

A close-up, high-contrast photograph of a horse's white mane, showing the texture and flow of the hair. The mane is the central visual element of the cover.

Virbac Annual Report 2003

Animal Health is our Passion



Virbac

SANTÉ ANIMALE

Virbac

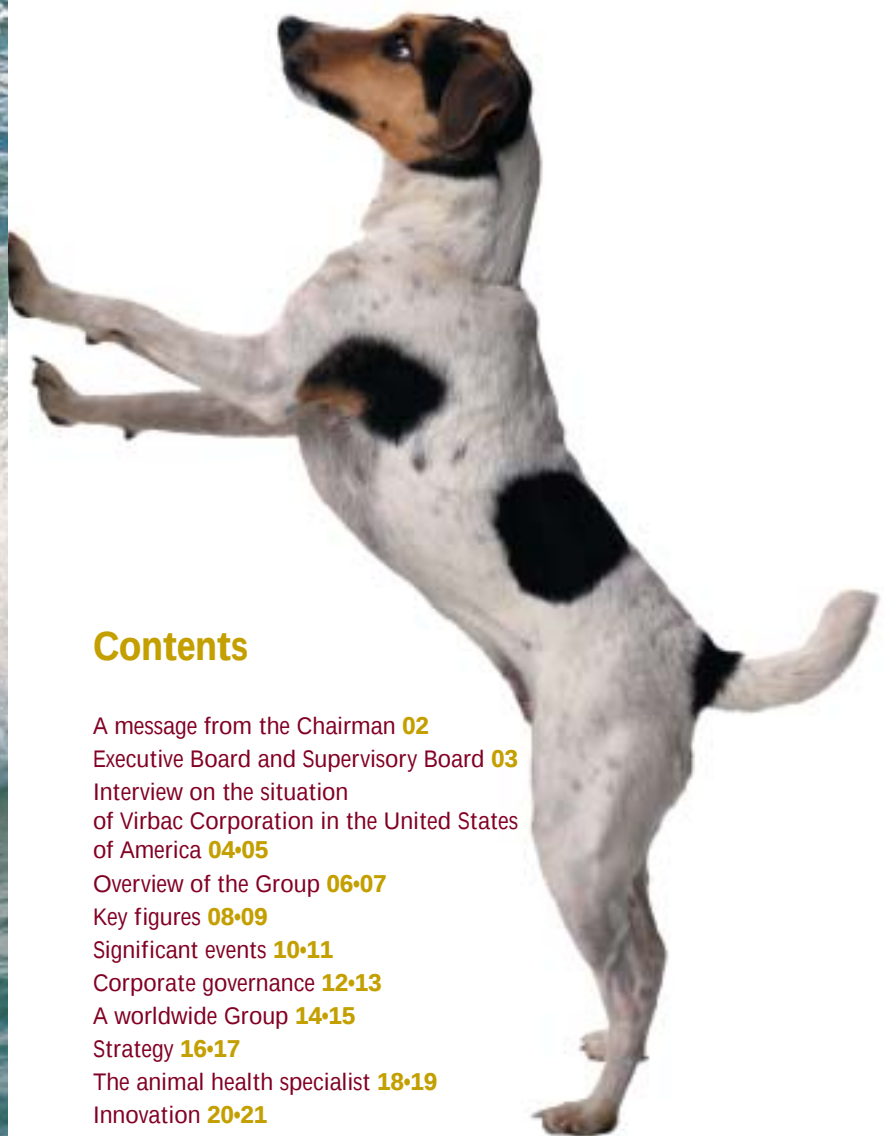
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SANTÉ ANIMALE

Virbac

SANTÉ ANIMALE

17 November 2003
**The monohull Virbac wins
the Jacques Vabre transatlantic race**



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A message from the Chairman of the Executive Board

Éric Marée

A difficult year

An excellent first half year, which enabled us to offset in full the sharply appreciating euro in terms of turnover and to make advances in profitability, was followed by a dreadful second half. The last six months of the year were of course marked by the sudden emergence of the accounting and stock market crisis of Virbac Corp. in the United States of America (which is covered in detail in this report), but also by a slowdown of markets, particularly in Europe, the termination of petfood distribution agreements and a failure to fully absorb fixed production costs—the unfavourable counterpart to the successful drive to reduce inventory in Europe. But this should not obscure the many reasons for satisfaction.

- Firstly, there was a spate of acquisitions in 2003, some of them making an immediate contribution to our growth and profitability (King and Delmarva in the United States of America). Others will boost our short-term and medium-term growth prospects (respectively, world rights for Romifidine and BVT vaccine under development). Yet others will help consolidate our positions in a strategic area (production and intellectual property rights for Leucogen®).
- Even in a year as unfavourable as 2003, the Group has continued to win market shares, as illustrated by a growth rate of 2.8% excluding exchange rate effect, compared to a world market growth rate of 1.1%.
- Again excluding exchange rate effect, the Group's operating profit progressed by 8.8% (excluding the United States of America), demonstrating the underlying trend towards improved profitability, although this improvement is slower than we expected.
- Cash generation from usual activity has remained at a very high level despite the sharp fall of net profit, largely thanks to the reduced level of inventory. Consolidated net debt has consequently moved forward by no more than € 22 million while at the same time the Group invested over € 32 million in acquisitions and licences.

Our three challenges

The Group as a whole has braced itself to meet the three major challenges facing us: the recovery of Virbac Corp., cost control and sustained growth.

The recovery of Virbac Corp. is well underway. The transitional management team introduced at Virbac Corp. has worked to strengthen audit procedures in line with the Sarbanes-Oxley law applicable to all listed companies. This effort will be continued by the executives appointed to develop the company in the years ahead in compliance with the Group's values. Business in the early part of this year is totally satisfactory and we expect to see a return to profitability in 2004 despite the additional costs for lawyers and auditors arising out of the present situation.

In the context of a strong euro, the rise of raw material costs and a sluggish world veterinary market, cost control has become an issue of strategic importance for the Group. Major measures, such as the reduction of purchase costs, were launched in 2003 and will have an impact running into several million euros as from 2004. New initiatives, including reinforced industrial competitiveness and optimised marketing, commercial and computer expenses, are now in progress. In all cases, the objective is to ensure that the growth in Group expenses remains less than the growth in sales on a permanent basis, without in any way acting as a brake to innovation.

Innovation is in fact the motor fuelling growth, taking over from geographical expansion which was the key to development in the 90's. Although there is still potential for penetrating new countries in several regions of the world, the bulk of our growth will come from countries in which we have already established a presence, through increased market shares spurred by innovation. Resources committed to product innovation, combining research, development and licensing, are increasingly concentrated on a handful of major global or at least multi-regional projects concerning companion animals. We shall continue with a more decentralised approach for food-

producing animals, in line with market needs and regulatory requirements that tend to differ more substantially at regional and even national level.

Prospects remain bright

We are convinced that the Group is capable of continued growth at the rate of approximately 5% per year, excluding foreign exchange and structure effect, in other words well above the global market rate. Although opportunities for quality external growth are not always easy to find, such opportunities exist and

we shall continue to do our utmost to bring them to fruition. In this we are helped by our extremely healthy financial structure. Following the mishap of 2003 and a year 2004 in which we are unlikely to attain the profitability levels of 2002 (due to the additional costs incurred in putting an end to the crisis in the United States of America), the 2005 financial year should see Virbac back on track in increasing its profitability.

We wish to thank you for your continuing confidence and loyalty.



Executive Board

Éric Marée, Chairman ①
Pierre Pagès, Chief Operating Officer ②
Christian Karst ③
Michel Garaudet ④
Jean-Pierre Dick ⑤

Supervisory Board

Jeanine Dick, Chairwoman
Pierre Madelpuech, Vice-Chairman
Investec, represented by Marie-Hélène Dick-Madelpuech
Olivier de Pelet
François Guinot



Interview on the situation of Virbac Corporation in the United States of America

What happened in your 60% owned American subsidiary, Virbac Corp.?

Éric Marée : The problem can be traced back to a product, with a short deadline, launched two years ago. Owing to the product's short shelf life, it was essential for Virbac Corp. to keep a very close watch on the return rate from distributors and to record the predicted impact in the accounts. It transpired that the information on returns from one distributor was not accurate.

Thus, when the accounts for the third quarter of 2003 were reviewed, it transpired that certain invoices for the product with this distributor had not been paid and the corresponding returns were not properly anticipated in the accounts.

The investigation immediately carried out at the request of the Audit Committee also revealed that the sales figures for another product had been recorded too soon by Virbac Corp.

compared to their actual payment conditions. This resulted in discrepancies with regard to the time factor but did not, all things considered, generate losses. The examination also brought to light the fact that insufficient provisions were made for certain company risks, particularly depreciation of inventories. The CEO and the CFO left the company in the wake of the investigation.

Would you say that this incident is the result of a lack of internal audit in the subsidiary?

Éric Marée : This kind of incident can only arise when there are weaknesses in the internal audit system. Virbac Corp. has of course since made a point of reviewing all the operational processes. The discrepancies have been highlighted and a plan designed to remedy them has been set in motion. This operation is all the more necessary in view of the

implementation of the Sarbanes-Oxley laws which reinforce the audit obligations of American listed companies.

However, it should be pointed out that these difficulties occurred despite the fact that the company has an Audit Committee whose members are independent from the Board of Directors, that the SEC's quarterly

and annual reporting requirements are extremely strict and that the accounts have for several years been reviewed each quarter and audited at the end of each financial year by one of the largest international auditors' firms.

As of today, do you have a reliable evaluation of the impact of this incident on the Virbac Group?

Éric Marée : The audit conducted by the auditors has not yet been completed and we are therefore unable to give definitive results.

Nevertheless, on the basis of the information on hand at this stage, Virbac S.A. estimates that the degree of uncertainty is acceptable with

the drawing up and publishing of the consolidated accounts on this basis.



What will be the impact on Virbac's activity on the American market?

Éric Marée : The difficulties are essentially at accounting, legal and stock market level. Operational activity has remained good since Virbac Corp. has preserved the confidence of its partners and clients. Its members have resolutely and

successfully faced up to this temporarily complex situation. The company's prospects continue to be bright, as confirmed by the recent acquisitions whose results are already up to expectations.

FACTS AND FIGURES

- ▶ Animal health market in the United States of America: 37.5% of the world market
- ▶ Virbac's share of the North American market: 1.5%
- ▶ Principal strong points of Virbac in the United States of America:
 - Dermatology
 - Bucco-dental and dental care
 - Endocrinology



Overview of the Virbac Group

Profile

1st independent world pharmaceutical company
dedicated exclusively to animal health

9th world veterinary pharmaceutical company

5th European veterinary pharmaceutical company

**Resources
focused
on two sectors**



**Virbac is interested
in the health
of all animals**

**A very strong
international presence**

75% of sales outside France

23 subsidiaries on five continents

Commercial presence
in over **100** countries

**Sound performance
on the Stock Market**

Virbac S.A. has been listed on the
secondary Paris Stock Market since 1985

46.6% of the capital and **63.2%**
of the voting rights are held by the family
of Virbac's founder





2,248 employees

+2.8% growth in sales in 2003*

(* pro forma at constant exchange rate)

Rank	Companies	Sales 2003 in \$ million	Market share
1	Pfizer	1,731	13.8%
2	Meril	1,684	13.4%
3	Intervet	1,141	9.0%
4	Bayer	834	6.6%
5	Fort Dodge	793	6.3%
6	Elanco	727	5.8%
7	Schering Plough	697	5.5%
8	Novartis	574	4.6%
9	Virbac	394	3.1%

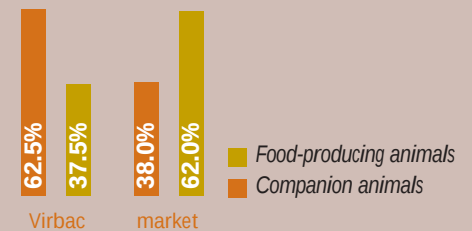
(source: Wood Mackenzie)

Virbac is a pioneer in the field of **companion animals** and now holds a leading position in this market (ranked **7th** in the world and **5th** in Europe)

The Group has a more selective presence in the **food-producing animal** market where it holds solid positions in the most lucrative segments

ANIMAL HEALTH MARKET BY SPECIES

(% of sales excl. miscellaneous)

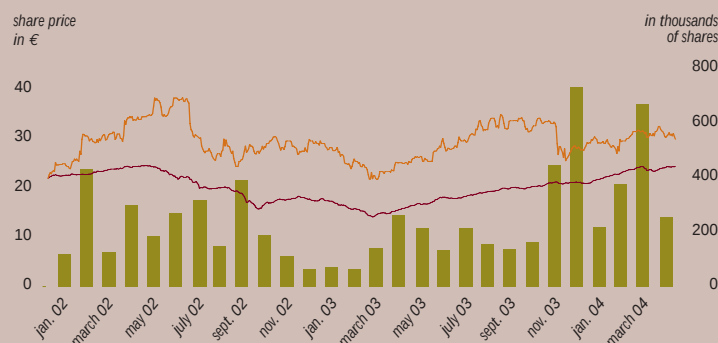
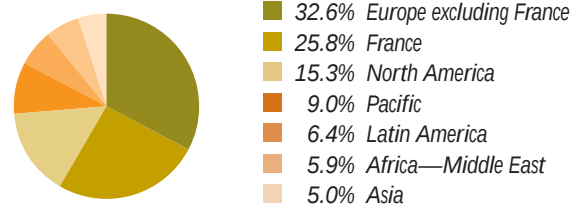


55% of workforce outside France

4 R&D centres

Production sites in **7** countries

BREAKDOWN OF SALES IN 2003

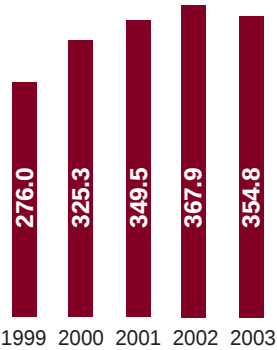


SHARE PRICE 2002-2004 (DAILY PRICES)

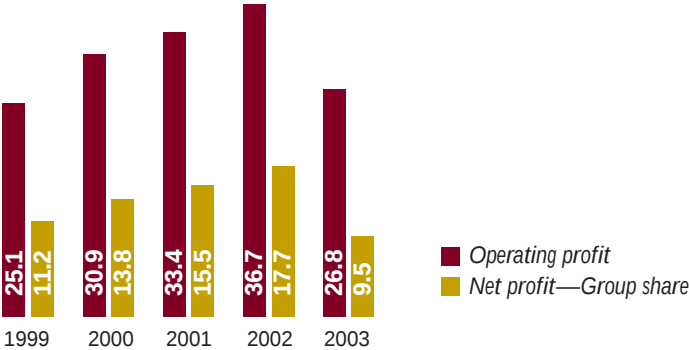
Key figures 2003

-3.6%
Sales

SALES
(in € million)



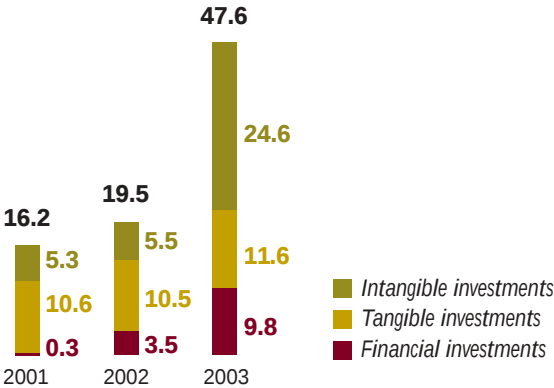
PROFIT
(in € million)



CASH FLOW
(in € million)



INVESTMENTS
(in € million)



+2.8%

Sales pro forma at
constant exchange rate

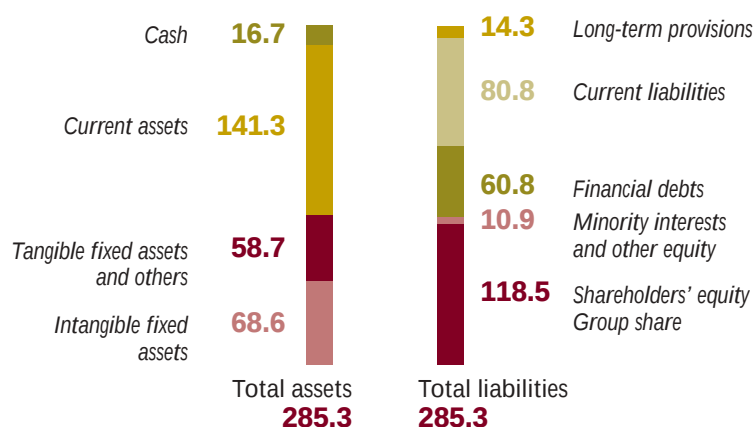
-26.9%

Operating profit

-46.4%

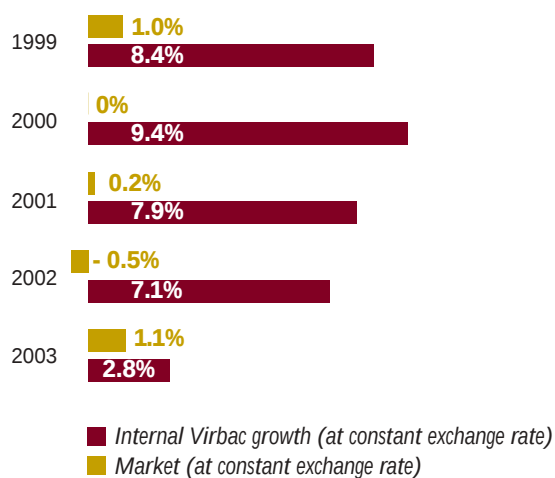
Net profit—Group share

BALANCE SHEET STRUCTURE (in € million)



COMPARISON OF MARKET AND VIRBAC GROWTH

(sources: Wood Mackenzie, Virbac)



Significant events 2003

Acquisitions



Acquisition of BVT in France.

Acquisition of Delmarva company in the United States of America.

Acquisition of the veterinary department of King Pharmaceuticals in the United States of America.

R&D and licensing

Acquisition of Romifidine rights (all species excluding equine).

Redefinition of the missions of the Corporate Marketing Department in charge of long-term planning and major research options.

Product Marketing Authorisation by mutual recognition of Alizin® in all European countries.

Patent of Zeramec™ in the United States of America

Productivity investments

In France: new sterilisation tunnel for injection vials at VB1 and reorganisation of the tablet workshop at VB1.

Outside France: implementation of a production line for liquids in Vietnam.





Launches:

- Hygiene range (physiological shampoo and ear-cleaning agent) in France.
- Cat petfood range in France.
- Avlezan® (anti-inflammatory for food-producing animals and horses) in France.
- Pulmodox® premix (antibiotic for pigs) in Germany.
- Zeramec® (original association of an endectocide and an anabolic steroid, developed by the Mexican R&D centre) in Latin America.
- Fortiflex® (motor function disorders) in Brazil, Spain and Taiwan.
- Equimax™ (parasiticide for horses) on the American market.

Products and ranges



Termination of distribution agreements:

Petfood ranges in the Netherlands and New Zealand.



Virbac Corporation delisted from the NASDAQ (November 2003).

Stock Market

The monohull Virbac wins the Jacques Vabre (Le Havre–Bahia) transatlantic race (17 November 2003).

Sponsoring



Corporate governance

The Executive Board

The Board is responsible for the strategic and operational management of the company. It is made up of five members.

Éric Marée *Chairman of the Executive Board*

Éric Marée, a 51-year-old HEC graduate with an MBA from Cornell University, joined Virbac in October 1999 and has served as Chairman of the Executive Board since December 1999. He also directly supervises Human Resources, Corporate Communications and Information Systems.

Pierre Pagès *Chief Operating Officer*

Pierre Pagès, a 52-year-old veterinarian with an MBA from HAC, joined Virbac in 1980. He supervises International Operations, Production and Quality Assurance. He has been a member of the Executive Board since December 1992.

Christian Karst *Development Manager*

Christian Karst, a 45-year-old veterinarian, joined Virbac in 1984. He supervises Research and Development, Corporate Marketing for the Group, the Medical department and Licensing. He has been a member of the Executive Board since December 1996.

Michel Garaudet *Chief Financial Officer*

Michel Garaudet, a 49-year-old graduate of HEC, joined Virbac in 1993. He supervises Financial and Legal Affairs. He has been a member of the Executive Board since December 2002.

Jean-Pierre Dick

Jean-Pierre Dick, a 38-year-old veterinarian with an MBA from HEC, handles special projects and is President of the Virbac Foundation. In 2002, he directed the transoceanic sailing race project sponsored by Virbac. He has been a member of the Executive Board since December 1996.

The Executive Board is assisted by a Strategy Committee comprising the principal regional and functional directors.





The Supervisory Board

The Supervisory Board monitors strategic orientations and is responsible for management audit as well as the regular scrutiny of the accounts and all significant projects and investments.

The Board convenes at least four times per year and is composed of five members, two of which are independent.

The chairwoman is **Jeanine Dick**, aged 67, widow of the company founder Pierre-Richard Dick. The Vice-Chairman is **Pierre Madelpuech**, aged 43, a graduate of ENSAM (National Graduate Engineering School) and HEC (MBA), and Managing Director of the VGC Group. The other members are as follows: **Investec** (Dick family Group) represented by **Marie-Hélène Dick-Madelpuech**, aged 39, veterinarian, MBA graduate of HEC, chairwoman of the Board of Directors of Groupe Panmedica.

The independent members are: **François Guinot**, aged 61, PhD in physical sciences and in business administration, Vice-President of the Académie des Technologies, Vice-Chairman of Harmonie S.A., former CEO of Rhône Poulenc Chimie and Managing Director of Biomérieux. **Olivier de Pelet**, aged 54, engineer in agronomy, Divisional Manager of the Union d'Études et d'Investissements (Crédit Agricole Group).

In addition, the General Meeting of 29 June 2004 will be asked to approve the nomination of a third independent member: **Xavier Yon**, aged 64, science graduate of Paris University, CEO of Laboratoires Galderma and President of the Industrial Biology School, Cergy-Pontoise.

The Audit Committee

An Audit Committee will be set up in the course of 2004. Its missions will be as follows:

- ▶ To ensure the relevance, consistency and reliability of the accounting methods
- ▶ To verify the internal control procedures and risk management
- ▶ To pronounce itself on the validity of the accounting treatment of significant operations

The Compensation Committee

The Compensation Committee's principal missions are as follows:

- ▶ To formulate recommendations and proposals concerning the remuneration of the members of the Executive Board
- ▶ To examine the proposals and conditions for allocating stock options
- ▶ To formulate proposals concerning the remuneration of the members of the Supervisory Board
- ▶ To remain informed of the Group's general HR policy and in particular the remunerations policy for the Group's principal executives

The Committee is currently made up of four members of the Supervisory Board:

Marie-Hélène Dick-Madelpuech
Pierre Madelpuech
Olivier de Pelet
François Guinot

The Committee convened three times in 2003 and was assisted in its proceedings by an international compensation specialist on remuneration questions.

A worldwide Group

Right from the beginning, Virbac has pursued a strategy of international development. The Group's international expansion was initiated in 1978, gradually accelerating throughout the 80's and 90's. Virbac has today established a presence on all five continents and generates 75% of its turnover outside France.

VIRBAC'S INTERNATIONAL ORGANISATION

For operating purposes, Virbac is divided into five international zones: Europe, North America, Latin America, Asia and SANZA (South Africa, New Zealand and Australia). In June 2003, the Group decided to create one region for these three countries in view of the features they have in common. The other markets (Africa and the Middle East) are managed by the Europe zone.

In order to guarantee swift response and adaptation to local market requirements, each zone has its own research and development centre and one or more production sites. In 2003, Virbac's management and coordination structures at European level were strengthened so as to provide the Group with proper coverage of Europe, a zone amounting to 58.4% of total sales and is thus Virbac's largest domestic market.

A Europe Marketing Department has been set up to coordinate operational activities at European subsidiary level.



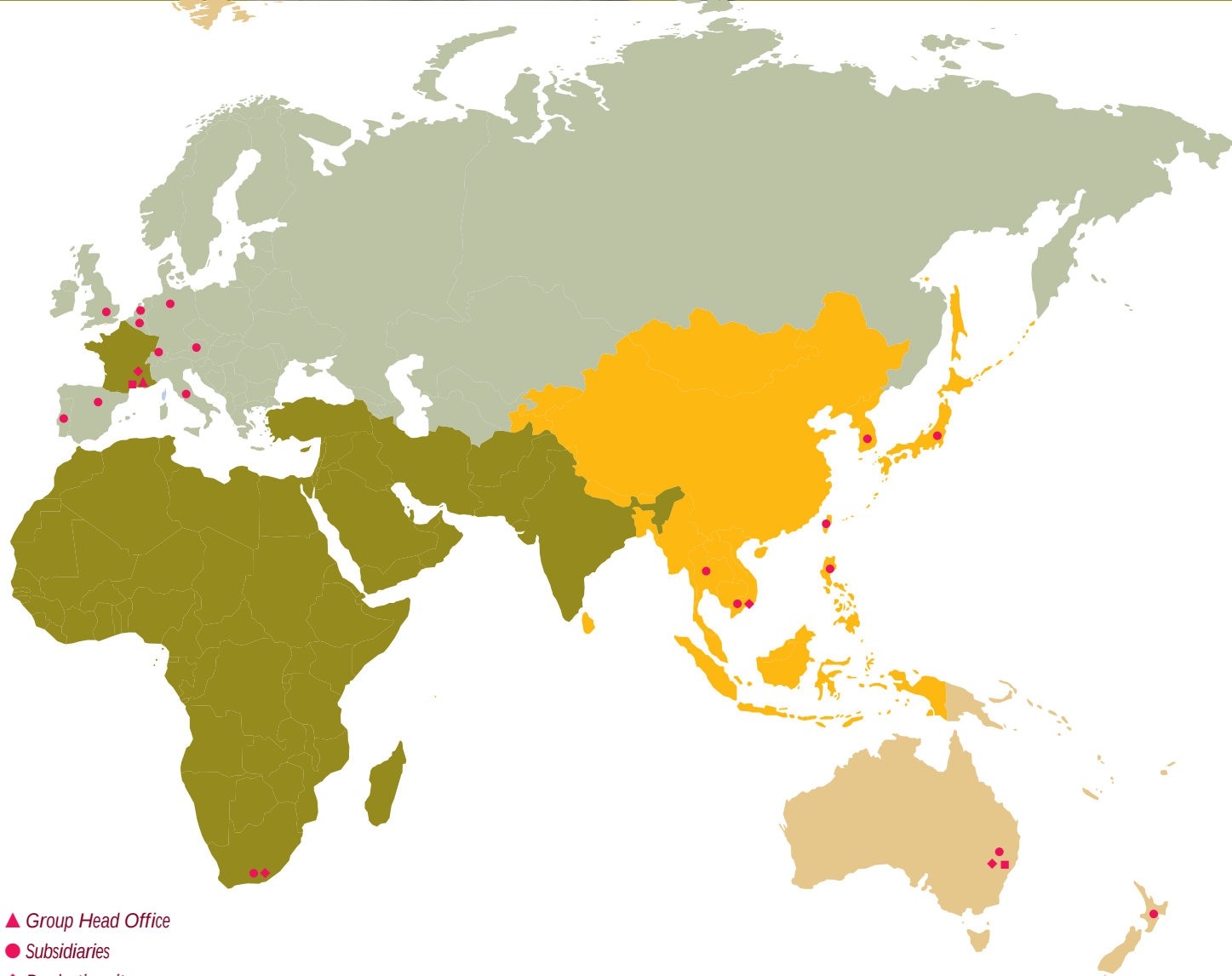
Sales in 2003 by geographical zone (in € million) and change compared to 2002:

Europe

€207.2 million
(+3%)

North America

€54.3 million
(-16,6%)



Latin America

€22.6 million
(-14,1%)

Africa —Middle East

€20.9 million
(-1%)

Asia

€17.7 million
(-3,9%)

Pacific

€32.1 million
(-10,6%)

Strategy

Clearly identified strategic orientations

The strategy defined by the Group since 1999 is based on six key principles:

- ▶ Focus on animal health and an own-brand development strategy
- ▶ Objective of global leadership on the companion animal segment and selective development on the food-producing animal segment

- ▶ A strategy of dominance in niche markets, absence or differentiation on the most competitive segments
- ▶ Innovation geared to markets, incorporating research, development and licensing
- ▶ Priority growth zones (North America followed by Asia and Latin America) and optimisation zones of growth and profitability (Europe and Pacific)
- ▶ A selective external growth strategy

A MATURE WORLD MARKET

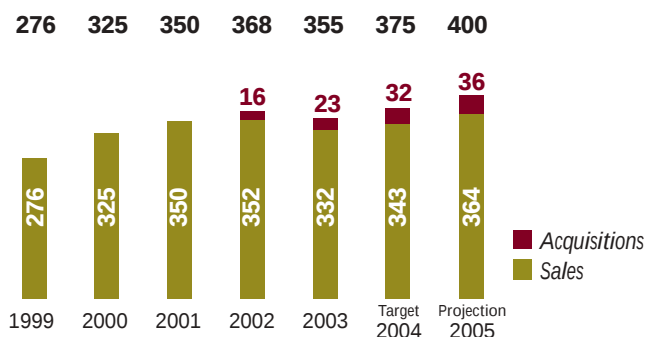
After a period of strong expansion in the 90's, fuelled for the most part by the development of the companion animal segment in developed countries, growth in the veterinary health market is starting to stabilise at world level. In 2003, real worldwide growth was no more than 1.1% (excluding foreign exchange effect), with the companion animal segment showing progress (+3.4%) and the food-producing animal segment falling back slightly (-0.3%).





