as presented in the corporate governance report (pages 101 and 102).

## Eleventh resolution: approval of the information referred to in article L225-37-3 I. of the French commercial code appearing in the corporate governance report involving members of the executive board

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, after having acquainted itself with the corporate governance report referred to in article L225-68 of the French commercial code, approves, pursuant to article L225-100 II of the French commercial code, information relating to executive board members, referred to in article L225-37-3 I. of the French commercial code, as presented in the corporate governance report (pages 102 to 116).

## Twelfth resolution: approval of the elements comprising compensation and benefits of any nature paid or awarded in the 2019 financial year to Marie-Hélène Dick-Madelpuech, chairwoman of the supervisory board

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, having acquainted itself with the corporate governance report referred to in article L225-68 of the French commercial code, approves, pursuant to article L225-100 III. of the French commercial code, elements comprising compensation and other benefits paid in the 2019 financial year or assigned under the same financial year to Marie-Hélène Dick-Madelpuech, chairwoman of the supervisory board, as presented in the corporate governance Report (page 102).

## Thirteenth resolution: approval of the components of compensation and benefits-in-kind paid or allocated for 2019 to Sébastien Huron, chairman of the executive board

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, having acquainted itself with the corporate governance report referred to in article L225-68 of the French commercial code, approves, pursuant to article L225-100 III. of the French commercial code, components making up the total compensation and benefits-in-kind paid during or allocated for 2019 to Sébastien Huron, chairman of the executive board, as indicated in the corporate governance report (pages 105 to 108).

## Fourteenth resolution: approval of the components of compensation and benefits-in-kind paid or allocated for 2019 to Christian Karst, member of the executive board

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, having acquainted itself with the corporate governance report referred to in article L225-68 of the French commercial code, approves, pursuant to article L225-100 III. of the French commercial code, components making up the total compensation and benefits-in-kind paid during or allocated for 2019 to Christian Karst, member of the executive board, as indicated in the corporate governance report (pages 105 to 106 and 108 to 110).

## Fifteenth resolution: approval of the components of compensation and benefits-in-kind paid or allocated for 2019 to Habib Ramdani member of the executive board

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, having acquainted itself with the corporate governance report referred to in article L225-68 of the French commercial code, approves, pursuant to article L225-100 III. of the French commercial code, components making up the total compensation and benefits-in-kind paid during or allocated for 2019 to Habib Ramdani, member of the executive board, as indicated in the corporate governance report pages 105 to 106 and 110 to 111).

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## Sixteenth resolution: approval of the components of compensation and benefits-in-kind paid or allocated for 2019 to Jean-Pierre Dick, member of the executive board

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, having acquainted itself with the corporate governance report referred to in article L225-68 of the French commercial code, approves, pursuant to article L225-100 III. of the French commercial code, components making up the total compensation and benefits-in-kind paid during or allocated for 2019 to Jean-Pierre Dick, member of the executive board, as indicated in the corporate governance report (pages 105 to 106 and 111 to 112).

## Statement

### Resolutions 17 and 18: approval of the compensation policy for members of the supervisory board and the executive board for the 2020 financial year:

Pursuant to article L225-68 of the French commercial code, the supervisory board submits the corporate governance report which describes the elements of the corporate officers' compensation policy, for approval by the shareholders' meeting. Pursuant to article L225-82-2 of the French commercial code, this report submits for approval by the shareholders' meeting the principles and criteria applicable to the determination, distribution and allocation of the fixed, variable and extraordinary elements comprising total compensation and benefits-in-kind attributable to members of the executive board and members of the supervisory board due to the exercise of their term of office for the 2020 financial year, and 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 involving 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 101 to 105 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

### Seventeenth resolution: approval of the compensation policy for the chairwoman and members of the supervisory board for the 2020 financial year

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, having acquainted itself with the corporate governance report referred to in article L225-68 of the French commercial code, describing elements of the compensation policy for corporate officers, approves, pursuant to article L225-82-2 III. of the French commercial code, the compensation policy for members of the supervisory board and its chairwoman for the 2020 financial year, as presented in the corporate governance report (page 101).

