



Virbac

2005 Annual report

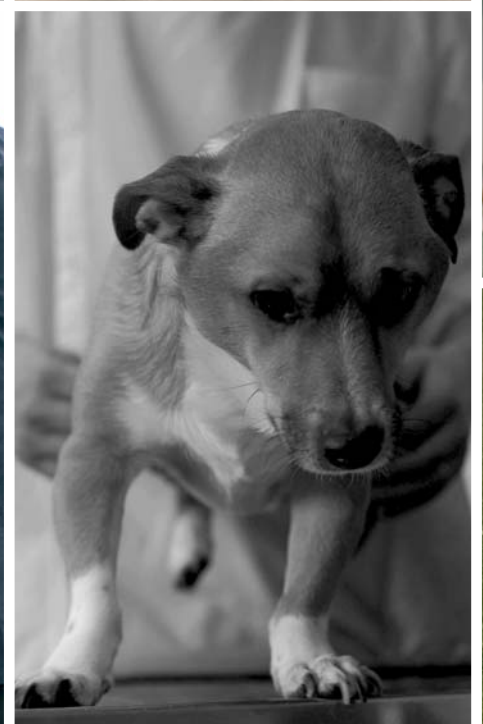
Passionate about animal health

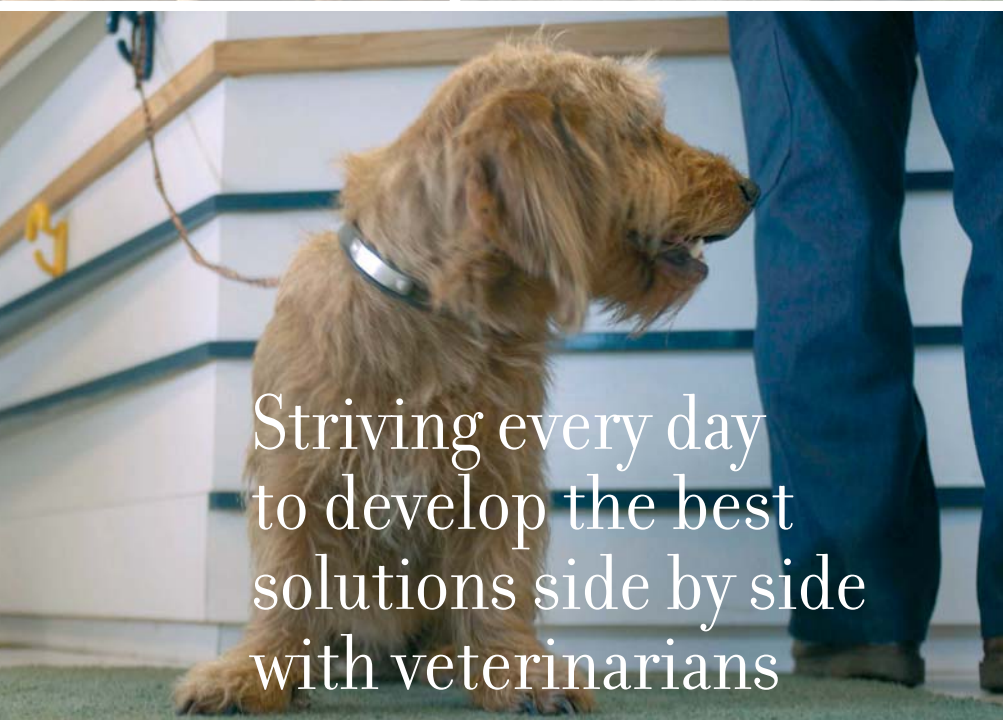
A close-up photograph of a parrot's feathers. The top half of the image is dominated by vibrant red feathers with fine, radiating barbs. Below the red, there are large, bright yellow feathers. At the bottom, there are deep blue feathers. The colors are saturated and the texture of the feathers is clearly visible.

This is what drives us
a little further every day...



Bringing our expertise
and care to all animals





Contents

A message from the Chairman	2•3
Overview of the Group	4•5
A worldwide Group	6•7
Key figures	8•9
Key events	10•11
Corporate governance	12
Finance and stock market	13
Innovation	16•17
The customer	18•19
Sailing sponsorship	20•21
Industrial competitiveness	22•23
Human resources	24•25
Financial report	28•97
Glossary	98
Index	99

A message from the Chairman

Recovery expected and achieved

The Virbac Group saw a 6% rise in sales, 4.9% pro forma at constant exchange rates, in line with growth in a global market driven by the recovery of the food producing animal segment, and with the companion animal segment continuing at very satisfactory levels.

All major regions played a part in increasing sales, once again in line with global market trends.

One of the most striking achievements during the year was the almost 2% rise in gross margin, the combined result of efforts made in a series of fields over a number of years; focusing on higher margin products, scaling back low margin business activities, improving industrial competitiveness and purchasing. Combined with tight controls on operating expenses, which rose slightly slower than sales, this improvement in the gross margin impacted the recurring operating profit which rose by close to two percent, from 8.4% to 10.3%. Net profit grew at a slightly slower pace as a result of the impairment of two Group intangible assets, added to the latest extraordinary charges in the US in the first half, whereas in the previous year extraordinary charges in the US, although higher, had been largely offset by the disposal of non-core assets.

Another key item on the financial front, the high level of cash flow, combined with good inventory management and sustained investment levels, resulted in significant debt reduction cutting the net debt to equity ratio to 10%.

Consistency and rigour in strategy implementation

From a strategic perspective, Virbac's growth model was strengthened in 2005. The diligent management of the pipeline of new research and development projects launched over the past few years is starting to bear fruit. Visibility on product launches in 2006 and subsequent years has improved. In addition to the strength in sales that has always been a mark of Virbac's teams, they should enable the company to generate organic growth of on average close to 5% per annum. Some more exciting, though also more risky, projects together with some



Éric Marée

Chairman of the Executive board of Virbac

acquisitions should help boost this growth rate. A series of initiatives undertaken over the past two years to control costs and optimise their impact are continuing; the lean manufacturing project in French plants, which will subsequently be expanded to other sites, the systematic rolling out of the purchasing project, the project to optimise marketing and sales effectiveness in Europe, the gradual roll-out to the whole Group of IT systems making it possible to improve the management of the company's major processes.

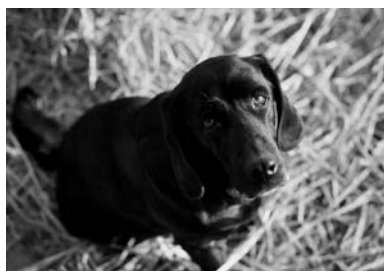
The most recent strategic initiative, announced at the very end of 2005, namely our proposal to buy the 40% of Virbac Corp. not held by the Group, obviously designed to definitively protect us from the risks associated with being listed on the US stock market, but also to avoid the costs, prohibitive for a small company, and above all to enable the implementation of a global strategy in all the company's key functions.

2006, a transitional year for global expansion

2006 is expected to be a transitional year for the Group's expansion. We expect the above-mentioned bid in the US to be accepted, but also the completion of the acquisition of the Glaxo veterinary business in India, a deal that will propel Virbac to leadership position in a market that is expected to grow significantly over the coming years and decades. Two deals affecting the Group's medium-term growth, which we hope to speed up in America and in Asia.

Independently of these planned acquisitions, we expect growth in 2006 to match, if not slightly exceed, that in 2005 and operating profitability in line with that in 2005 as a percentage of sales, since we intend to invest the expected operating gains in increasing R&D budgets, in particular in the US, to propel future growth.

Overview of the Group



Profile

1st independent global pharmaceutical company
dedicated exclusively to animal health

9th global veterinary pharmaceutical company

6th European veterinary pharmaceutical company

2,230 employees

+4.9% growth in sales in 2005*

* Pro forma at constant exchange rates

Position	Companies	2005 Sales in \$ million	Market share
1	Pfizer	2,206	14.8%
2	Meriel	1,987	13.3%
3	Intervet	1,359	9.1%
4	Bayer	968	6.5%
5	Fort Dodge	881	5.9%
6	Elanco	864	5.8%
7	Schering-Plough	851	5.7%
8	Novartis	727	4.9%
9	Virbac	457	3.1%

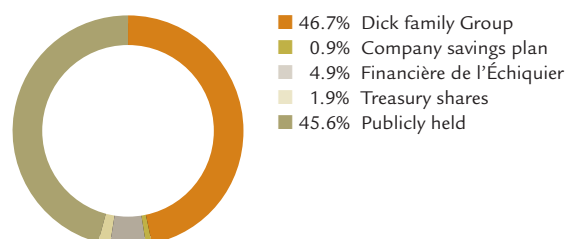
(Source: Wood Mackenzie, Virbac)

Stock Market

Virbac SA has been listed on the Paris stock exchange since 1985.

46.7% of capital and **65%** of voting rights are held by the family of Virbac's founder.

Breakdown of shareholders in terms of percentage of capital as on 15 May 2006



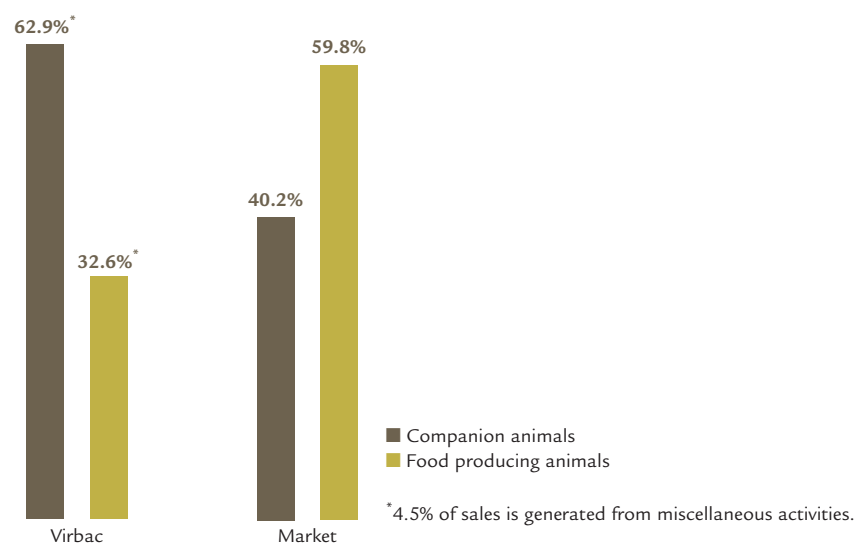
Focusing resources on two businesses

Virbac is a pioneer in the field of **companion animals** and now holds a leading position in this market: **7^e** globally, **5^e** in Western 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



A strong international footprint

75.5% of sales are from outside France

24 sales subsidiaries outside France

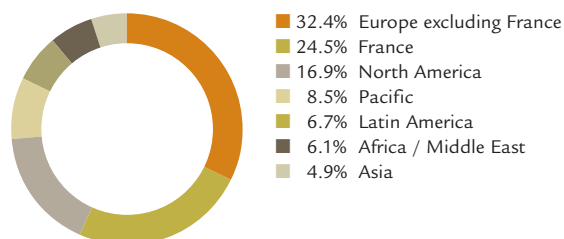
A sales presence in over **100** countries

56% of employees outside France

5 R&D centres

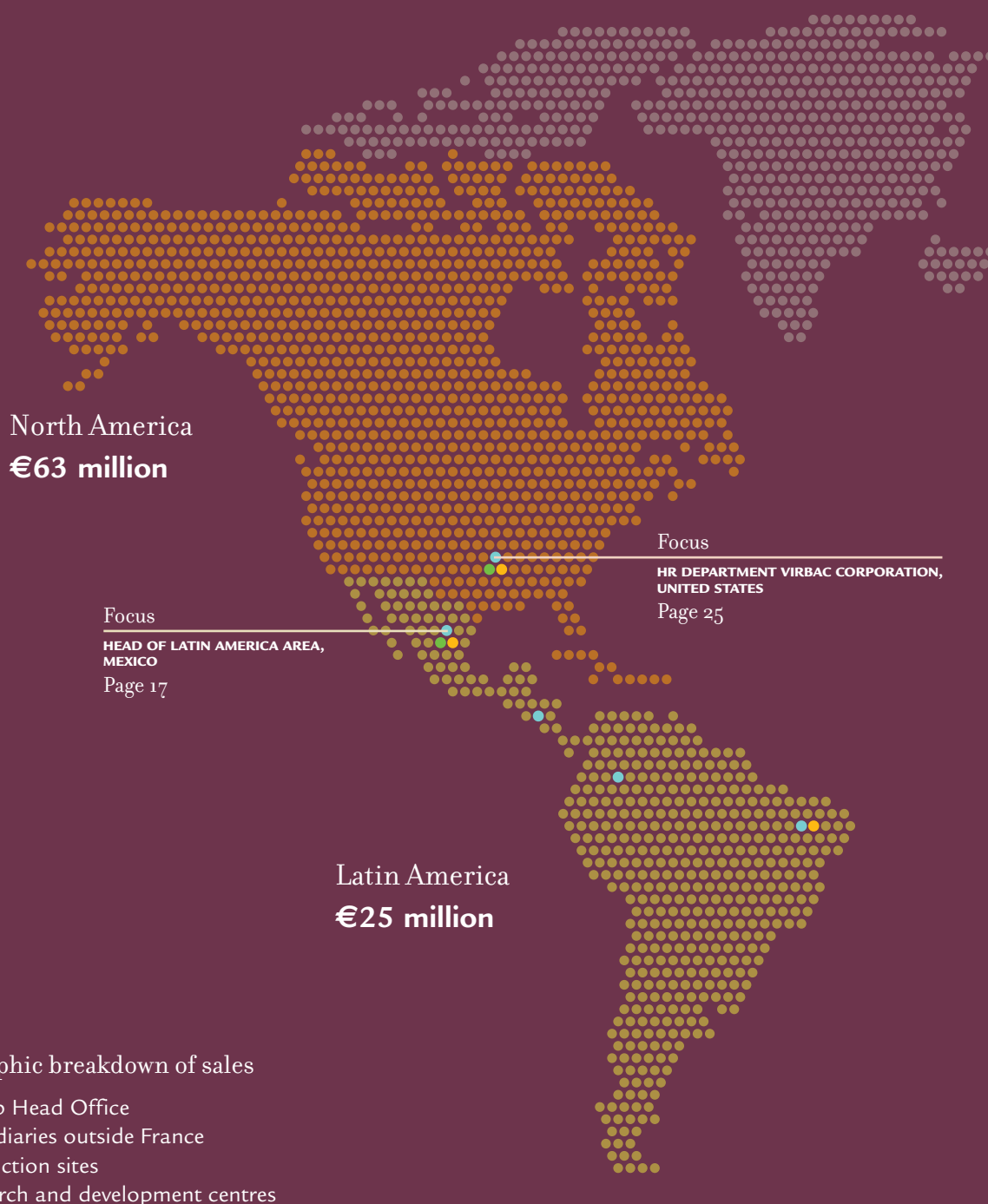
Production sites in **7** countries

Breakdown of sales



A worldwide Group

For operating purposes, Virbac is divided into five international areas: Europe, North America, Latin America, Asia and SANZA, the latter area combining the subsidiaries in New Zealand, Australia and South Africa. The other African markets as well as those in the Middle East are managed by the Europe area. In order to ensure responsiveness and ongoing adaptation to local market requirements, each area has a Research and Development centre and one or more production sites.



In 2005, 30% of sales were generated from products manufactured by production units outside France, thereby enabling Virbac to be very close to local requirements. Virbac's growing international presence can also be seen in its workforce, now 56% based outside France, in subsidiaries and representative offices. Virbac is now a worldwide Group both through its products but also through the men and women working for the Group throughout the world.

Focus

LOGISTICS DEPARTMENT, CARROS

Page 23

HEAD OF EUROPE AREA
FRANCE

Page 19

Europe

€212 million

Asia

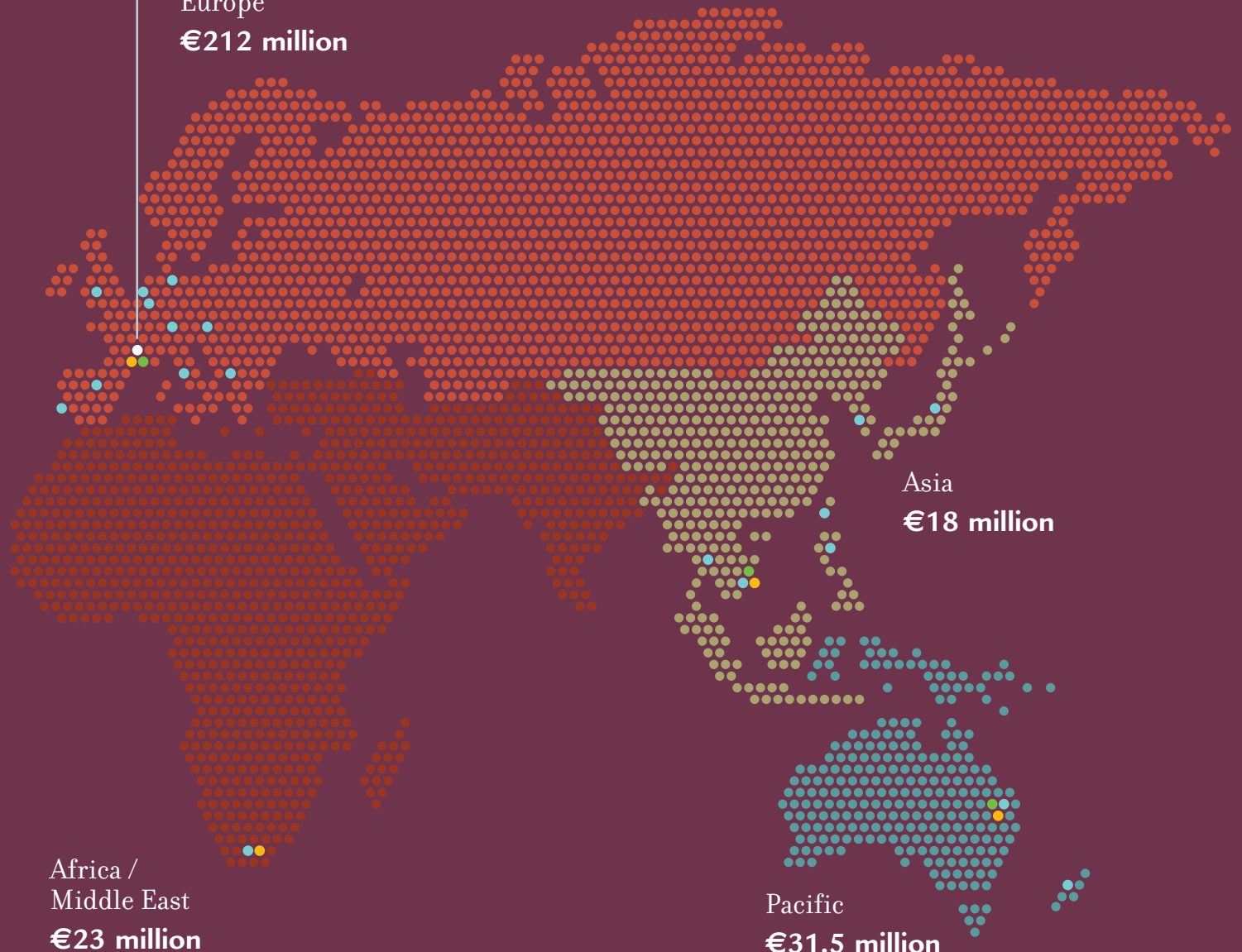
€18 million

Africa /
Middle East

€23 million

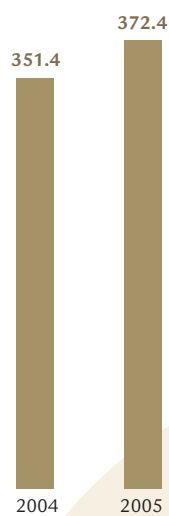
Pacific

€31.5 million

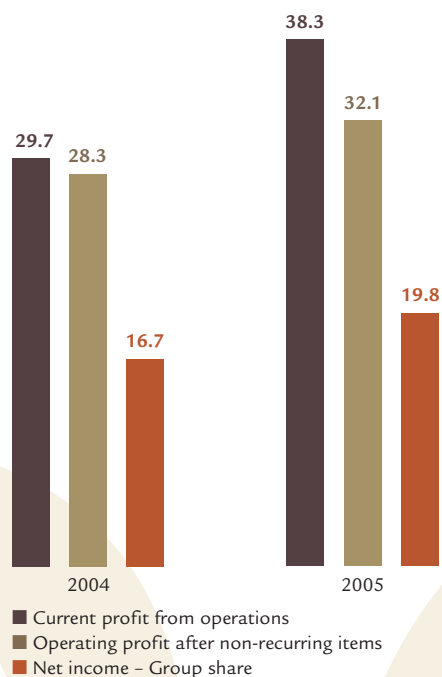


Key figures

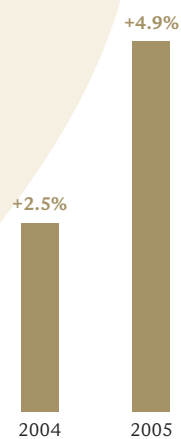
Sales (in € million)



Profit (in € million)



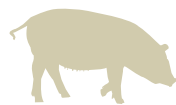
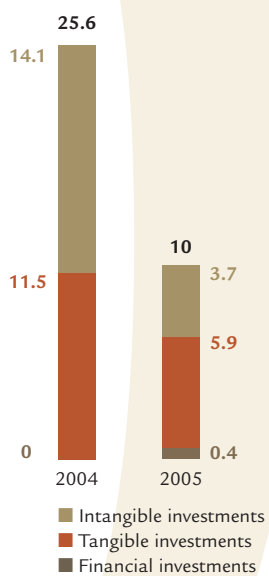
Virbac organic growth
(at constant exchange rates)



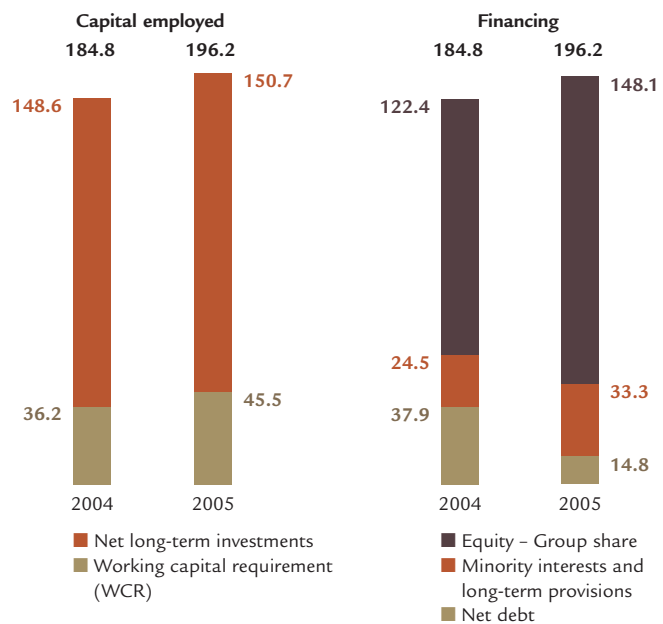
Cash flow (in € million)



Investments (in € million)



Financial structure (in € million)



Key events

- Expansion of the ongoing improvement project to quality control laboratories, before being rolled out to the logistics department in September 2005.