Objectives for 2005

PROGRESSION OF SALES 2000/2005 (in € million)

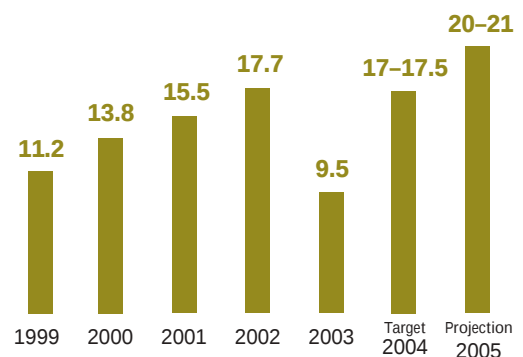


Between now and 2005, the Group anticipates sales of € 400 million compared to the figure of € 500 million set in 2000.

This apparently substantial difference is reduced to € 50 million when expressed at the exchange rate prevailing in 2000.

This figure may be explained in its entirety by a lower than expected rate of acquisitions due to the lack of quality targets and to the fact that certain acquisitions such as BVT will not begin to make a significant contribution until after 2005.

PROGRESSION OF NET PROFIT 2000/2005 (in € million)



Net profit should work out at about 10% below the objective set of € 23 million, unless the gap is closed as a result of a favourable exchange rate trend. To reach its objective, the Group counts on a series of initiatives designed to keep tight control on costs: improved industrial capacity, exhaustive use of new information systems and optimisation of marketing and commercial expenses.

ACQUISITIONS IN 2003

In line with its announced strategy, the Virbac Group made several acquisitions in France and in the United States of America in 2003. In France, the **BVT** pharmaceutical company was acquired in May 2003. This company specialises in test kits for companion animals and generated a turnover of € 2 million in 2002. This acquisition will enable Virbac

not only to enhance its portfolio of existing brand products but above all to access a highly promising advanced project: a canine vaccine against leishmaniasis. In August 2003, Virbac acquired the American company **Delmarva** (turnover of \$ 3.8 million in 2002) and then, in September, bought up the veterinary portfolio of **King**

Pharmaceuticals (\$ 5.7 million in 2002). These two acquisitions will enable Virbac to consolidate its position in 2004 on the North American market of specialised product ranges, particularly in the endocrinology, dental and dermatology fields.

The animal health specialist

The companion animal segment

The companion animal segment rose by 1.4% in 2003, i.e. a significantly lower growth than the market level (+3.4%) and showing a sharp decline on the Group's figure for 2002 (+10.5%). The fall may principally be attributed to two factors: the termination of two petfood agreements in the Netherlands and New Zealand (see opposite) and the relative weakness shown by European markets at the end of 2003.

In this segment, corresponding to a worldwide turnover of € 221 million in 2003, products for dogs and cats account for more than 85% of Virbac sales. Here, the Group possesses regular-growth flagship products.

In the biology sector (+6% in 2003), Virbac's cat vaccine, Leucogen®, continues to grow steadily despite the launch of a competitor's product at the end of 2002. Some of the Group's products, such as electronic identification (+19.4%), the antibiotic Rilexine® and the anaesthetic Zoletil® (+23%), have performed very well.

The equine medicine segment (almost 10% of Virbac turnover) was up by 18% in 2003, largely as a result of the remarkable performance of Equimax®, a horse antiparasitic marketed in all European countries (except in France for patent reasons) and launched on the North American market in 2003 in partnership with Pfizer. On the other hand, sales of parasiticides fell back by 8% in 2003

as a direct result of the summer heat wave in Europe. Moreover, the termination of distribution agreements led to a sharp drop in turnover for the nutrition range (-29.6%).

THE TERMINATION OF DISTRIBUTION AGREEMENTS IN THE NETHERLANDS AND NEW ZEALAND

Distribution agreements on behalf of third parties are a relatively frequent occurrence in the veterinary health industry. As a result of its size, commercial vitality and world presence, Virbac distributed Waltham nutrition products (the veterinary range of Unisabi, a subsidiary of the Mars Group) in the Netherlands. In 2003, Mars decided to break directly into this market and thus terminated its agreement with Virbac. Similarly, Nestlé's subsidiary in New Zealand, Purina, opted to discontinue its petfood distribution agreement for OTC channels. Although these terminated contracts have a short-term impact on annual turnover, there are positive medium-term aspects since in both cases termination enables Virbac to exercise closer control over sales by exclusively marketing its own brand products.



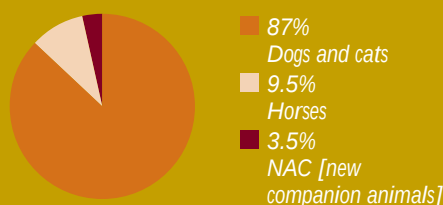
Virbac is world leader in dermatology



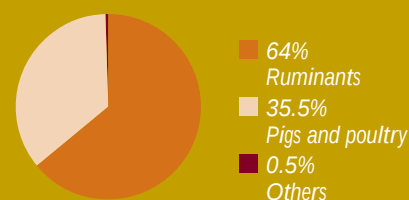
World market:
\$12,545 billion

Trends:
+10.7% in nominal value
+1.1% at constant
 exchange rate

BREAKDOWN OF SALES FROM COMPANION ANIMALS BY SPECIES



BREAKDOWN OF SALES FROM FOOD-PRODUCING ANIMALS BY SPECIES



Food-producing animal segment

On this segment, Virbac moved forward by 2.4% in 2003 while the market as a whole fell by 0.3%.

This segment, corresponding to a worldwide turnover of € 127 million in 2003, is divided into two major product categories: products for cattle (about two thirds of Virbac sales) and products for pigs and poultry (approximately one third).

The growth recorded in this segment is in particular due to the performance of bovine products: parasiticides, including the Latin American launch of Zeramec® (original association of a parasiticide and an anabolic steroid), antibiotics, notably in Asia, and anti-inflammatories with the launch of Avlezan® in France.

Sales of products for pigs and poultry fell back under the combined effect of the crisis in the pig sector and the heat wave on pig/poultry farming (see opposite). On the other hand, Virbac Germany successfully launched the antibiotic Pulmodox® and the Group's flagship product on this segment, Suramox® Premix (amoxicillin-based antibiotic premixture) continues to grow despite increased competition.



The original formulations developed by Virbac from ivermectin are a classic illustration of the Group's core values: innovation and market-led orientation.

THE EFFECTS OF THE HEAT WAVE ON FOOD-PRODUCING ANIMALS AND COMPANION ANIMALS

FOOD-PRODUCING ANIMALS

The French poultry sector lost about 4 million birds (2% of the poultry population). The Brittany and Pays de la Loire regions were particularly badly hit.

There was a dual problem with regard to cattle. The lack of food (shortage of fodder for feeding cows resulting from the drought) combined with their difficulty in resisting to very hot conditions, led to a fall in milk production and an abnormally high death rate.

Finally, pig farms also suffered from the heat: the mortality rate was higher and reproduction was perturbed.

COMPANION ANIMALS

The consequences were less far-reaching for companion animals. Most veterinary clinics had to answer calls from pet owners seeking information on what measures to adopt.

However, there was no spectacular rise in the number of consultations. Another consequence of the drought was to reduce the presence of parasites (ticks and fleas) and related diseases. This in turn led to a fall in the sale of parasiticides and dermatological products.



Proportion of turnover
invested in R&D and
licensing: **6.8%**

The challenge of innovation

As a challenger to the large international pharmaceutical companies combining human and animal health, Virbac follows a market-led conception of innovation incorporating research, development and licensing. Over the last three years, an average of 6.5% of turnover has each year been devoted to investments in these activities. The Group opts for a selective approach focusing on a restricted number of strategic projects.

This selective approach is more essential than ever in view of tighter regulations introduced in recent years concerning animal health (adding

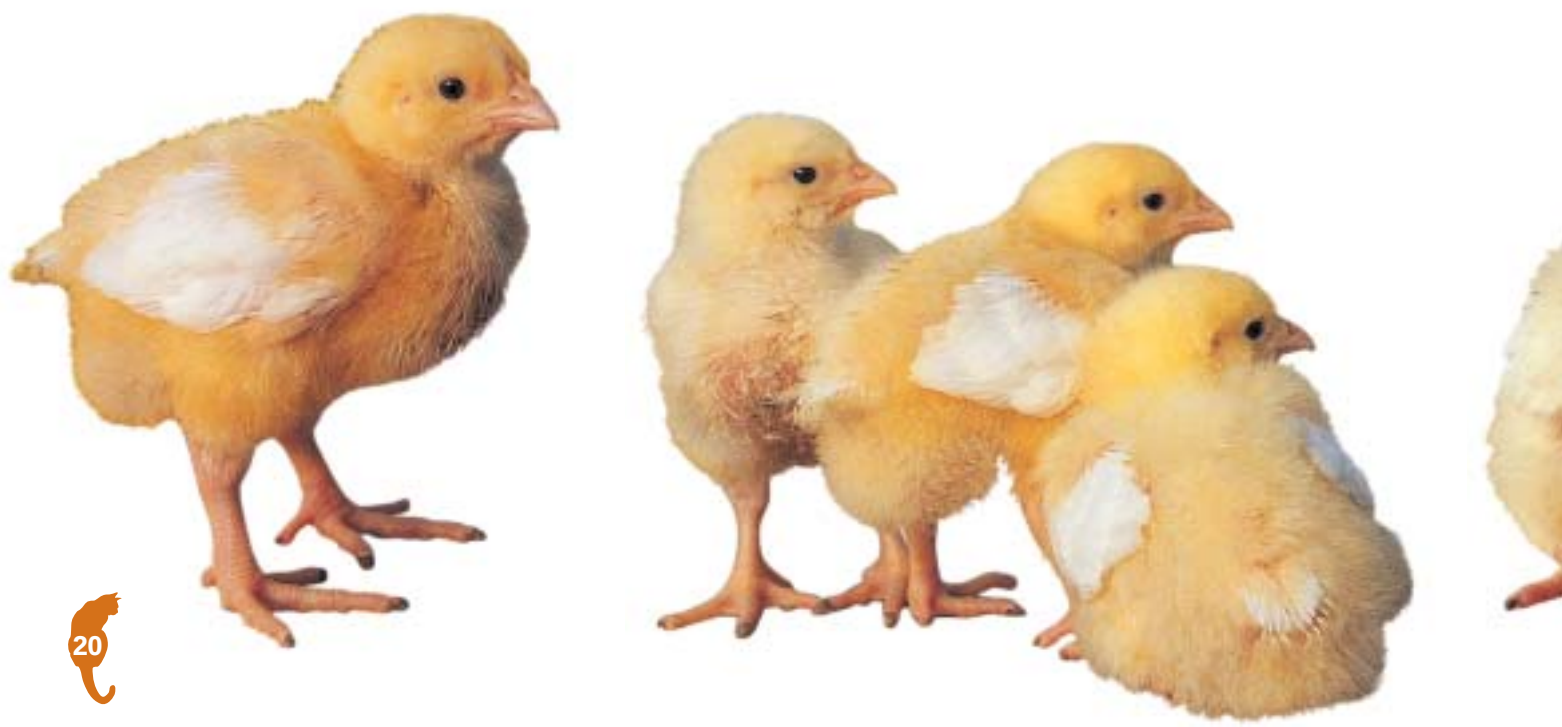
significantly to costs and increasing the time required to obtain approval for the market launch of new products).

Subscribing to international research and manufacturing standards, Virbac rigorously follows the changes required by the bodies in charge of drawing up the standards for "Good Laboratory Practices", "Good Clinical Practices" and "Good Manufacturing Practices".

These tighter regulatory controls, together with a relative scarcity of new molecules on the veterinary market in recent years, have contributed to much fiercer commercial competition among operators seeking to support their existing products and to win new market shares.

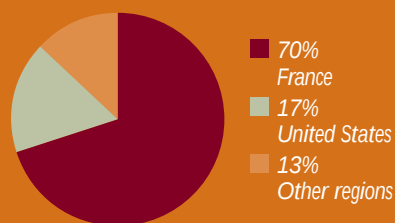
An improved visioning and planning capacity

In November 2003, Virbac decided to bring the missions and organisational structure of the Corporate Marketing Department in line with the Group's current size and its long-term ambitions. A particular objective is to improve the forecasting function so that Virbac can call upon a more exhaustive analysis of trends in its various markets and to anticipate these trends more efficiently.

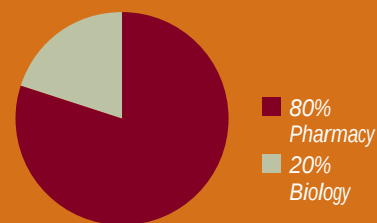


R&D workforce:
231 employees

GEOGRAPHICAL BREAKDOWN OF R&D EXPENDITURE



BREAKDOWN OF R&D EXPENDITURE BY FIELD



New products potential

The Group today possesses a solid portfolio of new products for the years ahead. As from 2004-2005, Virbac should therefore be in a position

- ▶ to launch the following products on the European market:
 - the veterinary interferon Virbagen® Omega extended to cats
 - Romidys®, a new anaesthetic for cats and dogs, following the acquisition of the world rights for this molecule from Boehringer in December 2003

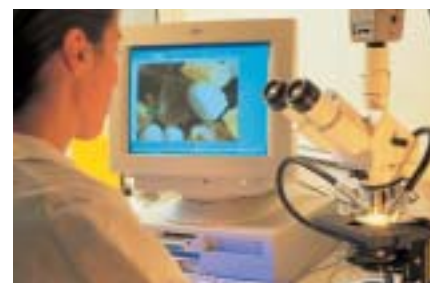
▶ to secure the geographical development of products and ranges such as:

- Alizin®, a controlled reproduction product for bitches in Europe
- the hygiene range (shampoo and ear-cleaning agent)
- ivermectin-based drugs

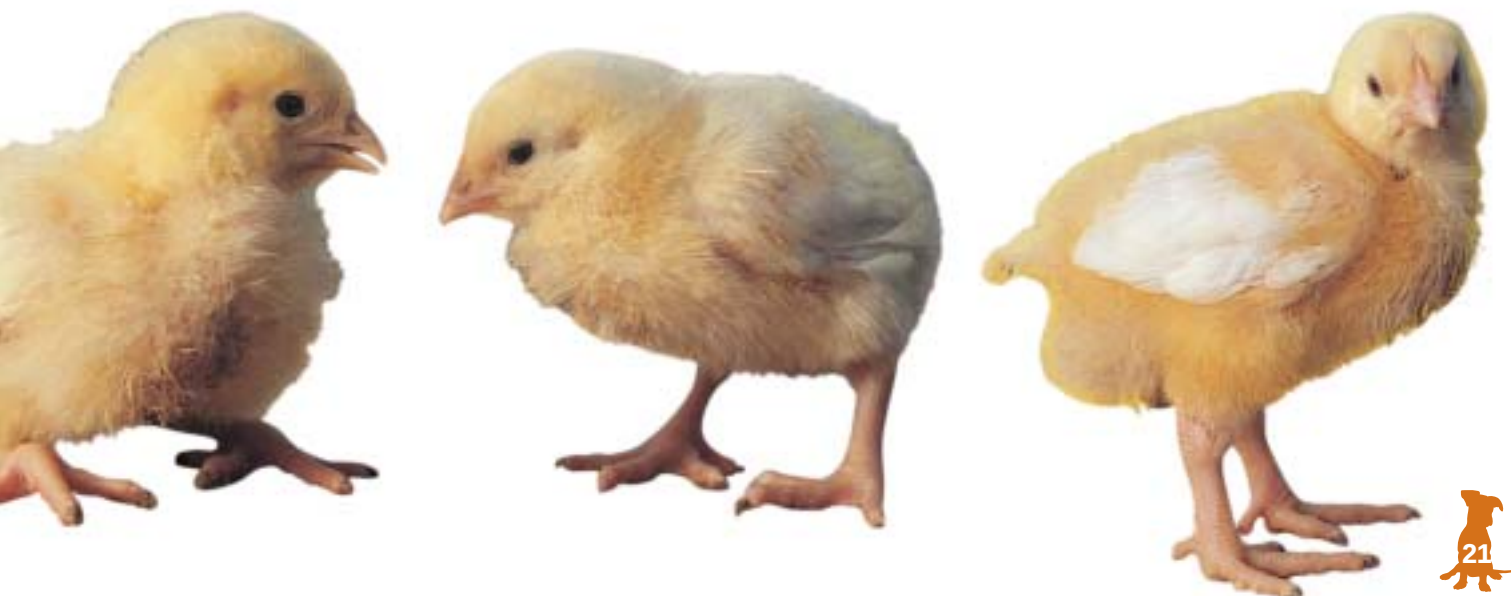
In the medium term, the Group has in particular three major projects, one of which is a canine vaccine against leishmaniasis developed by the French pharmaceutical company BVT (acquired by Virbac in May 2003).



There are over 230 people working in the Virbac research teams throughout the world, principally in France and in the United States.



Virbac has 4 R&D centres plus production sites in 7 different countries.



Human Resources

The Virbac culture

Now more than ever, the Group draws its strength from the unity and loyalty of its staff. At Virbac, the family dimension takes on a very special significance, over and above the shareholding structure. The principles and values incarnated by the Group's founder, Pierre-Richard Dick, remain to this day priorities shared by all members of personnel. Virbac's special strength and ambition is to be not just a company but an extended family inhabiting the "global village". Despite the complexity of the situation and the difficulties encountered, Virbac management strives to maintain the motivation of its staff and their spirit of enterprise and success. True to this logic, and with a view to successfully negotiating hurdles and ensuring continued growth, the Human Resources entity helps

to further the company's strategy and to promote relations of confidence and respect. Thus, just one year after the creation of the Group Human Resources function, the year 2003 saw RH policy disseminated to all regions of the world and the first steps taken towards its implementation. The overriding objective is to create a bridge between corporate strategy and the staff. To this end, Virbac seeks to attract, nurture and motivate the best candidates characterised by a success-oriented approach, a strong sense of initiative and results, well-developed managerial skills and genuine creativity. Inside the Group, the priority is not only to train and motivate managers to become true leaders but also to create and train efficient organisations rooted in the principles of motivation and good man management.

RECRUITMENT

"To have the right person in the right place at the right time": this objective involves having recourse to recruitment tools and to specialised recruitment agencies, ensuring that recruits share the Group's values, and work in close harness with the managers. Recruitment must also make full allowance for future needs and focus on high-potential candidates.



Each year, international training sessions are organised for the company's managerial staff.

THE VIRBAC VALUES

- ▶ Innovation
- ▶ Market-driven strategy
- ▶ Entrepreneurship
- ▶ Delegation/empowerment
- ▶ Teamspirit

2,248 employees
in 27 countries

women (45%)
men (55%)

TRAINING

The aim is to “**reinforce professionalism and to develop potentialities**” by means of international training sessions focusing on remuneration policy, performance management, the manager’s HR role, etc.

Training is the best way to meet the individual and collective needs of all members, to propagate the Group’s values and way of doing things and to establish Virbac’s own management style.

REMUNERATION

The objective is to “**encourage individual performance and to reward merit**” through the development of a variable remuneration policy, the implementation of a market data analysis tool at international levels and the introduction of minimum Virbac criteria with regard to benefits packages. Remuneration must be such as to reward employee potential while taking into account the market and respecting the spirit of equity within the company.



From 13 to 16 March 2003, the first edition of the Virbac Sales Ambassador's Club brought together the Group's top 28 salesmen worldwide. Right from its creation in 1968, Virbac has always looked on its sales team as one the most important elements of its development.



Background and company mission

Success story



Pierre-Richard Dick, Founder and former Chairman of Virbac

Ever since it was founded in 1968 at Carros near Nice in the South of France, the Virbac pharmaceutical company has been exclusively dedicated to animal health. Pierre-Richard Dick, the founder and a veterinarian by training, set out to create an international veterinary health group capable of competing with the animal health divisions of the major human health laboratories by positioning itself as a specialist with regard to veterinarians and animal-owners. In the space of 35 years, Virbac has become one of the leading world operators in the sphere of veterinary pharmacy.

Virbac today is willing to share its knowledge of, and passion for, animal health with an ever wider public, thanks not only to its products and services but also its communication and sponsorship activities.

MISSION

A special feature of Virbac, the leading independent veterinary pharmaceutical company, is to provide products and services combining quality, efficiency and convenience for animal carers (veterinarians and owners). Virbac wishes to become the pharmaceutical company that brings veterinary science and animal-owners closer together and, at a more general level, to be the ambassador of animal health.

Support to the vet's

As the indispensable link between animal-owners and pharmaceutical company, veterinarians play a key role in the prevention and treatment of animal pathologies and in providing information to the public. They have never ceased to be Virbac's special partners.

Informing the public

As an animal health specialist, Virbac has a mission to promote, whenever possible, a greater awareness of animal health and well-being. Working alongside veterinarians, the Group strives to keep the public informed via awareness campaigns, training programmes, and the publication of brochures and educational tools for animal-owners.



For the past 15 years, in France, the professional advice of veterinarians has been communicated to cat and dog owners via information and awareness campaigns in the form of posters aimed at the general public. In 2004, for example, the “I love it, I vaccinate it” campaign has been displayed in 11,000 bus shelters, 700 town councils and public areas and published in 23 general-interest magazines.

Promoting awareness among children

Set up in 2000, the Virbac Foundation aims to educate and inform the public as a whole and children in particular and making them more aware of issues relating to the animal's place in society. Virbac is particularly interested in helping seven to eleven-year-olds to get to know and understand companion animals and to look after them better. The Foundation works mainly with primary schools and reaches 50,000 school children each year. Teachers are given a pedagogical kit designed to help children become good animal-owners.



The Virbac Foundation invites 500 children to visit a National Veterinary School each year.

VIRBAC AND SAILING



For the third consecutive year, Virbac joined forces with skipper Jean-Pierre Dick in an offshore racing adventure.

A top-class racing competitor for the last 15 years, Jean-Pierre Dick aboard his Virbac won the 2003 Jacques Vabre Le Havre-Bahia transatlantic race, in the process becoming one of the finest skippers on the 60-foot monohull circuit. His ambition is now to compete this coming November in the Vendée Globe, one of the longest and toughest races on the circuit.

Trained as a veterinarian, Jean-Pierre Dick brings great professional rigour to a sporting project which benefits Virbac in many ways: it helps to develop the reputation of both the company and the brand; it symbolises the values associated with Virbac, particularly innovation, enterprise and team spirit; it represents the veterinary profession in a human and sporting adventure.

Keep up to date on the latest Virbac boat news at: www.jp dick.com



Management Report 2003

Within a background of a difficult world economic climate and a weak growth in the veterinary market, the Virbac Group's turnover fell by 3.6% in 2003. Generally speaking, this slight decline in turnover may be attributed to unfavourable exchange rate parities due to the continual strengthening of the euro, the weak level of activity of the American subsidiary, Virbac Corporation, over the fourth quarter, the termination of petfood distribution agreements in the Netherlands and New Zealand, and particularly adverse weather conditions (summer heat wave in Europe, drought in Australia and South Africa). However, pro forma at constant exchange rate, turnover was up 2.8%.

Major events of the year

- ▶ Launch of Equimax®, a broad-spectrum anthelmintic for horses in Belgium, Spain, Portugal, Scandinavia and in the United States of America;
- ▶ acquisition of Bio Veto Test (BVT) in France, a company specialising in diagnostic tests and holder of an advanced project concerning a canine vaccine against leishmaniasis;
- ▶ acquisitions of the Delmarva pharmaceutical company and the animal health division of King Pharmaceuticals in the United States of America, giving us access to specialised product ranges in endocrinology, dental care and dermatology;
- ▶ accounting and stock market difficulties encountered by our American subsidiary Virbac Corporation, leading to the Company's delisting from NASDAQ, the restatement of the local accounts for the 2001 and 2002 financial years and the first half year of 2003. These restatements, together with the costs relating to the Audit Committee investigation, the resulting rigorous evaluation of charges and provisions, and a slowdown in activity towards the end of year, have resulted in a very negative contribution to the Group's income on the part of Virbac Corp.;
- ▶ the introduction of stock-reduction and purchase cost-reduction plans which started to bear fruit in 2003.

The Group's activities in 2003

Pro forma at constant exchange rate, the Group's activities in 2003 increased by 2.8% in a slack world veterinary market (growth of 1.1%). Development in the Group's two sectors of activity was contrasted: +3.4% for the companion animal market which continued to grow, albeit at a slower rate than in recent years; -0.3% for the food-producing animal activity which has been marking time for several years. In this context of sluggish growth, characterised by increasingly difficult product innovation and reinforced regulations, Virbac has succeeded in increasing its global market share slightly—2.9% growth in companion animals and 2.4% in food-producing animals.

Trends per segment

Companion Animals

This activity, which represents 59% of the Group's turnover, grew by 2.9% in euros in 2003 (pro forma at constant exchange rate), while the global market rose by 3.4%.

● Parasiticides

This segment was down by 8% on 2002 and was particularly negatively impacted by the heat wave in Europe (leading to less parasitic pressure) and slower sales of Iverhart® in the United States of America.