### Eighteenth resolution: approval of the compensation policy for the chairman and members of the executive board for the 2020 financial year

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, having acquainted itself with the corporate governance report referred to in article L225-68 of the French commercial code, describing elements of the compensation policy for corporate officers, approves, pursuant to article L225-82-2 II. of the French commercial code, the compensation policy for members of the executive board and their chairman for the 2020 financial year, as presented in the corporate governance report (pages 102 to 105).

## Statement

### Resolution 19: determination of compensation allocated to supervisory board members

At the shareholders' meeting, a proposal will be made to allocate the sum of €160,000 to the supervisory board for the purposes of remunerating its members for the current financial year. It is noted that the amount allocated in 2019 was €157,000. The supervisory board will determine the distribution of this sum among its members.

## Resolution

### Nineteenth resolution: determination of compensation allocated to supervisory board

The shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, decides to grant the sum of €160,000 as compensation of the members of the supervisory board for 2020; said sum is to be distributed among its members by the supervisory board.

# 7. Authorization to be granted to the executive board to buy back shares of the company

## Statement

### Resolution 20: authorization to be granted to the executive board to buy back the company's shares

The ordinary shareholders' meeting of June 18, 2019 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, 2019, Virbac held a total of 26,178 treasury shares, acquired on the market for a total of €3,969,103 excluding fees, for an average price of €151.62 per share.

During the financial year, the company bought 75,362 treasury shares (at an average price of €174.48) and sold 85,134 treasury shares (at an average price of €177.08) as part of the market-making contract. In 2019, no shares were purchased or sold as part of performance-related stock grants.
As of December 31, 2019, treasury shares accounted for 0.31% of Virbac's capital. They are earmarked in part for market-making and performance-related stock grants, as well as for possible capital reduction, 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

### Twentieth 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 29,387 shares already held as of February 28, 2020, is thus set at €285,744,550.

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 18, 2019, in its twenty-seventh 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.

## 8. Powers to carry out formalities

### Statement

#### Resolution 21: powers

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

### Resolution

#### Twenty first 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.

**Anibidiol**
food supplement for dogs and cats in powder/granulate form combining on hemp oil and vitamins B3 and B6

**Alizine**
contraceptive for dogs

**Boviseal**
injectable suspension used to prevent intramammary infections in cattle

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

**Browse Plus**
food supplement for food producing animals

**C.E.T. Veggiedent Flex**
chews enabling to fight bad breath and support joint health in dogs

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

**C.E.T. Veggiedent Zen**
chews enabling to fight bad breath and support relaxation in dogs

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

**Easotic**
auricular treatment for otitis in dogs combining miconazole, gentamicin and hydrocortisone aceponate

**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

**Evicto**
selamectin-based endectocide treatment for dogs and cats

**Fosfosal injectable**
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

**Hyaloral**
food supplement in tablet or gel form to support the joint mobility in dogs and cats

**Kriptazen**
halofuginone-based antiprotozoal solution for newborn calves

**Luminal**
phenobarbital-based tablet for treating epilepsy in dogs

**Milpros**
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 chewable**
chewable internal parasiticide for dogs

**Multimin**
trace element injectable supplement for food producing animals

**Nutri-plus gel**
food supplement for dogs in oral paste form

**Prevendog**
deltamethrin-based parasiticides collar for dogs

**Pronefra**
food supplement to support the renal function in dogs and cats in case of chronic kidney disease

**Sentinel Flavor Tabs et 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

**Suramox**
coated amoxicillin-based antibiotic prescribed for the treatment of respiratory infections in swine and poultry

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

**Syvazul**
bluetongue vaccine for sheep and cattle

**Vetemex**
antiemetic solution for dogs and cats based on maropitant

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

**Virbamec Platinum**
injectable solution for the treatment of internal and external parasites in cattle

**Zoletil**
multi-species general anesthetic

# WE ARE AT YOUR SERVICE ON 5 CONTINENTS

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Shaping the future of animal health