- 100% acquisition of Zoforos, long-term Virbac distributor in Greece. The founding of Virbac Hellas, 24th Group subsidiary, makes it possible to strengthen Virbac's position in the industrial segment (pigs and poultry), a major segment in the Greek market and to combine its food production animal and industrial breeding businesses within a single entity.

January

February

March

April

May

June



- Launch of new Fortiflex[®] formula in France and Japan. This nutritional supplement used to combat the motricity disorders is enriched with two additional molecules (selenomethionine and green tea extract), which improve its effectiveness against canine osteoarthritis.



- Launch of new Epi-Otic[®] formula in Spain, Italy, the United Kingdom and Japan, an ear cleanser specifically formulated to control and prevent external ear infections in cats and dogs.



- A new freeze-dryer with a capacity of 86,400 vaccine vials went into operation in the vaccine production unit.



July

August

September

October

November

December

Launch in France of the new range of ivermectin-based products, the most comprehensive on the market, comprising:

- Three parasiticides: injectable Virbamec® for pigs and cattle, Virbamec® pour-on and Virbamec® D for cattle.



- Equimax®, first wormer to treat all the main internal parasiticides in horses in a single dose in a user-friendly syringe, with sufficient volume to treat horses weighting up to 700 kg.



- Launch of Rilexine® total compliance (palatable antibiotic tablet for cats and dogs) in France: first stage in the European roll-out. Virbac is simultaneously developing a programme to support compliance (packaging in daily treatment units, cases and notices that are more understandable and explanatory for owners).



- Installation of a blister packing machine with a capacity of 5,400 blisters per hour, making possible a new process for distributing tablets in aluminium-aluminium blisters.



Corporate governance

The Executive board

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

Éric Marée, Chairman of the Executive board

Pierre Pagès, Chief operating officer

Christian Karst, Executive vice-president corporate development

Michel Garaudet, Chief financial officer

Jean-Pierre Dick, responsible for special projects and President of the Virbac Foundation.

The Executive board is assisted by a Strategic committee, which brings together the Area directors and heads of major corporate functions.



*Members of the Executive board from left to right:
Michel Garaudet, Éric Marée, Christian Karst, Jean-Pierre Dick and Pierre Pagès*

The Supervisory board

Marie-Hélène Dick was appointed Chairwoman of the Board at the meeting of 4 April 2006, with Jeanine Dick being appointed Vice-chairwoman from the same date.

The Supervisory board is comprised of:

Marie-Hélène Dick, Chairwoman

Jeanine Dick, Vice-chairwoman

Philippe Capron, **François Guinot**, **Pierre Madelpuech**, permanent representative of ASERGI and **Xavier Yon**, permanent representative of XYC.

The Audit committee

The Audit committee is responsible for reviewing financial disclosures and the management of risks and accounting practices. Its responsibilities are as follows:

- ◆ ensure the relevance, consistency and reliability of the accounting methods;
- ◆ verify the existence and effectiveness of internal control and risk management procedures;
- ◆ give its opinion on the validity of the accounting treatment of major transactions.

It is comprised of **Philippe Capron**, Chairman, **François Guinot** and **Pierre Madelpuech**.

The Compensation committee

The Compensation committee is responsible for:

- ◆ drawing up recommendations and proposals regarding the compensation of members of the Executive board;
- ◆ staying informed of the Group's general HR policy and more specifically the compensation policy for the Group's principal executives;
- ◆ reviewing proposals and conditions relating to stock option grants or free stock grants;
- ◆ drawing up proposals regarding the amount of directors' fees to be paid to members of the Supervisory board.

It is comprised of **Marie-Hélène Dick**, Chairwoman, **François Guinot** and **Xavier Yon**.

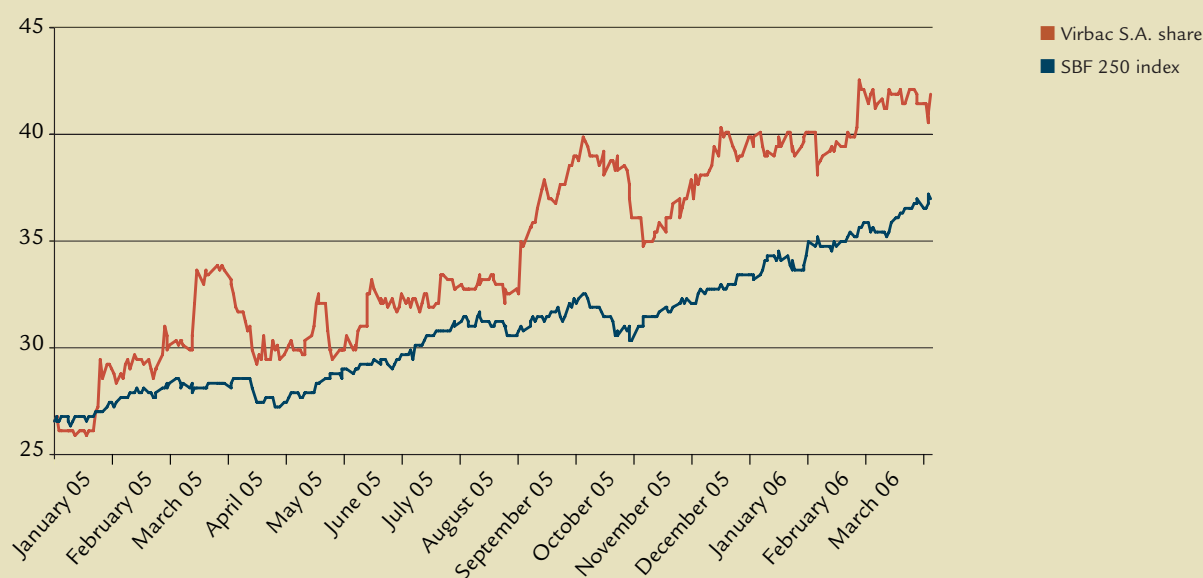
The Statutory auditors

- ◆ Deloitte et Associés, represented by **Vincent Gros**
- ◆ David et Associés, represented by **Roger David**.

Finance and stock market

Share price (daily price)

The Virbac share price rose by 52.5% in 2005.

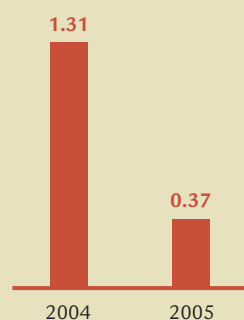


Debt ratios

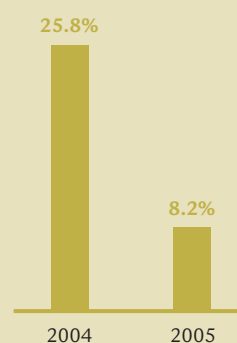
The Group's financial position continued to improve in 2005 with consolidated net debt falling to €14.8 million, namely 8.2% of total equity and provisions compared to €37.9 million and 25.8% respectively at end 2004.

The Group's cash flow from operations amounted to €39.9 million compared to €29 million in 2004, representing an increase of 37.4% on the back of an improvement in the Group's profitability and inventory controls.

Net debt / cash flow



Net debt / consolidated equity and provisions









Innovation

More “customer focused” innovation

Since its founding Virbac has had a customer focused innovation process that tightly links Research, Development and Licensing (RDL). In order to improve the success of its innovation process against a background of increased regulatory pressure, Virbac has for the past number of years been optimising its organisation and working methods so as to strengthen the selection process for new projects. In 2005, new products introduced within the past 3 years thus generated 15% of sales.

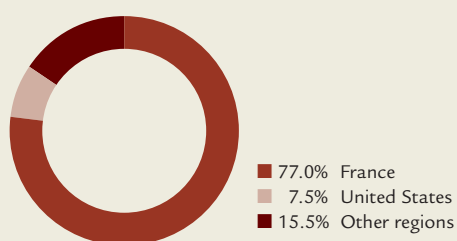
Responsiveness and novelty of key differentiation drivers

Paying close attention to market requirements, responsiveness and novelty of the approach are key factors to the success of Virbac innovations. In September 2005, the Group was able, within record time, to take advantage of the market opportunity provided by the expiry, in France, of the ivermectin patent. Virbac thus simultaneously launched no less than six ivermectin-based products marketed in different guises (pour-on, oral paste, injectable) for cattle, pigs, sheep and horses thereby creating the broadest and most complete new range on the market.

Virbac further improved its flagship Equimax® product, by offering the first oral syringe capable of treating, without any risk of overdose, all horses including even the heaviest weighing up to 700 kg. This development was in response to the realisation in Europe of the true importance of horses used for sport and leisure; it was widely welcomed by veterinarians and horse owners and led to an immediate increase in the market share enjoyed by Equimax®.

Lastly, the responsiveness and novelty of Virbac's approach were also seen in the launch of Rilexine® total compliance, a very palatable antibiotic tablet for cats and dogs. Given that between 20% and 30% of antibiotic treatment failures stem from difficulties experienced by the owners in following the prescription in full, Virbac decided to make the product more palatable and thereby facilitate its ingestion by the animals. Virbac simultaneously developed a programme for veterinarians and owners to support compliance, through, for example, packaging in daily treatment units and cases and notices that are more understandable and explanatory for owners. Launched at the end of December, Rilexine® total compliance made it possible for Virbac to regain its leadership position in the antibiotics market in France in the first quarter of 2006.

Geographic breakdown of R&D expenditure



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Interview with Thierry Gozlan, Latin America area director



“As in all the regions where the Group operates, the Latin America area has a dedicated centre for research and above all development which is located in Mexico and employs 16 people. In our business, this regional approach to R&D is a key success factor: in fact, in South America the market has a very different structure to the one in Europe. The independence in terms of Research and Development makes it possible for us to be closer to market expectations by taking account of their production practices (intensive or extensive), their specific climates and their regulatory environments (generally less restrictive than in western markets). So, for example, Zeramec® and Endogard®, pure products of local R&D, are amongst Virbac's best sellers in the area: in 2005, Zeramec® was the 3rd in terms of sales of all the products in the Virbac Mexico portfolio and Endogard® the 2nd for Virbac Brazil.”

The customer



Customer focus, a competitive advantage

Since the Group was founded in 1968, Virbac has always seen the strength of its customer relationships as its primary competitive advantage. This strength is based above all on an unswerving drive for the effectiveness and reliability of all products and services marketed by the brand, but also on the long-term and trusting relationships between customers and sales teams, which account for a third of the company's workforce. The customer culture is thus both a value and a driver that the company tries to instil into all its activities: sales and marketing but also research and development, production, etc. Noted and appreciated by customers, it represents a true competitive advantage.

Instilling the customer culture

To order to maintain and instil the customer culture in all its employees, the Group regularly undertakes internal promotion and communication initiatives, such as, for example, organising an annual global challenge to reward the best sellers: the Virbac Sales Ambassadors Club. It represents a highpoint in the company's year and one that is looked forward to.



Virbac Sales Ambassadors Club 2006

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Interview with Brian Clark,

Europe area director



“To further optimise customer satisfaction, Virbac introduced a programme in 2005 to get sales and marketing managers in the subsidiaries involved in a global marketing and sales effectiveness project. The goal of this programme is to involve local marketing departments and sales management at a very early stage and to have them work closely with the departments at head office.

The contribution of local teams now starts two years prior to the product launch, in the form of regular workshops. This early involvement and experience sharing makes it possible to both better anticipate customer needs (veterinarians and owners) and adapt messages targeted at them. Ultimately, this early consultation is a guarantor of better planning, a true competitive advantage for the Group.”

Another example of this effort to promote the customer culture: a major project, entitled “sales and marketing competitiveness”, was launched at the end of 2004. Undertaken by working groups of managers from a range of subsidiaries and fields within the company, the goal is to review customer service in order to highlight best practices within the Group and operational means of further improving customer satisfaction. At this point, one of the key issues for the Group is to harmonise practices within Europe, without necessarily standardising them. Currently underway in the Europe area, the project will subsequently be rolled out to other Group areas.

Virbac's spirit

- Innovation
- Market driven
- Entrepreneurship
- Empowerment
- Teamwork





The Virbac-Paprec boat, the backing of a whole profession

Since 2001, Virbac has been involved in sailing sponsorship backing the ambitious project of Jean-Pierre Dick, a professional skipper: a beneficial and positive investment for Virbac on a host of fronts.

Sailing: a great team builder

Virbac first teamed up with a passionate individual, Jean-Pierre Dick, because the Group closely identifies with the values of this Doctor of veterinary medicine: his professional approach, his team spirit and his great organisational ability are strengths shared by Virbac's corporate culture.

This project also makes it possible to strengthen the long-term relationship between Virbac and its main customer base. Voted veterinarian of the year in 2004, Jean-Pierre Dick never ceases to promote the veterinary profession, primarily through this venture. It also contributes to enhancing the company's reputation and that of its brand, sailing being a very popular and well covered sport.

A winning decision because in under three seasons, Jean-Pierre Dick has made a remarkable entry into the world of high seas sailing with his victory in the *Transat Jacques Vabre* in November 2005 and his 6th place in the *Vendée Globe* the previous year.

Involving veterinarians in Virbac's sailing adventure

Since its entry into the world of sailing sponsorship, Virbac has carried out a host of public relations campaigns targeted at veterinarians. Since then, over 400 members of the profession have been targeted by campaigns undertaken by Virbac in the context of various races in which Jean-Pierre Dick has participated, but primarily during the sailing days in Lorient.

This year, and in particular for the *Transat Jacques Vabre*, Virbac offered a series of highlights to veterinarians: monohull visit, thematic workshops on sleeping and eating onboard... On the day of the departure, the veterinary pharmaceutical company organised a breakfast: a special moment made all the more so by the presence of the two sailors, Jean-Pierre Dick and Loïck Peyron. The participants subsequently set sail to watch the departure at sea.

2005 palms: a double victory and a record

The seventh *Transat Jacques Vabre* was devoted to the duo of Jean Pierre Dick and Loïck Peyron. On 18 November 2005, Virbac-Paprec passed the finishing line in Salvador de Bahia, Brazil taking the first step onto the podium in the 60-foot (20 metre) monohull category. Having left le Havre on 5 November, Virbac-Paprec took precisely 13 days 9 hours 19 minutes and 2 seconds to cover the 4,500 miles (8,000 km) separating le Havre and Salvador de Bahia.



Despite an eventful start in what were very dangerous wind and sea conditions, the two sailors quickly took the lead and held it almost throughout the race. They were closely followed by the Anglo-French pairing of Roland Jourdain - Ellen MacArthur: so there was no room for any letup by

Jean-Pierre Dick and Loïck Peyron. The pace was sustained by the two sailors who took turns on the tiller day and night. The closing stage became a sprint between the two teams. Finally, thanks to tactical manoeuvres, Virbac-Paprec finished 35 minutes in front of Sill & Veolia.

This victory should spur on the skipper for the *Route du Rhum* (November 2007) and the next *Vendée Globe* (2008), the two legendary competitions in the world of solo sailing.



Interview

Doctor Pascal Anjot, Doctor of veterinary medicine since 1985, works in Les Herbiers (Vendée) in a veterinary association specialized in industrial breeding (poultry, rabbits, calves).

How did you meet Jean-Pierre Dick?

"I met Jean-Pierre when he was Director of Avitec, a Virbac subsidiary, specialised in products in our line of work. He used to visit us and I was always impressed by his very friendly nature. It was rather unusual at the time between a customer and a supplier."

Do you regularly follow the races?

"I'm not a sailor but I follow the big races. I'm more interested in the man. I followed his victory in the Transat Jacques Vabre. It was great for him because a double is never easy."

Were you there at the start of the race? How did you feel?

"I was at the end of the Vendée Globe. There were 150 vets. Waiting at the finishing line, I felt great solidarity within the profession. When we saw him at the press conference and the meal that night, I was impressed at how easy it was to talk to him and how down to earth he was. That was a great moment, full of emotion and admiration for his willpower and his openness."

***"For veterinarians,
Jean-Pierre Dick provides
a humane and upright image"***

What does his involvement in sailing mean for you?

And for the veterinary profession?

"For him, the goal is to provide Virbac with the traits and skills of a sailor."

He provides real added value to the Virbac Group. Specifically, when you go to Carros (head office of the Virbac Group) or when you meet a company employee in the field, you get the feeling of a sense of pride at Virbac and real motivation internally. For veterinarians, he provides a humane and upright image."

In your view, how can being a veterinarian help in being a sailor?

"I can see very strong similarities. Our training is very useful and we particularly saw it in the Vendée Globe. You need to be able to analyse situations, sum them up, take decisions and adapt."

What message would you like to send to Jean-Pierre for the upcoming Rum Race?

"Not to feel any pressure and believe in himself just like everyone believes in him."

Industrial competitiveness



Ongoing improvement: from ownership to action

In order to improve the competitiveness of its French sites, Virbac adopted an innovation strategy in 2004 designed to transpose to the world of pharmaceuticals the productivity concepts of the automotive industry, at the cutting edge of industrial competitiveness.

So with the assistance of experts, the Group has for over a year been implementing an ongoing improvement policy based on lean manufacturing with the following core aspects: controlling standards, optimising flows, seeking out added value. This Virbac industrial system has two goals: customer service and Group profitability.

Following a Group employee ownership phase in 2004, the Group this year moved into an ongoing improvement process.



Key figures

- 8 production units in France
- 300 employees working in production and control



Involving all employees

Emphasising simple and effective processes, in 2005 Virbac rolled out its lean manufacturing methods in its plants and subsequently in its quality control laboratories. The main area of work was to optimise physical flows and to simultaneously uncover areas for improvement. Virbac employees were highly involved in this improvement plan, playing a major and central role in the system. The Group thus obtained initial results that were satisfactory and compelling, enhanced by management involvement in support of change management. Virbac's next goals: adapt its organisation and roll out the ongoing improvement policy to the various Group departments in order to optimise performance management.

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Interview with Guy Rendu,

Logistics director



“The ongoing improvement policy is meant to be applied to all company activities: lean manufacturing applies to production activities, lean office to administrative work.

At the end of 2005, the Logistics department launched a programme to optimise the way in which it operates. The teams first of all focused on optimising customer-facing processes. To achieve the goal, a series of projects were put in place:

- ◆ a “supplier performance” project designed to cut supply timelines;
- ◆ a cross-company project designed to cut the time to market for new products once they have been granted Marketing Authorisation;
- ◆ a project designed to optimise distribution processes.

Other initiatives are also underway to improve interaction with the subsidiaries. In any event we are striving to provide better visibility internally on the performance of each process. All these initiatives should enable Virbac to improve its responsiveness vis-à-vis its customers and better meet their expectations.”