● *Biology*

This activity rose by 6% in 2003 thanks to the good general performance of vaccines in Europe and the continued progress of Virbagen® Omega, the first interferon (immunological protein licensed from the Japanese Group Toray and used in the treatment of serious viral infections) developed in veterinary medicine.

● *Dermatology/Cosmetics/Antibiotics*

These ranges progressed globally by 1% in 2003, but by 8% outside the United States of America.

● *Specialities*

This segment, which includes the dental range of products, anaesthetics, ophthalmological products and anti-inflammatories, continues to move forward (+11%). Fortiflex® (nutritional complement used in the treatment of mobility problems), the dental range and anaesthetics have all made significant strides.

● *Specialised petfood: -30%*

This activity was hit by the termination of the petfood agreements for the distribution of third-party brands for companion animals in the Netherlands and New Zealand, whereas the Virbac range continues to progress in a favourably developing French veterinarian market.

● *Equine ranges*

This segment ends the year 18% up on 2003, thanks mainly to Equimax®, a broad-spectrum anthelmintic for horses. This product, which has already been marketed in Australia and Latin America, and more recently in the United Kingdom, Germany,

the Netherlands and Switzerland, was launched in 2003 in Belgium, Spain, Portugal and in the United States of America.

Food-producing animals

This activity represents 36% of the Group's turnover, rising by 2.4% in 2003 in a slightly shrinking world market.

● *Bovine parasiticides*

The Group showed a 20% progression, recording excellent results in Europe, North America and Latin America, the latter characterised by the continuing strong results of Zeramec® (a new patented product resulting from Latin American research and development). This product combines an internal and external parasiticide and a growth hormone in one single injection

● *Other bovine products*

This segment is up 1.6% on the previous year. Mention should be made of Asia (+35%) with an excellent performance on antibiotics in Thailand and Vietnam and good results in France on re-hydrating products and the success of Avlezan®, a nonsteroidal anti-inflammatory for bovine and pigs launched at the beginning of 2003.

● *Pig and poultry antibiotics*

This market suffered from the pig crises which were particularly severe in France and South Africa, falling back by 1.3% on the previous year. However, the Group's premier product, Suramox® Premix (amoxicillin-based premix), continues to forge ahead.

Speciality/range	Sales In € million	Growth per segment (at constant exchange rate)					
		More than -5%	-5% to 0%	0% to +5%	+5% to +10%	+10% to +15%	More than 15%
Companion animals	208.2			+1.4%*			
Parasiticides	39.8	-8%					
Vaccines	43.2				+6.0%		
Antibiotics/dermatology	34.8			+1.0%			
Specialities	29.9					+10.8%	
Equine	20.1						+18.0%
Petfood	15.1	-29.8%					
Others	25.3					+13.6%	
Food-producing animals	127.4			+2.4%			
Bovine parasiticides	20.4						+20.4%
Other bovines	61.1			+1.6%			
Pig/poultry antibiotics	37.7		-1.3%				
Other pig/poultry	8.2	-15.5%					

* + 2.9% pro forma at constant exchange rate.

Other businesses

Other businesses, which represent 5% of turnover, relates to markets of lesser strategic importance for the Group, primarily third-party manufacturing carried out for outside firms, as well as sales

of medical equipment, rabies baits for foxes, and disinfectant products. These activities advanced slightly in 2003.

Geographical sales breakdown of business

Europe

In 2003, turnover from the Group's European activities came to € 207.2 million, i.e. an increase of 2.9% on the previous financial year.

Turnover in France grew by 4.3% thanks to the good performance of the companion animals department which in the course of the year successfully launched the Vet Complex® cat range as well as a new hygiene range. The Group confirmed its leadership on the electronic identification market and made remarkable strides on the anti-inflammatory market. In a difficult context marked successively by a pig crisis, the reorganisation of the avian sector and unfavourable weather conditions, the food producing animals department succeeded in stabilising sales and to successfully launch the anti-inflammatory Avlezan®.

Turnover for Virbac Germany fell back slightly due to the halt of sales, for regulatory reasons, of certain bovine products despite excellent performance of anti-inflammatories.

Virbac UK moved ahead by 7.5% at constant exchange rate thanks to good results of Leucogen®, electronic identification and anaesthetic products.

The Italian subsidiary recorded growth on both of the Group's activities thanks to strong performances from dog vaccines and the anaesthetic Zoletil® in companion animals and the launch of the parasiticide Virbamec® on the food-producing animal market.

Sales for Virbac Spain have stagnated as a result of a crisis in the pig sector which affected two of its main products, Stabox® and Pulmodox®. On the other hand, performance on the companion animal market was excellent and the line of equine parasiticides consisting in Equimax® and Eraquell® is becoming leader on the national market.

The situation is contrasted in the Netherlands: the termination of petfood distribution agreement resulted in a loss of about € 2.6 million turnover for the subsidiary, but this was partially offset by the success of Emax, a company acquired in 2002 and marketing the Group's products in specialised channels (pet shops, garden centres).

Sales continue to grow in Belgium thanks to the launch of Equimax® and the good results obtained by anti-inflammatories.

The success of Equimax®, vaccines and specialities enables Virbac Switzerland to return a growth rate of 11% at constant exchange rate.

Virbac Austria is advancing at the same pace in both of the Group's markets thanks to Equimax® and electronic identification of companion animals, and to Pulmodox® on the industrial food-producing segment.

In Eastern Europe, where Virbac does not possess marketing subsidiaries for the time being, the Group has reorganised the distribution of its products by assuming direct control of marketing and sales in Poland, Hungary and in the Czech Republic and by opening a representative office in Hungary.

North America

North America's contribution to consolidated Group turnover fell by 16% but would have increased by 0.4% at constant exchange rate. The acquisitions of Delmarva and King Pharmaceuticals generated a turnover of \$ 2.7 million. The dental care segment performed well whereas parasiticides, in particular Iverhart®, were down on the previous year.

In addition, the investigation carried out by the Virbac Corp. Audit Committee, covered in detail elsewhere in this report, indirectly led to a slowdown in sales recorded over the fourth quarter.

Latin America

Business in Latin America fell back by 14% but would have risen by 12.5% at constant exchange rate.

In a difficult economic and monetary climate, Virbac Mexico managed to progress by 5% at constant exchange rate. Boosted by the dental range and anaesthetics, the companion animal segment made excellent headway while progress was less clear-cut in the food-producing animal segment despite advances made by Zeramec®, offsetting the decline in sales in the pig and poultry sector.

Virbac Brazil is back on track with growth and profitability, business expanding in both of the Group's markets. In companion animals, Endogard® (oral tablet broad-spectrum parasiticide for dogs) was launched at the end of the year and proved an immediate success. Fortiflex™ and the dental range are now also offered by the subsidiary.

The two subsidiaries acquired in 2002, Virbac Costa Rica and Virbac Colombia, have been successfully incorporated and will complete the Group's geographical cover in Latin America.

Asia

Asia (5% of Group turnover) fell back by 3.9% on 2002 but would have shown a 3.5% growth rate at constant exchange rate.

Activity decreased by 8% in Japan, largely due to the advent of competitors on the cat vaccine market and despite our stronger presence on the dermatology and dental hygiene markets.

Virbac Korea grew by 5% at constant exchange rate but with contrasted results in the two businesses: sustained growth in companion animals thanks to vaccines, dermatology and anaesthetics; noticeable decline on the food-producing animal market.

The Vietnamese subsidiary's sales increased by 18%, buoyed up by the good performance of dog vaccines and bovine injectables.

Our Thai subsidiary had an excellent year, with sales double those of the previous year thanks to antibiotics.

Virbac Philippines and Virbac Taiwan posted growth rates of 5% and 78% respectively.

Pacific

Sales for the region fell back by 10.6% (10.4% at constant exchange rate) with contrasted fortunes for the two subsidiaries in the zone.

Virbac Australia advanced 5% on 2002 and performed well on the vaccine, dermatological products and companion animal antibiotics segments, making up for shrinking sales on the sheep market which felt the impact of a major drought.

Our New Zealand subsidiary slumped by 47%, the result of losing about € 4.6 million in turnover through the termination of petfood distribution agreement.

Africa/Middle East

Virbac South Africa benefited from a favourable exchange rate and increased its turnover by 5% in a market impacted by the effects of a historical drought. Exports to Africa and the Middle East met with contrasting fortunes: appreciable growth in Tunisia, lack of tenders in Libya, financial crisis in Egypt, moderate growth in Algeria.

	2003 (€M)	2002 (€M)	Change 2003-2002	Breakdown 2003
France	91.4	87.6	4.3%	25.8%
Rest of Europe	115.8	113.6	1.8%	32.6%
North America	54.3	65.0	-16.6%	15.3%
Latin America	22.6	26.3	-14.1%	6.4%
Asia	17.7	18.4	-3.9%	5.0%
Pacific	32.1	35.9	-10.6%	9.0%
Africa—Middle East	20.9	21.1	-1.0%	5.9%
Total	354.8	367.9	-3.6%	100.0%

External Growth

In May 2003 Virbac acquired the entire capital of Bio Veto Test (BVT), a French company specialising in rapid diagnostic tests of viral and parasitic diseases in companion animals. The company is currently pushing forward with an original and highly advanced project involving a canine vaccine against leishmaniasis which is due for registration in 2006. The cost of acquiring the company's shares and certain industrial property rights concerning this vaccine come to a global figure of € 20 million, half of which was paid at the time of signature and the outstanding amount upon obtaining vaccine marketing authorisations in one of the principal markets.

In the United States, Virbac acquired in September 2003 the Delmarva pharmaceutical company whose two flagship products, an amoxicillin- and a clindamycin-

based antibiotic, will make a welcome addition and complement to the dermatology and dental ranges. Over the same period, Virbac also gained control of the animal health department of King Pharmaceuticals, thereby consolidating its range with a canine thyroid hormone substitute and three other endocrinology products for companion animals, in the process becoming leader in this segment. The acquisition price came to \$ 15.1 million.

At the end of 2003, Virbac paid out € 6 million to acquire the world rights (all species except equine) of Romifidine®, an original and promising anaesthetic developed by the German pharmaceutical company Boehringer Ingelheim. This product will be launched in Europe in 2004.

Research and development

In 2003, Virbac allocated 6.8% of its turnover to Research & Development and Licensing activities. The R&D activities are spread over several geographical sites catering for the specific needs of their particular areas: Carros (France) for Europe but also for other regions as far as vaccines are concerned. Fort Worth (Texas – United States of America) for North America, Guadalajara (Mexico) for Latin America, Sydney (Australia) for the Pacific zone. A new centre is currently being set up in Vietnam.

The Osaka (Japan) and Johannesburg (South Africa) sites are dedicated to adapting product registration files to specific Japanese and South African conditions.

In the United States of America, Virbac has obtained registration of Equimax™, a combined parasiticide for horses and considered to constitute a major breakthrough in this large market. In North America this product is marketed by Pfizer. Our teams have also successfully completed the technical and regulatory integration of the Delmarva and King Pharmaceuticals' products within Virbac Corp.

In Latin America, Virbac has registered Fortius, an injectable enrofloxacin-based antibiotic, and Virbamec® Platinum, a parasiticide extending the line of ivermectin-based products.

In Australia and South Africa, Virbac's presence on the market has been strengthened by numerous registrations in the spheres of parasiticides for companion animals and of antibiotics for intensive farming.

The R&D units based in Carros have continued their work on major products for the Group or the Europe zone. These principally involve companion animals and cover such varied fields as parasitology, infectious diseases, old-age animal pathologies, etc.

As far as biology is concerned, a major research project has now reached the development phase in the wake of successful efficacy trials, and a new-generation canine vaccine should shortly obtain Product Marketing Authorisation.

Virbac has also continued to contact numerous sources in a view to obtaining new molecule or technology licences such as Romifidine.

Production

Major investments have been realised in France in order to improve productivity and to keep in line with changes in regulatory requirements.

On the Carros site, a new injectable product sterilisation tunnel has been installed and has considerably increased bottle production output.

The tablet workshop has been reorganised and now includes a new press.

New production workshops have been set up at the Magny-en-Vexin site.

As part of our continuous quality improvement process, we have renovated the chemotherapy quality control laboratory at Carros.

In the logistics field, two major projects have been carried out: a purchasing project involving a review of our principal purchases and leading to substantial cost reductions, and a stock-reduction plan resulting in a 15% decrease in stocks at the end of December 2003 compared to the previous financial year for the whole of Europe supplied by the French production sites.

In September, Virbac introduced in Vietnam a new unit for the production of oral liquids.

The Group's other production sites (Australia, Mexico, Brazil, South Africa) have continued to adapt and modernise their facilities, while the Saint Louis site in the United States of America has successfully absorbed the products acquired from Delmarva and King Pharmaceuticals into its production activities.

ANALYSIS OF YEAR 2003 CONSOLIDATED ACCOUNTS

Income trends

Consolidating income declined by 26.9% compared to the previous financial year, largely due to the situation prevailing at the American subsidiary, Virbac Corp.

Outside the United States of America, operating income was slightly down (-2.6%). In particular, three factors impacted unfavourably on profitability:

- ▶ Monetary parity trends: at constant exchange rate, operating income would in fact have been up 8.8% on 2002;
- ▶ the termination of petfood distribution agreements for companion animals;
- ▶ the under-absorption of production expenses in the wake of the stock-reduction measures and the slowdown in activity over the latter half of the year.

In the United States of America, the investigation carried out by the Audit Committee of Virbac Corp. (in which the parent company holds a 60% interest) in November 2003 resulted in the adjustment of certain operations and to the drawing up of new financial statements for the 2001 and 2002 financial years as well as for the first half year of 2003. The company's auditors undertook an exhaustive audit, not completed at the time of the closure of the Virbac consolidated accounts. Nevertheless, on the strength of the information already to hand, the degree of uncertainty was deemed acceptable and Virbac S.A. incorporated on its consolidated accounts adjustments to the Virbac Corp. accounts for the previous years and to the provisional accounts for 2003.

There are two kinds of adjustments for the 2001 and 2002 financial years:

- firstly, definitive losses concerning the cancellation of sales of certain products subsequently destroyed or returned after expiry; secondly definitive losses relating to the adjustment of expenses, asset values and provisions for depreciation of stocks. The net impact of these corrections was recorded under "correction of errors" in the 2003 consolidated accounts for the amount of € 2.3 million, including a Group share of € 1.4 million;
- time differences in relation to turnover which should have been entered in the accounts either upon payment or upon actual receipt by the client. These differences, carried over from one financial year to another, have no incidence on the consolidated accounts.

Apart from these adjustments, the contribution of Virbac Corp. to the 2003 operating income is negative, due to the rigorous evaluation of charges and provisions resulting from the investigation and from the downturn in activity towards the end of the year.

Interest expense works out at € -6,230 thousand, i.e. a drop of 17% compared to the previous financial year, related to the Group's increased debt level in the wake of the various acquisitions made.

Extraordinary income finished at the same level as 2003, consisting for the most part of reversals in provisions for retirement and for risks in Brazil.

Extraordinary expenses rose by € 1,985 thousand, impacted by the expenses incurred by Virbac Corp. and the closure of the Harbor City production site in the United States of America. They also incorporate charges and provisions for severance and social commitments (retirement indemnities and supplementary pension) as well as cover for risks, litigation, non-operating assets depreciation evaluated by the Group.

Income tax came to € 6,340 thousand, with the tax rate up compared to the previous financial year, largely as a result of the lowering of the research tax credit in France.

Consolidated income after tax and before minority interests and amortisation of goodwill worked out at € 9.3 million, a fall of 54.9%.

Minority interests moved from € +1.7 million to € -1.8 million, the result of the negative contribution of the American subsidiary Virbac Corp. (in which minority interests hold a 39.5% stake in the capital).

After allowance for these items, the Group's share of net profit comes to € 9.5 million as against € 17.7 million in 2002, i.e. a decrease of 46.4%.

Consolidated balance sheet and financing

The Group's cash flow from operations came to € 22.9 million, compared to € 33.5 million in 2002, a decline of 31.6%, which reflected the fall in the Group's profitability. Net borrowings at 31 December 2003 amounted to € 44.1 million, which represented 1.9 times the cash flow generated from operations and 34% of Group equity (including minority interests). This sharp increase in debt, which nevertheless remains at an entirely reasonable level, resulted from the combined effect of the Group's reduced profitability and its acquisitions, and was partly offset by a decrease of working capital needs.

Intangible fixed asset acquisitions came to € 26.1 million and consisted essentially of intangible assets bought with the King Pharmaceuticals and Delmarva acquisitions in the United States of America, rights and licences acquired (particularly Romifidine) and computer software.

Investments in controlling interests stand at € 9.6 million and principally correspond to the first payment made for the acquisition of BVT.

The Group's tangible assets represented € 11.5 million in 2003 and were for the most part allocated to improving our production units.

Working capital requirements fell by 8% compared to the previous financial year while turnover was down by 3.6%. This highly favourable trend may be attributed to the reduction of trade receivables linked to the slowdown in activity over the last quarter of the year, the very considerable reduction of stocks

due in large part to the improvement brought about by the introduction of an ERP (Enterprise Resources Planning) system, and favourable exchange rates.

Financial statements

The sales of the parent company Virbac S.A. came to € 119.6 million, a decline of 2.4% compared to the previous financial year and mostly attributable to the reduction of stocks obtained by improved logistic channels.

Operating income works out at € -5.9 million due to lower activity and increased operating expenses.

Interest expense comes to € 11.9 million and is slightly down despite increased dividends received from the foreign subsidiaries (+12%) because of a provision of € 3.9 million for depreciation of the securities of the Brazilian and Philippines subsidiaries.

Net profit after tax came to € 7.6 million as against € 10.3 million in 2002.

The dividends paid over the last three financial years are as follows*:

Year	Net dividend	Tax credit	Global revenue	Amount distributed
2000	2.13	1.070	3.200	4,424,163.00
2001	2.30	1.150	3.450	4,775,388.80
2002	0.63	0.315	0.945	5,234,220.18

*The share's nominal value was divided by 4 as from 29 July 2002.

Share buyback programme

The Ordinary General Assembly of 11 June 2003 authorised parent company Virbac S.A. to buy back its own shares on the basis of Article L. 225-209 of the French Commercial Code, and in accordance with the buyback plan described in the prospectus referred to by the Commission des Opérations de Bourse (Article No. 03-452 of 21 May 2003).

At 31 December 2003, Virbac S.A. owned 403,869 of its own shares, which were purchased on the market for a total amount of € 6,862,991.28, net of acquisition costs, at an average share price of € 16.99. During the year, the company did not buy or sell its shares, with the exception of shares held within the framework of a liquidity contract, the value of which is insignificant.

Treasury shares held at 31 December 2003 represented 4.6% of Virbac S.A.'s share capital and will primarily be used to fund stock option plans.

Subject to the prior approval of the Financial Market Authority, a resolution will be proposed to the General Meeting to renew the authorisation to buy back the company's own shares over a period of 18 months from the meeting date, with the following objectives:

Proposals by the Executive Board

Allocation of Virbac S.A.'s net profit

The net profit of parent company Virbac S.A. amounted to € 7,587,386.73.

A proposal will be put to the General Assembly to distribute a net dividend of € 0.48 per share, carrying a tax credit of 50% (physical persons only) i.e. € 0.24.

The year's net profit will be allocated as set out below, provided that the Group does not hold any treasury shares on the date of payment; otherwise, the undistributed dividends relating to treasury shares deprived of their voting rights will be allocated to Retained Earnings.

● Dividend distribution amount	4,182,888.96€
● Discretionary reserve allocation	3,404,497.77€
● Net profit for the financial year	7,587,386.73€

- ▶ stabilising the share price, by systematically intervening against market trends;
- ▶ allocating the company's shares to the Group's employees and managers through share purchase options pursuant to Articles L. 225-179 et seq. of the Commercial Code;
- ▶ holding, disposing or subsequent transferring of the shares thus acquired

In addition, share buybacks may potentially be undertaken in order to exchange shares within the framework of external growth operations.

The maximum share buyback price shall never exceed € 50 per share and the minimum sales price shall never be less than € 12.5 per share.

The maximum number of shares thus acquired may never exceed at any time 10% of the share capital. The maximum number of shares will include shares already acquired within the framework of the aforementioned previous authorisations and those acquired within the framework of a liquidity contract.

SIGNIFICANT EVENTS OCCURRING SINCE THE END OF THE FINANCIAL YEAR

In March 2004, the Group bought up Antigenics Inc. (United States), all the production rights, the intellectual property rights and the equipment and stocks relating to the production of the antigen and adjuvant forming part of the composition of the Leucogen vaccine. This agreement enables Virbac to secure the supply and control the production costs of one of its leading products in the strategic vaccine segment. The acquisition cost comes to \$ 14.2 million, of which \$ 2 million was paid in the course of the 2003 financial year and the remaining \$ 12.2 million will be settled in 2004.

ADMINISTRATIVE, MANAGEMENT AND SUPERVISORY ORGANS

At 1 April 2004

Supervisory Board

- **Jeanine Dick**, Chairwoman of the Supervisory Board of Virbac S.A.
Other external position held:
 - Manager of Investec, a non-trading company.
 Remuneration and benefits: € 8,235
- **Pierre Madelpuech**, Vice-Chairman of the Supervisory Board of Virbac S.A.
Other external corporate governance positions held:
 - Member of the Executive Board and Managing Director of VGC S.A. (France),
 - Member of the Executive Board of Manuest S.A. (France),
 - Director of Panpharma S.A. (France),
 - Director of Panmedica S.A. (France).
 Remuneration and benefits: € 4,575
- **Marie-Hélène Dick-Madelpuech**, Permanent representative of Investec, a non-trading company, Member of the Supervisory Board of Virbac S.A.
Other external corporate governance positions held:
 - Chairwoman of the Board of Directors of Panmedica S.A.
 - Permanent representative of Panmedica S.A., Director of Panpharma S.A.
 Remuneration and benefits: € 13,725 paid to Investec.
- **François Guinot**, Member of the Supervisory Board of Virbac S.A.
 - Director of Jeanne Lanvin S.A. (France),
 - Vice-Chairman of the Académie des Technologies (France),
 - Chairman of the Société de Chimie Industrielle (association directed to the public interest).
 Remuneration and benefits: € 15,250.

- **Olivier de Pelet**, Member of the Supervisory Board of Virbac S.A.
 - Permanent representative of Idia Participations S.A., Member of the Supervisory Board of Laboratoires Thea S.A.
 - Permanent representative of Idia Participations S.A., exercising the duties of Director of Berkem S.A., Panil S.A., Fromagerie Guilotteau S.A., and Société La Biochimie Appliquée S.A. (SO.LA.BI.A), Pan Medica S.A., Nickel S.A., Laboratoires Goemar S.A., Norac S.A., NHC Finance S.A.
 - Permanent representative of Idia Participations S.A., exercising the duties of Director of PRI Poupon and Reitzel Ind. Holding (Switzerland).
 - Permanent representative of Idia Participations S.A., exercising the duties of Member of the Supervisory Board of Etablissements Jacquot et Cie. S.A.
 - Permanent representative of Union d'Études et d'Investissements S.A., exercising the duties of Director of Biofinances II, S.A.S., and Panpharma S.A.
 Remuneration and benefits:
 - € 2,287.5 paid to Olivier de Pelet
 - € 2,287.5 paid to Union d'Études et d'Investissements S.A., for whom Mr de Pelet was a representative of the Supervisory Board until September 2003.

Executive Board

- **Éric Marée**, Chairman of the Executive Board of Virbac S.A.
Other external corporate governance positions held in Virbac's subsidiaries:
 - Chairman of Alfamed S.A.S. (France),
 - Chairman of Dog n' Cat International S.A.S. (France),
 - Chairman of Virbac France S.A.S. (France),
 - Chairman of Virbac France S.A.S. (France),
 - Chairman of Virbac Nutrition S.A.S. (France),
 - Chairman of Interlab S.A.S. (France),
 - Permanent Representative of Virbac France S.A.S., Director of Bio Veto Test (France),
 - Director of Virbac Australia PTY (Australia),
 - Director of Virbac Corp. (United States of America),
 - Chairman of Virbac CZV SL (Spain),
 - Director of Virbac Ltd. (UK),
 - Chairman of Laboratorios Virbac Mexico S.A. de CV (Mexico),
 - Chairman of Comercializadora Virbac S.A. de CV (Mexico),
 - Director of Virbac Laboratories Ltd. (New Zealand).
- **Pierre Pagès**, Member of the Executive Board and Managing Director of Virbac S.A.
Other external corporate governance positions held in Virbac's subsidiaries:
 - Chairman of Virbac Distribution S.A.S. (France),
 - Manager of Soparlic S.A.R.L. (France),

- Permanent Representative of Virbac S.A., Director of Bio Veto Test S.A. (France),
 - Director of Virbac Australia PTY (Australia),
 - Director of Virbac Corp. (United States of America),
 - Director of Virbac Laboratories Ltd. (New Zealand),
 - Co-manager of Virbac GmbH (Germany),
 - Director of Virbac España S.A. (Spain),
 - Director of Virbac Japan Co Ltd. (Japan),
 - Director of Virbac Korea Co Ltd. (South Korea),
 - Director of Virbac Ltd. (UK),
 - Director of Virbac Österreich (Austria),
 - Chairman of Virbac Philippines Inc. (Philippines),
 - Director of Virbac RSA Ltd. (South Africa),
 - Chairman of Virbac SRL (Italy),
 - Director of Virbac Switzerland AG (Switzerland),
 - Vice-Chairman of Virbac Vietnam (Vietnam),
 - Chairman of Virbac Taiwan Co Ltd. (Taiwan),
 - Director of Virbac Thailand Co Ltd. (Thailand),
 - Director of Laboratorios Virbac Mexico S.A. de CV (Mexico),
 - Director of Comercializadora Virbac S.A. de CV (Mexico),
- **Christian Karst**, Member of the Executive Board of Virbac S.A.
Other external corporate governance positions held in Virbac's subsidiaries:
- Chairman of the Board of Directors of Vetarome S.A.S. (France),

- Chairman of the Board of Directors of Bio Veto Test S.A. (France),
- Chairman of Francodex S.A.S. (France),
- Manager of New-Co S.A.R.L. (France),
- Director of Virbac Australia PTY (Australia),
- Director of Virbac Ltd. (UK),

► **Jean-Pierre Dick**, Member of the Supervisory Board of Virbac S.A.

Other position held:

- President of the Virbac Foundation,

► **Michel Garaudet**, Member of the Supervisory Board of Virbac S.A.

Other external corporate governance positions held in Virbac's subsidiaries:

- Director of Vetarome S.A.S. (France),
- Director of Bio Veto Test S.A. (France),
- Manager of Virbac de Portugal Ltda. (Portugal),
- Director of Virbac CZV SL (Spain).

Remuneration of the members of the Executive Board

- The remuneration paid for the 2003 financial year corresponds to the fixed compensation in 2003, the compensation linked to the directorships in the Group's companies and paid in 2003, and the variable compensation paid in 2004 for the year 2003.

Members of the Executive Board (in €)	Fixed compensation	Compensation linked to directorships in the Group's companies	Variable compensation	Total compensation
Éric Marée	217,151	53,929	14,250	285,330
Pierre Pagès	147,215	53,929	5,500	206,644
Christian Karst	131,007	38,000	10,000	179,007
Michel Garaudet	141,887	0	3,000	144,887
Jean-Pierre Dick	30,231	0	NA	30,231

- The remuneration paid for the 2002 financial year corresponds to the fixed compensation in 2002, the compensation linked to the directorships in the Group's companies and paid in 2002, and the variable compensation paid in 2003 for the year 2002.

Members of the Executive Board (in €)	Fixed compensation	Compensation linked to directorships in the Group's companies	Variable compensation	Total compensation
Éric Marée	202,184	55,895	53,112	311,191
Pierre Pagès	139,537	55,895	41,112	236,544
Christian Karst	122,006	30,500	41,112	193,618
Jean-Pierre Dick	40,131	0	NA	40,131

In 2002, Michel Garaudet did not receive any compensation with respect to his position on the Executive Board (date of nomination: 13 December 2002).

Criteria concerning variable compensation

The variable compensation of the members of the Executive Board is divided into an individual and a collective part.

Individual part: specific objectives are fixed for each member and, for the year 2003, are selected among the following criteria:

- profitability progression of invested capital,
- stock reduction,
- savings on purchases,
- acquisitions (companies, products).

On the strength of the results obtained in 2003, a larger part of this variable compensation would in normal circumstances have been paid, but the amount was limited in view of the Group's overall performance.

Collective part: payment of the bonus is conditional upon attaining a double objective:

- income before tax
- turnover

These objectives were not met in 2003.

Other Benefits

In addition to the various compensations, the members of the Executive Board enjoy the following benefits:

- a company car,
- a complementary retirement scheme with defined benefits (12.5% of the reference salary and 22% in the case of more than 30 years' service) allocated under the following conditions: more than 10 years' service in the Group (including 9 years as a member of the Executive Board), to be at least 60 years old and to end his/her career in the Group.

Stock-Options

The share of the different stock-option plans allocated to the members of the Executive Board is as follows:

Members of the Executive Board	Plan 2000	Plan 2001	Plan 2002	Plan 2003
	Striking price: € 16.61	Striking price: € 21.66 €	Striking price: € 32.88 €	Striking price: € 22.87
	Quantity	Quantity	Quantity	Quantity
Éric Marée	8,000	18,000	12,000	18,000
Pierre Pagès	8,000	8,000	6,000	8,000
Christian Karst	8,000	8,000	6,000	8,000
Michel Garaudet	4,000	3,200	2,000	6,000

There was no stock-option plan in 2004.

SHAREHOLDERS' INFORMATION AND STOCK MARKET PERFORMANCE

Virbac provides its individual and institutional shareholders, together with their advisers (financial analysts), with regular, clear and transparent information.

The information is relayed by means of releases and the publication of quarterly turnover figures and half-year results.

Relations with individual investors

- The Group's website www.virbac.com includes a regularly updated component devoted to financial communication. Financial information about the Group can be obtained and downloaded from this site: press releases, annual and half-yearly accounts, annual report, etc. Internet users can also e-mail questions of a financial nature to: finances@virbac.fr.

- The Group keeps in regular contact with its shareholders through the twice-yearly publication of a shareholders newsletter.

Relations with institutional investors

- Senior management keeps in close contact with investors and analysts, in particular meeting them throughout the year on the Paris and London financial markets.
- Meetings and conference calls with analysts are organised to coincide with the publication of results, external growth operations and other major events of significance for the Group.
- Investors and analysts are welcome to contact the Financial Affairs Department for all questions on Group strategy, products and significant events.

Provisional financial communication timetable for 2004:

► First quarter turnover 2004:	22 April 2004
► Second quarter turnover 2004:	22 July 2004
► First half year results 2004:	5 October 2004
► Third quarter turnover 2004:	21 October 2004
► Annual turnover 2004:	27 January 2005

Stock Market data and ratios (in €)	2002	2003	At 31 March 2004*
Share price			
Highest	37.55	34.45	31.95
Lowest	21.64	20.50	25.85
Monthly average	29.37	27.93	29.54
Most recent	28.20	29.30	31.90
The Group's price earnings ratio			
Highest	18.50	31.60	29.30
Lowest	10.60	18.80	23.70
Monthly average	14.40	25.60	27.10
Most recent	13.90	26.90	29.30
Rate of return			
Average price	3.2%	2.6%	2.4%
Most recent price	3.4%	2.5%	2.3%
Transaction volume	2,622,945	2,067,152	392,759
Market capitalisation at end of period (€ million)	245.70	255.30	278.00

*Price Earnings Ratio calculated on 2003 earnings.

The capital distribution at 30 April 2004 was as follows:

	% of capital	% of voting rights
Dick family Group	46.6%	63.2%
Orfim S.A.S.	5.4%	7.2%
Company savings plan	0.9%	0.6%
Public	42.5%	29.0%
Treasury shares	4.6%	0.0%
	100.0%	100.0%

OUTLOOK FOR 2004

After several years in which both business and profits grew regularly, several events conspired to precipitate a sudden and fundamental change to the positive prospects which, as recently as last October, we had envisaged for the whole of 2003.

This sudden reversal may essentially be attributed to the accounting and stock market crisis which last November engulfed Virbac Corp., our 60%-owned American subsidiary. The impact on our 2003 consolidated accounts is of course considerable, involving not only the restatement of turnover and charges but also the additional administrative costs incurred (lawyers' and auditors' fees, etc.).

What are the prospects in the United States of America after such a shock? Three key elements may be identified:

- The United States of America remains far and away our largest growth opportunity in the medium term, by virtue of the size of the market, particularly in companion animals, and of our as yet small share of this market. Our current difficulties, painful as they are, in no way alter our ambitions for this region of the world
- Our level of activity has stood up well, we have retained the trust of our partners, suppliers and clients, our teams have responded well and are as committed as ever, and the acquisitions made over the summer have proved equal to our expectations.
- Through the impetus of the interim management team, the company is working energetically to strengthen its internal audit procedures and to comply with the requirements of the new Sarbanes-Oxley law. The Board of Directors has retained a united front in the face of difficulties, and is working with the interim managers to ensure a smooth transition to a permanent team fully adhering to the Group's values.

Parallel to these developments, trends over the last months of the year were not such as to allow the Group to offset, even partially, the North American difficulties.

How can we bounce back?

In the United States of America the road to recovery is clearly mapped out and we must progress along this route as swiftly as possible: definitive publication of the accounts, management consolidation, reinforced audits, return to listing on the NASDAQ, in order to re-establish the bases for solid medium-term development.

In the rest of the Group, we are intensifying our efforts to move forward once again at a rate well above the market level, after year 2003 growth of 2.8%, pro forma at constant exchange rate, in a market expanding by no more than 1.1%. Our performance was penalised by the previously mentioned decline in parasiticides and petfood for companion animals, but on the positive side we have felt the beneficial effects of progress in line with previous years in several strategic segments: +8% in vaccines, +11% in specialties, +18% in equine parasiticides, etc. Now more than ever, the key to sustained growth rates is product innovation.

This year we are relaying in particular on the launch of several very technical products for companion animals in Europe:

- ▶ Alizine®, a reproduction control hormone already marketed in France,
- ▶ Romidys™, an original anaesthetic emanating from a licensing agreement,
- ▶ the “cat” indication for Virbagen® Omega, the first veterinary interferon launched two years ago.

We have simultaneously set in motion several initiatives designed to improve cost control: enhanced industrial competitiveness, exhaustive use of the new information systems (ERP, MIS), optimisation of marketing and commercial expenditure.

In the light of the above, we expect a somewhat subdued first half year, marked by slow growth in real terms and additional administrative costs in the United States of America, followed by a hopefully more dynamic second half year. For the year 2004 as a whole, we should be close to the operating profit levels achieved in 2002, and should then move well beyond them in 2005.

Looking forward to 2005, we expect to see a turnover of € 400 million, compared to the target of € 500 million set in 2000. This apparently substantial difference is reduced to € 50 million when expressed at the exchange rate prevailing in 2000. It may also be explained by a lower than expected rate of acquisitions due to the lack of quality targets and to the fact that certain acquisitions such as BVT will not begin to make a significant contribution until after 2005. Net profit should work out at about 10% below the objective set of € 23 million, unless the gap is closed as a result of a favourable exchange rate trend.

Sustainable Development

Safety—Environment

The environmental data given below relate to our French sites.

Consumption of water resources, raw materials and energy

Cu. m	2003	2002
Water	61,166	72,258

Water is used for the purposes of production and for thermal uses. The implementation of closed-loop cooling equipment, and attentive management of use contribute to our ability to control consumption.

KWh (kilowatt hours)	2003	2002
Gas	7,939,128	7,564,607
Electricity	14,958,443	13,808,543

Energy is used for manufacturing processes, and for filtration in buildings, in order to comply with good pharmaceutical manufacturing practices. Compared to other industries, the pharmaceutical industry is a production activity that does not require large quantities of energy.

Virbac, as a company at the service of health, is currently actively pursuing an approach involving the implementation of a comprehensive policy covering hygiene, safety and the environment.

The objectives of this approach primarily concern human resources (personal safety), followed by economic (protection of property) and regulatory concerns (compliance with legal obligations).

In 2003, this approach was in particular reflected by the introduction of a concrete action plan: the “Safety at Work” project.

The actions realized may be grouped into five categories:

Constant Monitoring

Virbac S.A. monitors constantly and systematically ensures that it is in conformity with changes in hygiene, safety and environmental regulatory requirements.

The Group carries out all modifications and improvements linked to changes in Virbac's activities that give rise to the updating of our authorisations to operate, issued by the “DRIRE” (French Regulatory Departments of Industry, Research and the Environment) with respect to Classified Facilities. We also implement the recommendations arising from the annual audit of our sites by our insurer's experts.

Investment in technical solutions

Numerous investments of a preventive nature were made on our French sites in 2003:

- ▶ neutralisation of waste from our water treatment stations,
- ▶ replacement of Halon by Argonite in the fire extinguisher systems,
- ▶ implementation of automatic smoke extraction controls on our Carros sites,
- ▶ replacements of purgers / condensate separators,
- ▶ additional storage containers,
- ▶ automatic pH waste regulation,
- ▶ absolute filtration on air waste,
- ▶ updated compliance concerning façade access for construction work and evacuation,
- ▶ improved security of treatment systems for technical / burglary alarms (4-year plan),
- ▶ additional access control mechanisms,
- ▶ tougher fire safety systems (4-year plan),
- ▶ optimised selective waste disposal in compliance with law of No. 92-646 of 13 July 1992,
- ▶ effective implementation of retention traps of potentially polluted effluents and traceability of associated waste water analyses. Compliance with DRIRE directives ensured,
- ▶ compliance with boiler rooms regulations,
- ▶ compliance with regulations governing facilities (safety of the personnel).

The total amount of investments in 2003 comes to € 330 thousand. The safety and environment programme will continue in 2004.

Reinforced human resources

In view of all the obligations to which Virbac is subject, it was decided in 2002 to make major changes to the Hygiene-Safety-Environment team. This new organisation took the concrete form of the setting up of specific services for safety and the environment.

Special hygiene-safety-environment training

Annual regulatory training is given in the following areas:

- ▶ fire safety: 859 people trained in 2003,
- ▶ environmental protection: training in environmental requirements and in following procedures and instructions, in partnership with Chamber of Commerce and Industry and the “Club des Entrepreneurs” of the Carros Industrial Estate,

- ▶ handling of products, storage conditions, management and tracing of liquid and gas discharge and waste through selective sorting.

Risk prevention and analysis

The regulatory risk analysis procedure adopted by Virbac on its production sites has given rise to a report expressed in the form of a series of action plans.

Principal operations in 2003:

- ▶ finalisation of the Intranet data base containing the raw materials safety records (950 records)
- ▶ exhaustive technical audit of the fire detection and extinguisher systems for compliance with real risks and insurance company recommendations
- ▶ implementation of industrial waste traceability
- ▶ updating of prevention plans for external service providers.

Certification procedure

Virbac has embarked on a procedure to obtain ISO 14001 certification.

Objectives assigned to the Group's foreign subsidiaries

In all the countries in which the Group possesses production sites, a policy has been developed for ensuring that environmental standards and safety rules are observed, and for dispensing training to the personnel. The policy encompasses not only local regulations but also the Group's own values and orientations in the fields in question.

HUMAN RESOURCES

The Virbac Group: 2,248 employees spread among 27 countries, 33 subsidiaries and 5 representative offices.

Strategy

Now more than ever, the men and women working in the Group constitute our greatest force and the key factor of our success.

Human resources are geared to our corporate strategy, dedicated to the task of overcoming difficulties on the path to sustained growth: **human resources are the link between corporate strategy and the human element.**

This strategy is expressed through a few clear objectives:

- ▶ to attract, nurture and motivate the best candidates,
- ▶ to train and motivate managers to become true leaders and to assume their role in the management of human resources within their organisation,
- ▶ to create efficient organisations rooted in the principles of motivation and good man management, and to promote corporate values:
 - Innovation,
 - Market-driven strategy,
 - Entrepreneurship spirit,
 - Delegation/empowerment,
 - Teamspirit,
- ▶ to encourage geographical and functional mobility,
- ▶ to develop a style and culture open to constructive criticism in order to facilitate innovation and efficiency.

As part of the drive to implement the Virbac corporate strategy and to inculcate Group values in personnel throughout the world, we seek to recruit candidates with specific qualities and to develop such qualities among our employees:

- ▶ Sense of initiative,
- ▶ Managerial skills,
- ▶ Creativity,
- ▶ Ability to achieve results,
- ▶ Exemplary behaviour.

Just one year after the creation of the Group Human Resources function, the year 2003 saw RH policy disseminated in all regions of the world and the first steps taken towards its implementation, notably in the following areas:

Recruitment

“To have the right person in the right place at the right time”: this objective involves having recourse to recruitment tools and to specialised recruitment agencies, ensuring that recruits share the Group's values, and working in close harness with the managers.

Recruitment must also make full allowance for future needs and focus on high-potential candidates.

Training

“To reinforce professionalism and to develop potentials” by means of international training sessions focusing on remuneration policy, performance management, the manager's HR role, etc.

Training is the best way to meet the individual and collective needs of all members, to propagate the Group's values and way of doing things and to establish Virbac's own management style.

Remuneration

“To encourage individual performance and to reward merit” through the development of a variable remuneration policy, the implementation of a market data analysis tool at international level and the introduction of minimum Virbac criteria with regard to benefits packages.

Remuneration must be such as to reward employee potential while taking into account the market and respecting the spirit of equity within the company.

Group Workforce

Workforce at 31/12/2003	Total	%	Women	%	Men	%
Europe	1,265	56%	634	50%	631	50%
North America	262	12%	91	35%	171	65%
Latin America	204	9%	79	39%	125	61%
Pacific	224	10%	112	50%	112	50%
Asia	171	8%	58	34%	113	66%
Africa—Middle East	122	5%	45	37%	77	63%
Total Virbac Group	2,248		1,019		1,229	

Over half of the workforce is located in Europe (56%), including 1,004 employees in France (45%). The breakdown between women and men is as follows: women 45% and men 55%.

Change in workforce per geographical zone	2003	2002	Change	%
Europe	1,265	1,240	25	2%
North America	262	278	-16	- 6%
Latin America	204	195	9	5%
Pacific	224	218	6	3%
Asia	171	160	11	7%
Africa—Middle East	122	119	3	3%
Total Virbac Group	2,248	2,210	38	1,7%

The workforce at 31 December 2003 showed an increase of 1.7%, i.e. an additional 38 employees (including 19 employees joining the company in the context of the takeover of Bio Veto Test).

Workforce by function	2003	%	2002	%
Production	951	42%	915	41%
Administration	321	14%	324	15%
Commercial	745	33%	744	34%
Research & Development	231	10%	227	10%
Total	2,248		2,210	

The breakdown between the main functions remained relatively stable in 2002 and 2003, with the production and commercial sectors (42% and 33% respectively) continuing to account for the majority of the personnel, i.e. three-quarters of the total workforce.

Virbac in France

Workforce

In France, Virbac has 1,004 employees in permanent positions and 9 apprentices.

In terms of status (53% women and 47% men) the workforce breaks down as follows:

Status	%
Executives	37%
Supervisory staff/technicians/non-manual employees	44%
Manual workers	18%
Apprentices	1%

Turnover of personnel

In 2003, the number of new recruits exceeded the number of persons leaving the company (+ 22 people). This is an indication of the company's growth.

Remuneration

Gross 2003 remuneration amounted to € 30,934,162 and social security charges and taxes totalled € 13,463,583. The average annual gross salary was € 33,900 for 2002, up 3.97% over 2002.

Social and community services

In 2003, the company allocated € 297,800 to social and community services.

Training

Training expenses fell slightly, this year representing 2.8% of payroll: i.e. a training investment

of € 674,314. A total of 124 employees (manual workers and technicians) received training in quality assurance, as well as in good manufacturing practices (GMP), thereby bringing to 826 the number of employees who have been trained in these two subjects in three years.

Working hours

An agreement concerning reduced working hours is applicable to all members of personnel – the working week is annualised at 1560 hours over the period running from 1 June to 31 May (with an additional 130 hours in the case of managerial staff).

At production level, the organisation of working hours was completed in 2003 with the introduction of a weekend shift and the signature of an agreement covering night work.

Safety at work

There were 20 work accidents in 2003, representing 547 days of absence from work. Over half of these days concern two absences caused by a back problem.

Absenteeism

Absenteeism in the company came to 5.48% and breaks down as follows:

Causes	%
Work accident	0.49%
Maternity	0.97%
Illness	3.99%
Commuting accident	0.03%



Industrial relations

The personnel representatives were re-elected in 2003 for the Economic and Social Unit (UES).

The Works Council for the Economic and Social Unit (UES) comprising Virbac S.A., Virbac France and Francodex is made up of 7 regular and 5 deputy members. The ordinary meetings are organised on a monthly basis.

There are 7 regular and 7 deputy personnel representatives at the Carros site, and 2 representatives (regular + deputy) at Magny-en-Vexin.

The Virbac Distribution site is represented by one regular representative and his deputy.

Handicapped workers

In France, Virbac employs the equivalent of 42 people with a level of handicap recognised by the government, representing 4.4% of its staff.

In addition, the company paid a contribution of € 42,672 to Agefiph, the body responsible for financing measures designed to maintain or reintegrate handicapped persons in the industrial environment.

Preparing for the changeover to IFRS standards

Pursuant to regulation No. 1725 / 2003 of the Council of Europe, published in the Official Journal of the European Communities on 13 October 2003, companies listed on a regulated market of one of the Member-States will be obliged, with respect to financial years as from 1 January 2005, to present their consolidated accounts using the reference

framework issued by the International Accounting Standards Board (IASB).

Virbac is concerned by this obligation and the consolidated accounts published in 2005 will therefore be drawn up from this corpus of International Financial Reporting Standards (IFRS). For the purposes of comparison, the accounts for the year 2004, restated according to the same principles, will then be made available.

To this end, Virbac is employing a project-methodology under the responsibility of the Accounting Services Manager and the supervision of the Chief Financial Officer.

The objective is to establish the necessary conditions for the application of the IFRS reference framework in the course of 2004, while at the same time respecting the obligation to publish the accounts according to French Standards until the end of the 2004 financial year.

This preparatory work takes place in three phases:

- **Diagnosis:** the first phase focuses on pinpointing and evaluating the accounting and financial impact of adopting the IFRS standards, and of selecting options.
- **Preparation:** this phase will be devoted to an analysis of the significant differences between the current processes and the new obligations linked to the IFRS standards, with a view to reworking the procedures and adapting the information systems.
- **Conversion:** this third phase will mark the completion of the project and will consist in rolling out and applying the new consolidation process and the modified financial statements.

The conversion phase should be completed by the end of 2004.

Fees of the Statutory Auditors and members of their networks paid for by the Group in 2003

	David et Associés Réseau Constantin		Auditors and partner consultants Réseau Nexia	
	€	%	€	%
Statutory auditors' office, certification, examination of individual and consolidated accounts				
<i>France</i>	60,647	100%	87,318	68%
<i>Outside France</i>	0	0%	40,222	32%
Sub-total	60,647	100%	127,540	100%
Other services	0		0	
Total	60,647	100%	127,540	100%

Report of the Chairman of the Supervisory Board

concerning the conditions
for preparing and organising the work
of the Supervisory Board
and the internal audit procedures

Article 117 of the Financial Security Law

Article 225-37, paragraph 6,
of the Commercial Code



The contents of this report are based on an analysis of the Group's situation and organisation conducted through a series of meetings and working sessions with the Executive Board of Virbac S.A.

1● Preparation and organisation of the work of the Supervisory Board

Preparation and organisation of the work of the Supervisory Board

Missions and composition of the Supervisory Board

1● Missions

The mission of the Supervisory Board is to audit the management of the Executive Board.

The Supervisory Board exercises its audit powers by convening every three months for the purpose of examining the business indicators and the half-year and annual accounts of the company and the Group. It accomplishes its mission by obtaining information where appropriate from the Statutory Auditors. It also studies more particularly a special study of the external growth projects.

2● Composition of the Supervisory Board

The Supervisory Board consists of five members, two of whom are independent: Messrs **François Guinot** and **Olivier de Pelet**. The nomination of a third independent member, **Xavier Yon**, will be submitted to the approval of the General Meeting of 29 June 2004.

The other members are:

Jeanine Dick, Chairwoman

Pierre Madelpuech, Vice-Chairman

SCI Investec (non-trading company), represented by **Marie-Hélène Dick-Madelpuech**.

Corporate governance policy

Offices held in other companies, along with a presentation of each of the members of the Board (age, professional qualifications and functions exercised in other companies) are set out in detail in the "Corporate governance" section of the Annual Report.

1● Convocations of the members of the Board

Pursuant to article 15 of the incorporation starters, the Board Members are convened two weeks in advance by ordinary letter sent by express delivery.

The Statutory Auditors are convened to all meetings of the Supervisory Board.

2● Notification of the Board Members

The documents, technical dossiers and information required by the Board Members for the purpose of accomplishing their mission, and corresponding to the meeting agendas, are communicated by express delivery as soon as possible before the next meeting.

3● Holding of meetings

The meetings of the Supervisory Board are usually held in theory at the company's head office. Minutes are drawn up at the end of each meeting and submitted to the approval of the Board Members at the next meeting.

4● Directors' fees

For the current financial year, the General Meeting of shareholders of 11 June 2003 decided to allocate the sum of € 42,700 in directors' attendance fees to be distributed by the Supervisory Board among its members.

Meetings over the past year

Over the past year and in compliance with the incorporation starters, the Supervisory Board convened four times with a 100% attendance rate.

The Board Members met on an informal basis on several occasions during the year for work and review sessions.

Missions and functioning of the Executive Board

1● Composition of the Executive Board

The Executive Board consists of five members:

Éric Marée, Chairman of the Executive Board

Pierre Pagès

Christian Karst

Michel Garaudet

Jean-Pierre Dick

The members of the Executive Board were appointed by the Supervisory Board of 13 December 2002 for a period of three years.

A detailed presentation of each of the members of the Board (age, professional qualifications and functions exercised in other companies) is given in the "Corporate governance" section of the Annual Report.

2● Functioning of the Executive Board

Functions are shared among the members of the Executive Board as follows:

Éric Marée, Chairman of the Executive Board, is responsible for supervising and coordinating the actions of all the members of the Board. He carries out all the functions, and assumes the responsibilities of a head of company. He represents the company and acts in its name in all circumstances, particularly those of a legal nature. With regard to the company's internal organisation, he is also specifically responsible for the following central departments:

- ▶ Human Resources,
- ▶ Computer Technology Services and Group Information Systems,
- ▶ Communication, including financial communication in coordination with Michel Garaudet.

Pierre Pagès, Chief Operating Officer, assists the Chairman in his tasks and deputises for him with his agreement, exercising the same powers in accordance with the law. More specifically, he assumes the functions of the establishment's Production Technical Services Manager and Veterinary Surgeon, pursuant to articles L.512-1 et seq. of the Public Health Code. With regard to the company's internal organisation, he supervises the following departments:

- ▶ World Operations, with operational responsibility for the subsidiaries and export activities, covering twenty-three countries split into five zones: Europe, North America, Latin America, Asia and Sanza (South Africa, New Zealand and Australia);
- ▶ Industrial Operations, responsible in particular for devising and carrying out the Group's industrial strategy, coordinating the seven production sites (including the three principal sites located in France), and coordinating measures designed to ensure strict observation of the regulatory environment;
- ▶ Industrial Quality Assurance.

Christian Karst supervises the following departments:

- ▶ Research and Development (pharmaceutical and biological), with responsibility for defining the Group's R&D strategy, implementing projects and coordinating the research centres spread among the different geographical zones;
- ▶ Corporate Marketing for companion animals, in charge of defining the main lines of world development on the companion animal segment and coordinating major product launches;

- ▶ Licensing, whose activity consists essentially in buying or selling the rights for active ingredients, finished products or products under development, in compliance with the Group's strategy;

- ▶ Medical Department.

Michel Garaudet supervises the following departments:

- ▶ Financial Affairs, with responsibility for the Group's financial policy, for drawing up financial and consolidated accounting information and for budgetary and financial planning processes;
- ▶ Legal Services, in charge of company law, insurance policy, negotiation, development and management of contracts and litigation.

Jean-Pierre Dick has the following charges:

- ▶ Chairmanship of the Virbac Foundation,
- ▶ Communication and promotion of Virbac's reputation through sponsoring initiatives.

In compliance with the law, the members of the Executive Board convene each quarter in order to report to the Supervisory Board and whenever business circumstances make it necessary.

The members of the Executive Board officially convened six times in the course of the 2003 financial year, and far more frequently on an informal basis.

Missions and functioning of the specialised committees

The Supervisory Board is assisted by two specialised committees.

Compensation Committee

The composition and mission of the Compensation Committee are described in the "Corporate governance" section of the Annual Report.

The Compensation Committee convened three times in the course of the financial year.

Audit Committee

The Audit Committee will be set up by the end of 2004. Its mission is described in the "Corporate governance" section of the Annual Report.

The Executive Board is assisted by two specialised committees.

Strategy Committee

The Strategy Committee is chaired by the Chairman of the Executive Board and comprises the following departments, represented as follows:

- ▶ the members of the Executive Board,
- ▶ the regional directors: Europe, North America, Latin America and Sanza (Australia, New Zealand, South Africa),
- ▶ the Group Human Resources Direction,
- ▶ the Industrial Operations Direction,
- ▶ the Research and Development Direction.

The Strategy Committee pronounces on the Group's major strategic decisions: strategy per speciality, strategy per function, major projects.

Executive Committee France

The Executive Committee is chaired by the Chairman of the Executive Board and comprises the following departments, represented as follows:

- ▶ the members of the Executive Board,
- ▶ the Human Resources Directions (Group and France),
- ▶ the Industrial Operations Direction,
- ▶ the Research and Development Direction,
- ▶ the Communication Direction,
- ▶ the Department of Group Information Systems Direction,
- ▶ the Corporate Marketing Direction for companion animals,
- ▶ the European Regional Direction.

The role of the Executive Committee for France is chiefly one of information, coordination and decision-making concerning all the Group's French companies, and constitutes a relay for disseminating information in the different departments.

2● Internal control mechanism

Internal control: definition and objectives

Virbac views internal control function as a series of processes implemented by the senior executives, and carried out by the Group's management and personnel, with a view to providing a reasonable guarantee that the following objectives are reached: reliability of financial information, execution and optimisation of operations, respect of applicable laws and regulations, securing of assets.