Human resources



Close cooperation with the various departments

Virbac's corporate culture is a reality: the Group has long attracted and retained skilled, highly motivated and ardent employees. This is one of the keys to Virbac's success.

In June 2005, the new Group HR Department was reorganised into four units: two units focused on the operational management of employees in France, splitting HR operational monitoring between them.

Two other units dedicated to HR expertise at Group level: the "Reward" unit, which manages compensation policies and the "Talent" unit which manages career development policies. This new department rolled out its strategy for the Group head office in France in 2005 and supported a host of projects within the company. The goal of this team is to work together with the various operational and functional departments within the company in order to aid them in their work.

A partner in the ongoing improvement policy undertaken by the Group, the HR department supports organisational change and the related talent development, and from time to time the redeployment of this talent.



Dealing with employee concerns

As part of its work, the heads of the various departments publicised the 2005 HR barometer in order to provide Group employees with the results of the internal opinion poll.

With a high participation rate, this poll highlighted three points:

- ◆ Internal communication and information have improved;
- ◆ Management, the work environment and customer focus remain strong areas for the Group;
- ◆ That work remains to be done on the organisation and management as well as the development of Human resources.

The projects and new HR goals

Following the results of the opinion poll and in order to develop managers in France, the PERF (Performance, Evaluation, Compensation, Training) programme was put in place with as its goals: performance management, end of year evaluations, compensation and skills development. Widely welcomed, it provides a cross-company learning platform as well as concrete tools for the central process of good management of employees and hence their motivation. Policies regarding company savings plans were also reviewed in 2005, a PERCO was put in place and information provided to Group employees regarding the issue.

Initiatives were taken regarding internal mobility, on a national and international level in order to encourage cross-company transfers between functions or countries.

The major challenge for the HR Department is now to improve managerial skills in France and to roll out the various programmes to Group subsidiaries in order to strengthen the culture and values of all employees worldwide.



FOCUS

Interview with Carole Buys-Michela,

Vice-chairwoman, responsible for Human resources, Virbac Corporation



“We have undergone substantial changes in our organizational structure, revenue recognition methodology, production processes, financial accounting and reporting procedures, compensation practices, ERP implementations, and especially our strategic leadership. Change has become an everyday way of life for employees, officers, and directors of Virbac Corporation. The results of these changes have been positive in every arena. Sales continue to climb, expenses continue to decrease, and Virbac’s profits continue to rise.

These business indicators are impressive to say the least.

The employees of Virbac Corporation look toward the future with optimism.

Turnover rates are at record lows, employee opinion surveys indicate improvement in all major areas of focus, and general esprit de corps is at an all time high.

We have successfully transformed ourselves from a troubled business entity into a robust corporation with promising future potential !”





2005 Financial Report

Management report29•48

Report concerning the conditions
for preparing and organising the work
of the Supervisory board and
internal control procedures49•57

Report from the Statutory auditors58

Consolidated financial statements59•92

Supervisory board report93

Resolutions put to the General ordinary and extraordinary
shareholders meetings of 29 June 200694-97

Management report 2005

Virbac saw renewed growth in 2005 with sales up 6% (4.9% at constant exchange rates). This performance is partly down to advances by Virbac in the companion animal segment where it grew by 7.5% at constant exchange rates, but also to further growth in the food producing animal segment which rose by +2.2%. Group sales moreover grew in all geographic areas.

Major events during the year:

- ◆ The registration and launch of important products, particularly in Europe with Virbamec® D in France (bovine parasiticide) and Rilexine® in palatable tablets in France, the United Kingdom and Germany (cephalexin-based antibiotic for cats and dogs);
- ◆ The launch in France at the end of September of a full range of ivermectin-based products (bovine and equine parasiticide);
- ◆ The acquisition of Zoforos, long-term Virbac distributor in Greece, enabling the Group to strengthen its positions in the Greek market;
- ◆ The continuation of the lean manufacturing project in production with the implementation of a pull system and performance indicators on the machinery. The project resulted in a rise in productivity;
- ◆ The resolution of the difficulties encountered by the US subsidiary Virbac Corporation following the accounting and stock market crisis at the end of 2003. Virbac Corp. filed its financial statements for 2001, 2002 and 2003

on 29 April 2005, and those for 2004 on 30 August 2005. The main suits (investigation by the Securities exchange commission and a class action suit by shareholders) were settled;

- ◆ The bid in December 2005 to buy the shares in the US subsidiary Virbac Corporation not already held, namely 39.7% of the share capital at a price of 4.15 US dollars per share, representing a total purchase price of around 37 million US dollars;
- ◆ The continued improvement in the Group's financial position with consolidated net debt falling to €14.8 million, namely 10% of Group shareholders' equity compared respectively to €37.9 million and 31% at end 2004.

Business activities in 2005

Pro forma at constant exchange rates, Group sales rose by 4.9% in 2005, with growth in both segments: +7.5% in the companion animal market, +2.2% in the food producing animal business.

Trends per segment

Companion animals

This business accounts for 63% of Group sales. All segments helped grow sales except for electronic identification, which had a particularly strong 2004.

◆ Parasiticides

This segment grew by 17.8% on 2004.

This performance largely stemmed from the US subsidiary's success with Iverhart+® (wormer for heart worms) which benefited from an extension in its use-by period and the withdrawal from the market at end 2004 of a competing product.

In Europe, growth was driven by the strong performance of collars and external parasiticides, as well as the launch of Preventic® spot-on (external parasiticide treatment) in Germany.

In Latin America, Virbac Brazil successfully launched a local range of external and internal parasiticides.

◆ Immunology

This business grew by 5.5% in 2005.

Despite strong competition in the dog vaccine market, Group sales rose on the back of Germany in Europe, Colombia and Mexico in Latin America and Australia in the Pacific. The decline in sales in France can be explained by the tailing off of the vaccination drive that followed

the discovery of a case of canine rabies in southern France in 2004. In Europe, the cat vaccine business faced fierce competition following the launch of a new range, but Virbac undertook a series of major campaigns that enabled it to protect its positions.

Sales of Virbagen® Omega (leading interferon in the veterinary market) rose across Europe but particularly in the United Kingdom which benefited, more than other countries, from the extension of the marketing authorisation to cats.

◆ Antibiotics/Dermatology

These ranges grew overall by 3.4% on 2004. In dermatology, sales of Epi-Otic® (ear cleanser) performed well in all areas. The antibiotic segment also grew thanks to the launch of Rilexine® (marketed under the Rilexipet® brand) in Japan and this product's strong performance in Spain. In France, Virbac caused a stir by launching, at the end of the year, the new version of Rilexine® palatable tablets with the total compliance programme and the goal of regaining its leadership position in this segment and is getting ready to launch it in the main European markets in early 2006.

◆ Specialties

Specialties, which includes the dental range, anaesthetics, ophthalmologic products, anti-inflammatories, endocrinology and reproduction, saw a 12.2% rise in 2005. The dental range saw strong growth in 2005 on the back of a very strong performance in America where the animal dental care market is expanding rapidly. Asia also contributed to this strong performance with the launch of dental care chews in Japan. The launch of a competing dental range in Europe resulted, on the other hand, in a slight decline in sales.

The anaesthetic range profited from the success of Zoletil® (general anaesthetic) which saw double-digit growth in 2005.

Sales of ophthalmologic products rose thanks to the launch of VT Phak eyes in May 2005 (ophthalmologic drops) and Regefluid® as a replacement for Humiscreen (artificial tears) in May 2005.

The anti-inflammatory and motricity function range owes its growth to the strong performance of Fortiflex® (nutritional supplement used for motricity function disorders) in France and Japan where a version enriched with two new ingredients was launched in 2005.

The strong growth in the endocrinology range stems from strong sales of Soloxine® in the United States (hormone against canine hypothyroidism) which regained its leadership position in the market in 2005. Lastly, the reproduction range rose slightly in 2005, following a slowdown in the growth in sales of Alizine® (contraceptive for cats and dogs).

❖ Equine

Equine products closed the year up 6.2%, in particular thanks to the launch of Equimax® in France (broad-spectrum wormer for horses) and the introduction of new packaging in other countries.

❖ Specialised petfood

In 2005, this business continued to gain market share, rising by 2.1% on 2004. This change is down to the growth of the Virbac Vet Complex® range in France in a market that is growing at veterinary clinics, but also the launch of the range in Japan, Korea, Spain and New Zealand.

❖ Electronic identification

Following spectacular growth in 2004, this segment saw a decline in sales in 2005 of -13.2% at constant exchange rates. This business had enjoyed a one-off impulse in 2004 from the discovery of a case of canine rabies in southwest France, which had driven owners to identify their animals.

Food producing animals

This business accounts for 32.5% of Group sales and grew by 2.2% at constant exchange rates in 2005.

❖ Bovine parasiticides

This range was down 4.4% on 2004 following the decision of the US subsidiary to pull out of the generic bovine parasiticides market in the US.

Major events during the year:

- the launch of a full range of bovine parasiticides (ivermectin-based parasiticides) in France at the end of September 2005,
- the launch of Virbamec® F (bovine parasiticide) in the United Kingdom and Spain.

❖ Other bovine products

These products grew 5.7% in 2005 with strong performance across the whole business. In Europe, the Shotapen® antibiotic (antibiotic against bovine respiratory complaints) which was re-registered with the regulatory authorities in 2004, performed extremely well. In Australia, growth largely stemmed from the sales generated under a distribution agreement with Intervet.

❖ Pig and poultry antibiotics

Following a decline in 2004, this segment grew by 1.5% in 2005 with performance varying between regions. A decline in Europe apart from Greece, strong growth in South Africa where the subsidiary performed very well on the back of sales of Pulmodox® POS (oral antibiotic for the treatment of respiratory infections in pigs), recovery in Asia following a decline in 2004.

❖ Other pig and poultry products

These products declined slightly.

Breakdown of sales by segment

Specialty/Range	Sales (€ millions)	Growth per segment					
		> -5%	-5% to 0%	0% to +5%	+5% to +10%	+10% to +15%	> 15%
Companion animals	234.3				7.5%		
Parasiticides	47.6						17.8%
Immunology	46.4				5.5%		
Antibiotics/Dermatology	36.9			3.4%			
Specialities	41.9					12.2%	
Equine	22.3				6.2%		
Specialised petfood	13.8			2.1%			
Others	25.4		-2.1%				
Food producing animals	121.4			2.2%			
Bovine parasiticides	20.6		-4.4%				
Other bovine products	62.1				5.7%		
Pig and poultry antibiotics	32.0			1.5%			
Other pig and poultry products	6.7		-4.0%				
Other business activities	16.7	-8.3%					

Other business activities

These business activities, which account for 4.5% of sales, cover markets of less strategic importance for the Group and in particular include contract manufacturing carried out in the United States and Australia. The decline in sales largely stems from the disposal of this business in Australia in October 2005.

Geographic breakdown of sales

Europe

Sales in the Group's European businesses amounted to €211.8 million in 2005, an increase of 4.8% on the previous financial year (4.6% at constant exchange rates).

❖ In France

Sales were up 2.2% on 2004. Sales grew in both of the Group's businesses thanks to strong results from all French subsidiaries.

Growth in the companion animal segment largely stems from:

- the strong performance of the Virbac France vaccine range,
- the launch at the end of the year of Rilexine® palatable tablets with a global compliance programme which will return Virbac to leadership position in this segment,
- increased sales in the Vet Complex® range distributed internationally by the Virbac Nutrition subsidiary,
- good performance in the range of external parasiticides sold by the Francodex subsidiary.

The tangible growth in the food producing animal business in 2005 was driven by the bovine ranges of the Virbac France subsidiary, which, at the end of September 2005, successfully launched a full range of ivermectin-based bovine parasiticides. The subsidiary's pig and poultry range continued to decline because of a slowdown in sales of Suramox premix® and Pulmodox® premix (pig and poultry antibiotics against respiratory complaints) which suffered from strong competition from low-price generics.

❖ In Germany

In 2005, Virbac Germany grew by 2.8% but with mixed performances in both businesses.

In the companion animal market, growth was driven by the external parasiticides segment with the launch of Preventic® spot-on in May 2005 and the upturn in sales of Indorex® (parasiticide for cats and dogs), as well as of vaccines which saw double-digit growth. The specialties and electronic identification segments declined.

The slowdown in the food producing animals market stemmed from the regulatory withdrawal of certain bovine antibiotics.

❖ In the United Kingdom

The subsidiary grew by 2.3% (2.9% at constant exchange rates) in 2005 on the back of the strong performance of the food producing animal business.

Despite the strong performance of the equine parasiticide range which held up well in spite of the entry of a new competitor (2004), the subsidiary fell back slightly in the companion animals market as a result of delays in vaccine deliveries, as well as lower than expected sales following the launch of dental vegetable chews. On the other hand, Virbamec® F (marketed under the Virbamec Super® brand) launched in 2005 and Goldfleece® (bovine external parasiticide) enabled the subsidiary to post strong growth in the food producing animal market.

❖ In Spain

Despite strong performances in the companion animal market, Virbac Spain closed the year down 6.6% following very strong competition in the food producing animal market and in particular in pig and poultry antibiotics since 2004.

Performances across the board in the companion animal market were very satisfactory.

❖ In the Netherlands

Sales at Virbac Netherlands were up slightly on 2004.

The companion animal business benefited from the performance of the external parasiticide range while the electronic identification segment, which suffered from the after-effects of a very strong 2004, and the specialised petfood segment were down slightly.

The food producing animals business rose on the back of sales of industrial food production products.

❖ In Italy

2005 sales were up slightly on 2004 thanks to the performance of the companion animal market driven by the specialties segment, and in particular by the reproduction range with the 2005 launch of Alizine®.

❖ In Switzerland

Sales at Virbac Switzerland rose 6.8% thanks to both businesses. The companion animals market was particularly buoyant in the vaccines and external parasiticides segments, whereas in food producing animals it was the bovine business that drove growth.

❖ In Belgium

Virbac Belgium had a very strong 2005 with sales up +18.2%. In companion animals, growth stemmed from sales of the Vet Complex® range launched in mid-2004 and the strengthening of Virbac's positions in vaccines. In food producing animals, sales were also strong in particular in bovine ranges.

❖ In Portugal

2005 sales at Virbac Portugal were virtually unchanged on 2004. The strong performance in companion animals driven by sales of vaccines and specialties was offset by a decline in food producing animals. In this market, Virbac Portugal had a good year in the pigs and poultry market where the subsidiary has a 30% market share in the premixes market (strong performance of the Pulmodox® premix). On the other hand, sales fell sharply in the bovine market.

❖ In Austria

Virbac Austria saw growth in both markets thanks largely to the equine segment, companion animals and the strong performance of Pulmodox® premix in food producing animals.

❖ In Eastern Europe

In this zone with strong growth potential, Virbac saw an increase of 70.8% in 2005 with in particular strong performances in Hungary, Poland, the Czech Republic and Estonia. In these countries the most buoyant market is the food producing one but Virbac has also managed to make major inroads into companion animals with dog vaccines posting a strong performance in Hungary.

North America

Sales were up 4.9% on 2004 (4.8% at constant exchange rates), amounting to €63.1 million at 31 December 2005. In this zone, the Group is primarily active in the companion animal market in which it generated 4/5th of its sales. The segments contributing to this growth in 2005 were specialties with the dental and endocrinology ranges, as well as internal parasiticides with the strong growth of Iverhart®. In food producing animals Virbac US pulled out of the generic bovine parasiticides market, generating too low margins.

Latin America

In 2005, the Group saw strong growth of 18% aided by a strong exchange rate impact (8.1% at comparable exchange rates). All subsidiaries in the region grew sharply.

❖ In Mexico

In 2005, the subsidiary posted a 10.5% increase in sales at constant exchange rates on the back of growth in both of its markets.

In food producing animals, the most buoyant segments were the antimicrobials (bovine, pig, poultry) with strong performances by the Suramox premix® and Pulmodox premixes (marketed under the Premedox® brand) in pigs and poultry and injectable Maxflor® in the bovine segment. Virbac Mexico also had a good year in companion animals thanks to growth in sales of dog vaccines.

❖ In Brazil

The performance of the Brazilian subsidiary in 2005 stemmed from the companion animal ranges with strong sales offsetting the decline in sales in food producing animals. Dermatology, with in particular the launch of Pyoderm (skin infection treatment) and above all external parasiticides with the launch of an innovative full range, drove the growth.

The subsidiary closed the year up 20.9%, strongly aided by a positive exchange rate impact.

❖ In Costa Rica

Virbac Costa Rica performed well, with sales up 32.5% at constant exchange rates. The subsidiary performed well across the board.

❖ In Colombia

In 2005, Virbac Colombia posted growth of 58.6% at constant exchange rates and posted strong performances in both businesses. In food producing animals, all segments grew and in companion animals sales took off thanks to the taking over by the subsidiary of the marketing of dog vaccines.

Asia

In Asia, the Group also started growing again with sales up 14.2% (11.7% at constant exchange rates). After a 2004 weighed down by a series of negative factors, such as avian influenza in Vietnam and deflation in Korea, all subsidiaries grew in 2005.

❖ In Japan

In 2005, Japan posted moderate growth of 2.1% (3.8% at constant exchange rates). In the companion animal market, the subsidiary closed the year up on the back of the performances of the dental range following the 2004 launch of vegetable chews, antibiotics with the 2005 launch of Rilexine® tablets (Rilexipet®) and the dermatology range. The subsidiary saw a decline in the food producing animal market, where it is active in the bovine parasiticide market (parasiticides for internal and external use).

❖ In Korea

Sales at the Korean subsidiary rose on the previous year thanks to the strong performance of the bovine business, up on a 2004 that was weighed down by a crisis in the dairy cattle business.

❖ In Vietnam

After having suffered from the impact of avian influenza in 2004, the Vietnamese subsidiary closed 2005 up 28.4% (29% at constant exchange rates). This growth was largely due to higher food producing animal sales with strong performances in the bovine antimicrobial range (Shotapen® and Multibio®).

❖ In the Philippines

The subsidiary posted growth in sales of 26.4% in 2005 (22.5% at constant exchange rates) on the back of strong performances in food producing animals.

❖ In Thailand

Virbac Thailand closed the year up 9% (7.1% at constant exchange rates) with both businesses making a positive contribution.

❖ In Taiwan

The strong growth over the past number of years continued (+ 37.7% at constant exchange rates). Note should be taken of the strong performances of the Suramox premix® in food producing animals and the speciality and dermatology ranges in companion animals.

Pacific

The Pacific region rose by +0.6% in euro terms and -2.9% at constant exchange rates. The decline in sales is largely the result of a change in scope following the disposal in October of the assets of the human pharmaceutical product contract manufacturer MR Manufacturing and Packaging.

❖ In Australia

Virbac Australia posted an increase of 11.9% (8% at constant exchange rates) in 2005. In the companion animal market all segments contributed to the increase with the bulk coming from the parasiticide segment (strong performance by the Preventic® and Cyclo® ranges – external parasiticides) and also good results from the vaccines range (in particular dog vaccines).

In food producing animals, the signing of a bovine parasiticide distribution agreement with Intervet as well as the launch of Liver Fluke, a service to detect liver fluke infested livestock, enabled the subsidiary to close the year up on 2004.

❖ In New Zealand

The New Zealand subsidiary, weighed down by exchange rate movements, closed the year down 5.3% at constant exchange rates (+0.9% at actual exchange rates). The strong performance in the companion animal market, following the recovery of the specialised pet food business with a return of the Excellence® range to distributors, did not offset the decline in food producing animals.

Africa / Middle East

The launching of the dental range in January and Fortiflex® (nutritional supplement used against motor function disorders in dogs) in June for the companion animals market, and the launching of Flukazole (flake killer) and Flukekill (programme designed to optimise fluke killing) in food producing animals enabled Virbac South Africa to post growth of 19.3% at constant exchange rates.

Exports to Africa and the Middle East fell back following the restrictive credit granted by the company in Algeria to avoid debt collection problems.

Geographical breakdown of sales

(€ millions)	2005	2004	Change (In % terms)	Change (Constant exchange rates)
France	91.1	89.1	2.2%	2.2%
Rest of Europe	120.7	113.1	6.7%	6.9%
North America	63.1	60.2	4.9%	4.8%
Latin America	25.1	21.3	18.0%	8.1%
Africa / Middle East	22.7	20.5	10.5%	9.5%
Asia	18.2	15.9	14.2%	11.7%
Pacific	31.5	31.3	0.6%	-2.9%
TOTAL	372.4	351.4	6.0%	4.9%

Acquisitions and disposals

Virbac SA acquired its main Greek distributor Zoforos in July 2005 and thereby strengthened its position in this market.

In October 2005, Virbac Australia disposed of the assets of MR Manufacturing and Packaging acquired in 2000 in the acquisition of Vetsearch and which carried out contract manufacturing of human pharmaceutical products.

Research, Development and Licensing

In 2005, 6.7% of sales was set aside for Research, Development and Licensing. 2005 was the first full year of the Vietnamese regional centre, dedicated to Asia specific projects.