The control environment

The Group's values and principles of action

The efficiency of the Group's internal control system is essentially to be measured against the series of rules, policies, directives, procedures and traditions that have been developed alongside a Virbac culture based on entrepreneurial values, confidence in the staff and on giving them a strong sense of responsibility. These values serve as a reference framework against which all decisions are taken.

Principles of ethical behaviour and integrity are applicable in the first instance to the members of the Executive Board, the Strategy Committee and the Executive Committee but are also valid for each member of the Virbac personnel.

This system has kept pace with the Group's development and with the increasing internationalisation of its research and development, production and sales activities.

The Group is now organised into decentralised regional structures in charge of operational activities, whose strategic options are discussed and validated at Group level. All the actions initiated by the strategic options must be coordinated by each specific direction and head office supervised by the members of the Executive Board. The question of internal control is approached from a decentralised angle by each of the departments and for all processes (whether operational, support or coordination) and the system now implemented is capable of accommodating all operational risks.

Detection of risks

By virtue of its culture, Virbac has deployed means of anticipating and controlling risk at operational level and action plans designed to limit the impact of any such risks.

The internal control system is also animated by functions intervening directly and specifically in these risk detection processes with sustained objectives of proactivity and prevention.

● Finance

In the Group's French entities, Virbac has established management control structures dedicated to operation follow-up (industrial, research and development, human resources, etc.), mainly for the purpose of acting as alarm signals in the face of identified risks (operational, financial, etc.), evaluating the potential repercussions and taking steps to contain them as much as possible. The system as a whole is also driven by budgetary and reporting tools as well as analyses and performance indicators developed by Virbac.

Such structures are also being developed at regional level with a view to gradually imposing a uniform approach to detection and prevention methods.

Virbac treasury department has developed an inventory and optimisation policy for interest and exchange rate risks. With particular reference to the latter, the Group general directive expressly forbids speculative positions and insists that only real or future (but certain) economic positions are covered.

● Communication

The Communication Department has been working with the Executive Board to introduce a risk anticipation mechanism capable of compensating for any crisis situation that could affect the Group's image and depreciate its capital.

The mechanism involves:

- ▶ swift mobilisation of active resources in this sphere,
- ▶ implementation of logistic means providing the best reactivity,
- ▶ application of a methodology devised in conjunction with professionals and retranscribed in a crisis manual,
- ▶ replacement of curative actions by proactive actions.

● Insurance

In 2003 the Legal Department launched an exhaustive review procedure of insurable risks and their financial cover. The Department also enlisted the services of an insurance broker belonging to an international network and instructed him, in the course of his scheduled visits to each of the subsidiaries during the year, to draw up a detailed list of the insurable risks and their effective level of cover.

● Hygiene, Safety, Environment

In the light of increasing regulatory requirements, the Hygiene, Safety, Environment (HSE) process covers the control of risks related to the handling of materials, working conditions and the environment.

In France, the Technical Resources Department is in charge of HSE problem situations, laying down objectives and basic principles in a policy which is reviewed annually in the light of past evaluations and tighter regulatory controls. In particular, it is the concrete culmination of work begun in 2002 on the exhaustive identification of risks linked to operations and machines in an industrial environment; this process is to lead on to evaluation campaigns in order to guarantee complete and adequate cover of potential dangers.

Internal control procedures

In view of the strict regulatory framework surrounding Virbac's technical and industrial functions, all members of the staff are keenly aware of the need for, and importance of, internal controls.

The Group has therefore set up internal rules of functioning and procedures underpinning the practical bases of the internal control. It is Virbac's intention to structure the system in such a way as to extend it to all the company's processes and to disseminate it to all the subsidiaries.

Processes concerning the running of the Group

● Organisation

The Group's choices with regard to organisation are based on inculcating a sense of responsibility and on efficient operations, while at the same time taking into account the economic, social and regulatory environments linked to the activity.

Overall consistency is based on definitions of function associated with descriptions of responsibilities and positions in the hierarchy, objectives, and delegations of a series of powers in order to ensure that the control actions to be carried out at each level are satisfactory.

● Strategy

The Group's strategy is defined by the Executive Board with the support of the Strategy Committee. It is validated by the Supervisory Board and is expressed in regular communications within the Group (annual meeting of the managerial staff in France, meetings organised by the regional departments, etc.).

Functional strategies (R&D, production), strategies by segment (biology, dermatology, etc.) and geographical strategies are submitted to reorientation reviews and decisions in the context of the Strategy Committee.

The annual review of the three-year plan, within the framework of the formalised objectives set by the Executive Board, solicits contributions from all the regions and the major subsidiaries.

Licensing activities are carried out in accordance with the strategy defined by the Group and consist for the most part of buying or selling rights relating to active ingredients and products (finished or under development). Licensing projects are submitted to the Executive Board for validation and, in the more significant cases, to the Supervisory Board for approval.

The Group is committed to a policy of external growth and acquisition projects are systematically supervised by an ad hoc body consisting of at least one member of the Executive Board in association with the Financial Affairs Department and the Legal Department. The project validation circuit is the same as for the licensing activities.

● Communication

The institutional communication system is submitted to precise directives in order to ensure the consistency of written and oral communications and to promote and protect the Group's image internally and externally and to increase its visibility.

A determined validation circuit applies to all information, publications, reports and press releases, particularly of a financial nature.

The product communication process is coordinated worldwide by the Corporate Marketing cell.

Processes concerning the Group's operations

The veterinary industry is subject to the same strict controls as the pharmaceutical industry. Research and development, production and distribution operations are regularly submitted to the inspection of French and international organs possessing the power to impose heavy sanctions.

● Research and Development

Research and development has always been a priority at Virbac. At the outset, this activity was chiefly confined to France but has now been partially decentralised to cover all the regions. The Group's objective is to adapt the portfolio of research and development projects to local regulatory constraints and to commercial requirements specific to each region.

The Research and Development Department facilitates synergies between the increasingly active regional research centres.

In this connection, the follow-up of research activities is organised in such a way as to provide an exhaustive, documentation governed by directives and serving to structure and harmonise the monitoring of projects, and by the methods used, and a rigorous traceability of the controlled data resulting from studies.

Decisions with regard to the allocation of resources are taken on the strength of such criteria as:

- ▶ Segment strategies,
- ▶ Project typology,
- ▶ Risk/cost/commercial potential project profiles.

An operational follow-up procedure covering all the Group's projects helps to ensure fast reaction (and thus limited financial risks) on decisions to be taken in the light of the state of progress and the real and anticipated technical prospects of the projects.

Products are developed and registered in compliance with operating methods and taking into account Good Manufacturing Practices and Good Laboratory Practices.

● Production

The Industrial Operations Department implements the Group's industrial strategy by means of an industrial plan and in accordance with the strategic objectives.

The production activity is supported by the ERP (Enterprise Resource Planning) system chosen by the Group and currently implemented on the French and Australian sites; in this way the methods used for the monitoring of activity, documentation and development of flows will be standardised.

The Industrial Operations Department has issued directives designed to optimise and control the supply, quality control and distribution processes; the Department also makes sure that all products are manufactured, controlled and distributed in compliance with the regulatory requirements currently in force.

Lastly, procedures have now been established in all the sites governing the surveillance and safety of operations, goods and persons.

● Commercial operations

The Chief Operating Officer of Virbac supervises French and international operations, spread among the five regions.

The commercial actions reflect the Group's strategic objectives as stated at regional and then subsidiary level. Regions and subsidiaries are free to exercise a substantial degree of independence in defining their commercial policy.

Dynamic follow-up of actions at local level is ensured through the direct relations between head office, the regions and the subsidiaries. Monthly reports cover the state of business, trends and adjusted prospects within each region.

Virbac is taking steps to formalise Group directives covering commercial policies and conditions, the intention being to harmonise and rationalise practices depending on the limits and thresholds already enforced within the Group. The Group is also willing to preserve the flexibility and functioning independence of the subsidiaries.

Processes in support of Group operations

The processes listed below provide back-up to the Group's operational activities and at the same time additional quality and reliability to the elaboration and treatment of accounting and financial information.

● Information systems

The role of the Information Systems Department has recently been redefined to ensure the consistency of IT strategy in correlation with the Group's strategy by means of a six-year master plan.

The Information Systems Department has set out a governance policy built around principles which apply to the Group as a whole; it has also devised a policy covering the functioning and safety of the infrastructures. In this latter connection, the Department has launched a review of all the existing processes and sub-processes identified for the purpose of formalising and researching new procedures.

The policy consisting of the gradual standardisation of information systems is reflected in a programme formulated and implemented according to two models originating from the same ERP system. One of these models is dedicated to the production subsidiaries and the other to the commercial subsidiaries.

● Human resources management

At local establishment level, human resources are managed within the framework of a global strategy setting out the Group's overriding orientations in such policy areas as remuneration, recruitment, training, mobility management and performance evaluation. These orientations are then expressed as directives and processes in each entity. Social policy is essentially decentralised and the administrative management of human resources is based on detailed procedures specifically geared to each entity.

● Purchasing policy

In 2003 Virbac conducted a sweeping draft review of the purchasing procedure and the active suppliers on the different kinds of the Group's stocked purchases and a large part of the non-stocked purchases of its French structures.

The systematic and structured approach set in motion by Virbac has found formal expression in a procedure which is applicable, in the first instance, to the Group's French entities and covering an increasingly large perimeter, the purpose being to rationalise and optimise the portfolio of suppliers with quality, price and safety objectives.

This approach is then to be extended to cover a wider perimeter, by nature and by territory.

● Legal

The essential task of the Legal Department is to work with the Group's central departments in the management of their contractual engagements, and to intervene in the negotiation and drafting phases of contracts according to an established intervention request procedure.

The department deals with disputes and litigation.

The Legal Department is also available to advise the Group's entities in the fields of company and business law. An information management project has recently been launched in order to pool all the Group's information concerning contracts, company law, insurance and disputes. Such a tool will among other things make it possible to keep a regularly updated organisation chart of the Group's subsidiaries.

● Management Control

Management Control is responsible for measuring the company's performance. It acts as a relay between the Group's operational and financial services and provides relevant indicators and analyses for management.

It also coordinates the annual budgetary process from information transmitted by the Group's various departments and subsidiaries. This system in turn gives rise to three sub-processes for more refined management follow-up:

- Payment requests: there is a procedure for the approval and analytical allocation of expenditure. This procedure is validated by Management Control.

► Investment requests: in addition to investment projects validated during the budgetary process, a separate procedure has been introduced for assessing the appropriateness of the commitments in relation to the operations, whether they are of a capitalisable nature or correspond to a durable purchase:

- all commitments must be justified by means of a reasoned summary report of the issues at stake and of the technical and financial perspectives,
- no commitment may be made without prior submission to an approval circuit,
- depending on the nature of the commitment, it may be necessary to seek the involvement of the Purchasing Department.

► Follow-up of commitments: this is currently under review, the purpose being to homogenise the various existing operating methods and to formalise a standard which will be valid throughout the Group.

Lastly, the Group has recently given consideration to the reorganisation of management control, taking into account changes in the configuration of activities, organisations and systems.

● *Cash management*

A draft reference framework for cash management procedures has recently been launched. It is applicable to the French subsidiaries and could shortly be extended to the Group as a whole.

A process for the drawing up of an annual cash plan is implemented throughout the Group. It covers the forecasting of the subsidiaries' cash movements. Such movements are an indication of the quality of the forecasts relating to activity, expenses and the loan recovery policy.

A recent policy aimed at centralising cash surpluses and finance requirements on the Europe zone has helped to refine the Group's net positions and to optimise the management of investments or funding.

Process concerning the elaboration and treatment of accounting and financial information

Accounting and financial information is drawn up by the subsidiaries and the services of the Chief Financial Officer. The Department is structured in such as to be able to exercise its different missions on all the Group's activities. The Chairman of the Executive Board and Chief Financial Officer Manager guarantee the exhaustiveness, integrity, accuracy and quality of the accounting and financial information.

The Group's consolidated accounts are drawn up in line with the accounting principles summarised in the Financial Report and according to a precise timetable.

The Group's decentralised structure has led to the setting up of a certain number of principles and systems in order to guarantee the exhaustiveness and quality of the information.

As from 2004, the foreign subsidiaries will be audited by a single international network, thus ensuring the transmission of a homogenous stream of accounting and financial information.

● *Accounting and consolidation*

Information is produced through the consolidation process coordinated by a special unit inside the Financial Affairs Department and based on accounting principles that are valid for all the subsidiaries and guarantee a harmonised methodology.

The financial statements are drawn up using an accounts plan covering the whole Group; accounting and financial procedures, now being overhauled in the light of the switch to IFRS standards, guarantee the permanent and systematic nature of the methods used for recording operations in accordance with Group rules and local regulations.

● *Management Control*

The consolidation and budgetary follow-up process is also coordinated by Management Control on the basis of the information transmitted by the Group's different departments and subsidiaries.

Management Control plays an active role in the process concerning the elaboration and treatment of accounting and financial information, evaluating the quality of the information received at each consolidation date by accounting reconciliation and data consistency analysis.

As far as the constitution of the financial elements is concerned, Management Control follows the Group rules as retranscribed in a reporting manual applicable to all the subsidiaries. In particular, this manual lays down the principles and definitions of the account lines and endeavours to ensure that the same rules are applied throughout the Group.

3. Action plans

Virbac Corp.

An internal investigation of Virbac Corporation, in which the Group has a 60% interest, has been carried out by the Corporation's Audit Committee. An investigation conducted by the SEC (Securities and Exchange Commission) is also in progress.

The Audit Committee's investigation follows on from questions raised by the external auditors concerning certain methods used by the company for entering sales and inventories in the accounts. It transpires that, notwithstanding the well-developed corporate governance mechanisms already existing within Virbac Corp. (for example, an Audit Committee comprising three independent directors, reporting to the market authorities, etc.), the internal control as it now stands needs to be reinforced. There is a need to improve efficiency and to meet the requirements of the Sarbanes-Oxley laws which also insist on greater vigilance and transparency in internal control matters.

Curative and preventive measures, involving legal aspects and the reorganisation of the internal control by appropriate means, are currently being taken inside the American subsidiary. In particular, Virbac Corporation has introduced new rules and procedures for the internal control of accounts designed to improve the quality of its financial reporting. A Code of Good Conduct is currently being drafted, and a review is being carried out on ways of strengthening and focusing the work of the Committees and the role of the independent directors, in compliance with the rules and recommendations of the Securities and Exchange Commission (SEC).

Improvement objectives and critical path

An internal control process is a series of living processes adapted to circumstances and applied throughout a group in function of the objectives it has set. This being the case, no mechanism can be expected to provide more than a reasonable assurance as far as the reliability of its financial information is concerned.

In this context, the Virbac Executive Board has set out objectives for improving and appraising the short- and long-term efficiency of its system:

- 1● adaptation of the Group's general organisation: for example harmonisation of organisation charts and function descriptions, systematic double reporting of financial managers, formalisation of an ethics charter;
- 2● review and update of internal control practices in the units, and of existing procedure applying to the Group as a whole, as part of an internal control reference framework, by management process;
- 3● reinforced means of control and coordination: creation of an Audit Committee, consideration of possibility of setting up an internal audit unit.

The underlying objective is to implement a sufficiently clear, flexible and formalised framework and rules of functioning applicable throughout the Group, in order to be proactive and efficient in alert procedures, setting up anticipatory measures and preventive actions.

These initiatives should secure a sufficient level of financial reporting and audit at each echelon of the organisation, while giving priority to operational reactivity and action at local level.

This harmonisation of internal control rules is the necessary counterpart to the strong principle of subsidiarity anchored in Virbac's corporate culture.

Statutory Auditors' report drawn up in application of the terms of the last paragraph of article L.225-235 of the Commercial Code, concerning the report of the Chairman of the Supervisory Board of Virbac S.A., with regard to the internal audit procedures relating to the elaboration and treatment of accounting and financial information

Accounting year ending at 31 December 2003

Ladies and Gentlemen,

As Statutory Auditors of Virbac S.A., and in application of the last paragraph of article L.225-235 of the Commercial Code, we present our report on the report drawn up by your company's chairman in compliance with the terms of article L.821-3225-68 of the Commercial Code for the accounting year ending at 31 December 2003.

Under the responsibility of the Supervisory Board, the management is required to define and implement adequate and efficient internal control procedures. In his report, the Chairman is in particular required to report on the conditions for preparing and organising the work of the Supervisory Board and on the internal control procedures in place within the company.

We are required to pass on to you our observations on the information contained in the Chairman's report with regard to the internal control procedures relating to the elaboration and processing of accounting and financial information.

We have conducted our audit in accordance with the professional standards applied in France. These require the application of procedures designed to assess the sincerity of the information contained in the Chairman's report with regard to the internal control procedures relating to the elaboration and treatment of accounting and financial information. In particular, these procedures consist in:

- ▶ obtaining an understanding cognisance of the objectives and general organisation of the internal control, together with the internal audit procedures concerning the elaboration and processing of accounting and financial information presented in the Chairman's report,
- ▶ taking cognisance of the work performed to support the information provided in the report.

On the basis of this work, we encourage the company to continue in its efforts to formalise the existing procedure and to introduce a Group internal audit unit. We have no other observations on the information concerning the company's internal control procedures with regard to the elaboration and processing of accounting and financial information, as contained in the report of the Chairman of the Supervisory Board and as drawn up pursuant to the last paragraph of article L.225-68 of the Commercial Code.

Nice and Paris, France, 11 June 2004

David & Associés
Represented by
Roger David

Auditeurs & Conseils Associés
Represented by
Jean-Marcel Denis

*Statutory Auditors
Members of the Regional Companies of Aix-en-Provence and Paris*



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Consolidated Balance Sheet

Assets

(€ thousands)	Notes	2003 Net	2002 Net
Non current assets			
Uncalled subscribed		5	5
Intangible assets	1		
Other intangible assets		39,646	17,921
Acquisition goodwill		28,983	9,907
Property, Plant and Equipment		56,508	56,911
Land		5,896	6,327
Buildings		32,214	32,035
Machinery and equipment		11,295	10,944
Other		7,103	7,605
Investments		2,219	3,389
Total non current assets		127,361	88,133
Inventories	2	63,086	70,508
Advances and prepayments		434	432
Monetary current assets		79,654	96,838
Trade receivables	3	49,825	58,629
Other receivables		13,117	12,918
Marketable securities	4	6,908	5,986
Cash		9,804	19,305
Total current assets		143,174	167,778
Deferred charges and prepaid expenses	6	4,764	4,181
Deferred tax assets	5	10,014	6,650
Total assets		285,313	266,742

Equity and liabilities

(€ thousands)	Notes	2003	2002
Equity	7		
Share capital		10,893	10,893
Share premium and reserves		6,534	6,379
Translation adjustment		- 11,728	- 7,601
Group reserves and retained earnings		103,354	89,651
Financial year net profit—Group share		9,490	17,719
Total equity		118,543	117,041
Minority interests—reserves		12,320	13,730
Minority interests—net profit		- 1,778	1,747
Total minority interests		10,542	15,477
Third party equity contributions		320	170
Provisions for liabilities and charges		6,431	5,194
Deferred tax liability	5	7,857	1,851
Total provisions for liabilities and charges	8	14,288	7,045
Borrowings	9	60,767	47,141
Convertible bonds		0	0
Loans and debts from financial institutions		60,767	47,141
Operating liabilities	9	74,767	73,963
Trade payables		38,932	48,758
Other liabilities		35,835	25,205
Deferred revenues and accrued liabilities		6,086	5,905
Total equity and liabilities		285,313	266,742

Consolidated Income Statement

(€ thousands)	Notes	2003	2002	% Change
Goods and services sales		354,757	367,936	
Sales (net)	10	354,757	367,936	- 3.58%
Production capitalised as inventory		1,667	3,271	
Operating grants		139	54	
Provisions, depreciation and amortisation reversals		3,829	3,345	
Other operating revenues		2,077	1,041	
Operating revenues		362,469	375,647	- 3.51%
Purchases and inventory movements		124,028	130,024	
Other external purchases		95,238	93,872	
Taxes and duties		8,496	9,401	
Personnel costs (including profit sharing plans)		88,927	88,259	
Non-current assets depreciation and amortisation		11,374	10,767	
Current assets provision writedowns		3,959	1,605	
Provisions for liabilities and charges		273	333	
Other operating expenses		3,334	4,668	
Operating expenses		335,629	338,929	- 0.97%
Operating profit		26,840	36,718	- 26.90%

(€ thousands)	Notes	2003	2002	% Change
Finance income	11	2,118	2,039	
Finance expenses	11	8,348	7,361	
Net finance expenses		- 6,230	- 5,322	- 17.06%
Profit from ordinary activities		20,610	31,396	- 34.35%
Exceptional income	12	3,446	3,063	
Exceptional expenses	12	6,045	4,060	
Net exceptional expenses		- 2,599	- 997	- 160.68%
Correction of errors		2,345		
Income tax and deferred income tax	13	6,340	9,735	
Profit before minority interest		9,326	20,664	- 54.9%
Acquisition goodwill amortisation		1,614	1,197	
Minority interest in net result before correction of errors		- 848	1,748	
Minority interest in correction of errors		- 930		
Net profit		9,490	17,719	- 46.4%
Earnings per share—basic		1.09	1.78	
Earnings per share—outstanding shares only*		1.14	1.86	

* Excluding treasury shares.

As there is no delutive security, the diluted earnings do not differ from the earnings per share here above.

Consolidated Cash Flow Statement

(€ thousands)	2003	2002
Financial year net profit	7,712	19,466
Elimination of non-cash flow Income Statements items		
Depreciation, amortisation and writedown charges	14,933	12,442
Deferred income tax	- 1,960	1,711
Gains/losses on asset disposals	977	- 100
Other non cash generating items	1,266	0
Cash generated from operations	22,928	33,519
Impact of working capital items net movements		
Inventories	4,875	- 7,157
Trade receivables	5,862	- 3,109
Trade payables	- 8,229	9,362
Other operating receivables and payables	1,136	- 1,692
Net cash from operating activities	26,572	30,923
Fixed asset acquisitions		
Intangible assets	- 26,171	- 5,547
Property, plant and equipment	- 11,550	- 10,470
Investments—subsidiaries	- 9,574	- 3,245
Investments—others	- 269	- 261
Fixed asset disposals	156	1,836
Impact of changes in Group structure		136
Net cash used in investing activities	- 47,409	- 17,551
Dividends paid by the parent company	- 5,234	- 4,775
Dividends paid to minority interest	- 6	- 121
Share capital increase		81
New borrowings/borrowing repayments	11,493	- 2,842
Net cash used in financing activities	6,253	- 7,657
Increase in cash and cash equivalents	- 14,584	5,715

Notes to the consolidated financial statements

ACCOUNTING PRINCIPLES APPLIED

The Group's consolidated financial statements are established according to the regulations in force in France. The principles and methods used in the preparation of the 2002 financial year consolidated financial statements were in accordance with the provisions of French Accounting Regulatory Committee Standard 99-02.

The following explanatory notes accompany the presentation of the consolidated financial statements and are an integral part thereof.

Consolidation scope

A list of consolidated companies is presented in a note.

Major Changes in the consolidation scope

The following major changes in the consolidation scope occurred during the 2003 financial year:

- ▶ Virbac acquired 100% of the shares of the Bio Veto Test pharmaceutical company.
- ▶ The subsidiaries acquired in Colombia and Costa Rica in 2003 enter the consolidation scope.
- ▶ Virbac S.A. acquired 5.25% of the shares of Virbac Australia, bringing its interest up to 100%.
- ▶ The Group's holding in Virbac Corp. fell from 60.48% to 60.37%, following the issue by Virbac Corp. of shares intended for the stock-option plans.

Consolidation principles

Method

- ▶ The consolidated financial statements include the financial statements of the companies controlled by Virbac directly or indirectly, de jure or de facto, with the exception of companies of insignificant size.
- ▶ The material circumstances are appreciated not only in function of the financial thresholds but also in relation to qualitative criteria.

- Subsidiaries that would otherwise be excluded are included in the consolidation scope if they meet at least one of the following three conditions:
 - Their aggregate turnover accounts for more than 2% of the Group's turnover in the last published financial year.
 - The individual net income, of at least one of the companies, is more than 2.5% of the consolidated net income of the last published financial year.
 - The accumulated reserves of all excluded companies account for more than 5% of the Group's net profit in the last published financial year.
 - However, companies whose sole purpose is to hold market authorisations at local level remain excluded.
 - On the other hand, a subsidiary that does not meet any of the financial threshold conditions would be included in the consolidation scope if it were of strategic interest to the Group.
- ▶ Companies are consolidated using the full consolidation method.

Closure date

All the companies were consolidated on the basis of the accounts closed at 31 December 2003.

Consolidation restatement and inter-company transactions elimination.

Various restatements are made to the parent company financial statements of the consolidated companies.

- ▶ All reciprocal operations between Group companies are eliminated.
- ▶ In addition, the following are restated:
 - Unrealised holding gains on inventory purchased from other Group companies.
 - Regulated provisions (provisions for legal depreciation/amortisation, etc.).
 - Leasing and financial rental contracts, insofar as the impact is significant, are recorded in the balance sheet as fixed assets and financial debts.
- ▶ Dividend payments between Group companies are recorded in the reserves for their gross amount.

Notes to the consolidated financial statements

- ▶ Asset and liability translation adjustments representing unrealised exchange gains and losses in the parent company financial statements are recorded as income while provisions for exchange losses are eliminated.
- ▶ Deferred tax income and expenses are recognised for those companies that have not already taken them into account in their own parent company financial statements.

Acquisition goodwill

Acquisition goodwill corresponds to the difference observed, at the date of a company's inclusion in the consolidation scope, between:

- ▶ The cost of acquiring its shares (plus any acquisition costs).
- ▶ The Group's share in the total evaluation of the assets and liabilities identified at the acquisition date.

Acquisition goodwill is generally amortised on a straight-line basis over a period of 20 years, but may be amortised over a shorter period as a matter of prudence. The choice of amortisation period must reflect the operations and prospects of acquired Companies.

Translation of financial statements

Financial statements denominated in foreign currencies are translated as follows:

- ▶ Balance sheet items are translated at the year-end exchange rate. The resulting translation difference arising from the use of a year-end rate that is different from the rate used to originally translate the transaction is accumulated on a net basis and recorded as a translation adjustment on the consolidated balance sheet.
- ▶ Income statement items are translated at the financial year average rate. The resulting translation difference arising from the use of a year-end rate, that is different from the balance sheet rate, is recorded as a translation adjustment on the consolidated balance sheet.

Research and development costs

Research and development costs are allocated to expenses as from the financial year in which they are incurred. For 2003, external R&D expenditure came to € 5,078 thousand.

CORRECTION OF ERRORS

Reminder of the facts

In November 2003, at the request of its external auditors, the Audit Committee of Virbac Corp. has retained outside counsel to internal inquiry into certain of the company's revenue recognition practices and inventory accounting practices. The conclusions drawn from the work of the investigators by the Audit Committee and the company have led Virbac Corp. to restate a certain number of operations in the accounts of the 2001, 2002 and 2003 financial years. These restatements are mainly in the following areas:

- ▶ Revenue recognition: this kind of adjustment is expressed either as definitive losses (cancellation of certain operations) or as a timing difference (from one financial year to another).
- ▶ Inventories: Virbac Corp. has conducted an exhaustive and detailed review of the quantities and value of the inventories, and has as a result revised its provisions for depreciation of inventories.
- ▶ Expenses: corrections or additions have been made to the evaluation of expenses to be paid and to the depreciation of certain intangible assets.

Following on from this internal inquiry and the questions raised, an investigation is also being conducted by the Securities and Exchange Commission (SEC).

In compliance with US GAAP accounting principles, Virbac Corp. has thus been led to issue revised new financial statements for the 2001 and 2002 financial year, to be re-published at local level. A full audit for these statements and for those relating to the 2003 financial year will be carried out by the subsidiary's auditors, whose work had not been completed at the time of the closing of the Group's consolidated accounts.

In order to be in a position to release the annual accounts for 2003, and considering that the degree of uncertainty relating to the Virbac Corp. accounts appears acceptable in view of the information to hand, Virbac S.A. has incorporated the "provisional" consolidated financial statements of Virbac Corp. at 31 December 2003, i.e. taking into account the corrections mentioned above but not yet certified by the local auditors whose work has not yet been totally completed.

Summary of the corrections for the 2001 and 2002 financial years

The adjustments made to the Virbac Corp. accounts for 2001 and 2002 principally concern the following items:

- ▶ Revenues
- ▶ The corresponding cost of sales
- ▶ Provisions for depreciation of inventories and intangible assets
- ▶ Operating expenses
- ▶ Operating profit
- ▶ The impact of these adjustments on corporate income tax

These corrections fall into two categories:

- ▶ Firstly, definitive losses relating essentially to the adjustment of expenses, asset values and provisions for depreciation of inventories, and secondly the cancellation of sales of certain products that were subsequently returned or destroyed after their shelf-life had expired: the cumulative impact in the consolidated net income/loss for 2003 comes to € -2,345 thousand.
- ▶ Timing differences in relation to the turnover and corresponding income, relating to sales initially recorded at the time of their invoicing but which should have been accounted for either at the time of payment or upon

actual receipt by the client: virtually all of these differences, whose cumulative impact represents a net loss of € -859 thousand, have been carried over to the 2003 financial year and therefore have no impact on the 2003 consolidated result.

Presentation of these corrections in the 2003 consolidated income statement

In compliance with French accounting principles, the adjustments made to the 2001 and 2002 accounts of Virbac Corp. have been recorded in their entirety in the Group's 2003 consolidated result.

In the 2003 consolidated income statement, the accounting classification and the impact of these corrections differ depending on whether they refer to timing differences or definitive losses.

The "correction of errors" line of the consolidated income statement thus brings out the net impact relating to the definitive losses of 2001 and 2002, i.e. € 2,345 thousand, of which € 1,415 thousand is allocated to the net income—Group share—and € 930 thousand to minority interests.

The timing differences, for their part, do not impact the 2003 consolidated result since they correspond to a loss over previous financial years offset by a gain in 2003 as a result of the operations in question being carried over to 2003.

Contribution of Virbac Corp. to the consolidated financial statements at 31 December 2003

Contribution to the consolidated balance sheet (in € million)

Assets		Liabilities	
Intangible fixed assets	4.8	Book value of the shares held by the Group*	23.0
Goodwill	16.5	Consolidation reserves—Group share	- 5.4
Tangible fixed assets	10.0	Result 2003—Group share	- 3.8
Total fixed assets	31.3	Shareholders' equity—Group share in consolidation	13.8
Inventories	11.9	Minority interests	8.6
Account receivables	6.8	Bank loans	21.7
Other receivables	2.0	Trade payables	6.2
Deferred tax assets	5.1	Other liabilities	6.8
Total assets	57.1	Total liabilities	57.1

*Before elimination to the Group consolidated balance sheet.

Notes to the consolidated financial statements

Contribution to the consolidated income statement (in € million)

	Dec. 2003	Dec. 2002
Sales	55.2	65.7
Operating profit	- 2.8	6.3
Interest expense	- 0.9	- 0.7
Net income	- 3.7	5.6
Net exceptional expenses	- 1.6	–
Correction of errors	- 2.3	–
Income tax	1.9	- 2.0
Amortisation of goodwill	- 0.6	- 0.4
Share of minority interests	2.5	- 1.3
Net profit—Group share	- 3.8	1.9

Relative weight of Virbac Corp. in the consolidated accounts (in € million)

	Virbac Corp.	Group
Net sales	55.2	354.8
Operating profit	- 2.8	26.8
Net profit—Group share	- 3.8	9.5
Restated net equity—Group share	13.8*	118.5
Goodwill and other intangibles	21.3	68.6

*Before elimination to the Group consolidated balance sheet.

Pro forma 2001, 2002 and 2003 consolidated figures

In order to complete this information, the pro forma balances listed below show the impact that the corrections would have had on the 2001, 2002 and 2003 consolidated accounts if the operations had originally been recorded in the financial years concerned:

	2001			2002			2003		
(amounts in € thousand)	Accounts published	Corrections	Accounts pro forma	Accounts published	Corrections	Accounts pro forma	Accounts published	Corrections	Accounts pro forma
Net sales	349,460	- 4,720	344,740	367,936	- 2,534	365,402	354,757	3,092	357,849
Operating profit	33,378	- 3,516	29,862	36,718	- 2,828	33,890	26,840	1,354	28,194
Net profit—Group share	15,474	- 1,326	14,148	17,719	- 1,072	16,647	9,490	1,933	11,423
Consolidated net equity— Group share at end of financial year	110,918	- 1,350	109,568	117,041	- 2,106	114,935	118,543	–	118,543

Note1: Fixed assets, amortisation and provisions

Gross book values result from their original acquisition cost.

The methods used for calculating property, plant and equipment depreciation are those adopted by the accounting department of each of the subsidiaries. The depreciation methods and periods used in each company are in fact economically justified and therefore are not modified for purposes of consolidation.

Excess tax depreciation (arising essentially at the Virbac S.A. parent company) is subject to a restatement whose impact is taken into account in the determination of financial year net profit.

The amortisation of selective intangible assets (patents and similar rights, business goodwill) is subject to restatement when their company and tax amortisation period differs considerably from that used by the Group.

Analysis of movements of intangible fixed assets and amortisation (excluding acquisition goodwill)

(€ thousands)	Gross Book Value			Acc. Amort/Dep. And Provision			Net Book Value		
	Intang.	PPE	Invest.	Intang.	PPE	Invest.	Intang.	PPE	Invest.
31 December 2002	32,127	128,399	3,391	14,208	71,488	2	17,919	56,911	3,389
Increases over the financial year	26,233	11,550	388	2,483	9,182	160	23,750	2,368	228
Disposals and reversals	- 984	- 3,530	- 121	- 47	- 3,021	0	- 937	- 509	- 121
Exchange rate differences	- 1,394	- 3,630	- 101	- 387	- 1,367	0	- 1,007	- 2,263	- 101
Transfers	- 1	- 8	- 1,178	0	- 8	0	- 1	0	- 1,178
Other	- 78	1	0	0	0	- 2	- 78	1	2
31 December 2003	55,903	132,782	2,379	16,257	76,274	160	39,646	56,508	2,219

These items call for the following specific observations:

Intangible assets

Intangible assets by nature and geographical region

(€ thousands)	Gross amount	Acc. Amort/dep.	Net
Business goodwill	2,956	2,581	375
Concessions, patents, trademarks, licences	32,248	7,776	24,472
Other intangible assets	20,699	5,900	14,799
Total	55,903	16,257	39,646
France	46,660	12,663	33,997
Rest of Europe	1,277	1,137	140
Africa Middle-East	0	0	0
North America	5,535	704	4,832
Latin America	1,096	1,076	20
Asia	202	53	149
Pacific	1,133	624	508
Total	55,903	16,257	39,646

Business goodwill

Business goodwill is usually amortised over a period of ten years.

Concessions, patents, licences and trademarks

Acquired patents, rights, databases, know-how, etc. are capitalised as assets and are amortised over a period not exceeding twenty years.

Other intangible assets

These essentially comprise the acquisition cost of computer software and intangible assets in process.

Notes to the consolidated financial statements

Acquisition goodwill

Acquisition goodwill movements

(€ thousands)	31/12/2002	Additions/Charge	Disposals	Exchange diff.	2003
Gross Book Value					
France	7,116	6,391	0	0	13,507
International	16,410	16,093	0	- 2,382	30,121
Total	23,526	22,484	0	- 2,382	43,628
Amortisation					
France	6,619	428	0	0	7,047
International	7,000	1,186	0	- 587	1,599
Total	13,619	1,613	0	- 587	14,645
Net Book Value					
France	497	5,963	0	0	6,460
International	9,409	14,908	0	- 1,795	22,522
Total	9,906	20,872	0	- 1,795	28,983

The increase in this entry is essentially due to the acquisition by Virbac of BVT in France, plus the acquisitions made by Virbac Corp. in the United States of America (King Pharmaceuticals and Delmarva).

Property, plant and equipment

Property, plant and equipment are depreciated over a period adapted to each category, as follows:

- Buildings, installations, leasehold improvements 10 to 20 years
- Machinery and industrial equipment 5 years
- Other facilities and equipment 10 years
- Computer and office equipment 5 years

Tangible assets by nature and geographical region

(€ thousands)	Gross amount	Acc. Amort/dep.	Net
Land	5,896	0	5,896
Buildings	64,010	31,796	32,214
Machinery and industrial equipment	45,242	33,947	11,295
Other tangible assets	17,634	10,531	7,103
Total	132,782	76,274	56,508
France	91,367	57,721	33,646
Rest of Europe	8,170	4,361	3,809
Africa Middle-East	963	557	406
North America	16,042	6,075	9,967
Latin America	4,089	2,010	2,079
Asia	1,675	792	883
Pacific	10,476	4,758	5,718
Total	132,782	76,274	56,508

Finance leases

All significant finance leases are capitalised on the Balance Sheet as assets financed by borrowings.

The asset value relates to the lease contract value. The debt contracted is recorded per contra in liabilities in the balance sheet with a detailed repayment schedule based on the schedule for the finance lease.

Lease payments recorded in the company financial statements are eliminated on consolidation, while interest charges and loan repayments are recorded per contra.

Depreciation charges on leased assets are recorded based on the depreciation methods selected.

At 31 December 2003, the gross book value of the goods acquired through finance leases, and included in the fixed assets listed above, comes to € 5,403 thousand and their net book value comes to € 2,366 thousand.

Investments

All investments are valued at their acquisition cost and are written down where necessary to reflect their current financial situation, future prospects and probable realisation value.

Equity investments

The equity investments of the non-consolidated subsidiaries are recorded under “Equity investments”.

These are essentially companies whose financial statements are not significant as far as the previously defined consolidation criteria are concerned.

Equity investments—other

These relate to minority interest stakes of a financial nature or held in companies whose activities may be of interest to the Group.

Treasury shares

Treasury shares classified as capitalised securities in the individual accounts of Virbac S.A. have been allocated to consolidated shareholders' equity. At 31 December 2003 they represent € 274 thousand.

Note 2: Inventories

Inventories of raw materials and supplies are determined using the weighted average method, whereas those of finished products are determined using the FIFO (First In First out) method.

The acquisition cost of raw materials includes all the additional purchase expenses. A provision for depreciation is constituted when the products expire, are no longer usable or when they are likely to become unusable before their expiry date.

Backlogs and finished products are valued at their real manufacturing costs including direct and indirect production costs.

Finished products are valued in each subsidiary at the price invoiced by the parent company plus shipment charges; the profit margin included in these inventories is eliminated in the consolidated accounts, reflecting the average full consolidation cost incurred by Virbac S.A.

A provision for depreciation of the finished products is practised when the market value or the prospects for selling these products, appreciated in function of the market, appears to be less than the gross book value of the inventory.

Breakdown of inventories at 31/12/2003

(€ thousands)	Gross	Provision	Net
Raw materials and supplies	24,204	3,367	20,837
Backlogs	4,759	169	4,590
Finished products and goods	38,436	777	37,659
Total	67,399	4,313	63,086

Notes to the consolidated financial statements

Note 3: Receivables

Detail of accounts receivable

(€ thousands)	31/12/2003	31/12/2002
Trade notes and accounts receivable	51,523	60,422
Receivables from the Tax Administration and social security	10,286	9,568
Other operating receivables	1,427	1,385
Current accounts	776	474
Receivables on sales of assets	134	134
Other receivables	777	1,462
Total	64,923	73,445

Receivables and liabilities are valued at their nominal values.

A provision for writedown is established for receivables, where necessary, to reflect possible difficulties in their collection.

Note 4: Marketable securities

This item is primarily comprised (for the amount of € 6,589 thousand) of treasury shares acquired by Virbac S.A. and allocated to stock option plans or to stabilise the share price. It also includes marketable shares subscribed by Virbac S.A. and other subsidiaries, within the framework of their cash flow management.

The Group invests only in risk-free marketable securities.

Unrealised gains and losses

With the exception of revenues with the same characteristics as interest accrued, unrealised gains on marketable securities are only recorded in the profit and loss account at the time that said securities are sold. However, provisions are set aside for any unrealised losses.

Foreign exchange risks

It is the Group's policy to provide foreign exchange risk coverage when the risk and magnitude of foreign exchange fluctuations are high. Accordingly, it uses various financial instruments available on the market and undertakes forward foreign exchange transactions.

Note 5: Deferred tax assets and liabilities

A provision for deferred tax is established to reflect the temporary differences between the book earnings and the tax income of the Group's companies, as well as the impact of the restatements and eliminations. Deferred income tax is calculated using the liability method.

In France, the income tax rate for 2003 is 35.43% incorporating supplementary contributions. This rate was also used to calculate deferred taxes of French origin.

The deferred tax is not discounted, due to the absence of a reliable repayment timetable.

As a matter of prudence, no deferred tax asset is recognised on unrealised tax losses that can be carried forward over the long-term.

Note 6: Adjusting accounts—assets

Expenses to amortise

These are charges posted to assets and are amortised over several years.

At 31 December 2003 they amounted to € 1,339 thousand.

They chiefly comprise:

- For € 853 thousand: the cost of past services relating to the new pension plan with defined benefits introduced in 2003. This cost is amortised over the duration of acquisition of the rights by the persons concerned.
- For € 280 thousand: expenses incurred in inspecting ventilation systems. These are general non-recurrent expenses having a beneficial impact over several financial years.

These charges are amortised over a period of 5 years.

Prepaid expenses

These primarily consist of various external charges concerning the 2004 financial year.

At 31 December 2003, they came to € 3,424 thousand.

Note 7: Shareholders' equity

The variation of shareholders' equity is summarised below:

Variation of shareholders' equity (Group share)

(€ thousands)	Share capital	Share premium	Group reserves and retained earnings	Financial net profit	Translation adjustment	Total equity
Situation at 31 December	10,893	6,379	77,581	15,474	591	110,918
Allocation of 2001 net profit			15,474	- 15,474		0
Increase of parent company share capital						0
Dividend distribution			- 4,774			- 4,774
Translation adjustments					- 8,192	- 8,192
Other changes			1,371			1,371
Net profit at 31/12/2002				17,719		17,719
Situation at 31 December 2002	10,893	6,379	89,652	17,719	- 7,601	117,041
Allocation of 2002 net profit			17,719	- 17,719		0
Merger Viguié		155				155
Dividend distribution			- 5,240			- 5,240
Translation adjustments					- 4,127	- 4,127
Other changes			1,223			1,223
Net profit at 31/12/2003				9,490		9,490
Situation at 31 December 2003	10,893	6,534	103,354	9,490	- 11,728	118,543

Other movements correspond principally to a movement on treasury shares.

Translation adjustment

The translation adjustment comprises the net impact of the differences in exchange rates used to translate international subsidiaries' balance sheets (31 December 2003 year-end rate versus initial consolidation rate) and income statements (2003 year average rate versus 31 December 2003 year-end rate).

Consolidated retained earnings

Group reserves relate to the parent company's stake in accumulated reserves of consolidated companies from the date of their consolidation, net of acquisition goodwill amortisation.

Minority interests

Minority interests relate to the equity stake held in the Group's consolidated subsidiaries by external shareholders.

Other equity

This relates essentially to Virbac S.A. loans and debts covered by particular conditions, i.e. conditional loans from ANVAR (National Council for the Promotion of Research in Industry).

Notes to the consolidated financial statements

Note 8: Provisions for contingencies and losses

These provisions cover known charges and litigation (foreign exchange risk, severance cost and retirement indemnities,

commercial litigation) as well as general economic risks which are evaluated (product risk, regulatory and tax risk, potential litigation).

They break down as follows:

(€ thousands)	2002	Allowance for the year	Amount used	Reversals		Exchange rate variation	2003
				Amount used	Amount not used		
Litigation or disputes in progress	1,265	670	73	- 444	- 461	0	1,102
Severance and retirement benefits	2,823	443	- 240	- 123	-	- 39	2,864
Operating and tax expense	229	0	0	0	-	19	247
General risks	863	1,815	0	- 450	- 183	0	2,045
Other	14	3	24	- 5	-	- 1	35
Provision for income tax	0	137	0	0	-	0	137
Deferred tax	1,851	573	5,607	-	-	- 174	7,857
Total	7,045	3,641	5,464	- 1,023	- 644	- 195	14,288

Virbac Group French companies provide each year for their respective commitments in relation to retirement benefits. These provisions correspond to rights acquired by all personnel in French companies pursuant to the terms and conditions of the law and the Collective Agreements. The calculation is based on length of service, rate of turnover and life expectancy, and a 4% discount rate in 2003.

Since 2003, a retrospective actuarial method has been used in the calculation of this commitment.

Virbac S.A. has also made a provision for the fixed benefit retirement plan for members of the Executive Board introduced in 2003.

This provision came to € 1,803 thousand at 31 December 2003.

The reduction of the item "provisions for contingencies and losses" is primarily the result of the reversal of the provisions previously constituted to cover potential risks in Brazil and Turkey.

With regard to the acquisition of Bio Veto Test (BVT), an intangible fixed asset was identified and recorded in the consolidated accounts. It was evaluated on the basis of the future results expected from the vaccine now being developed at BVT. In compliance with the applicable accounting principles, the company recorded a deferred tax liability on the asset thus identified. The deferred tax increase is essentially due to this entry.

Note 9: Borrowings and operating liabilities by nature

Borrowings

(€ thousands)	31/12/2003	31/12/2002
Borrowings	60,767	47,140
Borrowings from financial institutions	57,072	42,871
Finance leases	2,464	2,464
Other borrowings	1,231	1,805
Operating liabilities	74,767	73,963
Advances and prepayments received on sales	776	887
Trade payables	37,197	46,195
Tax and social security liabilities	15,676	15,490
Other operating liabilities	3,661	4,446
Liabilities relating to non-current assets	1,227	1,676
Income tax payable	6,751	4,786
Other liabilities	9,479	483
Total	135,534	121,103

Borrowings from financial institutions relate primarily to bank overdrafts and used lines of credit.

Details of major lines of credit currently accessed are given below.

- In 2003, Virbac S.A. contracted a new credit line for a total amount of € 100 million, of which € 20 million had been taken up at the end of the financial year.
- At 31/12/2003 Virbac Corp. had taken up US\$ 25.3 million on its credit lines amounting to a total of US\$ 30 million.
- Virbac Australia established a credit lines of AU\$ 13.5 million, entirely taken up at 31/12/2003.

Note 10: Sales

Consolidated turnover is broken down as follows:

Sales by geographical region (€ millions)

Regions	31/12/2003	31/12/2002	Change
France	91.4	87.6	4.3%
Rest of Europe	115.8	113.7	1.8%
Africa Middle-East	20.9	21.1	- 1.0%
North America	54.3	65.0	- 16.6%
Latin America	22.6	26.3	- 14.1%
Asia	17.7	18.4	- 3.9%
Pacific	32.1	35.8	- 10.6%
Total	354.8	367.9	- 3.6%

Notes to the consolidated financial statements

Note 11: Finance expenses and income

Finance expenses

(€ thousands)	31/12/2003	31/12/2002
Interest and related	5,776	5,627
Foreign exchange losses	1,976	1,307
Finance lease finance costs	195	226
Writedown provision charges	158	65
Marketable securities—loss on disposal	96	62
Other finance costs	147	74
Total	8,348	7,361

Finance income

(€ thousands)	31/12/2003	31/12/2002
Provision reversals	52	17
Foreign exchange gains	1,514	1,191
Shares—gains on disposal	91	143
Marketable securities—investment income	111	178
Marketable securities—gains on disposal	181	111
Write off on accounts payables	0	154
Other finance income	169	245
Total	2,118	2,039

Foreign exchange gains mainly relate to the management of foreign exchange positions.

The negative differences are essentially linked to the exchange rate losses recorded at the Mexican and Brazilian subsidiaries as a result of the devaluation of their respective local currencies.

Note 12: Exceptional income and expenses

Exceptional expenses

(€ thousands)	31/12/2003	31/12/2002
Net book value of disposed non current assets	1,133	233
Net book value of disposed shares	0	1,080
Provision for writedown charges	2,924	1,458
Other exceptional expenses	1,988	1,289
Total	6,045	4,060

Exceptional income

(€ thousands)	31/12/2003	31/12/2002
Provision reversals	1,436	1,320
Shares—gains on disposal	0	1,127
Gain on disposal of other assets	156	287
Other exceptional income	901	329
Transfer of exceptional expenses	953	
Total	3,446	3,063

Note 13: Corporate income tax

Theoretical tax charge	(€ thousands)	Actual tax charge	(€ thousands)
Pre-tax income	14,227	Tax due	8,300
Virbac S.A. tax rate	35.43%	Deferred tax	- 1,960
		Tax related to correction of errors	- 1,437
Theoretical tax	5,041	Tax recorded	4,903

The actual tax rate is lower than the tax rate applicable in France as a result in particular of tax credits.

The parent company and its principal French subsidiaries belong to a fiscally consolidated Group.

Note 14: Other information

Salaried workforce

	31/12/2003	31/12/2002
Production—QC—Warehousing	951	915
Administration	321	324
Commercial & Marketing	745	744
Research & Development	231	227
Total	2,248	2,210

Supervisory Board remuneration

The members of the Supervisory Board received a global amount of € 46,360 in attendance and various other fees.

Off-balance sheet commitments

Off-balance sheet commitments

(€ thousands)	31/12/2003	31/12/2002
Commitments given		
Guaranties, endorsements and sureties	2,104	2,160
Reciprocal commitments		
Forward foreign exchange sales contracts	4,712	3,774
Forward foreign exchange purchases	10,530	2,471

Other commitments

At the end of the year, € 20 million of the new Virbac S.A. credit line was taken up, including € 19 million covered by an interest rate swap.

Notes to the consolidated financial statements

Note 15: Consolidation scope

Companies included in the consolidation scope at 31 December 2003

Fully consolidated subsidiaries	Country	% ownership	% voting rights
Virbac S.A.—Carros	French	Parent company	
Virbac RSA (Pty) Ltd.—Centurion	South African	100	100
Virbac GmbH—Bad Oldesloe	German	100	100
Virbac Pharma GmbH—Bad Oldesloe	German	100	100
Virbac Corporation—Fort Worth	American	60,37	60,37
Virbac Ltd.—Bury St. Edmunds	British	99,95	99,95
Virbac sous-groupe Australie—Peakhurst	Australian	100	100
Virbac Österreich GmbH—Wien	Austrian	100	100
Virbac Belgium S.A.—Louvain la Neuve	Belgian	75,27	99,99
Virbac do Brasil Ltda.—São Paulo	Brazilian	100	100
Virbac Korea Co. Ltd.—Séoul	South Korean	90	90
Virbac España S.A.—Barcelone	Spanish	100	100
Virbac CZV, SL—Pontevedra	Spanish	100	100
Alfamed S.A.S.—Paris	French	99,7	99,7
Soparlic S.A.R.L.—Paris	French	100	100
Dog N'Cat International S.A.S.—Vauvert	French	100	100
Francodex S.A.S.—Carros	French	99,6	99,6
Interlab S.A.S.—Carros	French	100	100
Virbac Distribution S.A.S.—Wissous	French	100	100
Virbac France S.A.S.—Carros	French	100	100
Virbac Nutrition S.A.S.—Vauvert	French	100	100
Bio Veto Test S.A.—La Seyne s/mer	French	100	100
Virbac SRL—Milan	Italian	99,9	99,9
Virbac Japan Co. Ltd.—Osaka	Japanese	100	100
Laboratorios Virbac Mexico S.A. de CV—Guadalajara	Mexican	100	100
Commercializadora Virbac S.A. de CV—Guadalajara	Mexican	100	100
Virbac Nederland BV—Barneveld	Dutch	75,28	75,28
Virbac Philippines Inc.—Pasig City	Philippine	100	100
Virbac de Portugal Laboratorios Lda.—Almerim	Portuguese	100	100
Virbac AG Switzerland—Glattbrugg	Swiss	99,9	99,9
Virbac Thailand Co. Ltd.—Bangkok	Thai	100	100
Virbac Vietnam—Ho Chi Minh Ville	Vietnamese	75	75
Virbac Taiwan Co. Ltd.—Tai-Pei	Taiwanese	100	100
Virbac Colombia Ltd.—Bogotá	Colombian	100	100
Virbac Costa Rica—Pavas San José	Costa Rican	100	100



Statutory Auditors' Report on the Consolidated Financial Statements for the year ending at 31 December 2003

Ladies and Gentlemen:

In accordance with the instructions given to us by your General Meeting, we have carried out an audit of the consolidated accounts of Virbac S.A. for the year ending at 31 December 2003, as attached to this report.

The consolidated accounts were drawn up by your Executive Board. Our responsibility is to express an opinion on these annual accounts based on our audit.

1● Opinion on the consolidated accounts

We conducted our audit in accordance with French professional standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall annual account presentation. We believe that our audit provides a reasonable basis for the opinion expressed below.

Taking into account the observation below concerning the absence of certification as of today for the consolidated accounts of the Virbac Corp. subsidiary, we certify that the consolidated accounts, established in accordance with accounting principles generally accepted in France, give a true and fair view of the net income for the year under review and of the assets and liabilities, financial position and results of the group of companies included in the consolidated accounts.

We wish to draw your attention to the uncertainty formulated in the "Correction of errors" paragraph of the notes, concerning the accounting treatment of the errors discovered following an investigation conducted by independent experts into certain accounting methods used in the 2001, 2002 and 2003 accounts of Virbac Corp., the American subsidiary in which the Group has a 60.37% interest and which is thus fully consolidated in your company's accounts. As pointed out in the notes, as a result of the errors identified Virbac Corp. produced amended financial statements for the financial years ending at 31 December 2001 and 31 December 2002, and to produce financial statements for 2003 taking into accounts the elements discovered. These amended financial statements have been included in the Virbac S.A. consolidated accounts for the financial year ending at 31 December 2003 and have resulted in an correction of errors expense of € 2,345 thousand, with the Group share amounting to € 1,415 thousand.

Since the local external auditors have not yet completed their work on the financial statements, they have not provided us with an audit opinion or an assurance of any kind with respect to these financial statements.