A new manager was appointed to manage North America R&D, which operates at two sites in the US: Fort Worth (Texas) and Saint Louis (Missouri). New processes for generating and selecting projects based on European experience were put in place within this entity, the increased importance of which should become evident in the future. The other regional Research, Development and Licensing centres are located in Australia and Mexico. Smaller entities focused on local development and regulatory affairs are also in place in South Africa and Japan. The latter unit works closely with the main Carros centre, which handles European requirements as well as all biology projects and certain global projects in companion animals.

In France, the ivermectin-based product registrations (Virbamec®, Eraquell®, Equimax®) granted in 2004 and 2005 enabled Virbac to offer a full range of specialties based on this molecule, which is now in the public domain. The granting of the palatable Rilexine® registration in several European countries in 2005 followed by its immediate release with the total compliance programme enabled Virbac to reaffirm its leadership position in dermatology. The registration of this key product is ongoing in other European and non-European countries. Important applications were submitted during the year, two of which using the centralised procedure reserved for innovative products and providing simultaneous market access in all European countries.

In Latin America, Australia and South Africa several registrations were obtained, in particular in the field of food producing animals, major markets in these regions. In Japan, the registration of Sulidène® (anti-inflammatory for companion animals) strengthens the product range of the subsidiary.

In biology, work on the regulatory review of vaccine applications in Europe continued. In parallel, the development of new biological products continued unabated. The development of the vaccine against leishmaniasis suffered from some delays that in no way affect its appeal and feasibility, which nevertheless continues to be a risky project.

Licensing continued unabated during 2005 and brought about the marketing of Preventic® spot-on (external parasiticide for companion animals) and Equimyl® (skin hygiene product for horses) on the German market. The development of products without marketing authorisations materialised with the launch of the new advanced formula for Fortiflex®, a product used to combat motricity function disorders in dogs. Work also continued on several other specialities with planned launches in Europe and Japan in 2006.

Production

In France

Investments have been made in France to adapt capacity, improve productivity and to stay in line with changes in regulatory requirements.

At the Carros site

The installation of a new freeze dryer in the vaccine production unit was completed in 2005.

A new transmission line and two new packaging lines were installed to increase capacity and improve productivity.

The lean manufacturing project undertaken in 2004 continued in 2005. It is an ongoing improvement project designed to adapt as best possible to customer requirements by improving efficiency and flexibility via the implementation of a pull system but also performance methods and indicators (batch and format switchover times, machine operating time at optimal speed...).

Internationally

In Mexico

A reorganisation of the injectables production unit made it possible to come into line with Mercosur GMP standards and achieve optimal adjustment for small and medium sized batches.

A new building was leased and laid out in order to cater for storerooms and depots, premix production as well as secondary packaging.

In Brazil

A new workshop was built to cater for tablet production that was previously carried out in Mexico.

In Australia

The transfer of the production of semi-finished parasiticide collars to France was completed in December.

Analysis of the 2005 financial statements

Consolidated financial statements

Income trends

Operating profit from ordinary activities rose 29.1% on the previous financial year as a result of the sharp improvement in the gross margin and a controlled increase in operating expenses from ordinary activities.

Sales amounted to €372.4 million, up €21 million (6%) on 2004. With the exception of some European subsidiaries that declined, including Spain and the Netherlands, all subsidiaries contributed to the growth of sales in 2005. The South African and North American subsidiaries performed very well with a rise in sales of over €2 million followed by the Mexican, Brazilian and French subsidiaries. The acquisition by the Group of the Greek subsidiary in June 2005 should also be noted, generating an additional €1.4 million in sales over a six-month period.

Margins on purchase costs rose by 8.6%, namely well ahead of sales, and is testament to the efforts made over the past number of years to optimise purchasing, improve productivity and optimise product mix. The gross margin thus rose by 1.7 points on 2004.

Operating expenses from ordinary activities amounted to €217.1 million, up 5.6%. The increase in external expenses largely relates to professional fees, R&D and advertising.

The increase in personnel costs stems from the increase in profit-sharing expenses and provisions for retirement indemnities and pensions.

Operating profit not from ordinary activities amounted to €6.2 million and included the most recent extraordinary audit and legal charges relating to Virbac Corporation (€1.8 million), as well as the provisions for the impairment of two intangible assets following the carrying out of impairment tests done pursuant to IFRS and which amounted to €4.4 million.

The first is €1 million for an active ingredient in development for human pharmaceuticals to which Virbac obtained the rights for the veterinary market. Ongoing tests and developments have not enabled any conclusions to be drawn as to the potential of this molecule.

The second impairment provision relates to Romifidine, an original anaesthetic to which Virbac acquired the rights and marketing authorisation for cats and dogs in late 2003. This anaesthetic was launched in European markets in 2004 but did not meet the targets expected by the Group. The sales potential for the product was reviewed, resulting in the partial impairment (€3.5 million) of this asset.

Net finance income rose 41.3% on 2004 and amounted to €-1.7 million compared to €-3 million the previous year. This improvement stems from the sharp reduction in the Group's net debt and a positive exchange rate impact in 2005.

The amount recognised in "share in earnings of companies accounted for by the equity method" relates to the earnings accounted for by the equity method of European companies in which Virbac has a minority stake.

Corporation tax amounted to €8.5 million, up 11.2%. The reduction in the apparent rate vis-à-vis the previous financial year largely stems from the use by Virbac Corporation of tax losses carried forward which cut the subsidiary's tax rate and from the recognition of deferred tax on losses carried forward by the Brazilian subsidiary, justified by its return to long-term profitability.

Minority interests rose from €0.9 million in 2004 to €2.3 million in 2005 as a result of higher profit at Virbac Corporation where minority interests hold around 39.8%.

Net profit – Group share amounted to €19.8 million, up 18.4%.

Consolidated balance sheet and financing

The Group's cash flow from operations amounted to €39.9 million compared to €29 million in 2004, representing an increase of 37.4% on the back of an improvement in the Group's profitability. Net debt at 31 December 2005 fell sharply and now only represents €14.8 million (-60.9%). This improvement largely stems from the improvement in cash flow from operations, combined with tight controls on working capital requirements and low level of investment during 2005. Net debt at end 2005 only represented 0.4 times cash flow from operations and 8.2% of total shareholders' equity and provisions (including minority interests).

The increase in goodwill largely stems from the acquisition of the Greek distributor in July 2005. The acquisition of intangible assets amounted to €3.7 million in 2005, €2.6 million of which was for IS projects which were largely acquired or developed within the parent company (€2.5 million). Other acquisitions relate to licences, trademarks and similar rights.

The Group's tangible investments amounted to €5.9 million in 2005 and were largely for the improvement of the production units.

The equity securities accounted for by the equity method relate to two small European companies in which Virbac SA has minority stakes.

The working capital requirement rose by €9.3 million on the previous financial year. This change largely stems from the increase in trade receivables resulting from the high level of sales in the fourth quarter as well as by the rise in the exchange rate of certain currencies at the end of 2005 compared to the end of 2004.

On 23 December 2003, Virbac SA opened a credit line with a pool of banks for a period of 7 years and a maximum amount of €100 million.

In this regard, the Group must fulfil two types of undertakings:

- ◆ undertaking to respect financial ratios:
 - consolidated net debt/cash flow from operations;
 - consolidated net debt/shareholders' equity;
- ◆ undertaking to publish financial statements.

This credit line was scarcely used at end 2005 and the Group fully complied with its contractual undertakings.

Parent company financial statements

The company first applied CRC regulation 2002-10 on amortisation and impairment and CRC regulation 2004-06 on assets in the 2005 financial year.

CRC regulation 2002-10 on amortisation and impairment: the translation method applied as from 1 January 2005 was the "reallocation of net carrying amounts" method, limited to assets with a net carrying amount in excess of €30 thousand at that date.

The company proceeded as follows:

- ◆ breakdown of constructions into components (buildings and fittings & fixtures),
- ◆ breakdown of industrial equipment with a gross amount in excess of €150 thousand into components,
- ◆ redefinition of amortisation schedules on the basis of useful lives.

The amortisation resulting from the application of these useful lives being deemed to be economic amortisation.

The company nevertheless continued to employ the use periods set out by the tax authorities and where possible applied the diminishing balance amortisation method. The differences resulting from the application of specific amortisation methods and periods are recognised in accelerated amortisation.

CRC regulation 2004-06 on assets:

Pursuant to CRC regulation 2004-06 deferred charges for a total of €168 thousand, relating to seed stock control expenses (general non-recurring expenditure with a beneficial impact over a number of years) were reclassified on 1 January 2005 as retained earnings.

Expenses relating to internally produced brands were reversed in the balance sheet. As a result of a change in accounting regulations, this reversal (for the portion capitalised prior to 2005) was recognised as retained earnings net of tax, namely €953 thousand.

Moreover, in 2005, the tax authorities audited the 2002 and 2003 financial statements of Virbac SA. The company was notified of a restatement for the 2002 financial year. This audit gave rise to a provision of €544 thousand. The audit of the 2003 financial statements had not been completed as of the drawing up of the financial statements.

Income trends

At 31 December 2005, sales in the Virbac SA parent company amounted to €133.5 million, up 12.3% on the previous year after having fallen for two straight years. The bulk of this growth is due to sales with Group companies that account for 89% of total sales (compared to 87% in 2004). Sales at Asian and Latin American subsidiaries declined slightly whereas sales in North American, Oceanian, South African and European subsidiaries rose sharply (these sales representing 91% of the sales of Group subsidiaries).

Operating profit amounted to €5.6 million compared to €2 million in 2004. This rise stems from an improvement in margins (purchases consumed rose by 10.5% whereas sales rose by 12.3%) and a general control of operating expenses. Net finance expenses amounted to €18.1 million, up 32.8%. It benefited from a slight improvement in dividends and a net provision reversal on equity securities of €2.4 million compared to a net allowance of €1 million in 2004.

Net extraordinary income amounted to -€6.7 million and was largely comprised of:

- ◆ provisions on intangible assets of €4.5 million, determined by the difference between the carrying amount of assets in the balance sheet and their economic value,
- ◆ accelerated amortisation of €1.7 million stemming from the application of CRC regulation 2002-10 (see below).

In 2005, the company sold 173,319 treasury shares for a gross amount of €2,460 thousand. The net gain on these sales amounted to €1,156 thousand. These sales were related to the exercise of purchase options by Group employees.

Net profit after tax amounted to €15.8 million compared to €13.4 million in 2004.

The dividends paid out over the past three financial years are as follows:

Year	Net dividend	Tax credit	Total income	Amount distributed
2002 (*)	0.63	0.32	0.95	5,234,220.18
2003	0.48	0.24	0.72	3,988,153.92

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

Year	Net dividend	Income distributed giving a right to half-basis	Income distributed not giving a right to half-basis	Amount distributed
2004	0.55	0.55	NA	4,617,723.00

The 2004 French Finance Act removed the tax credit from which certain individuals benefited. Instead, from the taxing of 2005 income, only 50% of the income distributed was taken into account for tax purposes (half-basis). The 2006 French Finance Act increased this percentage to 60% for income received from 1 January 2006. This system is also combined with a tax credit equal to 50% of the income received, limited to €115 or €230 depending on family circumstances. The table above takes account of this system, which does not apply to corporate entities.

◆ Share buyback scheme

The General shareholders meeting of 14 October 2005, authorised the Virbac SA parent company to buy back its own shares pursuant to article L225-209 of the French

Proposals by the Executive board

◆ Allocation of the net profit of Virbac SA

The net profit of the Virbac SA parent company amounted to €15,821,047.

The annual shareholders meeting will be asked to grant a dividend of €0.65 for each share with a nominal value of €1.25.

Pursuant to the provisions of article 243 A of the French General Tax Code, it should be noted that all of the dividends distributed qualify for the 40% discount mentioned in article 158, section 3, subsection 2 of the French General Tax Code, it being added that this allowance only benefits individual shareholders who are resident in France.

The net profit for the period will be allocated as follows:

Dividend distribution	€5,664,329
Retained earnings	€10,156,718
Total equal to net profit for the period	€15,821,047

The amount of the dividend relating to treasury shares at the date of payment will be allocated to the "Retained earnings" account.

Commercial Code and in accordance with the buyback plan set out in the prospectus published in the financial press on 17 October 2005 and available from the AMF (*Autorité des marchés financiers*) website.

At 31 December 2005, Virbac SA held 231,559 treasury shares, purchased for a total of €4,408,729, net of purchase costs, at an average share price of €19.04. The company did not buy or sell treasury shares during the financial year with the exception of shares held under a liquidity agreement, the value of which is not material.

The treasury shares at 31 December 2005 represented 2.7% of the share capital of Virbac SA and are primarily held for the purposes of the stock option plans. At 31 March 2006, the number of treasury shares amounted to 201,028 as a result of the exercise of stock option plans granted to employees.

A resolution will be submitted for the approval of the General shareholders meeting authorising the company to buy back up to 5% of its share capital. The purchases may be carried out to ensure the liquidity of the stock or support the price via a market maker acting independently under a liquidity agreement in line with the code of ethics approved by the AMF and in light of the proposed resolution regarding the free share grant submitted to the shareholders meeting.

The maximum purchase price may not exceed €70 per share. When calculating the maximum number of shares, shares already purchased under the aforementioned prior authorisations will be included, together with those that may be purchased under the liquidity contract.

Employee shareholding

Pursuant to article L.225-102 of the French Commercial Code, we would like to inform you that employees of the company and affiliates held, at 31 December 2005, 76,519 Virbac shares, namely 0.88% of the share capital, via the company savings plan.

Pursuant to articles L.225-129-1, L.225-129-6 paragraph 2, L.225-138-1 of the French Commercial Code and articles L.443-1 et seq. of the French Labour Code, a draft resolution will be submitted to the general shareholder meeting regarding an increase in the share capital reserved for employees of the company and affiliates.

Expenses that cannot be deducted for tax purposes

The non-deductible expenses referred to in article 39-4 of the French General Tax Code amounted to €44,210 for the financial year ending 31 December 2005.

Material events after the balance sheet date

None

Management and supervisory bodies

Positions held at 4 April 2006

Supervisory board

- ◆ Marie-Hélène Dick-Madelpuech, Chairwoman of the Supervisory board of Virbac SA.
In 2005 Marie-Hélène Dick-Madelpuech was the permanent representative of Investec, a non-trading company.
Other positions held:
 - Chairwoman of the Board of Directors and General manager of Panmedica SA (France),
 - Chairwoman of the Board of Directors of Panpharma SA (France).
 Compensation and benefits received for 2005 by Investec, a non-trading company: €18,250.
- ◆ Jeanine Dick, Vice-chairwoman of the Supervisory board of Virbac SA.
Other positions held:
 - Manager of Investec, a non-trading company (France),
 - Manager of Racing Boat SARL (France). Compensation and benefits received for 2005: €26,750.
- ◆ Pierre Madelpuech, permanent representative of ASERGI SARL, member of the Supervisory board of Virbac SA.
Other positions held:
 - Manager of ASERGI SARL,
 - Member of the Executive board of Manuest SA (France),
 - Director of Panpharma SA (France),
 - Director of Panmedica SA (France). Compensation and benefits received for 2005:
 - Pierre Madelpuech: €3,950.
 - ASERGI SARL: €1,300.
- ◆ François Guinot, member of the Supervisory board of Virbac SA.
Other positions held:
 - Chairman of the Académie des Technologies (France),
 - Chairman of Chimie Industrielle (Registered voluntary association) (France),
 - Vice-chairman of the Fédération Française des Chimistes (France),
 - Director of the Centre National de la Recherche Scientifique (France).
 Compensation and benefits received for 2005: €15,250.

- ◆ Xavier Yon, permanent representative of XYZ SARL, member of the Supervisory board of Virbac SA.

Other positions held:

- Chairman of the École de Biologie Industrielle (1901 Act Association – voluntary association) (France),
- Chairman of Chester Valley Pharmaceuticals Inc. (United States)

Compensation and benefits received for 2005 by XYZ SARL: €15,250.

- ◆ Philippe Capron, member of the Supervisory board of Virbac SA.

Other positions held:

- Chairman of the Supervisory board of Achatpro SA (France),
- Director of Tinubu Square SAS (France),
- Director of Arcelor Stainless International SA (France),
- Manager of Arcelor Treasury SNC (France).

Executive board

- ◆ Éric Marée, Chairman of the Executive board of Virbac SA.

Other positions held in Virbac subsidiaries:

- Chairman of Interlab SAS (France),
- Director of Virbac (Australia) Pty (Australia),
- Director of Vetsearch International Pty Ltd (Australia),
- Director of MR- 067 579 122 Pty Ltd (Australia),
- Chairman of Virbac Corporation (United States),
- Director of Virbac Ltd (United Kingdom),
- Director of Vetsearch International (UK) Ltd (United Kingdom),
- Chairman of Laboratorios Virbac Mexico SA de CV (Mexico),
- Chairman of Virbac Mexico SA de CV (Mexico),
- Director of Virbac New Zealand Ltd (New Zealand).

- ◆ Pierre Pagès, member of the Executive board and Chief operating officer of Virbac SA.

Other positions held in Virbac subsidiaries:

- Chairman of Virbac Distribution SAS (France),
- Chairman of the Management board of Dog N'Cat International SAS (France),
- Chairman of the Management board of Virbac Nutrition SAS (France),
- Director of Virbac (Australia) Pty (Australia),
- Director of Vetsearch International Pty Ltd (Australia),
- Director of MR- 067 579 122 Pty Ltd (Australia),
- Director of Virbac Corporation (United States),
- Chairman of PP Manufacturing Corporation (United States),

- Director of Virbac New Zealand Ltd (New Zealand),
- Joint manager of Virbac Tierarzneimittel GmbH (Germany),
- Joint manager of Virbac Pharma Handelsgesellschaft mbH (Germany),
- Director of Virbac Japan Co. Ltd (Japan),
- Chairman of Virbac Korea Co. Ltd (Korea),
- Director of Virbac Ltd (United Kingdom),
- Director of Vetsearch International (UK) Ltd (United Kingdom),
- Director of St Jon VRX Products Ltd (United Kingdom),
- Manager of Virbac Österreich GmbH (Austria),
- Chairman of Virbac Philippines Inc. (Philippines),
- Chairman of Virbac RSA (Pty) Ltd (South Africa),
- Chairman of Virbac SRL (Italy),
- Director of Virbac (Switzerland) AG (Switzerland),
- Director of Inomark AG (Switzerland),
- Vice-chairman of Virbac Vietnam JV (Vietnam),
- Chairman of Virbac (Taiwan) Co. Ltd (Taiwan),
- Chairman of Virbac (Thailand) Co. Ltd (Thailand),
- Director of Laboratorios Virbac Mexico SA de CV (Mexico),
- Director of Virbac Mexico SA de CV (Mexico),
- Vice-chairman of Virbac Hellas SA (Greece),
- Vice-chairman of Animedica SA (Greece).

- ◆ Christian Karst, member of the Executive board of Virbac SA.

Other positions held in Virbac subsidiaries:

- Chairman of the Board of Directors of Vetarome SAS (France),
- Chairman of the Management board of Bio Véto Test SAS (France),
- Member of the Management board of Francodex SAS (France),
- Director of Virbac (Australia) Pty (Australia),
- Director of Vetsearch International Pty Ltd (Australia),
- Director of MR- 067 579 122 Pty Ltd (Australia),
- Director of Virbac Ltd (United Kingdom),
- Director of Geowell Oy (Finland).

- ◆ Jean-Pierre Dick, member of the Executive board of Virbac SA.

Other position held:

- President of the Virbac Foundation.

- ◆ Michel Garaudet, member of the Executive board of Virbac SA.

Other positions held in Virbac subsidiaries:

- Manager of Virbac de Portugal Laboratorios Lda (Portugal),
- Director of Vetarome SAS (France),

- Member of the Management board of Bio Vêto Test SAS (France),
- Director of Virbac Corporation (United States),
- Member of the Management board of Alfamed SAS (France),
- Member of the Management board of Francodex SAS (France),
- Member of the Management board of Virbac France SAS (France),
- Director of Virbac Hellas SA (Greece),
- Director of Animedica SA (Greece).

Compensation of members of the Executive board

The compensation paid for the 2005 financial year relates to the fixed portion paid in 2005, the compensation for directorships in Group companies paid in 2005, the variable portion paid in 2006 for 2005 and benefits in kind granted in 2005 (company car).

Member of the Executive board (in euros)	Fixed compensation (including benefits in kind)	Compensation for directorships in Group companies	Variable compensation	Total compensation
Éric Marée	240,313	52,401	115,000	407,714
Pierre Pagès	158,265	52,401	60,000	270,666
Christian Karst	142,891	38,000	55,000	235,891
Michel Garaudet	149,972	-	35,000	184,972
Jean-Pierre Dick	30,638	-	15,000	45,638

The compensation paid for the 2004 financial year relates to the fixed portion paid in 2004, the compensation for directorships in Group companies paid in 2004, the variable portion paid in 2005 for 2004 and benefits in kind granted in 2004 (company car).

Member of the Executive board (in euros)	Fixed compensation (including benefits in kind)	Compensation for directorships in Group companies	Variable compensation	Total compensation
Éric Marée	218,302	50,481	42,500	311,283
Pierre Pagès	147,240	50,481	18,000	215,721
Christian Karst	131,824	38,000	16,000	185,824
Michel Garaudet	142,947	-	10,500	153,447
Jean-Pierre Dick	30,531	-	-	30,531

Calculation criteria for the variable portion

The variable compensation of the members of the Executive board depends on a series of shared goals:

- ◆ sales growth,
- ◆ rise in profit before tax,
- ◆ increase in return on capital invested.

As well as specific goals:

- ◆ purchasing savings,
- ◆ acquisitions (companies, products).

Other benefits

In addition to the various compensation items, members of the Executive board enjoy the following benefits:

- ◆ a supplementary defined benefit pension plan (12.5% of reference salary and 22% where over 30 years' service) granted on the basis of the following conditions:
 - over 10 years' service in the Group (including 9 years as a member of the Executive board),
 - be at least 60 years of age,
 - finish his/her career in the Group.

Stock options

The Virbac Executive board, in line with the authorisation of the general shareholders meeting, granted stock options in the company to certain employees and managers of Virbac SA and its subsidiaries. Each option gives the right to purchase one Virbac share at a fixed price and referred to as the exercise price. Beneficiaries are subject to a vesting period and may only exercise 50% of their options 2 years

from the date of grant and the remaining 50% after 3 years. The options expire if they have not been exercised six years from the date on which they are granted or if the beneficiary leaves the Group during the lockout period. Shares purchased via options may not be disposed of until five years from the commencement date of the 2000 plan and four years from the commencement date of the following plans.

The number and price of the purchase options changed as follows:

	2005		2004	
	Options	Average price (in euros)	Options	Average price (in euros)
Options outstanding				
at the start of the period	357,900	21.94	384,900	21.85
Options granted during the period	-	-	-	-
Options exercised	-145,477	18.73	-3,000	19.98
Options cancelled	-2,200	28.80	-24,000	20.75
Options outstanding				
at the end of the period	210,223	24.09	357,900	21.94
<i>Of which exercisable options</i>	<i>124,423</i>		<i>181,700</i>	

Members of the Executive board benefited from the following stock option plans:

	2000 Plan	2001 Plan	2002 Plan	2003 Plan
	Exercise price €16.61	Exercise price €21.66	Exercise price €32.88	Exercise price €22.87
Member of the Executive board	Number	Number	Number	Number
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

No stock option plan commenced in 2004 or in 2005.

Information on shareholders and stock market performance

Virbac provides clear, consistent and transparent information to its individual and institutional shareholders and their advisers (financial analysts). The information is relayed by means of press releases and the publication of Group quarterly sales and half-yearly profits. The publication of the profits of the North American businesses is nevertheless subject to the rules with which Virbac Corporation must comply with regard to its own disclosures to the stock market on which it is listed: Virbac SA can thus only publish information on the position in the United States as often as Virbac Corporation can itself publish this information.

Relations with individual investors

The www.virbac.com website has an investor relations section that is regularly updated.

It allows the Group's financial information to be consulted and downloaded: press releases, annual and half-yearly financial statements, annual report... Internet users may also send questions pertaining to Group financial matters to the following address: finances@virbac.com.

Relations with institutional investors

- ◆ Senior managers keep in close contact with investors and analysts, in particular meeting them throughout the year primarily in the Paris and London markets.
- ◆ Meetings and conference calls with analysts are organised to coincide with the publication of profits, acquisitions or 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 communications timetable for 2006:

- ◆ first quarter sales 2006, 13 April 2006,
- ◆ second quarter sales 2006, 18 July 2006,
- ◆ first half profits 2006, 12 October 2006,
- ◆ third quarter sales 2006, 12 October 2006,
- ◆ annual sales 2006, 18 January 2007.

Stock market data and ratios

(in euros)	2004	2005	At 31 March 2006*
Price:			
High	31.95	41.50	42.75
Low	24.03	25.87	37.50
Average	27.99	33.11	40.40
Closing	26.10	39.80	41.80
Group price/earnings ratio:			
High	20.7	22.9	23.5
Low	15.6	14.2	20.7
Monthly average	18.2	18.2	22.3
Closing	16.9	21.9	23.0
Net rate of return:			
At average price	2.0%	2.0%	1.6%
At closing price	2.1%	1.6%	1.6%
Trading volumes	1,650,896	1,734,222	371,706
Average trading volume per session	6,374	6,774	5,719
Stock market capitalisation at end of period (€ million)	227.4	346.8	364.3

(*) Price/earnings ratio calculated on 2005 earnings

Share capital distribution at 31 December 2005

The share capital distribution at 31 December 2005 was as follows:

	Shares	Voting rights	As a % of share capital	As a % of voting rights
Dick family Group	4,072,720	8,137,360	46.74%	64.34%
Financière de l'Échiquier	665,770	665,770	7.64%	5.26%
Company savings plan	76,519	153,038	0.88%	1.21%
General public	3,667,784	3,691,199	42.09%	29.19%
Treasury shares	231,559	-	2.66%	0.00%
TOTAL	8,714,352	12,647,367	100.00%	100.00%

Outlook for 2006

2006 is expected to be a transitional year for the Group's expansion. We expect our above-mentioned bid in the US to be accepted, but also the completion of the acquisition of the Glaxo veterinary business in India, a deal that will propel us to leadership position in a market that is expected to grow significantly over the coming years and decades.

Two deals prefigure the Group's medium-term growth, which we hope to speed up in America and in Asia. Independently of these planned acquisitions, we expect growth in 2006 to match, if not slightly exceed, that in 2005 and operating profitability in line with that in 2005 as a percentage of sales, since we intend to invest the expected operating gains in increasing R&D budgets, in particular in the US.

Country risks, market risks, cash risks

Country risks

Virbac is an international group with operations in a large number of countries that do not suffer from political or economic instability of a kind that could have a major impact on the Group's assets or business activities.

Market risks

Exchange rate risk

The Group's policy is to hedge exchange rate risks when the scope and risk of currency fluctuation are high. It accordingly uses various instruments available on the market and generally uses foreign exchange forwards.

Interest rate risk

Virbac's exposure to interest rate risks largely stems from its variable rate credit line in place in France and the United States. These credit lines are indexed in line with the Euribor in France and the Prime rate in the United States. To manage its risks and optimise its borrowing costs, the Group monitors market expectations with regard to rates and may put in place fixed rate swaps that do not exceed the duration and amount of its actual exposure.

Cash risks

A policy of pooling excess cash and financing requirements in the Europe zone means that the Group's net positions can be reduced and that the management of its deposits or financings be optimised, thereby ensuring that the Group has the ability to meet its financial undertakings and maintain a level of cash and cash equivalents in line with its size and requirements.

A process for putting in place an annual treasury plan is also implemented across the Group and makes it possible to control and consolidate the forecasting of the cash movements of subsidiaries, and is a sign of the accuracy of business and expense forecasts and the customer collection policy.

Sustainable development

Safety - Environment

The environmental data set out here is for the French sites.

Consumption of water and energy resources

Cu. m	2005	2004
Water	92,000	80,000

Water is used in production and for thermal uses. The commissioning of closed-circuit cooling systems as well as careful management of usage help keep consumption levels down.

KWh (kilowatt hours)	2005	2004
Gas	10,592,962	9,624,692
Electricity	16,871,686	15,298,646

Energy is used in manufacturing, to filter and treat air coming into and going out of buildings in order to comply with good pharmaceutical manufacturing practices. Compared with other industries, the pharmaceutical industry is not a business that requires large amounts of energy.

Virbac, as a health company, is currently actively implementing a comprehensive hygiene, safety and environment policy. The goals of this policy primarily relate to human resources (safety of personnel) followed by economic (protection of property) and regulatory concerns (compliance with legal obligations). The "Safety at work" project implemented in 2003 was continued in 2004 and 2005 as part of ongoing improvements.

Continuous monitoring

Virbac SA continuously monitors and systematically ensures that it is in compliance with changes in regulatory requirements with regard to hygiene, safety and the environment. All changes and improvements stemming from changes to Virbac's business activities requiring the updating of our operating permits, issued by the DRIRE (French regulatory departments responsible for Industry, Research and the Environment), with respect to Classified installations are carried out. Recommendations from the annual site audits carried out by the experts of our insurance company are also taken into account.

Investment in technical solutions

A host of investments in the field of prevention have been carried out at French sites in 2005:

- ◆ improved security of handling systems for technical / burglary alarms (four year plan). Phase three was implemented in 2005,
- ◆ increased security of fire detection systems (four year project). Phase three was implemented in 2005,

- ◆ checking air emissions,
- ◆ inspection of industrial and used water networks (carried out each year),
- ◆ study to install automatic fire extinguisher systems, in line with insurance recommendations (start of installation programme in 2006),
- ◆ installation of fire containment walls at Virbac 1 and Virbac 3,
- ◆ resizing of industrial water networks in line with requirements and implementation of a new effluent treatment tank at the Virbac 1 site,
- ◆ implementation of an addressable fire detection system at the Magny en Vexin site.

Total investments carried out in 2005 amounted to €360,000. This programme to improve our installations with regard to safety and the environment will continue in 2006.

Special training

Hygiene-safety-environment

In 2005, 740 people were trained in fire safety as part of annual regulatory trainings.

Risk prevention and analysis

The regulatory risk analysis procedure adopted by Virbac at its production sites has enabled the drafting of assessments in the form of action plans.

The main work in this area in 2005 was as follows:

- ◆ optimisation of selective sorting in line with the Act of 13 July 1992, no. 92-646,
- ◆ implementation of an intranet database containing safety datasheets for products and raw materials,
- ◆ continued updating of the prefect operating permit (ICPE) for Virbac 13ème rue, for DRIRE compliance,
- ◆ continued negotiations on a waste agreement with the Carros Town Hall, with the aim of cutting clean up costs,
- ◆ the implementation of safety action plans following risk analyses.

Goals given to the Group's international subsidiaries

In all the countries in which the Group has production units, the Group puts in place policies to comply with environmental standards and safety rules, and trains its personnel. This policy is designed to comply with local regulations and with the Group's values and thinking in this regard. To illustrate this policy and local initiatives, Virbac RSA (South Africa) started, for example, to collect liquid waste and treat it at a special site, sort and collect industrial waste as well as recycle paper.

Human resources

The Group's 2,230 employees are spread across 28 countries, 35 subsidiaries and 5 representative offices.

Strategy

Virbac's men and women are central to the company. They represent a competitive advantage and a key factor in our success.

Human Resources management serves the company's strategy: the Human Resources strategy is simple; we look for excellence in HR management in order to drive the company's growth and help everyone fulfil their potential.

This strategy has a few clear goals:

- ◆ train and motivate managers to become true leaders and play their part in managing their teams,
- ◆ make managers party to changing and developing their colleagues,
- ◆ build efficient organisations that are customer centric and based on the motivation and strong management of personnel, strengthen corporate values via concrete actions and increasingly on a global scale: Innovation, Market Focus, Entrepreneurial Spirit, Delegation/Empowerment, Teamwork,
- ◆ encourage geographic and functional mobility,
- ◆ develop a style and culture that are open to constructive criticism in order to encourage innovation and efficiency.

Recruitment

Virbac continues to have a selective recruitment policy designed to continually attract animal health professional, sales and marketing experts as well as all the technical expertise required by industrial operations and Research and Development. From time to time Virbac also seeks to recruit specialists to aid with the company's growth such as financial controllers, HR management or IS project management. Virbac's selection criteria are simple: relevant real-world experience together with a personality driven by strong human values. And finally the motivation to join a company ready to excel in order to meet its growth targets.

Training and development

With the addition of a talent manager within the Group HR Department, Virbac's training management is being overhauled in terms of both processes and quality.

In fact from 2006 managers will participate in identifying training needs and be much more involved than in the past in the proposed solutions. In parallel, a series of initiatives are being undertaken internationally such as, for example, a sales and marketing course for European subsidiaries initially as well as an international leadership project which will be developed over a number of years.

Compensation

Virbac applies a compensation policy that is directly linked to corporate performance.

In France, the policy for manual workers, technicians and supervisory staff has a strong social focus with social benefits above and beyond the sector median as well as a policy of combined general and individual salary increases. The policy for executives is constantly being reviewed and focuses primarily on compensating individual performance, which is subject to a full analysis of mastery of the position, contribution over the year as well as internal and external criteria regarding fairness.

Internationally the desire to harmonise is primarily focussed on executives in order to simplify personnel exchanges globally and thus to facilitate international careers.

Group workforce

Workforce at 31/12/05 per geographic area	Total	%	Women	%	Men	%
Europe	1,223	55%	629	51%	594	49%
North America	279	13%	105	38%	174	62%
Latin America	233	10%	89	38%	144	62%
Pacific	163	7%	77	47%	86	53%
Asia	203	9%	73	36%	130	64%
Africa / Middle East	129	6%	44	34%	85	66%
VIRBAC TOTAL	2,230	100%	1,017	46%	1,213	54%

Over half the workforce is in Europe (55%) with 985 employees in France (44%).

Change in workforce per geographic area	2005	2004	Change	%
Europe	1,223	1,240	-17	-1%
North America	279	270	9	3%
Latin America	233	218	15	7%
Pacific	163	231	-68	-29%
Asia	203	172	31	18%
Africa / Middle East	129	129	-	-
VIRBAC TOTAL	2,230	2,260	-30	-1%

The workforce at 31 December 2005 was down 1%, namely 30 employees, following the disposal of MR Manufacturing and Packaging in 2005 (66 employees in 2004) and growth in the Asia and Latin America areas.

Workforce by function	2005	%	2004	%
Production	908	41%	955	42%
Administration	337	15%	330	15%
Sales & Marketing	768	34%	757	33%
Research & Development	217	10%	218	10%
TOTAL	2,230	100%	2,260	100%

The breakdown between the main functions remained stable between 2004 and 2005. In terms of production, the disposal of MR Manufacturing and Packaging had an impact since 88% of employees were production-related (58 people).

Virbac in France

Workforce

Virbac has a workforce of 985 permanent employees and 8 apprentices in France. With 56% women and 44% men, the workforce breaks down as follows in terms of status:

Statuts	%
Executives	39%
Supervisory staff/technicians/ non-manual employees	43%
Manual workers	17%
Apprentices	1%

Personnel attrition

In 2005, the number of new recruits exceeded the number of people leaving the company (+ 10 people). This is due to the addition of Bio Vétro Test in the 2005 workforce. At constant scope vis-à-vis 2004, the balance is negative (- 9 people).

Compensation

Gross compensation in 2005 amounted to €33,685,641 and social security to €14,542,141. The gross average salary was €36,083 up 2.66% on 2004.

Social and community services

La dotation versée en 2005 par l'entreprise s'est élevée à 319 007 euros.

Training

In 2005 the company allotted €319,007 to social and community services.

Working time

All employees are covered by a working time reduction agreement: the working week is annualised from 1 June to 31 May at 1560 hours (with an additional 130 hours for executives). Since the 2004/2005 financial year, and in accordance with the law, this annual period is increased by 7 hours for solidarity day. Following the agreement signed in November 2004, executives deemed to be autonomous for the purposes of the law (classification above 7 and salespeople) organise their work on a fixed annual basis of 213 days (212 days plus the solidarity day). An agreement on part-time working was signed in 2005 for 2006: this agreement is limited to 3% of employees and a reduction to 4/5th of working time.

Safety at work

There were 20 accidents in 2005, representing some 239 days of absence from work.

Absenteeism

Absenteeism at the company amounted to 5.52% and breaks down as follows:

Causes	%
Work accident	0.27%
Maternity	0.88%
Illness	4.11%
Commuting accident	0.03%
Part-time medical leave	0.23%

Industrial relations

Employee representatives were re-elected in 2005 for the Economic and Social Unit (UES).

The Works Council for the UES comprising Virbac, Virbac France, Francodex and Alfamed is comprised of 7 permanent and 5 replacement members. Ordinary meetings are organised monthly. The Carros site has seven permanent employee representatives and two replacements; there are two (permanent and replacement) at Magny en Vexin. The Virbac Distribution site re-elected a permanent and a replacement representative in 2004.

Handicapped workers

In France, Virbac employs the equivalent of forty-seven people with a legally recognised handicap, representing 4.73% of the workforce. In addition, a contribution of €24,828 was made to AGEFIPH, the body responsible for funding measures designed to retain and integrate handicapped people into the work environment.

Profit-sharing and company savings plan

◆ Employee profit-sharing

Employees of Virbac, Virbac Distribution, Virbac France, Francodex and Alfamed with at least 3 months' service on 31 December of the year in question are entitled to participate in profit-sharing.

A new agreement, signed in June 2005, has two aspects that are very different to previous agreements.

The first is combining two profitability ratios to calculate the share in the profits:

- ◆ a profitability ratio that looks at the consolidated net profit – Group share to consolidated sales (the same as in the previous agreement),
- ◆ a profitability ratio that looks at the Group's consolidated operating profit to its consolidated sales (new).

The combination of these two ratios in order to calculate the share in the profits has the twin goal of:

- ◆ giving employees a share in the profits that is in line with the company's financial performance (ratio based on net profit), and
- ◆ rewarding the collective contribution of employees (ratio based on operating profit).

The second novelty is a top-up by the company where the profit share is paid into the company savings plan (PEE) (top-up equal to 25% of the bonus) and into the collective retirement savings plan (PERCO) (top-up equal to 50% of the bonus).

❖ Employee profit-sharing in company net profit

Employee profit-sharing in a company's net profit is mandatory in companies with over fifty employees and has been in place in Virbac since 1987.

A Group profit-sharing agreement covering Virbac, Virbac Distribution, Virbac France, Francodex and Alfamed is in

force. Each Group company contributes to building up a general reserve for the total amount of its own reserve, calculated using the legally prescribed formula.

The profit-share may be paid in three ways: to a blocked current account, the PEE and the PERCO.

❖ Company savings plans

The monies paid in under the various profit-sharing agreements or voluntary payments may be invested in mutual funds. The PEE covers employees in Virbac, Virbac Distribution, Virbac France, Francodex and Alfamed.

The PEE, managed by CREELIA, is comprised of equities, bonds and treasuries: around 3/4 equities and 1/4 bonds and treasuries. The portion of Virbac shares represents around 1/3 of the portfolio. The PERCO, collective retirement savings plan, managed by Novacy, allows employees to build up a diversified savings portfolio for their retirement.

Fees paid by the Group to the Statutory auditors and members of their networks

(€ thousands)	Deloitte et Associés				David et Associés Réseau Constantin			
	2005		2004		2005		2004	
	€	%	€	%	€	%	€	%
Office of Statutory auditors, certification, review of parent company and consolidated financial statements:								
France	257.9	39%	94.2	25%	139.6	78%	72.3	83%
Outside France	331.9	50%	265.5	71%	-	0%	-	0%
SUBTOTAL	589.8	88%	359.7	96%	139.6	78%	72.3	83%
Other services ⁽¹⁾ :	76.8	12%	13.1	4%	40.0	22%	14.8	17%
TOTAL	666.7	100%	372.8	100%	179.6	100%	87.1	100%

(1)) Other services largely relate to services usually performed in certain countries when renewing the office of statutory auditors.

The rise in fees in France in 2005 is largely due to two one-off factors:

- ◆ the transition to IFRS, which gave rise to additional audit work,
- ◆ the delay in the publication of the Group's 2004 financial statements as a result of the difficulties in the US subsidiary Virbac Corporation which only published its restated financial statements for 2001, 2002, 2003 on 25 April 2005 and its 2004 financial statements on 30 August 2005.

Report of the Chairwoman of the Supervisory board on the conditions for preparing and organising the work of the Supervisory board and the internal control procedures

Article 117 of the French Financial Security Act - article 225-68 of the French Commercial Code

The contents of this report are based on an analysis of the Group's position and organisation primarily carried out through a series of meetings with the Executive board of Virbac S.A.

A draft report was subsequently submitted to the Audit committee and its recommendations taken on board. The Supervisory board received the comments of the Audit committee and the Statutory auditors and had regard to the final version of the Chairwoman's report.

1. Preparation and organisation of the work of the Supervisory board and the Executive board

1.1. Preparation and organisation of the work of the Supervisory board

1.1.1. Responsibilities and membership of the Supervisory board

The Board is responsible for monitoring the management of the Executive board.

It exercises its monitoring powers by meeting every three months in order to review in particular the company's and Group's performance indicators and annual and half-yearly financial statements presented to it by the Executive board. It carries out its work by, where necessary, getting information from the Statutory auditors. It also carries out a careful review of any planned acquisitions on the basis of analyses drawn up by the Executive board.