2● Justification of our appreciations

Pursuant to the terms of article L.225-235 of the Code of Commerce concerning the justification of our appreciations, introduced by the Financial Security Law of 1 August 2003 and applicable for the first time to this financial year, we wish to draw your attention to the following elements:

- In the course of the financial year, the company made an amendment to the pension plan with defined benefits for a certain category of the personnel. As set out in note 8 hereto, the total commitment provisioned at 31 December 2003 for this plan now comes to € 1.8 million. As part of our appreciation of the significant estimates adopted in drawing up the accounts, we checked, in determining the amount of this provision, that the company relied on a calculation supplied by a specialised independent organisation charged with the task of evaluating the amount of this commitment, in compliance with the clauses and conditions of the amendment signed on 22 December 2003.

- In 2003, the company acquired 100% of the shares of Bio Veto Test for a total of € 17 million, including € 8.5 million payable under suspensive condition. As part of our appreciation of the significant estimations adopted in drawing up the accounts, we checked that the accounting treatment of this acquisition was in compliance with French accounting rules and principles, and that, with respect to this acquisition, the evaluation of the intangible assets identified on this occasion was supported by detailed cash flow forecasts.
- As detailed in the “Correction of errors” paragraph of the notes, Virbac Corp., the American subsidiary in which the Group has a 60.37% interest and which is thus fully consolidated in your company’s accounts, was obliged to restate its 2001 and 2002 financial statements following the querying of some of its accounting methods by external investigators. In compliance with French accounting rules and principles, the consequences of these corrections resulting from the erroneous use of accounting methods were fully taken into account in the accounts of the financial year ending at 31 December 2003.

These appreciations form part of our audit of the consolidated accounts, taken as a whole, and have therefore contributed to the opinion expressed in the first part of this report.

3● Special verification

We have also checked the information concerning the Group given in the Management Report. We have no comments to make as to their fairness and consistency with the consolidated accounts.

Nice and Paris, 11 June 2004

David & Associés

Represented by

Roger David

Auditeurs & Conseils Associés

Represented by

Jean-Marcel Denis

Statutory Auditors

Members of the Regional Companies of Aix-en-Provence and Paris

Parent Company 2003 Financial Statements



Virbac Parent Company

Balance Sheet

Assets

(€ thousands)	Notes	2003 Net	2002 Net
Intangible assets	1	16,616	9,143
Concessions, patents, licences, brands		2,214	2,223
Other intangible assets		14,402	6,920
Property, plant and equipment	1	30,323	28,670
Land		1,400	1,393
Buildings		20,551	18,946
Machinery and equipment		5,619	4,791
Other tangible assets		1,214	1,367
Tangible assets in progress		1,539	2,173
Investments	2	109,072	104,098
Equity investments—subsidiaries		107,428	99,919
Equity investments—other		146	146
Loans		312	1,551
Other investments		1,186	2,482
Total non current assets		156,011	141,911
Inventory	3	16,263	19,046
Raw materials		10,538	12,544
Work-in-process		4,447	3,960
Finished goods		1,278	2,542
Receivables	4	31,763	45,478
Trade receivables		27,117	39,615
Personnel receivables		111	113
Income tax refunds receivables		1,214	1,990
Other taxes and duties		1,379	1,415
Other receivables		1,942	2,345
Cash and marketable securities		7,304	7,542
Advances and prepayments		225	132
Marketable securities	5	6,697	5,813
Cash	6	382	1,597
Prepaid expenses and deferred charges		2,152	2,117
Prepaid expenses	7	967	2,078
Deferred charges	7	1,177	0
Unrealised FOREX loss	8	8	39
Total assets		213,493	216,094

Equity and liabilities

(€ thousands)	Notes	2003	2002
Equity	9	131,567	129,010
Share capital		10,893	10,893
Share premiums		6,534	6,379
Legal reserve		1,089	1,089
Regulatory reserves		43,250	43,171
Other reserves		59,618	54,773
Retained earnings		992	661
Financial year net profit		7,587	10,336
Regulated provisions	10	1,604	1,708
Third party equity contributions		320	170
Conditional advances		320	170
Provisions for liabilities and charges	10	5,072	3,543
Provisions for general risks		4,832	3,223
Provisions for FOREX losses		8	39
Provisions for litigation		232	281
Borrowings	11	52,942	50,071
Convertible bonds		–	–
Bank overdrafts and credit lines		24,707	25,497
Other loans and debts from financial institutions		2,904	109
Loans from Group companies		25,331	24,465
Operating liabilities		23,438	33,071
Trade payables		13,941	22,277
Payroll payable		2,891	3,295
Social security liabilities		3,913	3,834
Income tax payable		18	16
VAT payable	11	6	
Other tax and duties payable		713	666
Liabilities relating to non-current assets		1,202	1,630
Other liabilities		749	1,347
Deferred gains		154	229
Unrealised FOREX gains	8	154	229
Total equity and liabilities		213,493	216,094

Parent Company Income Statement

(€ thousands)	Notes	2003	2002	% Change
Goods and services sales		119,558	122,464	
Sales (net)	12	119,558	122,464	- 2.4%
Production capitalised as inventory		- 599	275	
Operating grants		23	36	
Provisions, depreciation and amortisation reversals		1,559	739	
Other operating revenues		1,591	6,832	
Operating revenues		122,132	130,346	- 6.3%
Merchandise purchases		2,966	4,473	
Raw materials and supplies purchases		37,258	43,964	
Supplies inventory movements		1,919	- 459	
Other external purchases		37,557	38,631	
Taxes and duties		3,284	3,808	
Salaries and wages		25,502	23,971	
Social security charges		11,015	9,966	
Non-current assets depreciation/amortisation and writedown provision charges		6,938	6,167	
Current assets writedown provision charges		896	468	
Provisions for liabilities and charges		200	255	
Other operating expenses		488	997	
Operating expenses	13	128,023	132,241	- 3.2%
Operating profit		- 5,891	- 1,895	- 210.9%

(€ thousands)	Notes	2003	2002	% Change
Investment income—subsidiaries		14,884	13,303	
Interest and related income		121	219	
Provision reversals and cost transfers		2,359	913	
FOREX gains		397	472	
Gains on marketable securities disposals		148	111	
Total finance income	14	17,909	15,018	19.3%
Writedown provision charges		3,855	99	
Interest and related expenses		1,932	2,219	
FOREX losses		101	18	
Losses on marketable securities disposals		74	61	
Total finance expenses	14	5,962	2,397	148.7%
Net finance income		11,947	12,621	- 5.3%
Profit from ordinary activities		6,056	10,726	- 43.5%
Exceptional income—operating activities		3	4	
Exceptional expenses—financing and investing activities		22	1,165	
Depreciation, amortisation and provision write off		2,457	1,645	
Exceptional income	15	2,482	2,814	
Exceptional expenses—operating activities		307	14	
Exceptional expenses—financing and investing activities		17	1,985	
Depreciation, amortisation and provision charges		3,093	1,353	
Exceptional expenses	15	3,417	3,352	
Net exceptional expenses		- 935	- 538	73.8%
Employee profit sharing plan contributions		- 6	543	
Income tax	16	- 2,460	- 690	
Net profit		7,587	10,335	- 26.6%

Parent Company Cash Flow Statement

(€ thousands)	2003	2002
Financial year net profit	7,587	10,335
Elimination of non-cash flow Income Statement items		
Depreciation, amortisation and writedown charges	10,313	5,317
Gains/losses on asset disposals	13	819
Other non cash generating items	- 1,181	0
Cash generated from operations	16,732	16,471
Impact of working capital items net movements		
Inventories	2,783	- 713
Trade receivables	12,498	- 4,167
Trade payables	- 8,764	737
Other operating receivables and payables	2,189	225
Net cash from operating activities	25,438	12,553
Non-current asset acquisitions		
Intangible assets	- 9,558	- 2,863
Property, plant and equipment	- 6,838	- 5,676
Investments	- 7,759	- 2,226
Non-current asset disposals	1,205	2,437
Net cash used in investing activities	- 22,950	- 8,328
Dividends paid by the parent company	- 5,234	- 4,775
Share capital increase	0	0
Share premium	156	0
Other merger related impact	90	0
Equipment subsidy	0	0
Other equity	150	- 32
New borrowing/Borrowing repayments	- 2,204	1,500
Net cash used in financing activities	- 7,042	- 3,307
Change in cash and cash equivalents	- 4,554	918

5 Year Financial Highlights

(€)	1999	2000	2001	2002	2003
Year-end financial situation					
Share capital	9,960,461	10,889,390	10,892,940	10,892,940	10,892,940
Number of existing shares	2,177,878	2,177,878	2,178,588	8,714,352	8,714,352
Number of shares with dividend rights	2,177,878	2,177,878	2,178,588	8,714,352	8,714,352
Sales and profitability results					
Sales	102,356,847	107,418,551	119,444,290	122,463,640	119,558,211
Profit before tax, profit sharing plan contributions, amortisation, depreciation and writedown provision charges	18,541,051	11,536,741	13,400,494	15,329,266	15,800,535
Income tax	2,010,847	- 51,055	- 608,324	- 689,391	- 2,549,036
Amortisation, depreciation and provision charges	7,095,964	5,215,138	5,757,139	5,141,048	10,768,665
Net profit	9,168,225	6,061,858	7,739,951	10,334,934	7,587,387
Dividends	4,050,587	4,638,880	5,010,752	5,490,042	
Earnings and dividends per share					
Earnings per share—after tax and profit sharing plan contributions, but before amortisation, depreciation and writedown provision charges	7.59	5.18	6.20	1.78	2.11
Earnings per share—basic	4.21	2.78	3.55	1.19	0.87
Dividends per share	1.86	2.13	2.30	0.63	0.00
Workforce					
Average manpower	699	728	747	759	796
Salaries and wages	20,278,947	21,779,022	22,880,376	23,971,333	25,502,379
Social security charges	8,481,348	8,941,605	9,399,261	9,965,817	11,014,557

Investments in subsidiaries at december 2003

Equity investments (€ thousands)

Investment
book value
at 31/12/2003

French subsidiaries

Alfamed S.A.S. – 38 rue d'Artois (Paris)	685
Francodex S.A.S. – 1 ^{re} avenue 2065 m LID (Carros)	2,270
Virbac Nutrition S.A.S. – 252 rue Lamour (Vauvert)	2,933
Virbac France S.A.S. – 13 ^e rue LID (Carros)	40,761
Virbac Distribution S.A.S. – 10 avenue Ampère (Wissous)	138
Dog N'Cat International S.A.S. – 252 rue Lamour (Vauvert)	573
Interlab S.A.S. – 13 ^e rue LID (Carros)	23,064
Soparlic S.A.R.L. – 38 rue d'Artois (Paris)	9
Bio Veto Test S.A. – 285 avenue de Rome (La Seyne s/mer)	8,500

International subsidiaries

Virbac AG – Sous Groupe Glattbrugg (Switzerland)	115
Virbac Nederland BV – Barneveld (Netherlands)	812
Virbac Ltd. – Bury St. Edmunds (United Kingdom)	3
Virbac do Brasil Ltda. – São Paulo (Brazil)	5,226
Virbac SRL – Milano (Italy)	1,610
Virbac Commercializadora – Guadalajara (Mexico)	1,240
Virbac Mexico S.A. de CV – Guadalajara (Mexico)	2,974
Virbac (Australia) Pty Ltd. – Peakhurst (Australia)	4,346
Virbac España S.A. – Barcelona (Spain)	725
Virbac Japan Co. Ltd. – Osaka (Japan)	762
Virbac Pharma GmbH – Bad Oldesloe (Germany)	71
Virbac GmbH – Bad Oldesloe (Germany)	1,521
Virbac Österreich GmbH – Wien (Austria)	18
Virbac Thailand Co. Ltd. – Bangkok (Thailand)	84
Virbac de Portugal Lda. – Almeirim (Portugal)	5
Virbac Czv SL – Pontevedra (Spain)	122
Virbac Korea Co. Ltd. – Séoul (Korea)	1,028
Virbac Vietnam – Ho Chi Minh Ville (Vietnam)	1,042
Virbac RSA Pty Ltd. – Centurion (South Africa)	4,863
Virbac Philippines Inc. Pasig City (Philippines)	394
Virbac Taiwan Co. Ltd. – Taï-Péï (Taiwan)	197
Virbac Colombie Ltda. – Bogotá (Colombia)	892

General information:

● French non-consolidated subsidiaries	0
● International non-consolidated subsidiaries	292

Treasury shares	274
Equity investments-others	146

Equity investments—subsidiaries

Treasury shares	6,589
SICAV	108

Notes to the parent company financial statements

Accounting rules and methods

The financial statements for the financial year are prepared in accordance with the accounting principles, standards and methods arising from CRC Regulation No. 99-03.

The principal accounting rules and methods, together with the main items of information for the 2003 financial year, are detailed in the notes below.

Note 1: Intangible assets and property, plant & equipment—movements

Gross book values are recorded at their original acquisition cost. The following rules apply to entering in the accounts and the movements impacting the “Intangible assets and property, plant & equipment” entries during the financial year:

Intangible assets and property, plant & equipment (€ thousand)	01/01/2003	Acquisitions	Disposals	Transfers	31/12/2003
Intangible assets					
Gross Book Value	20,311	9,558			29,869
Amortisation or provision	11,167	2,107	21		13,253
Net book value	9,144	7,451	- 21	0	16,616
Property, plant and equipment					
Gross Book Value					
Land	1,393	7			1,400
Buildings	40,425	4,315	566		44,174
Equipment and machinery	28,232	2,985	1,092		30,125
Tangible assets	3,941	165	68		4,038
Assets under construction	1,521	341		- 1,430	432
Advances and prepayments	652	455			1,107
Total Gross Book Value	76,164	8,268	1,726	- 1,430	81,276
Amortisation and provision					
Land					
Buildings	21,480	2,709	566		23,623
Equipment and machinery	23,440	2,144	1,078		24,506
Tangible assets	2,574	315	65		2,824
Assets under construction	0				0
Advances and prepayments	0				0
Total accumulated	47,494	5,168	1,709	0	50,953
Net book value					
Land	1,393	7	0	0	1,400
Buildings	18,945	1,606	0	0	20,551
Equipment and machinery	4,792	841	14	0	5,619
Tangible assets	1,367	- 150	3	0	1,214
Assets under construction	1,521	341	0	- 1,430	432
Advances and prepayments	652	455	0	0	1,107
Total net book value	28,670	3,100	17	- 1,430	30,323

Notes to the parent company financial statements

Intangible assets

This heading includes concessions, patents and licences acquired by the company, as well as trademark registration costs. They are recorded as balance sheet assets at their original book values for as long as the trademarks are exploited.

Patents, licences and concessions are amortised on a straight-line basis over a period of 5 to 10 years, based on their nature.

Business goodwill is amortised on a straight-line basis over a period of 10 years.

“Other intangible assets” notably include computer software.

- ▶ Standard office computer software is amortised on a straight-line basis over 3 years, from the date of its recording as an asset.
- ▶ Information systems project software, including license acquisition costs and significant consulting costs, are capitalised as an asset as they are incurred and are subsequently amortised on a straight-line basis over 4 to 7 years, from the start-up date of these systems.

All research and development costs are recorded as balance sheet liabilities.

The total amount of external research and development charges over the financial year came to € 3,755 thousand.

Property, plant and equipment

Property plant and equipment are recorded at their acquisition cost, excluding accessory costs but including installation costs.

Depreciation is calculated over the normal economic useful life of the assets, either on a straight-line basis or declining basis. Since the straight-line basis reflects the true economic depreciation of the asset, the surplus declining depreciation compared to the straight-line amortisation is recorded as excess tax depreciation.

Property, plant and equipment assets are depreciated over the following periods:

- ▶ Buildings 20 years
- ▶ Leasehold improvements and fittings and fixtures 10 years
- ▶ Machinery and industrial equipment 5 years
- ▶ Other facilities and equipment 10 years
- ▶ Office and computer equipment 5 years

Note 2: Investments

The following investment movements were recorded:

Investment movements (€ thousand)	01/01/2003	Acquisitions	Disposals	Transfers	31/12/2003
Investments					
Equity investments—subsidiaries	102,187	9,574		- 487	111,274
Related receivables	0				0
Equity investments—others	146				146
Other investments	4,033	12	1,344	- 1,202	1,499
Total gross book value	106,366	9,586	1,344	- 1,689	112,919
Writedown provisions	2,268	3,847	2,268		3,847
Total writedown provisions	2,268	3,847	2,268	0	3,847
Total net book value	104,098	5,739	- 924	- 1,689	109,072

Equity investments—subsidiaries

These correspond for the most part to equity stakes held in the subsidiaries and are recorded at their cost of acquisition, excluding accessory expenses

At the end of each financial year, a provision may be made in order to reflect the depreciation of a subsidiary's asset value. This provision is equal to the difference between the value of the assets in the balance sheet and the true value which is the sum of the following elements:

- Current net financial situation of the subsidiary corrected for any adjustments made as part of the consolidation
- Intangible elements evaluated by capitalising the net result of the subsidiary over 10 years at a rate of 12%.

At 31 December 2003, the provision for writedown came to € 3,847 thousand.

Equity investments movements—subsidiaries (€ thousands)

Bio Veto Test	8,500	Vigüé (fusion)	484
Virbac Australia	789		
Others	285		
Total acquisitions	9,574	Total disposals	484

Virbac S.A. acquired 100% of the shares of Bio Veto Test and 5.25% of the shares of Virbac Australia, bringing its stake up to 100%.

Vigüé was taken over by Virbac S.A. in June 2003.

Equity investments—other

These relate to minority interest stakes held in companies whose activities or development may be of future interest to the Group.

Other investments

This entry includes, among other things, 13,800 treasury shares for the amount of € 274 thousand.

Note 3: Inventories

The cost of raw materials and supplies is determined using the weighted average method, including all related purchase costs. A provision for depreciation is constituted when the products expire, are no longer usable or when they are likely to become unusable before their expiry date.

Backlogs and finished products are valued at their real manufacturing costs including direct and indirect production costs.

A provision for depreciation of the finished products is practised when the market value or the prospects for selling these products, appreciated in function of the market, appears to be less than the gross book value of the inventory.

Note 4: Receivables and liabilities

Receivables and liabilities are valued at their nominal values.

A provision for writedown is established for receivables, where necessary, to reflect possible difficulties in their collection.

Note 5: Marketable securities

The portfolio essentially comprises 387,300 treasury shares bought for a value of € 6,448 thousand and set aside for stock-option plans.

The share buyback programmes were authorised by the Commission des Opérations de Bourse, the most recent programme receiving authorisation No. 03-452 on 21 May 2003.

At 31 December 2003, the company also held 5,169 treasury shares acquired for € 141 thousand as part of a liquidity contract.

Unrealised gains on marketable securities of the portfolio are not recorded in the book earnings of the financial year.

On the other hand, a provision for writedown is recorded if their realisable value falls below their purchase cost.

Notes to the parent company financial statements

With regard to mutual funds (SICAV), the realisable value is taken to be the market value at the closure date.

With regard to treasury shares held in the context of the liquidity contract, the realisable value is taken to be the average share price over the last month of the financial year.

In the case of treasury shares held for stock-option plans, the realisable value is taken to be the exercise price granted to the beneficiaries of the plan.

Marketable securities (€ thousands)	2002	increase	decrease	2003
Treasury shares (stock-options)	5,287	1,202 ¹	41 ²	6,448
Treasury shares (liquidity contract)	198		57	141
SICAV (mutual funds)	328		220	108
Total	5,813	1,202	318	6,697

1. Reclassification of the "Investments" entry following allocation of the stock-option plans.

2. Exercise of options.

Note 6: Cash

Cash balances in foreign currency are translated into euros at the year-end exchange rate, with any resulting gain or loss recorded in the income statement.

Note 7: Adjusting accounts—assets

Prepaid charges

Prepaid expenses relate primarily to various external services and goods to be delivered concerning the 2004 financial year.

Expenses to amortise over several financial years

The total amount of charges came to € 1,177 thousand.

They comprise:

- For € 853 thousand: the cost of past services relating to the new pension plan with defined benefits introduced in 2003. This cost is amortised over the duration of acquisition of the rights by the persons concerned
- For € 280 thousand: expenses incurred in inspecting seed lots. These are general non-recurrent expenses having a beneficial impact over several financial years.

These charges are amortised over a period of 5 years.

Note 8: Foreign exchange gains and losses

These differences are the result of evaluating losses and gains in currencies outside the "euro" zone, at the closure date price or, if applicable, at the cover price.

Unrealised losses give rise to the constitution of a provision for exchange loss when no forward cover has been secured.

Unrealised foreign exchange gains are not recognised as income.

Note 9: Equity

Share capital

At 31 December 2003, the share capital amounts to € 10,892,940 and consists of 8,714,352 shares.

Reserves and retained earnings

Equity movements	Allocation of year 2002 net profit					31/12/2003
	Before	Allocation	After	Increase	Decrease	
Number of shares at 31 December 2003	8,714,352		8,714,352			8,714,352
Number of shares giving right to dividend	8,714,352		8,714,352			8,714,352
€ thousands						
Share capital	10,893		10,893			10,893
Share, merger premiums	6,379		6,379	155		6,534
Financial year net profit	10,335					7,587
Legal reserve	1,089		1,089			1,089
Regulated reserve	6,884		6,884	79		6,963
Other reserves	91,060	4,845	95,905			95,905
Retained earnings	661		661	331		992
Dividend distribution		5,490				
Legal depreciation	1,708		1,708	426	530	1,604
Total	129,009	10,335	123,519	991	530	131,567

The Company held 403,869 treasury shares valued at € 6,863 thousand of which € 274 thousand were classified as “Other investments” at 31 December 2003.

The Ordinary General Meeting of 11 June 2003 decided to pay a dividend of € 5,490 thousand. Since treasury shares are not eligible for the payment of a dividend, their amount was recorded under “Retained earnings” for € 256 thousand.

Notes to the parent company financial statements

Note 10: Provisions

Regulated provisions

Regulated provisions relate solely to legal amortisation and depreciation.

Provisions for contingencies and losses

These provisions cover known charges and litigation (foreign exchange risk, severance cost and retirement indemnities, commercial litigation) as well as general economic risks which the company can assess (product risk, regulatory and tax risk, potential litigation).

The company makes provision for the retirement benefits stipulated by the law and the Collective Agreement. The calculation is based on length of service, rate of turnover and life expectancy, and a 4 % discount rate in 2003.

Since 2003, a retrospective actuarial method has been used in the calculation of this commitment.

The company also made a provision for the fixed benefit retirement plan for members of the Executive Board introduced in 2003. This provision came to € 1,803 thousand at 31 December 2003.

The following movements were recorded:

Provisions recorded in balance sheet (€ thousands)	01/01/2003	Charges	Increase following the merger	Reversals		31/12/2003
				Amount used	Amount not used	
Regulated provisions						
Excess tax depreciation	1,708	415	11	530		1,604
Total	1,708	415	11	530	0	1,604
Provisions for liabilities and charges						
Provisions for general risks	114					114
Provisions for bond premiums repayment	0					0
Provisions for pension and retirement benefits	2,299	1,944	19		398	3,864
Provisions for foreign exchange losses	39	8		39		8
Provisions for litigation	281	200		249		232
Provision for income tax		89				89
Other provisions for liabilities and charges	809	312		337	20	764
Total	3,542	2,553	19	625	418	5,071
Provisions for writedowns						
Non-current asset writedowns	2,594	4,022		2,289		4,327
Current asset writedowns	771	1,068	2	440		1,401
Total	3,365	5,090	2	2,729	0	5,728
Total—all provisions	8,615	8,058	32	3,884	418	12,403

Note 11: Borrowings

Virbac S.A. has established a new credit line for a total amount of € 100 million.

At 31 December 2003, € 20 million of the credit line was taken up.

The amount called up on the credit line is covered by a fixed rate swap for the amount of € 19 million.

Note 12: Operating income

Sales

Breakdown of sales (€ thousands)

	2003	2002
France	49,417	50,548
Export	70,141	71,916
Total	119,558	122,464
Sales of merchandise and products	116,240	118,713
Services	3,318	3,751
Total	119,558	122,464

Note 13: Operating expenses

Research and development costs

The research and development costs necessary for the registration and marketing of the Group's specialties are recorded as charges when they occur.

Note 14: Finance expenses and income

Finance income arises from dividends received from subsidiaries and income from the investment of available cash.

Unrealised capital gains on holdings in mutual funds are only recorded as income when they are sold.

A provision may be made for writedown if it is justified by the subsidiary's financial situation (cf. note 2).

Finance expenses (€ thousands)

	2003	2002
Provision charges		
● Foreign exchange losses	8	39
● Investment writedowns	3,847	60
Interest expense		
● Interest and borrowings and lines of credit	1,199	1,320
● Other finance expenses	733	899
Foreign exchange losses	101	18
Net expenses relating to marketable securities disposal	74	61
Total	5,962	2,397

Finance income (€ thousands)

	2003	2002
Investments income—subsidiaries	14,884	13,303
Income various	105	211
Provisions reversal	2,359	913
Foreign exchange gains	397	473
Net proceeds from marketable securities disposal	147	111
Other finance income	17	7
Total	17,909	15,018

Notes to the parent company financial statements

Note 15: Exceptional expenses and income

Exceptional expenses (€ thousands)	2003	2002
Net book value of disposed non-current assets	16	1,985
Provisions charges		
● regulated	415	521
● liabilities and charges	2,678	833
Other exceptional expenses	308	14
Total	3,417	3,353

Exceptional income (€ thousands)	2003	2002
Proceeds from non-current assets	3	1,166
Reversal of regulated provisions	530	433
Reversal of provision for liabilities and charges	974	1,212
Exceptional expense transfer	953	0
Other exceptional income	22	4
Total	2,482	2,815

Note 16: Income tax

Virbac S.A. and most of its French subsidiaries (Virbac France, Francodex, Alfamed, Interlab, Virbac Distribution, Virbac Nutrition, Dog n' Cat International) are considered as an Income Tax Group pursuant to Article 68 of the Law of 30 December, 1987.

Each company recognises its own income tax charge in its own accounts.

Virbac S.A., as the only tax payer, records on behalf of the whole Group its outstanding income tax liability or refund receivable from the French Tax Administration.

The tax consolidation convention stipulates that the tax saving on companies made by Virbac S.A. by virtue of the tax losses sustained by the consolidated subsidiaries is liable

to be retroceded to them in the event that they should return to profit, up to the limit of the previous tax losses.

At 31 December 2003, the maximum amount of income tax which Virbac S.A. might be required to transfer to its subsidiaries came to € 300 thousand.

In 2003 Virbac S.A. posted a tax income of € 2,460 thousand which breaks down as follows:

- Tax consolidation income: € 2,235 thousand
- Research tax credit: € 181 thousand
- Sponsorship tax credit: € 138 thousand
- Provision for various taxes: (€ 93) thousand

In view of the absence of tax expense, there is no breakdown between exceptional elements and other elements.