At 4 April 2006, the Supervisory board was comprised of six members, three of whom are independent:

- ◆ **François Guinot**
Aged 63, an ENSC chemical engineering graduate, Doctor in the Physical Sciences and Doctor in Business Administration, François Guinot was previously Chairman and General manager of Rhône-Poulenc Chimie and General manager of Biomérieux. He is currently Chairman of the Académie des Technologies and Chimie Industrielle, Vice-chairman of the Fédération Française des Chimistes and Director of the Centre National de la Recherche Scientifique.

- ◆ **XYC SARL**, represented by Xavier Yon, aged 66, a graduate of the Paris science faculty; Xavier Yon represents XYC SARL.

Formerly Chairman & General manager of laboratoires Galderma, he is currently Chairman of the Ecole de Biologie Industrielle de Cergy-Pontoise and Chester Valley Pharmaceuticals Inc.

- ◆ **Philippe Capron**
Aged 48, a graduate of the HEC and the Paris Institut d'études politiques, former ENA student and tax inspector, Philippe Capron is administrator of Tinubu Square SAS and Arcelor Stainless International SA, as well as Chairman of the Supervisory board of Achatpro SA and manager of Arcelor Treasury SNC.

The other members are:

- ◆ **Marie-Hélène Dick**
Aged 41, veterinarian and a holder of an MBA from the HEC, Marie-Hélène Dick was appointed Chairwoman of the Supervisory board of Virbac SA in April 2006. She is also Chairwoman of the Board of Directors and General Manager of Panmedica SA, as well as Chairwoman of the Board of Directors of Panpharma SA.

- ◆ **Jeanine Dick**
Aged 69, wife of the founder Pierre-Richard Dick, Jeanine Dick was Chairwoman of the Supervisory board of Virbac SA for a number of years. She has held the position of Vice-Chairwoman of Virbac SA since April 2006. She is also manager of Investec, a non-trading company, and Racing Boat SARL.

- ◆ **ASERGI SARL** represented by Pierre Madelpuech, aged 45, an ENSAM engineering graduate and a holder of an MBA from the HEC; he represents ASERGI SARL of which he is manager. He is also a member of the Executive boards of VGC Distribution SA and Manuest SA, as well as director of Panpharma SA and Panmedica SA.

1.1.2. Supervisory board meetings

In line with article 15 of the Articles of association, members of the Board are notified fifteen days in advance by ordinary letter sent by courier.

The Statutory auditors are invited to all Supervisory board meetings.

The documents, technical material and information necessary for the performance of the duties of the members of the Supervisory board relating to the items on the agenda are sent out, by courier, as early as possible prior to the meeting.

Supervisory board meetings are generally held at head office. Minutes of Supervisory board meetings are drawn up at the end of each meeting and submitted for the approval of Supervisory board members at the next meeting.

During the past year, the Supervisory board met six times, in line with the Articles of association. The attendance rate of Investec and XYZ, respectively represented by Marie-Hélène Dick and Xavier Yon, was one hundred percent; Jeanine Dick, François Guinot and ASERGI, represented by Pierre Maldelpuech attended five out of six meetings and Philippe Capron attended four out of six meetings. Members of the Supervisory board also met informally several times during the year for work and review sessions.

1.1.3. Special committees

1.1.3.1 The Compensation committee

The membership and responsibilities of the Compensation committee are set out in the “Corporate governance” section of the annual report.

The Compensation committee, chaired by an independent member of the Supervisory board, met four times during 2005, two of which with the Chairman of the Executive board in attendance.

1.1.3.2 The Audit committee

The membership and responsibilities of the Audit committee are set out in the “Corporate governance” section of the annual report.

The Audit committee, chaired by an independent member of the Supervisory board, met three times during 2005 with the Chairman of the Executive board, the Chief financial officer and the Statutory auditors in attendance.

1.2. Executive board membership

The Executive board has five members:

- ◆ **Éric Marée**
Aged 53, a graduate of the HEC and a holder of an MBA from Cornell University, Éric Marée joined Virbac in October 1999 and has been Chairman of the Executive board since December of the same year. He supervises the Human resources, Communications and IS departments.
- ◆ **Pierre Pagès**
Aged 54, DMV and a holder of an MBA from the HEC, Pierre Pagès joined Virbac in 1980. A member of the Executive board since December 1992, he supervises global operations, production activities and quality assurance.
- ◆ **Christian Karst**
Aged 47, DMV, Christian Karst joined Virbac in 1984. A member of the Executive board since December 1996, he supervises Research and Development, Licensing, Group strategic marketing and the Medical department.
- ◆ **Michel Garaudet**
Aged 51, a graduate of the HEC, Michel Garaudet joined Virbac in 1993. A member of the Executive board since December 2002, he supervises the Financial and Legal departments.
- ◆ **Jean-Pierre Dick**
Aged 40, DMV and a holder of an MBA from the HEC, Jean-Pierre Dick is responsible for special projects and is President of the Virbac Foundation. He has been a member of the Executive board since 1996.

The members of the Executive board meet, in line with the law, in order to report quarterly to the Supervisory board and whenever business so requires.

The members of the Executive board officially met nine times during 2005 and far more frequently on an informal basis.

2. Internal control system

2.1. Internal control: definition and goals

Virbac views internal control as a set of processes established by senior executives, implemented by Group management and personnel, designed to provide reasonable assurance that the following goals are achieved: reliability of

financial information, execution and optimisation of operations, compliance with applicable laws and regulations and asset protection.

One of the goals of the internal control system is to manage the risks stemming from the Group's business activities and risks of error or fraud, in particular in the accounting and financial fields. Like any control system, there can, however, be no ironclad guarantee that these risks have been completely eliminated.

The internal control system in place within the Group is thus designed to:

- ◆ ensure that the execution of operations and employee conduct are in line with the guidelines laid down for the Group's business activities by the management bodies, applicable laws and regulations, and the Group's internal values, standards and rules,
- ◆ ensure that the accounting, financial and management data given to the Supervisory board and shareholders genuinely reflects the business and financial position of the company.

2.2. Organisation of internal control

The Group's international expansion requires a sound, shared and pragmatic framework to allow for the integration of new employees, regardless of where they are from.

The organisation into five decentralised international areas led by managers who are familiar with and able to deploy good operational practices in the Group, was further strengthened in 2005 with the putting in place of regional management controllers one of whose goals is to ensure the proper application of the Group's internal control rules. Each area is responsible for its operations following discussion and approval of strategic decisions by the Executive board: this is where the Group's strategy and expansion are sketched out, subsequently broken down and applied locally.

The coordination of local actions is also carried out by specific departments and central departments under the supervision of members of the Executive board.

Internal control is also carried out in a decentralised manner by each department for all processes regardless of whether they are operational, support or management. This system thus enables operational risks to be better assessed.

2.2.1. Parties involved

The organisation of the Supervisory board, its membership and that of its special committees together with their responsibilities, help the Group to operate in an efficient and transparent manner (see section 1 of the report).

2.2.1.1 Role and operation of the Executive board

The Executive board is primarily responsible for organising, driving and ensuring the proper development of the Group. Its members have divided the responsibilities as follows:

Éric Marée, Chairman of the Executive board, is responsible for supervising and coordinating the activities of all the members of the Executive board. He performs all the legal functions of a Company Head and assumes the responsibility. He represents the company and acts on its behalf in all circumstances and particularly before the courts. For the purposes of the company's internal organisation, he is, moreover and more particularly, responsible for the following central departments:

- ◆ Human resources department,
- ◆ Group IS department,
- ◆ Communications department, including financial communications in tandem with Michel Garaudet.

Pierre Pagès, Chief operating officer, aids the Chairman in his work and stands in for him with his agreement, exercising the same powers pursuant to the law. He also, more specifically, manages the Production Department and sits as Head Veterinarian of Virbac SA, pursuant to articles L.5142-1 et seq. of the French Public Health Code. For the purposes of the company's internal organisation, he supervises the following departments:

- ◆ International operations department, responsible operationally for the subsidiaries and export activities, covering twenty-four countries split into five areas: Europe, North America, Latin America, Asia and Sanza (South Africa, New Zealand and Australia),
- ◆ Industrial operations department, in particular responsible for drawing up and carrying out the Group's industrial strategy, coordinating the seven production sites, the three main ones being based in France, and coordinating actions designed to ensure strict regulatory compliance,
- ◆ Industrial quality assurance department.

Christian Karst supervises the following departments:

- ◆ Research and Development department (pharmaceutical and biological), responsible for drawing up the Group's R&D strategy, implementing projects and coordinating the work of the research centres across the various geographic areas,
- ◆ Corporate marketing department for companion animals, responsible for laying down the international development guidelines for the companion animals segment and the coordination of major product launches,
- ◆ Licensing Department, the work of which mainly consists of acquiring or disposing of rights to active ingredients, finished products or products in development in line with Group strategy,
- ◆ Medical department.

Michel Garaudet supervises the following departments:

- ◆ Financial affairs department, responsible for the Group's financial policy, for preparing consolidated financial and accounting information, and for processes relating to budgetary and financial planning and financial controlling,
- ◆ Legal department, responsible for company law, insurance policy, negotiations, drafting and managing contracts and suits.

Jean-Pierre Dick has taken responsibility for:

- ◆ The Presidency of the Virbac Foundation,
- ◆ Communications and growing Virbac's reputation through sponsorship.

2.2.1.2 Specialised committees aiding the Executive board

❖ Strategic committee

The Strategic committee is chaired by the Chairman of the Executive board and comprised of the following departments, represented as follows:

- ◆ Members of the Executive board,
- ◆ Directors of the following areas: Europe, North America, Latin America, Asia and Sanza (South Africa, New Zealand and Australia),
- ◆ Group Human resources department,
- ◆ Industrial operations department,
- ◆ Research and Development department. The Strategic committee gives its opinion on the Group's major strategic decisions: strategy per business, function and major project.

❖ Executive committee France

The Executive committee is chaired by the Chairman of the Executive board and comprised of the following departments, represented as follows:

- ◆ members of the Executive board,
- ◆ Human resources department,

- ◆ Industrial operations department France,
- ◆ Research and Development department.
- ◆ Communications department,
- ◆ IS department,
- ◆ Europe department,
- ◆ Legal department.

The Executive committee France is primarily responsible for deciding, coordinating and providing information on all issues affecting all the Group's French companies and constitutes a platform from which to disseminate information within the various departments.

2.2.1.3 Other parties aiding good risk management

Building on the company culture, the Executive board implemented systems to anticipate and control risks within operating entities as well as action plans to limit the impact thereof. A policy of identifying and evaluating risks was put in place at the end of 2004 and continued in 2005.

The internal control system is also driven by the functions specifically and directly involved in these risk detection and management processes with ongoing goals of being proactive and preventive. The main areas affected are:

❖ Finance

The Financial affairs department is organised as follows:

- ◆ a Financial services department, which manages the Treasury and Accounting departments.
 - the Treasury department partakes in the prevention system through the policy of reviewing and optimising the management of interest rate and exchange rate risks. With regard to the exposure to exchange rate risks in particular, the Financial affairs department forbids speculation and only allows the hedging of positions that, whether current or future, are certain,
 - as part of the transition to IFRS, the accounting department carried out an exhaustive inventory of operating and accounting practices and took the opportunity to review the instructions given to Group subsidiaries regarding the reporting of accounting and financial information. The need for complete transparency in all transactions to ensure proper recognition in the financial statements and a better handle on potential risks was reaffirmed.
- ◆ a Financial control department organised around two poles: one centred on business (financial and budget, sales and marketing, R&D, production) reporting hierarchically to the Financial control department, itself part of the Financial affairs department and the other geographic (presence of a financial controller functionally reporting to the Financial affairs department in each area).

This organisation, put in place in 2004 was completed in 2005 and makes it possible to position the Financial Controller as a key partner for Group managers in the taking of strategic and operational decisions so as to:

- ◆ ensure the controlling of operations and be a key player in internal control,
- ◆ measure and analyse the performance of the businesses,
- ◆ anticipate short-term events,
- ◆ act as a conduit and signal for identified risks (operational, financial...).

The budgetary and reporting tools as well as performance analyses and indicators developed by the Group help to drive the whole.

❖ Communications

A few years ago, the Communications department, at the urging of the Executive board, put in place a system to anticipate risks to handle any crisis that could affect the Group's image and impair its share capital.

This system consists of:

- ◆ quickly mobilising those working in this field,
- ◆ putting in place the logistics to ensure optimum responsiveness,
- ◆ applying a methodology drawn up together with professionals and written down in a crisis manual,
- ◆ enabling remedial actions to replace preventive actions.

This system will be updated during 2006.

❖ Insurance

The Legal department continued its policy of exhaustively reviewing insurance risks and their financial coverage with the assistance, moreover, of a broker that is part of an international network.

Visits to various Group sites continued in order to check that insurance programmes match requirements and to update certain cover.

With regard to the management of industrial and commercial risks, the Legal department is also more generally asked by the Group to:

- ◆ identify and put in place measures designed to cut insurable risks and their financial coverage,
- ◆ monitor insured losses having a material impact on the Group,
- ◆ support the subsidiaries in putting in place local insurance policies,
- ◆ support the subsidiaries in monitoring contractual clauses relating to insurance and liability.

As part of the information system, development of which started in 2004 (Legal information system), an information management module is being completed and should be operational in 2006 thereby allowing for information on insurance and loss management to be shared with our broker. A procedures and "Best insurance practices" manual has been published internally, and will also be used by all local and general brokers.

❖ Hygiene, safety, environment

The hygiene, safety, environment (HSE) process, faced with increasing regulatory requirements, covers the management of risks stemming from the handling of raw materials, working conditions and the environment.

The Technical services department responsible for HSE issues sets out the goals and underlying principles to be implemented within French units and in line with the strengthening of the regulatory framework. Raising awareness and empowerment are coordinated within the subsidiaries by the central industrial departments normally working in the field.

The strategy of implementing a comprehensive policy covering health, safety and the environment is designed to ensure the safety of persons, property and compliance with legal obligations.

The main actions taken in this domain are on the following lines:

- ◆ implementing an ongoing monitoring programme making it possible to quickly adapt to new regulatory requirements and to make HSE issues part and parcel of the Group's expansion,
- ◆ making preventive investments such as increasing the security of fire detection systems or automating waste treatment units at our French sites,
- ◆ training personnel,
- ◆ implementing a process to analyse risks at our production sites which resulted, for example, in 2005 in the completion in France of an intranet database containing safety datasheets for products and raw materials.

2.2.2. Frameworks

The effectiveness of the internal control system within the Group largely depends on the various policies and operating rules that were progressively drawn up in line with the company culture. This is based on a set of strong values, encouraging initiative, trust in people and their empowerment. These operating rules and policies were drawn up in the forms of directives, procedures and "Best practices", in line with Group values.

2.2.2.1 Group Code of ethics

Adopted in 2004, the Virbac Code of Ethics is a sign of the Group's commitment to carry on its activities legally and ethically through its workforce. This code, an initiative of the Executive board and distributed to all employees, is a framework guiding people in their work, in line with the Group's values and principles.

It also sets out the nature of the relationships that Virbac wishes to build with its partners: shareholders, customers, suppliers.

2.2.2.2 Purchasing Code of ethics

A Code of ethics specific to purchasing was also drawn up for professional and occasional buyers.

It sets out the guidelines for the function within the Group, defines the roles and responsibilities of each party in their job and thereby represents a guide to the performance of each person's duties.

2.2.2.3 Stock market Code of ethics

A Stock market Code of ethics was drawn up and distributed to all Group employees in 2005. This Code sets out the applicable rules within Virbac SA and all of its subsidiaries regarding trading in the listed shares of the company and, as the case may be, of its subsidiaries. It is designed both to serve as a reminder of the key principles of the stock market regulations regarding trading in listed shares and to lay down some internal rules of conduct designed to ensure the correctness and transparency of transactions carried out by Group employees.

2.2.2.4 Delegation of authority

The Group's organisational choices are based on empowerment, the efficiency of operations, while having regard to economic, labour and regulatory environments affecting the business.

The overall consistency was reviewed and resulted in redrafting by the Legal department of the organisation of the delegation of authority within the Group and its zones. The review of authorities made it possible to set the scope and extent of the responsibilities and powers, delegated or otherwise, in line with the functions exercised by each person to whom authority is delegated whether at Corporate, zone or subsidiary level.

This redrafting and formalisation of the delegation of powers, the implementation of which was speeded up in 2005, will continue in 2006.

2.2.3. Internal control procedures

The complex regulatory environment in which Virbac's technical and industrial functions operate has always helped to raise awareness amongst employees as to the need and importance of internal control.

The Group has, moreover, put in place, within its organisations, internal operating rules and procedures designed to ensure high levels of internal control.

Virbac organises this system through the progressive formalisation of "Best internal control practices", indicating the key internal control points, having regard to the material nature and likelihood of inherent risks. These "best internal control practices", published and distributed within all Group subsidiaries as they are drawn up, are expanded and applied to all corporate processes.

2.2.3.1 Processes aiding the preparation and processing of accounting and financial information

Accounting and financial information is drawn up by the Financial affairs department, in cooperation with the subsidiaries. It is organised in such a way as to enable a proper assessment of the financial position and effective management of the Group's businesses. The Chairman of the Executive board and the Chief financial officer are responsible for the completeness, integrity, correctness and quality of the accounting and financial information.

The Group's consolidated financial statements are drawn up pursuant to the IFRS, a summary of which is set out in the financial report and on the basis of careful planning.

The Group's decentralised structure required the putting in place of a certain number of principles and systems to ensure the completeness and quality of the information, including the selection of an integrated international auditor network for most of the subsidiaries.

This set-up helps improve the controlling of the accounting and financial information generated, thanks to the implementation of a structured and standardised approach for the carrying out and submission of reviews, while providing the Group with a global view.

❖ Accounting and consolidation

The generation of information is achieved via consolidation processes supervised by a dedicated unit within the Financial affairs department and built on accounting principles applicable to all subsidiaries and ensuring that methods are consistent.

A chart of accounts for the whole Group is used to prepare the financial statements; there are accounting and financial procedures to ensure the continuity and systematic nature of

the recognition of transactions in line with Group rules and compliance with local regulations. As part of the transition to the IFRS, these procedures were reviewed, requiring a high level of transparency for operational managers to better assess the accounting and financial treatment of transactions.

❖ Financial controlling

The reorganisation of the Financial control unit decided at the end of 2004 was gradually implemented in 2005. The Financial control unit is primarily responsible for measuring corporate performance, but must also provide real support to the businesses and zones, providing them the appropriate analysis tools and methods. In this regard, it is a true conduit between the Group's operational and financial departments.

The Financial control unit also drives the consolidation and monthly budget tracking process on the basis of information provided by the various Group departments and subsidiaries. It reviews the quality of the information received by accounting reconciliations and analyses the consistency of the data.

For the preparation of the financial items, the Financial control unit has recourse to the Group's rules set out in a reporting manual applicable to all subsidiaries; this manual sets out the principles and definitions of the line items in the financial statements and is designed to ensure that the same rules are applied across all Group subsidiaries.

An operational review of the undertaking and planning processes was carried out at the Carros site towards the end of 2005. This review resulted in operational management levels being redefined and a new procedure drafted to monitor undertakings, which will be aided by the implementation of a tracking software that will enable the full atomisation of the process.

❖ Treasury management

All treasury operational directives and procedures were reviewed and their conversion into "Best practices" applicable across the Group completed and sent out to all Group subsidiaries in 2005.

A process for putting in place an annual treasury plan was also implemented across the Group and makes it possible to control and consolidate the forecasting of cash movements of subsidiaries, a sign of the accuracy of sales and expense forecasts and customer collection policy.

A policy of pooling excess cash and financing requirements in the Europe zone means that the Group's net positions can be reduced and the management of its deposits or financings optimised.

The following processes, designed to support the Group's operational processes, also help to improve the quality and the reliability of the preparation and processing of accounting and financial information.

❖ Information systems

The IS Department is implementing the six-year strategy drawn up at the end of 2003: the policy of providing services on the basis of specific needs is moving towards a policy of first and foremost providing a standardised offering across all products and services. In this regard the Movex ERP was successfully implemented in 2005 in Korea and Japan, and this software will be progressively rolled out to all Group subsidiaries.

This organisation requires the systematic controlling of all Group IS investments and a right to examine local recruitment and team selection.

The formalisation and documenting of operating procedures is ongoing.

❖ Purchasing

Following on from the initiative undertaken by Virbac in 2003, the process covers more and more activities and types of goods and services purchased. It is based on certain operating and financial procedures such as the Investment procedure and the Group purchasing procedure, reworked as "Best practices" to improve application within all Group subsidiaries.

In addition to covering all purchasing, the goal is also to prevent the inherent risks to which the Group may be exposed (bankruptcy of a supplier, cut in supply...).

❖ Human resources management

Under the initiative of the new head of the Human resources department, a HR strategy was drawn up and presented to Group employees in 2005.

This strategy has a few clear goals:

- ◆ train and motivate managers to become true leaders and play their part in managing their teams,
- ◆ make managers party to changing and developing their colleagues,
- ◆ build efficient organisations that are customer centric and based on the motivation and strong management of personnel,
- ◆ strengthen corporate values via concrete actions and increasingly internationally: Innovation, Market driven, Entrepreneurship, Empowerment, Teamwork,
- ◆ encourage geographic and functional mobility,
- ◆ develop a style and culture that are open to constructive criticism in order to encourage innovation and efficiency.

The roles and responsibilities of each function involved in the process were also reviewed from recruitment management and compensation policy to management of internal mobility skills.

❖ Legal affairs

In 2005, the Legal department completed the Group's legal organisational chart and continued working on the consistency of the statutory organisation of the subsidiaries with the corporate governance principles in force within Virbac and the delegated operational responsibilities.

Group information on contracts and company law was centralised in a shared database (*Legal information system*), which enables effective and collaborative use of each module. The "insurance" and "consulting desk" (legal library) modules are being completed in the case of the former and being designed in the case of the latter and should both be operational in 2006.

All contracts outside the normal operational framework binding Virbac SA are reviewed and signed by a member of the Executive board. In the other Group entities, contracts are signed by the Area director or where so authorised by a subsidiary manager.

The Legal department also aids the Group's central departments in the management of their contractual undertakings and is involved in negotiating and drafting contracts pursuant to an established request for assistance procedure.

The Legal department is directly responsible for monitoring company law relating to all French companies. It lastly deals with suits and disputes and makes itself available to Group entities to provide advice with regard to company law and business law.

2.2.3.2 Other processes involved in the management of Group operations

❖ Strategy

The Group's strategy is laid down by the Executive board with the support of the Strategic committee: it is approved by the Supervisory board and published (annual management meeting in France, meetings held by Area Managers...).

Domain specific strategies (R&D, production), segment strategies (biology, dermatology...) and geographic area strategies are subject to review and decisions to switch focus by the Strategic committee. The decentralised three-year plan annual process, framed by goals laid down by the Executive board, involves all zones and major subsidiaries.

Licensing activities, carried out in line with the strategy laid down by the Group and largely consisting of the acquisition or disposal of rights to active ingredients, products (finished or in development), are extensive. A database accessible to all zones was put in place to enable the dynamic exchange of information and to improve responsiveness on ongoing projects. A large team, part of which is dedicated, is put in place to manage and carry out projects.

The rules governing information and action were clarified and formalised within "Best practices"; the systematic approval of the Executive board makes it possible to monitor this business and, for larger projects, formal approval by the Supervisory board is required.

The Group also has an active acquisitions policy and planned acquisitions are systematically managed by an ad-hoc unit consisting of at least one member of the Executive board and including the Financial affairs department and the Legal department. The approval loop for planned acquisitions is the same as for Licensing activities.

❖ Research and Development

Research and Development, partly decentralised across the zones, is essential to growing the Group. The goal is to adapt the portfolio of projects to the local regulatory requirements and specific sales and marketing needs in the zones.

In order to further cooperation and sharing, the Research and Development department encourages synergies between the regional research centres. In this regard, the monitoring of activities, framed by directives and methods, is organised so as to provide exhaustive documentation and full traceability of the data, itself subject to controlling, generated from studies.

An operational monitoring procedure, covering all Group projects, makes it possible to be responsive with regard to the decisions to be taken, on the basis of progress and the expected and actual technical position of projects, thereby cutting financial risks to a minimum.

The development and registration of products is carried out in compliance with operating methods having regard to Good Manufacturing Practices and Good Laboratory Practices, imposed by the regulatory framework governing this business.

❖ Production

The veterinary industry complies with the strict requirements of the pharmaceutical industry. The carrying out of research and development, production and distribution operations is subject to regular auditing by French and international bodies with strong sanction powers.

The Industrial operations department is responsible for Group industrial strategy in line with the strategic goals, via an industrial plan.

The production activity is also aided by an ERP system selected by the Group and progressively rolled out in Group subsidiaries with a standard and homogenous modus operandi.

The Industrial operations department also undertook a project to simplify and optimise production processes in order to further standardise preventive maintenance on production machinery and improve productivity through shorter switchover times.

❖ Sales and marketing

In line with the product portfolios, operational marketing has become further regionalised. Product marketing is coordinated at zone level, the Corporate marketing unit handling more longer-term strategic marketing.

Sales and marketing initiatives are based on the Group's strategic goals set out within the zones and then within subsidiaries, who enjoy significant independence with regard to the putting together of local sales and marketing policies.

The monitoring of initiatives in the field is dynamic and proactive because of the direct relationship between the department, the areas and the subsidiaries. This monitoring is strengthened by the presence of a financial controller dedicated to each area: reporting to the Area director and functionally to the Chief financial officer.

A European global marketing and sales effectiveness project was undertaken in 2005 and should make it possible to improve expertise thanks to the putting in place of a European training programme, to improve the effectiveness of sales and marketing initiatives through Europe-wide campaigns and sharing experience between subsidiaries, and to better meet the expectations of customers by developing the technical support they require and by laying down distinct monitoring and analysis criteria.

2.3. Outlook and areas for improvement in the internal control system

The strengthening of the internal control system and of its effectiveness is an ongoing process: the action plans put in place in 2005 helped significantly and new avenues for improvement have since been identified and followed:

- ◆ updating and redrafting the Group's operating rules to ensure better formalisation and publication of "Best practices" in particular in operational and financial areas and in monitoring international subsidiaries,
- ◆ implementing a proactive risk identification policy,

- ◆ continuing the improvement process for monitoring undertakings through the putting in place of a system enabling the automated monitoring of French companies,
- ◆ harmonising Group information systems with the progressive rolling out of Movex ERP in all Group subsidiaries.

This improvement work helps to empower people within the organisation and ensure constant vigilance by all levels of management. It should, moreover, encourage constructive exchanges within the Group.

These progressive changes towards increased formalism, in line with the changes in the regulatory framework, are driven by the Executive board of Virbac with an eye to retaining flexibility, proactiveness, responsiveness and a sense of responsibility deemed key to the strength and success of the Group.

Report of the Statutory auditors drawn up pursuant to article L.225-235 of the French commercial code regarding the report of the Chairman of the Supervisory board of Virbac on the internal control procedures relating to the drawing up and processing of accounting and financial information

Year ending 31 December 2005

Dear Shareholders,

As Virbac's Statutory auditors and pursuant to the provisions of article L.225-235 of the French Commercial Code, we present you with our report on the report drawn up by your Chairman pursuant to the provisions of article L.225-68 of the French Commercial Code for the year ending 31 December 2005.

It is the responsibility of the Chairman to report therein on the conditions for preparing and organising the work of the Supervisory board and the internal control procedures in place within the company.

Our role is to provide you with our observations on the information set out in the report of the Chairman on the internal control procedures relating to the drawing up and processing of accounting and financial information.

We carried out our audit in accordance with professional standards applicable in France. This requires the carrying out of our work in such a manner as to ensure the authenticity of the information set out in the report of the Chairman on the internal control procedures relating to the drawing up and processing of accounting and financial information. This work consisted of:

- ❖ familiarising ourselves with the internal control goals and general organisation, as well as the internal control procedures relating to the drawing up and processing of accounting and financing information, set out in the report of the Chairman;
- ❖ familiarising ourselves with the work underlying the information thereby set out in the report.

As a result of our work, we have no observations to make on the information set out regarding the internal control procedures of the company relating to the drawing up and processing of accounting and financial information, in the report of the Chairman of the Supervisory board, drawn up pursuant to the provisions of the final paragraph of article L.225-68 of the French Commercial Code.

Nice and Marseilles

25 April 2006

The Statutory auditors

David & Associés

Roger DAVID

Deloitte & Associés

Vincent GROS

Consolidated financial statements 2005

Consolidated financial statements	60-63
Notes to the consolidated financial statements	64-85
Transition to IFRS	86-91
Statutory auditors' general report on the consolidated financial statements	92

Consolidated financial statements

Balance sheet

(€ thousands)	Notes	2005	2004
NON-CURRENT ASSETS			
Goodwill	B1	34,829	31,475
Intangible assets	B2	47,267	49,479
Property, plant and equipment	B3	67,090	66,252
Financial assets	B4	994	2,174
Investments in subsidiaries and associates	B5	519	0
Other receivables due over one year	B6	1,217	155
Deferred tax assets	B7	9,370	6,245
		161,286	155,780
CURRENT ASSETS			
Inventories and work-in-progress	B8	58,577	54,257
Trade receivables	B9	68,558	57,329
Other receivables	B6	11,763	12,286
Cash and cash equivalents	B10	14,139	14,481
		153,037	138,353
TOTAL ASSETS		314,323	294,133
SHARE CAPITAL AND RESERVES			
Share capital		10,893	10,893
Reserves and retained earnings		117,383	94,818
Net profit for the year		19,799	16,726
Shareholders' equity – Group share	B11	148,075	122,437
Minority interests		12,112	8,733
Total shareholders' equity		160,187	131,170
NON-CURRENT LIABILITIES			
Deferred tax liabilities	B7	10,578	9,931
Employee benefits	B12	6,053	4,706
Long-term provisions	B13	549	114
Financial liabilities due over one year	B14	8,396	46,003
Other payables due over one year	B15	14,471	10,335
		40,047	71,089
CURRENT LIABILITIES			
Provisions due within one year	B13	4,012	942
Trade payables		43,329	37,543
Tax payable		1,666	4,092
Financial liabilities due within one year	B14	20,542	6,331
Other payables due within one year	B15	44,540	42,966
		114,089	91,874
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		314,323	294,133

Consolidated financial statements

Income statement

(€ thousands)	Notes	2005	2004	Change
SALES	R1	372,403	351,404	6.0%
Other operating revenues		0	0	
Purchases consumed		-116,980	-116,181	
External expenses		-89,888	-83,837	
Personnel costs		-100,297	-96,116	
Taxes and duties		-9,287	-8,758	
Depreciation and amortisation		-13,748	-12,761	
Other operating revenues and expenses	R2	-3,904	-4,079	
Operating profit from ordinary activities		38,299	29,672	29.1%
Other non-recurring operating revenues and expenses	R3	-6,210	-1,420	
OPERATING PROFIT		32,089	28,252	13.6%
Other financial income and expenses	R4	-1,743	-2,971	
PROFIT BEFORE TAX		30,346	25,281	20.0%
Tax charge	R5	-8,504	-7,647	
Share in earnings of companies accounted for by the equity method	B5	229	0	
CONSOLIDATED NET PROFIT	R6	22,071	17,634	25.2%
Of which				
Group share		19,799	16,726	18.4%
Minority interests		2,272	908	
Earnings per share – basic (in euros)	R7	2.33	2.01	
Earnings per share – diluted (in euros)		2.33	2.01	

Consolidated financial statements

Consolidated cash flow statement

(€ thousands)	2005	2004
Consolidated net profit	22,071	17,634
Elimination of Group's share of earnings of companies accounted for by the equity method	-229	0
Elimination of revenues and expenses with no impact on cash flow:		
Elimination of depreciation and amortisation	19,442	12,484
Elimination of the change in deferred income tax	-2,032	300
Elimination of gains/losses on asset disposals	129	-1,690
Other non cash generating items	469	268
Cash flow	39,850	28,996
Impact of working capital items net movements:		
Net change in inventories	-1,720	8,410
Net change in trade receivables	-5,364	3,181
Net change in trade payables	2,716	-1,923
Net change in other operating receivables and payables	-12,997	-3,412
Offsetting the impact of the corrections of errors	0	-4,488
Interest paid	2,743	3,193
Income tax paid	10,536	7,347
NET CASH FROM OPERATING ACTIVITIES	35,764	41,304
Acquisition of non-current assets:		
Acquisition of intangible assets	-3,692	-14,111
Acquisition of property, plant and equipment	-5,917	-11,486
Investments – subsidiaries and associates	-175	0
Change in other financial assets	-185	763
Proceeds from sales of property, plant and equipment	603	1,940
Impact of changes in Group scope	1,363	-271
Net cash used in investing activities	-8,003	-23,165
Dividends paid by the parent company	-4,618	-3,988
Dividends paid to minority interests	-435	-310
Disposals of treasury shares	3,610	-211
Net borrowings/repayments	-26,278	-6,897
Net cash used in financing activities	-27,721	-11,406
INCREASE IN CASH AND CASH EQUIVALENTS	40	6,733

Consolidated financial statements

Statement of changes in cash position

(€ thousands)	2005	2004
Cash and cash equivalents	14,481	10,123
Bank overdrafts	-6,256	-8,551
Opening net cash position	8,225	1,572
Cash and cash equivalents	14,139	14,481
Cash subject to restrictions	187	0
Bank overdrafts	-5,199	-6,256
Closing net cash position	9,127	8,225
Impact of translation adjustments	862	-80
Change in net cash position	40	6,733

Consolidated statement of changes in shareholders' equity

(€ thousands)	Share capital	Share premium	Reserves	Net profit for the year	Translation adjustment	Shareholders' equity - Group share	Minority interests	Total shareholders' equity
Shareholders' equity at 31 December 2003 under French GAAP	10,893	6,534	112,844		-11,728	118,543	10,542	129,085
Impact of transition from French GAAP to IFRS			-19,302		11,728	-7,574	-1,808	-9,382
Shareholders' equity at 1 January 2004	10,893	6,534	93,542		0	110,969	8,734	119,703
Dividend distribution			-3,992			-3,992	-284	-4,276
Translation adjustments			0		-1,818	-1,818	-522	-2,340
Treasury shares			-6			-6	-87	-93
Other changes			558			558	-16	542
Net profit for the year ended 31 December 2004			0	16,726		16,726	908	17,634
Shareholders' equity at 31 December 2004 (*)	10,893	6,534	90,102	16,726	-1,818	122,437	8,733	131,170
Allocation of 2004 net profit			16,726	-16,726		0	0	0
Dividend distribution			-4,618			-4,618	-438	-5,056
Translation adjustments			0		6,586	6,586	1,220	7,806
Treasury shares			3,213			3,213	0	3,213
Other changes (*)			658			658	325	983
Net profit for the year ended 31 December 2005			0	19,799		19,799	2,272	22,071
Shareholders' equity at 31 December 2005 (*)	10,893	6,534	106,081	19,799	4,768	148,075	12,112	160,187

(*) see note B11

Notes to the consolidated financial statements

General information

Virbac is not only the ninth veterinary laboratory worldwide, it is also the world's leading independent laboratory dedicated exclusively to animal health, with a comprehensive range of products for both companion and food producing animals.

Virbac's shares have been listed on the second market of the Paris stock exchange since June 1985 (the second market subsequently became the Eurolist, on which Virbac is listed in compartment B).

Virbac is a French limited company with a management structure comprising a Management board and a Supervisory board (*société anonyme à Directoire et Conseil de surveillance*). Its trade name is "Virbac". The Company was formed in Carros in 1968. Under the Company's current Memorandum and articles of association, its duration is set to expire on 2 January 2028, subject to any further extension thereof. The registered office is located at 1 avenue 2065 LID, 06511 Carros, France. The Company is registered on the Grasse trade and companies register under number 417350311 RCS Grasse.

The financial statements for the year ended 31 December 2005 were finalised by the Management board on 30 March 2006. The following notes to the financial statements form an integral part of the consolidated financial statements.

Post-balance sheet events

No significant events occurred after the balance sheet date.

Accounting principles applied

Pursuant to regulation 1606/2002 of the European Council adopted on 19 July 2002, the Group's published consolidated financial statements for the year ended 31 December 2005 have been prepared in accordance with the International financial reporting standards (IFRS), which have been endorsed at European level.

The comparative information for 2004 has been restated in accordance with the principles defined in IFRS 1 on the first-time adoption of IFRS. These consolidated financial statements, which were previously prepared in accordance with French GAAP (regulation 99-02), have been restated in order to comply with the same standards as those applied for the year ended 31 December 2005.

As regards the year ended 31 December 2004, the Group chose to apply early the following standards:

- ◆ IFRS 5: non-current assets held for sale and discontinued operations,
- ◆ IAS 32 and 39: financial instruments.

As regards the presentation of the consolidated financial statements for the year ended 31 December 2005, the Group has not applied early any standards not already in force as at 31 December 2005.

Scope of consolidation

- ❖ The consolidated financial statements for the year ended 31 December 2005 comprise the financial statements of those companies that Virbac, *de jure* or *de facto*, directly or indirectly controls, with the exception of companies of insignificant size. A list of consolidated companies is provided in the notes to the financial statements.
- ❖ Changes to the consolidation scope during the period were as follows:
 - ◆ the acquisition during the period of Virbac Hellas and Animedica, two companies in Greece, both of which are fully-owned by Virbac,
 - ◆ the accounting by the equity method of a German company acquired in 2003 and in which Virbac has a 24% shareholding,
 - ◆ the accounting by the equity method of a Finnish company formed in 2005 and under the joint control of Virbac and another third-party company,
 - ◆ following the issue of shares by Virbac Corporation, the purpose of the issue being to provide shares for issue to employees under stock option plans, Virbac's interest in Virbac Corporation fell from 60.21% to 60.09% at 31 December 2005.

Consolidation rules

Consolidation method

- ❖ The financial statements of companies under the exclusive control of Virbac are fully consolidated. Those companies over which Virbac exercises joint control or significant influence are accounted for by the equity method.
- ❖ All companies have been consolidated on the basis of financial statements drawn up to 31 December 2005.

Translation of financial statements

The functional currency of the Group's foreign subsidiaries is their local currency.

The financial statements of foreign companies whose functional currency is not the euro are translated in accordance with the following principles:

- ❖ balance sheet items are translated at the exchange rate ruling on the balance sheet date. The translation adjustment resulting from the use of a different exchange rate on opening shareholders' equity is recorded in shareholders' equity in the consolidated balance sheet,
- ❖ income statement items are translated at the average rate for the financial year. The translation adjustment resulting from the use of an exchange rate that is different from the balance sheet rate is recorded in shareholders' equity in the consolidated balance sheet.

Specific rule regarding the first-time adoption of IFRS: the Group has chosen to adopt the option offered by IFRS 1, which involves resetting to zero the translation reserve previously calculated on the translation into euros of the financial statements of the foreign subsidiaries. The balance of the translation reserve as at 1 January 2004 has therefore been transferred to general reserves, with no impact on the Group's total shareholders' equity. The gains or losses on any subsequent disposals of foreign entities will be adjusted only by those accumulated translation adjustments arising after the date of transition to IFRS.

Elimination of inter-company transactions

- ❖ All transactions between Group companies are eliminated.
- ❖ Other intra-Group transactions:
 - ◆ unrealised gains on inventories purchased from other Group companies are eliminated,
 - ◆ intra-Group dividend payments are recorded in reserves at their gross amount.

Accounting policies

Assets and liabilities are classified in the balance sheet as current and non-current. Those assets and liabilities with an estimated maturity of one year or less are classified as current.

Intangible assets

In accordance with the criteria stipulated in IAS 38, an intangible asset is recognised as an asset in the balance sheet if it is probable that the future economic benefits attributable to the asset will flow to the Group.

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

Intangible assets with finite useful lives are amortised on a straight-line basis as from the date on which the asset is ready for use:

- ❖ concessions, patents, licences and trademarks: amortised over their useful life,
- ❖ software (office tools, etc): amortised over three or four years,
- ❖ ERP: amortised over ten years.

Research and development costs are capitalised from the time when they satisfy the criteria stipulated by IAS 38. As regards the Group's activities, most of the development costs are associated with products the use of which requires the obtaining of a market authorisation. The Group considers that, until this authorisation has been obtained, not all of the criteria of IAS 38 have been fulfilled and the costs incurred are expensed.

In accordance with the provisions of IAS 36 "Impairment of assets", intangible assets are tested for impairment annually. In the case of assets with indefinite useful lives, the tests are carried out during the second half of the year, regardless of whether or not there is any indication of impairment. Assets with finite useful lives are tested for impairment as soon as any new events or circumstances indicate that assets may be impaired. For the purposes of this testing, the Group takes into account sales generated by the intangible asset. When testing intangible assets for impairment, the Group combines a market value approach (estimate of fair value) and an approach based on estimated future cash flows (estimate of value in use). The future cash flows used for the impairment tests are calculated on the basis of estimates made over a period that may vary between a minimum of five years and a maximum of twenty years. For the purposes of these calculations, the Group uses a discount rate of 10%.

Goodwill

Goodwill recognised on the asset side of the balance sheet represents the excess of the acquisition cost of the shares in the acquired companies over the Group's share of the fair value of the identifiable assets, liabilities and contingent liabilities acquired. It also includes any business goodwill acquired.

In accordance with the provisions of IAS 36 "Impairment of assets", the value of goodwill is tested annually. Impairment testing is carried out during the second half of the year, regardless of whether or not there is any indication of impairment, and as soon as any new events or circumstances indicate that assets may be impaired. For the purposes of this testing, assets are grouped by cash-generating units (CGU). In the case of goodwill, it is the legal entity that is used as the CGU. When carrying out the tests, the Group combines a market value approach (estimate of fair value) and an approach based on estimated future cash flows (estimate of value in use).