Future income tax increases and decreases (€ thousands)

	2003	2002
Increases		
Legal amortisation/depreciation	568	605
Expenses to amortise over several financial years	417	0
Share of business and property tax included in inventories	27	NA
Decreases		
Long-term losses	914	685
Joint contributions	56	61
Unrealised gains—marketable securities	0	0
Unrealised gains—foreign exchange	55	81
Pension commitments	1,369	815
Other provisions	165	154

Excess tax valuation and profits
(€ thousands)

2003	Gross	Taxes	Net
Year's profit	5,127	- 2,460	7,587
Excess valuations (provisions-cancellation of provisions)			
● excess tax depreciation	- 115	- 41	- 74
● other regulated provisions	0	0	0
Pre-tax profits, excluding excess valuations	5,012	- 2,501	7,513
2002	Gross	Taxes	Net
Year's profit	9,646	- 689	10,335
Excess valuations (provisions-cancellation of provisions)			
● excess tax depreciation	88	31	57
● other regulated provisions	0	0	0
Pre-tax profits, excluding excess valuations	9,734	- 658	10,392

Note 17: Other information

Analysis of receivables and liabilities
(€ thousands)

	Gross amounts	Less than 1 year	1 to 5 years	More than 5 years
Non-current receivables				
Loans	312	19	293	
Other investments	1,186			1,186
Current receivables				
Trade receivables	27,346	27,346		
Subsidiary receivables	1,106	1,106		
Other operating receivables	3,818	3,818		
Prepaid expenses and deferred charges	967	967		
Total receivables	34,735	33,256	293	1,186
Liabilities				
Bank overdrafts	4,707	4,707		
Borrowings—lines of credit	20,000	20,000		
Borrowings—other	2,904	2,741	163	
Subsidiary liabilities	25,331	25,331		
Trade liabilities	13,942	13,942		
Tax and social security	7,546	7,546		
Liabilities relating to non-current assets	1,202	1,202		
Other liabilities	747	747		
Total Liabilities	76,379	76,216	163	

Notes to the parent company financial statements

Inter-Group transactions

Inter-Group transactions and equity investments (€ thousands)

	2003	2002
Equity investments—subsidiaries	112,919	102,187
Equity investments—other	146	146
Loans	218	1,456
Trade receivables	22,133	33,184
Other operating receivables (treasury current accounts)	1,106	1,300
Trade liabilities	350	1,273
Other liabilities (treasury current accounts)	28,051	24,465
Finance expenses	507	725
Various finance income	61	92
Investment income (dividends)	14,883	13,303

Finance Leases

Finance leases relate primarily to facilities located in the Paris region, consisting mainly of office buildings and storage and distribution centres for the complete range of products offered by the Company and its French subsidiaries.

Finance lease contracts

Finance leases (€ thousands)

	2003	2002	2001
Gross book value	4,635	4,635	4,635
Accumulated depreciation			
Prior years	2,302	2,078	1,854
2003 charge	225	225	225
Lease			
Prior years	5,461	4,941	4,415
2003 payments	514	520	526
Outstanding payments			
within 1 year	508	514	520
1 to 5 years	1,396	1,777	1,880
after 5 years	38	165	575
Residual value	507	507	507

Off-balance sheet commitments

Off-balance sheet commitments (€ thousands)	2003	2002
Commitments		
Guarantees, endorsements and sureties	10,282	10,410
Reciprocal		
Forward foreign exchange sales contracts	4,712	3,774
Forward foreign exchange purchases contracts	10,530	2,471
Other		
Finance leases—buildings	1,942	2,456
Computer material lease	133	278

At the end of the year, € 20 million of the new Virbac S.A. € 100 million credit line was taken up, including € 19 million covered by an interest rate swap.

Supervisory Board Remuneration

Supervisory Board members received a global sum of € 46,360 in attendance and various other fees.

Average workforce

Average workforce	2003	2002
Management	242	218
Supervisors and technicians	332	327
Workers	162	154
Employees	53	56
Apprentices	7	4
Total	796	759

Detail of charges and income accrued

Detail of charges payable (€ thousands)	31 December 2003	31 December 2002
Finance liabilities	7	4
Accrued interest on employee profit sharing	7	4
Trade notes and accounts payable	3,114	4,003
Provisions for outstanding bills	3,042	3,949
Provisions for offices and representation	72	54
Other liabilities	63	13
Discounts and allowances payable—third parties	7	13
Discounts and allowances payable—Group	56	0
Tax and social liabilities	4,754	5,127
Accrued vacation expense (including social charges)	2,732	2,548
Provision for various premiums (including social charges)	1,355	1,371
Provision for profit sharing	0	587
Various expenses payable	50	26
Provision for professional training	99	92
Provision for construction effort	109	101
Provision for training levy	90	78
Provision for business tax	139	67
Provision for other taxes	22	84
Provision for supplementary social security contribution	158	173
Other liabilities	548	658
Other expenses accrued	60	63
Bank charges payable	488	595
Total charges payable	8,486	9,805

Notes to the parent company financial statements

Details of income receivable	31 December 2003	31 December 2002
Trade notes and accounts receivable	127	817
Accrued receivables—third parties	0	122
Accrued receivables—Group	2	502
Unrealised foreign exchange gains and losses—third parties	125	193
Other receivables	725	166
Fees receivable	713	0
Various income receivable	12	111
Discounts and allowances receivable	0	55
Total income receivable	852	983

Investments in subsidiaries at 31 December 2003

(thousands)	Share capital	Reserve and retained earnings before net profit allocation	Share capital held %	Investment book value K€	Number of shares held	Loans and receivables outstanding K€	Value of guarantees and endorsements K€	Most recent financial year excl. VAT Local currency	Most recent financial year net profit/loss currency	Dividends paid to Virbac S.A. K€	Average share price at closing
French subsidiaries											
Alfamed S.A.S.— 38 rue d'Artois (Paris)	40 €	124 €	100	685	1,003			2,038	- 7	153	
Francodex S.A.S.— 1 ^{re} avenue 2065 m LID (Carros)	2,243 €	740 €	100	2,270	148,898			8,988	322	372	
Virbac Nutrition S.A.S.— 252 rue Lamour (Vauvert)	547 €	573 €	100	2,933	68,349			10,478	526	-	
Virbac France S.A.S.— 13 ^e rue LID (Carros)	240 €	7,539 €	100	40,761	10,434			69,324	4,088	2,901	
Virbac Distribution S.A.S.— 10 avenue Ampère (Wissous)	92 €	22 €	100	138	5,741			2,782	64		
Dog N'Cat International S.A.S.— 252 rue Lamour (Vauvert)	80 €	79 €	100	573	4,994			5,084	36		
Interlab S.A.S.—13 ^e rue LID (Carros)	22,694 €	366 €	100	23,064	1,512,909			-	1		
Soparlic S.A.R.L.— 38 rue d'Artois (Paris)	9 €	- 200 €	100	9	500	-		369	222		
Bio Veto Test S.A.— 285 avenue de Rome (La Seyne s/mer)	391 €	79 €	100	8,500	30,939			1,308	- 36		
Foreign subsidiaries											
Virbac AG— Sub-group Glattbrugg (Switzerland)	200 ChF	1,069 ChF	100	115	1,998			8,922	516	168	1.528910//1.5579

(thousands)	Share capital	Reserve and retained earnings before net profit allocation	Share capital held %	Investment book value K€	Number if shares held	Loans and receivables outstanding K€	Value of guarantees and endorsements K€	Most recent financial year excl. VAT Local currency	Most recent financial year net profit/loss currency	Dividends paid to Virbac S.A. K€	Average share price at closing
Virbac Nederland BV—Barneveld (Netherlands)	45 €	2,625 €	75	812	67			15,146	2,241	1,125	
Virbac Ltd.—Suffolk (United Kingdom)	2Gbp	2,377 Gbp	100	3	1,999			14,395	1,343	1,804	0.697640//0.7048
Virbac do Brasil Ltda.—São Paulo (Brazil)	11,035 Bre	- 3,668 Bre	100	5,226	10,851,999	–		21,210	1,605		3.447970//3.66
Virbac SRL—Milano (Italy)	1,601 €	545 €	100	1,610	99,800			9,957	399	600	
Virbac Commercializadora—Guadalajara (Mexico)	5,725 mxp	32,437 mxp	100	1,240	569,950			196,819	23,643	–	12.19562//14.1557
Virbac Mexico S.A. de CV—Guadalajara (Mexico)	4,472 mxp	18,760 mxp	100	2,974	6,883,904			67,352	2,296	1,121	12.19562//14.1557
Virbac (Australia) Pty Ltd.—Peakhurst (Australia)	2,500 aud	15,777 aud	100	4,346	2,500,000			56,814	1,610	–	1.74283//1.6802
Virbac España S.A.—Barcelona (Spain)	601 €	2,079 €	95	725	95,000			20,355	1,521	1,785	
Virbac Japan Co. Ltd.—Osaka (Japan)	120,000 jpy	- 89,025 jpy	100	762	2,400		2,073	504,522	- 10,923		132.69133//135.05
Virbac Pharma GmbH—Bad Oldesloe (Germany)	102 €	- 45 €	100	71	2,000			43	1		
Virbac GmbH—Bad Oldesloe (Germany)	440 €	1,778 €	99	1,521	852,500			24,436	2,616	2,834	
Virbac Österreich GmbH—Vienna (Austria)	36 €	98 €	50	18	50	218	–	2,824	155		
Virbac Thailand Co. Ltd.—Bangkok (Thailand)	3,400 Thb	3,208 Thb	91	84	9,100	–	–	167,707	2,529		46.81258 //49.9751
Virbac de Portugal Lda.—Almeirim (Portugal)	5 €	2,129 €	95	5	380	–		10,587	2,004	1,425	
Virbac Czv SL—Pontevedra (Spain)	544 €	- 15 €	100	122	100	–		–	- 1		
Virbac Korea Co. Ltd.—Seoul (South Korea)	1,600,000 Won	299,990 Won	90	1,028	288,000		–	4,611,018	419,997	327	1,345.56114//1,506.32
Virbac Vietnam—Ho Chi Minh City (Vietnam)	22,606,324 vnd	3,125,375 vnd	68	1,042	680	–		41,952,289	1,750,791	7	17,479.50196 //19,727.7
Virbac RSA Pty Ltd.—Centurion (South Africa)	51 Zar	35,459 Zar	100	4,863	7,000		600	120,973	5,807	261	8.48019//8.3276
Virbac Philippines Inc. Pasig City (Philippines)	37,961 Php	3,842 Php	100	394	37,999,997		186	71,641	- 14,244		61.688842//70.0029
Virbac Taiwan Co. Ltd.—Taipei (Taiwan)	6,000 Twd	- 1,418	100	197	600,000		233	36,717	- 2,488		39.25744//42.84499
Virbac Colombie Ltda.—Bogotá (Colombia)	824,029 cop	- 6,327 cop	100	892	700		57	1,976,041	- 419,419		3,245.72264//3,504.81

Global information concerning:

- Non-consolidated investments in French companies –
- Non-consolidated investments in non-French companies 292

Statutory Auditors' Report on the Parent Company Financial Statements

Year ending 31 December 2003

Ladies and Gentlemen:

In accordance with the instructions given to us by your General Meeting, we present our report for the financial year ending at 31 December 2003 on:

- ▶ The audit of the Virbac S.A. parent company financial statements, as attached to this report.
- ▶ The justification of our appreciations.
- ▶ Specific verifications and information required by law.

The parent company financial statements were drawn up by your Executive Board. Our responsibility is to express an opinion on these annual accounts based on our audit.

1● Opinion on the consolidated accounts

We conducted our audit in accordance with French professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the parent company financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual accounts. We believe that our audit provides a reasonable basis for the opinion expressed below.

Taking into account the observation below concerning the absence of certification as of today for the accounts of the Virbac Corp. subsidiary, we certify that the parent company financial statements, established in accordance with accounting principles generally accepted in France, give a true and fair view of the net income for the year under review and of the assets and liabilities, financial position and results of the company at the end of this financial year.

We wish to draw your attention to the fact that the accounts of the American subsidiary Virbac Corp. are currently being audited by the local auditors and the conclusions of this audit could have an impact on the evaluation of the assets of Virbac Corp.'s holding company (Interlab), recorded in the Virbac S.A. parent company financial statements for the amount of € 23 million.

2● Justification of our appreciations

Pursuant to the terms of paragraph 1 of article L.225-235 of the Code of Commerce concerning the justification of our appreciations, introduced by the Financial Security Law of 1 August 2003 and applicable for the first time to this financial year, we wish to draw your attention to the following elements:

- ▶ In the course of the financial year, the company made an amendment to the pension plan with defined benefits for a certain category of the personnel. As set out in note 10, the total commitment provisioned at 31 December 2003 for this plan now comes to € 1.8 million. As part of our appreciation of the significant estimations adopted in drawing up the accounts, we checked, in determining the amount of this provision, that the company relied on a calculation supplied by a specialised independent organisation charged with the task of evaluating the amount of this commitment, in compliance with the clauses and conditions of the amendment signed on 22 December 2003.
- ▶ As set out in note 2 hereto, your company records any provisions for depreciation of investments according to a method based on the corrected net financial situation of its subsidiaries. At 31 December 2003, the provision for depreciation of asset values came to € 3.8 million. As part of our appreciation of the significant estimates adopted in drawing up the accounts, we checked that the approach was acceptable and ensured that it had been correctly applied.

These appreciations form part of our audit of the parent company financial statements, taken as a whole, and have therefore contributed to the opinion expressed, without reserve, in the first part of this report.

3● Special verifications and information

We also performed the specific verifications required by law, in accordance with professional standards.

We have no observation to make on the fairness and conformity with the parent company financial statements of information given in the Management Report and in the documents addressed to shareholders on the financial situation and the parent company financial statements.

In compliance with the law, we also checked that the various information concerning equity investments, control and the identity of the shareholders have been communicated in the management report.

Nice and Paris, 11 June 2004

David & Associés

Represented by

Roger David

Auditeurs & Conseils Associés

Represented by

Jean-Marcel Denis

Statutory Auditors

Members of the Regional Companies of Aix-en-Provence and Paris

Statutory Auditors' Special Report on Regulated Agreements

Financial year ending at 31 December 2003

Ladies and Gentlemen:

As Statutory Auditors to your company, we hereby present our report on the regulated agreements.

Pursuant to Article L. 225-88 of the Commercial Code, we have been advised of the agreements that have been subject to prior authorisation by the Supervisory Board.

It is not our responsibility to search for other agreements that may exist, but rather to inform you of the essential features and details of those agreements of which we have been made aware, on the basis of the information given to us, without having to pass judgment on their usefulness and validity. According to the provisions of Article 117 of the Decree of 23 March 1967, it is your responsibility to assess whether it is in your interest that these agreements are entered into before approving them.

We have carried out our work in accordance with professional standards applicable in France; these standards require us to carry out diligence procedures in order to ascertain that the information provided to us corresponds to the basic documents from which it comes.

1● Meeting of the Supervisory Board of 13 December 2002

Executives concerned:

Messrs **Éric Marée**, **Jean-Pierre Dick**, **Christian Karst**, **Michel Garaudet** and **Pierre Pagès**, members of the Executive Board of Virbac S.A.

Nature and subject: on 13 December 2002 your Supervisory Board approved the principal of an amendment to the complementary pension plan for senior executives. The corresponding convention was signed on 22 December 2003, with retroactive effect to 1 January 2003. At 31 December 2003, the total commitment of Virbac S.A. with respect to this plan came to € 1,700,554, and the expense recorded by the company for this financial year came to € 451,320.

2● Meeting of the Supervisory Board of 10 July 2003

Cash management convention

Executives concerned: Messrs **Éric Marée**, **Christian Karst**, **Michel Garaudet** and **Pierre Pagès**, members of the Executive Board of Virbac S.A.

Nature and subject: on 10 July 2003 your Executive Board approved the implementation of a cash management convention between Virbac S.A. and its European subsidiaries. Under the terms of this convention, Virbac S.A. is responsible for the centralised cash management for all the subsidiaries concerned.

Relinquishment of the Vetarome debt

Executives concerned: Messrs **Christian Karst** and **Michel Garaudet**, members of the Executive Board of Virbac S.A. and directors of Vetarome.

Nature and subject: on 10 July 2003 your Executive Board decided on the relinquishment by Virbac S.A. of part of the debt it held on Vetarome, i.e. an amount of € 51,859. This relinquishment was therefore recorded in its entirety in liabilities for the financial year ending at 31 December 2003.

In application of the decree of 23 March 1967, we were also informed that the following convention, signed in the course of a previous financial year, continued to be executed over this last financial year.



Sponsorship: "Défi Voile Sud"

Nature and Subject: Your company signed a sports sponsorship contract with the association Défi Voile Sud, chaired by Jean-Pierre Dick. The terms of this contract stipulate that Virbac, as major sponsor, undertakes to pay, over a four-year period (2002-2005), a budget of € 1,025 million excluding tax. The aim of this partnership is to take part financially in the renting of a competition sailboat, then in the construction of a sailboat to take part in the Vendée Globe Challenge Race 2004-2005. For the financial year ending at 31 December 2003, Virbac S.A. recorded an expense of € 300,000 in the accounts.

Nice and Paris, 11 June 2004

David & Associés

Represented by

Roger David

Auditeurs & Conseils Associés

Represented by

Jean-Marcel Denis

Statutory Auditors

Members of the Regional Companies of Aix-en-Provence and Paris

Report of the Supervisory Board

Ladies and Gentlemen:

The Executive Board has presented the accounts for the financial year ending at 31 December 2003 together with the management report for the year. The Supervisory Board has approved both the accounts and the report.

The Group's development has been extensively described and explained in the report. The Supervisory Board wishes to focus on the following key points:

- ▶ Consolidated turnover, at € 354.8 million, is down by 3.6% on 2002, but up by 2.8% on a like for like basis and at constant exchange rate in a world market growing by scarcely more than 1%.
- ▶ After a regular annual average growth in excess of 12% over the past five years, net income in 2003 fell to € 9.5 million, largely as a result of the exceptional situation pertaining at the Group's American subsidiary Virbac Corp.
- ▶ The year 2003 was marked by a large number of acquisitions – product:licences (Romifidine) and companies and activities (Bio Veto Test and Delmarva, the animal health department of King Pharmaceuticals) – which will enable Virbac to extend its offer and to secure growth relays.
- ▶ Despite these local and exceptional difficulties, the Virbac share price closed 3.9% up on the year, at € 29.30.

The General Meeting will be asked to approve the nomination of a new independent member to the Supervisory Board, Xavier Yon. Mr Yon, currently chairman of the Galderma pharmaceutical company, has played a key role in the last few years in making the company one of the world leaders in the dermatology sphere. Xavier Yon will bring to the Supervisory Board his wide experience in the management of pharmaceutical companies with a pronounced international dimension.

In view of the fall in profits, a proposal will be put to the General Meeting to distribute a dividend of € 0.48 per share, i.e. € 0.72 including tax credit, a decline of 24% compared to 2003.

The Supervisory Board wishes to extend its thanks the members of the Executive Board and to all of the Group's employees world-wide for the dynamism and talent that they have demonstrated throughout the year. It would also like to thank our shareholders for their continuing confidence in Virbac.



Resolutions submitted to the Ordinary General Meeting of 29 June 2004

First resolution

The Annual General Meeting, having considered the Management Report and the Supervisory Board Report, as well as the Statutory Auditors' Reports, hereby approves the parent company financial statements for the financial year ending 31 December, 2003 as presented, as well as the transactions reflected in these statements and summarised in these reports.

The Annual General Meeting also approves the aggregate expenses of € 44,210 incurred during 2003 concerning transactions covered by Article 39-4 of the French General Income Tax Code.

Accordingly, it hereby fully and unreservedly discharges the Members of the Management Board for their management in the 2003 financial year.

Second resolution

The Annual General Meeting, having considered the Management Report and the Supervisory Board Report, as well as the Statutory Auditors' Reports, hereby approves the consolidated financial statements for the financial year ending 31 December, 2003 as presented.

It also approves the transactions reflected in these statements and summarised in these reports.

Third resolution

The Annual General Meeting decides to allocate the net profit of € 7,587,386.73 for the financial year 2003 as follows:

Dividend distribution	4,182,888.96 €
Retained earnings	3,404,497.77 €

Total equal to the profit for the financial year 7,587,386.73 €

A net dividend per share of € 0.48 (€ 0.72 gross dividend per share incorporating a 50% tax credit) will be paid on each share (€ 1.25 par value).

The meeting decides that, in accordance with the provisions of Article L 225-210 of the French Commercial Code, the amount of the dividend corresponding to treasury shares on the date of payment will be allocated to Retained Earnings.

These dividends will be paid through Banque Sanpaolo, 52 avenue Hoche, 75008 Paris, France.

The Annual General Meeting also notes the following dividends distribution during the previous three financial years:

Financial year (€)	Dividends	Tax: credits	Global revenue	Total amount distributed
2000	2.13	1.070	3.200	4,424,163.00
2001	2.30	1.150	3.450	4,775,388.80
2002	0.63	0.315	0.945	5,234,220.18

Fourth resolution

The Annual General Meeting, having considered the Statutory Auditors' Special Report hereby approves the report and agreements covered by Article L.225-86 and subsequent of the French Commercial Code.

Fifth resolution

The Annual General Meeting ratifies the appointment as member of the Supervisory Board of Mr **Olivier de Pelet**, resident at 99 boulevard Jean Jaurès—92100 Boulogne-Billancourt, and provisionally nominated by the Supervisory Board at its meeting of 26 September 2003 in the place of **Union d'Études et d'Investissements**.

Mr **Olivier de Pelet** will exercise his functions for the remainder of his predecessor's term of office, that is to say until the end of this Meeting.

Sixth resolution

The Annual General Meeting renews the term of office of Mrs **Jeanine Dick** as member of the Supervisory Board for a further six years.

Mrs **Jeanine Dick**'s term of office as member of the Supervisory Board will terminate at the end of the Annual General Meeting required to pronounce on the accounts for the financial year ending at 31 December 2009.

Seventh resolution

The Annual General Meeting renews the term of office of Mr **Pierre Madelpuech** as member of the Supervisory Board for a further six years.

Resolutions submitted to the Ordinary General Meeting of 29 June 2004

Mr **Pierre Madelpuech**'s term of office as member of the Supervisory Board will terminate at the end of the Annual General Meeting required to pronounce on the accounts for the financial year ending at 31 December 2009.

Eighth resolution

The Annual General Meeting renews the term of office of Mr **François Guinot** as member of the Supervisory Board for a further six years.

Mr **François Guinot**'s term of office as member of the Supervisory Board will terminate at the end of the Annual General Meeting required to pronounce on the accounts for the financial year ending at 31 December 2009.

Ninth resolution

The Annual General Meeting renews the term of office of Mr **Olivier de Pelet** as member of the Supervisory Board for a further six years.

Mr **Olivier de Pelet**'s term of office as member of the Supervisory Board will terminate at the end of the Annual General Meeting required to pronounce on the accounts for the financial year ending at 31 December 2009.

Tenth resolution

The Annual General Meeting renews the term of office of the **Investec** company represented by Mrs **Marie-Hélène Dick-Madelpuech** as member of the Supervisory Board for a further six years.

The term of office of **Investec** represented by Mrs **Marie-Hélène Dick-Madelpuech** as member of the Supervisory Board will terminate at the end of the Annual General Meeting required to pronounce on the accounts for the financial year ending at 31 December 2009.

Eleventh resolution

The Annual General Meeting decides to increase the number of members of the Supervisory Board to six and to appoint Mr **Xavier Yon**, resident at 6 rue Solférino—78000 Versailles, to the Board in addition to the current members, for a period of six years terminating at the end of the Annual General Meeting required to pronounce on the accounts for the financial year ending at 31 December 2009.

Twelfth resolution

The Annual General Meeting decides to renew the terms of office of:

- ▶ the firm of **David et Associés**, having its principal place of business at 37 bis rue Maréchal Joffre—06000 Nice, represented by Mr **Roger David**, in his capacity of Statutory Auditor,
- ▶ Mr **Gérard Métay**, having his principal place of business at "Hermès" 1185 chemin des Campelières—06250 Mougins, as Deputy Statutory Auditor for the firm of **David et Associés**,

for a period of six years respectively, that is to say until the Annual General Meeting required to pronounce on the accounts for the financial year ending at 31 December 2009.

Thirteenth resolution

The Annual General Meeting decides to appoint:

- ▶ the firm of **Deloitte Touche Tohmatsu Audit**, having its principal place of business at Les Docks, Atrium 10.4, 10 place de la Joliette—13002 Marseille, represented by Mr **Gérard Quillet**, in his capacity of Statutory Auditor,
- ▶ the firm of **Beas**, having its principal place of business at 7-9 villa Houssay—92200 Neuilly-sur-Seine, in its capacity as Deputy Statutory Auditor for the firm of **Deloitte Touche Tohmatsu Audit**, for a period of six years respectively, that is to say until the Annual General Meeting required to pronounce on the accounts for the financial year ending at 31 December 2009.

Fourteenth resolution

The Annual General Meeting decides to allocate, for the current financial year, the sum of € 80,000 in directors' fees to be shared among the members of the Supervisory Board.

Fifteenth resolution

The Annual General Meeting, having considered the Management Report and the Information Note approved by the Financial Market Authority, authorises the Executive Board, in accordance with the provisions of Article L.225-209 of the French Commercial Code, to buy back its own shares in order to:

- ▶ stabilise the share price, by systematically intervening against market trends;
- ▶ allocate the Company's shares to Group employees and managers through share purchase options pursuant to Articles L.225-179 and subsequent of the French Commercial Code;
- ▶ ultimately hold, dispose of or transfer shares thus acquired.

In addition, share buybacks may potentially be undertaken in order to exchange shares within the framework of external growth operations.

The maximum share buyback price is set at € 50 and the minimum resale price is set at € 12.5 per share. The maximum amount of the operation, in view of the 403,869 shares already held at 31 December 2003, is therefore fixed at € 23,378,300.

These purchase, sale, exchange or transfer operations may be carried out by all stock market means or by mutual agreement.

These operations may take place at any time within the limits authorised by the regulations currently in force.

In the case of operations on the capital, particularly the division or pooling of the shares or the free allocation of shares, the above-mentioned prices will be adjusted

by a multiplier coefficient equal to the ratio between the number of shares making up the capital before the operation and the number after the operation.

This authorisation, which cancels and replaces all previous authorisations of the same nature, and in particular that authorisation granted by the Combined General Meeting of 11 June 2003 (sixth resolution), is granted for a period of eighteen months from the date of the present Meeting.

The maximum number of shares thus acquired may never exceed at any time 10% of the share capital which, at the current time, consists of 871,435 shares.

All powers are granted to the Executive Board, which may delegate these said powers, to pass all orders, conclude all agreements, carry out all formalities and complete all declarations to any organisation, in particular the Financial Market Authority, and in general to do whatever is required for the execution of the operations applying to this authorisation.

Sixteenth resolution

The Annual General Meeting confers full power to the bearer of an original, a copy or extract of the minutes of this document to accomplish all formalities and to make all depositions or publicity required by the law.

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Glossary

Marketing Authorisation: veterinary drugs cannot be marketed without official approval (from the Agriculture Ministry, Health Ministry, Drug Agency, etc.), granted after a dossier is filed, with proof of the product's efficacy, harmlessness and quality: this is the Marketing Authorisation ("AMM" in French).

Endectocide: parasiticide drug active both on internal and external parasites.

Registration: cf. Marketing Authorisation.

Interferon: a protein with anti-viral properties used

in the treatment of certain serious diseases, such as retroviruses or hepatitis.

Ivermectin: principal endectocide molecule (active both in internal and external parasites) (a semisynthetic macrolide antibiotic effective in the treatment of filariasis. The drug destroys *Onchocerca microfilaria* and *Filaria bancrofti*).

Leishmaniasis: serious disease afflicting dogs and present in the Mediterranean countries; transmitted by the sand fly *Phlebotomus papatasi*.

SANZA: South Africa, New Zealand and Australia.

Virbac on five continents

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