For the purposes of the market value approach, the Group compares the carrying amount of the CGU with multiples of the operating profits generated by them. If this approach identifies the risk of impairment for a CGU, further testing

using estimated cash flows is undertaken. This approach involves calculating the value in use of the CGU by discounting estimated future cash flows. When the value in use of the CGU calculated in this way is lower than its carrying amount, an impairment loss in respect of goodwill is recognised to reduce the carrying amount of the assets in the CGU to their recoverable amount, defined as the higher of net fair value and value in use.

The valuations made for the purposes of the goodwill impairment tests are sensitive to the assumptions used as regards not only the selling price and future costs, but also the discount rate and growth rate. The future cash flows used for the impairment tests are calculated on the basis of estimates made over a period that may vary between a minimum of five years and a maximum of twenty years. For the purposes of these calculations the Group uses a discount rate of 10%.

Specific rule regarding the first-time adoption of IFRS: in accordance with the option offered by IFRS 1, the Group has not revised the calculations of goodwill made in respect of acquisitions carried out prior to 1 January 2004.

Property, plant and equipment

As required by IAS 16, property, plant and equipment are measured in accordance with the historical cost method. If the acquisition of an item of property, plant and equipment is financed by means of a loan, the costs associated with the loan are not included in the gross value of the item concerned.

As required by IAS 17, assets acquired under a finance lease are recognised as assets in the balance sheet when the lease transfers to the Group substantially all the risks and rewards of ownership incidental to ownership of the assets concerned. The component approach is adopted, each component of an asset having its own specific depreciation period, in line with the depreciation period of assets of the same type.

Property, plant and equipment are depreciated over their estimated useful lives, which are:

- ❖ Buildings
 - structure: 40 years
 - components: 10 to 20 year
- ❖ Machinery and industrial equipment:
 - structure: 20 years
 - components: 5 to 10 years
- ❖ Computer hardware: 3 or 4 years
- ❖ Other property, plant and equipment: 5 to 10 years

Specific rule regarding the first-time adoption of IFRS: the Group has reviewed the depreciation periods in respect of its property, plant and equipment and revised the depreciation rates applied to certain classes of property, plant and equipment, to bring the depreciation periods closer to the actual useful lives of the assets concerned. As a result,

there was a reduction in the total depreciation charge for the year and a significant revaluation of the carrying amount of property, plant and equipment in the opening balance sheet at 1 January 2004.

Financial assets

Financial assets comprise equity securities in companies that are not consolidated since they are not considered material in the context of the Group as a whole, loans, marketable securities, other long-term receivables and financial instruments. These instruments are presented as non-current assets, except in the case of those with a maturity of less than 12 months, which are classified as current assets or cash equivalents, as appropriate.

❖ Available-for-sale financial assets

Virbac does not own any securities that were acquired with the intention of realising a profit in the short term or that comply with the definition of held-to-maturity securities (the securities in the Group's portfolio are equities). Available-for-sale financial assets are initially recognised at fair value. Acquisition cost is regarded as a reliable indication of the fair value of securities. They are subsequently remeasured at each balance sheet date and changes in values are recognised in reversible equity impact.

The fair value of listed securities for which there is an active market is determined at the balance sheet date.

Virbac uses the historical cost method to measure securities that are not listed or listed on an illiquid market and whose fair value cannot be estimated reliably.

❖ Financial assets at fair value through profit or loss

Virbac owns marketable securities that are classified as "financial assets at fair value through profit or loss". They are measured at fair value at the balance sheet date, and changes in fair value are recognised in profit or loss. The fair values of marketable securities are determined mainly by reference to the market price (bid or offer price, as appropriate).

❖ Loans

This category consists mainly of loans granted by Virbac SA to its employees. On initial recognition, loans are measured at fair value, plus directly attributable transaction costs. At each subsequent balance sheet date, loans are measured at amortised cost. A provision is recognised in the income statement where there is an objective indication of impairment resulting from an event that has occurred since the initial recognition of the asset.

Specific rule regarding the first-time adoption of IFRS: the Group has chosen to apply IAS 32 and IAS 39 on financial instruments as from 1 January 2004.

Inventories and work-in-progress

Inventories and work-in-progress are stated at the lower of cost and net realisable value.

Inventories of raw materials and supplies are measured using the weighted average cost method, whereas finished products are measured using the FIFO (“First in, First out”) method. The cost of acquisition of raw materials inventories includes all incidental purchase costs.

Work-in-progress and finished goods are measured at their actual manufacturing cost including direct and indirect production costs.

Finished products are measured in each subsidiary at the price invoiced by the parent company plus shipping costs; the margin included in these inventories is cancelled in the consolidated financial statements, using the average full production cost recorded at Virbac SA. A provision is recognised to reduce inventories to their net realisable value when products are damaged or become unusable or when the likely selling prices of these products, assessed on the basis of the market, seem lower than the gross inventory amount.

Trade receivables

Trade receivables are classified as current assets to the extent that they form part of the Group’s normal operating cycle. Trade receivables are measured and recognised at the initial amount of the invoice, less provisions for doubtful debts in the case of any irrecoverable amounts. An estimate of the amount of the doubtful debts is made when it is no longer probable that the receivable will be recovered in full. Bad debts are written off when identified as such.

Cash and cash equivalents

This category comprises bank balances, investments and cash equivalents that are very liquid. Bank accounts that are subject to restrictions (blocked accounts) are not included in cash but are reclassified as financial assets.

Treasury shares

Those of the parent company’s shares that are held by the parent company or its consolidated subsidiaries (whether classified in the parent company’s financial statements as financial assets or marketable securities), are recognised as a deduction from shareholders’ equity. The amount of the deduction is equal to the acquisition cost of the shares concerned. Changes in fair value over the period of ownership are not recognised. Any gain or loss on disposal of these shares is recognised (net of tax) directly in shareholders’ equity and does not form part of the profit or loss for the year.

Translation adjustments

This item represents on the one hand the translation adjustment on opening net assets of foreign companies, resulting from differences between the exchange rate on the date on which they were first consolidated and the rate ruling on the balance sheet date and, on the other hand, the translation adjustment on the profit or loss for the year, resulting from differences between the rate used to translate the income statement (average rate) and the rate ruling on the balance sheet date.

Consolidated reserves

This item represents the interests of the parent company in the reserves accumulated by consolidated companies since they were first consolidated into the Virbac Group.

Minority interests

This item represents the share of shareholders external to the Group in the shareholders’ equity and results of consolidated companies.

Risk exposure and management

❖ Exchange rate risk

Virbac carries out transactions in currencies other than the euro, its reference currency. Given the Group’s exchange rate risk exposure, currency fluctuations have a significant impact on its income statement both in terms of translation risk and transaction risk. The Group therefore endeavours to protect its profit against adverse movements in the various currencies in which its sales or certain specific transactions are denominated and defines the hedged risk as being only the spot risk. Virbac specifically hedges a portion of its foreign currency denominated future sales and firm orders (net export exposure) as well as the foreign currency denominated dividends of consolidated companies or certain intra-group loans. Foreign exchange forwards are measured at their forward rate.

❖ Interest rate risk

Virbac is financed by means of a variable-rate credit line. This credit line is hedged by swaps, the aim of which is to eliminate changes in interest flows linked to forecast drawdowns of the variable-rate credit line.

Financial liabilities

❖ Recognition and measurement of financial liabilities

Borrowings and other financial liabilities are recognised at depreciated cost, calculated on the basis of the actual interest rate.

Derivatives and hedge accounting

The aim of hedge accounting is to offset the impact of the hedged item and the hedging instrument in the income statement.

To qualify for hedge accounting, hedges must comply with

several strict conditions as regards documentation, likelihood of implementation, effectiveness of the hedge and possibility of reliably measuring the effectiveness.

On conclusion of the transaction, the Group documents the relationship between this hedging instrument and the underlying transaction, as well as the risks, strategy and aim of the hedge. This process involves establishing the relationship with the stipulated assets or liabilities, commitments or transactions. The Group also documents its measurement of the effectiveness of the hedge in offsetting changes in the fair value of the instrument as well as the item underlying it from the implementation of the instrument until the maturity of the hedge.

When entering into a derivative contract, the Group determines the type of the hedge and the classification for accounting purposes a) as a hedge of the exposure to changes in the fair value of a recognised asset or liability (fair value hedge), b) as a hedge of the exposure of cash flows attributable to a forecast transaction or firm commitment (cash flow hedge) or c) hedge of a net investment in a foreign operation.

Hedge accounting ceases to be applied when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting (effectiveness tests).

❖ Measurement and recognition of derivatives

The Group holds derivatives solely for the purpose of reducing its exposure to exchange rate and interest rate risks on the items in its balance sheet, its commitments that are either firm or highly probable and certain foreign currency investments in foreign entities. Foreign exchange forwards are used to hedge the exposure to exchange rate risk. In order to manage its interest rate risk exposure, the Group has also implemented an interest-rate swap, the aim of which is to convert a variable-rate borrowing into a fixed-rate borrowing. Derivatives are initially recognised in the balance sheet at their fair value. They are re-measured at each balance sheet date by reference to their market value. This market value is obtained by means of internal pricing in the case of foreign exchange derivatives and from the Group's bankers in the case of interest rate derivatives. The recognition of subsequent changes in value depends on their accounting classification:

- derivative classed as a cash flow hedge (CFH): the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in shareholders' equity on a specific line, whereas the ineffective portion of the gain or loss on the hedging instrument is recognised in income. The gains or losses that are recognised directly in shareholders' equity in respect of the effective portion are transferred to income at the same rate as the hedged item. In the event of the derecognition of the hedged item, the gains and losses accumulated in shareholders' equity are transferred to income for the period;

- derivative classed as a fair value hedge (FVH): gains or losses on the derivative are recognised in income in a symmetrical manner to gains and losses on the hedged risk. They offset each other up to the amount of the effective portion of the hedge;
- derivative classed as a net investment hedge (NIH): hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Gains or losses on the effective portion of the hedge are recognised directly in shareholders' equity on a separate line, whereas gains or losses on the ineffective portion are recognised in income. Gains and losses accumulated in shareholders' equity in respect of the effective portion are transferred to income upon the disposal of the foreign operation.
- derivative not classed as hedging: due to the constraints concerning documentation of hedging relationships, the Group has chosen not to classify certain of its derivatives as hedges for accounting purposes. In such cases, gains or losses are recognised directly in income for the period.

❖ Testing effectiveness

◆ Prospective tests

In the case of a hedge of a single asset or liability, the prospective test involves verifying that the financial characteristics of the hedged item and the hedging instrument are identical.

In the event of a hedge of a group of assets or liabilities, the prospective test involves the drawing up, in accordance with the type of documentation used, of:

- a maturity analysis of aggregate amounts of variable-rate liabilities and fixed-rate borrower swaps (CFH),
- a maturity analysis of aggregate amounts of variable-rate assets and fixed-rate lender swaps (CFH),
- a maturity analysis of aggregate amounts of fixed-rate liabilities and fixed-rate lender swaps (FVH).

The hedge is recognised if, for each of the maturity bands of these maturity analyses, the nominal amount of the items to be hedged exceeds the notional amount of the hedging derivatives.

◆ Retrospective tests

The retrospective test enables the Group to carry out an ex-post assessment, at least at each balance sheet date, of hedge effectiveness. In the case of a cash flow hedge, the test involves comparing, over the period concerned:

- the change in value of a "hypothetical" swap, such that the flows of the variable portion are perfectly backed by those of the hedged liability and the fixed rate is the market rate prevailing on the date of implementation of the hedge, and
- the change in the market value of the hedging swap.

In the case of exchange rate hedges, the risk hedged is the spot risk. The contango and backwardation of forwards and the time value of options are considered to be ineffective by nature and are excluded from the effectiveness measurement. The effectiveness test therefore compares the impact of the change in spot rates between two dates on the hedged item and the hedging instrument. The effectiveness ratio must be between 80% and 125%.

In the case of interest rate hedges, the risk hedged is the risk-free rate. The effectiveness is measured by means of a comparison between the impact of the change in the rate curve on forecast interest flows of the variable-rate liability and on the fair value of the swap. The effectiveness ratio must be between 80% and 125%.

In the absence of conclusive effectiveness tests and documentation respecting the defined criteria, hedge accounting may not be applied.

❖ **Embedded derivatives**

The circulation of a questionnaire aimed at identifying embedded derivatives within the Group did not highlight the presence of any such instruments.

Pensions schemes and other post-employment benefits

❖ **Defined contribution pension schemes**

In the case of defined contribution schemes, costs incurred by the Group in the provisions of benefits are recognised as an expense in the period to which they relate.

❖ **Defined benefit schemes**

The Group's commitments in respect of defined benefit schemes are calculated using the projected unit credit actuarial method.

These commitments are measured at each balance sheet date. The actuarial information is provided by external consultants. The actuarial assumptions used to calculate the commitments take into account the economic conditions prevailing in the country. The Group's commitments are recognised as a liability in the balance sheet and the actuarial gains and losses are recognised immediately in the income statement.

Other provisions

A provision is booked when the Group has a present obligation resulting from a past event which is likely to result in an outflow of economic benefits that can be estimated reliably.

The amount booked is the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The amount is discounted if the effect is material.

Taxation

The Group's subsidiaries recognise current tax on the basis of the tax rules applicable locally. The parent company and its main French subsidiaries are part of a consolidated tax group. Under the terms of the tax consolidation agreement, each consolidated company is required to account for tax as if it were taxed as a separate entity.

The Group's subsidiaries recognise deferred tax as soon as there is a temporary difference between the carrying amount of an asset or liability and its value for tax purposes. Deferred tax assets and liabilities are not discounted.

The Group recognises deferred tax in respect of restatements of finance leases as defined by IAS 17.

In France, the income tax rate in 2005 was 34.93%, including supplementary contributions. In view of the fall in supplementary contributions in 2006, a rate of 34.43% was used to calculate French-sourced deferred tax.

Non-current assets held for sale and discontinued operations

The Group has opted for the early adoption of IFRS 5. Under IFRS 5, an operation must be regarded as discontinued when the criteria for classification as held for sale are satisfied or when the Group has disposed of the operation. An asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

The Group did not own any assets in this category at 31 December 2005.

Revenue recognition

Sales are measured at the fair value of the consideration received or receivable, net of any discounts, rebates and sales taxes. Sales are recognised as follows:

- sales of goods are recognised when the goods are delivered and ownership transferred,
- transactions in respect of the supply of services are recognised over the period during which the services are rendered.

Personnel costs

Personnel costs include, in particular, the costs of pension schemes (amortisation of past service costs in the new scheme and the cost of services rendered during the period). Actuarial gains and losses are recognised immediately in the income statement under personnel costs.

On the transition to IFRS, a provision was booked in respect of the full amount of the Group's commitment as at 1 January 2004, including actuarial gains and losses.

Other non-recurring revenues and expenses

This item includes revenues and expenses of particularly significant amount and which are attributable to events or transactions that fall outside the scope of the Group's ordinary activities. They are presented on a separate line within the income statement to enable readers of the financial statements to gain a better understanding of the Group's performance from ordinary activities.

Other financial income and expenses

This item comprises mainly interest and other similar income and expenses.

It also includes foreign exchange gains and losses, which are recognised in the income statement.

Earnings per share

Net earnings per share is calculated by dividing net profit-Group share, by the total number of shares issued and outstanding at the period end (i.e. net of treasury shares).

Net diluted earnings per share is calculated by dividing the net profit-Group share, by the total number of shares outstanding to which is added the maximum number of shares that could be issued in the event of an issue of dilutive instruments (on the conversion into ordinary shares of instruments giving deferred access rights to Virbac's capital).

Segment information

The primary and only segment reporting format used by the Group is geographical segments. The Group's operating activities are organised and managed separately depending on the nature of the markets. There are also two marketing segments – companion animals and food producing animals – but they cannot be used as a secondary segment reporting format for the following reasons:

- ❖ nature of the products: most of the therapeutic segments are common to companion animals and food producing animals (antibiotics, parasiticides, etc.),
- ❖ manufacturing processes: the production lines are common to both segments and there is no significant differentiation in the sources of supply,
- ❖ type or category of customers: a distinction is made between the ethical sector (veterinarians) and over-the-counter (general public),
- ❖ internal organisation: the management structures of the Virbac Group are organised by geographical areas. At Group level, there is no management structure based on marketing segments,

- ❖ distribution methods: the main distribution channels depend more on the country than on the marketing segment. Sales forces may, in certain cases, be common to the two marketing segments,
- ❖ nature of the regulatory environment: the bodies authorising the marketing of products are the same regardless of the segment.

It is for these reasons that the Group will only use one segment reporting format.

The Group's worldwide organisation is divided into five areas, determined on the basis of the location of the Group's assets and operations:

- Europe and the markets of Africa and the Middle East
- North America
- Latin America
- Asia
- SANZA, which includes the subsidiaries in New Zealand, Australia and South Africa.

The transfer prices between the areas are those prices which would have been used in arm's length transactions with third parties.

Notes to the consolidated financial statements

Note B1 - Goodwill

The following table analyses the movements in goodwill by geographical area:

	France	Rest of Europe	Latin America	Asia	Africa / Middle East	North America	Pacific	Total
CARRYING AMOUNT								
As at 1 January 2005	6,719	1,792	421	465	394	18,776	2,908	31,475
Increases	10	1,403	0	0	0	0	0	1,413
Disposals	0	0	0	0	0	-968	0	-968
Impairment	0	0	0	0	0	0	0	0
Transfers	0	0	0	0	0	0	0	0
Translation adjustments	0	0	2	16	15	2,741	135	2,909
As at 31 December 2005	6,729	3,195	423	481	409	20,549	3,043	34,829

No impairment losses in respect of goodwill have been recognised since the opening balance sheet.

At the beginning of July 2005, Virbac acquired full control of two Greek companies: Zoforos (which was renamed Virbac Hellas) and Animedica. The respective acquisition costs of these two companies were €50,000 and €125,000. These acquisitions generated goodwill of €1,397 thousand in respect of Virbac Hellas and €6 thousand in respect of Animedica.

Note B2 - Intangible assets

The Group's intangible assets comprise mainly:

- rights relating to patents and know-how required for the Group's production and marketing activities,
- trademarks,
- licences and other acquisition costs of the Group's information systems.

The increase in intangible assets corresponds to assets acquired. No assets were generated internally during the year.

Intangible assets by location of assets:

(€ thousands)	France	Rest of Europe	Latin America	Asia	Africa / Middle East	North America	Pacific	Total
COST								
Concessions, patents, licences and trademarks	34,423	1,274	277	0	0	13,622	0	49,596
Other intangible assets	18,894	320	67	141	0	0	1,216	20,638
TOTAL as at 31 December 2005	53,317	1,594	344	141	0	13,622	1,216	70,234
AMORTISATION AND IMPAIRMENT								
Concessions, patents, licences and trademarks	10,634	850	277	0	0	2,349	0	14,110
Other intangible assets	7,690	266	67	22	0	0	812	8,857
TOTAL as at 31 December 2005	18,324	1,116	344	22	0	2,349	812	22,967
CARRYING AMOUNT								
Concessions, patents, licences and trademarks	23,789	424	0	0	0	11,273	0	35,486
Other intangible assets	11,204	54	0	119	0	0	404	11,781
TOTAL as at 31 December 2005	34,993	478	0	119	0	11,273	404	47,267

Change in intangible assets

(€ thousands)	Concessions, patents, licences and trademarks			Other intangible assets	Total
	Indefinite useful life	Finite useful life	Total		
COST					
As at 1 January 2005	28,844	17,906	46,750	18,665	65,415
Acquisitions	785	284	1,069	2,595	3,664
Business combinations	0	0	0	16	16
Disposals	-89	0	-89	-311	-400
Transfers	-1	-1	-2	-474	-476
Impact of exchange rate fluctuations	380	1,488	1,868	147	2,015
As at 31 December 2005	29,919	19,677	49,596	20,638	70,234
AMORTISATION AND IMPAIRMENT					
As at 1 January 2005	2,063	5,904	7,967	7,969	15,936
Amortisation	6	2,452	2,458	571	3,029
Impairment	3,487	0	3,487	960	4,447
Business combinations	0	0	0	0	0
Reductions	-78	0	-78	-277	-355
Transfers	0	-1	-1	-441	-442
Impact of exchange rate fluctuations	14	263	277	75	352
As at 31 December 2005	5,493	8,618	14,110	8,857	22,967
CARRYING AMOUNT					
As at 1 January 2005	26,781	12,002	38,783	10,696	49,479
As at 31 December 2005	24,427	11,059	35,486	11,781	47,267

The impairment loss recognised in 2005 reflects impairment identified in respect of two intangible assets amounting to €4.5 million. As a result of an impairment test, the recoverable amount of these assets was judged to be less than their carrying amount.

Note B3 - Property, plant and equipment

Property, plant and equipment are assets purchased or acquired by means of finance lease contracts.

As at 31 December 2005, the gross value of assets acquired by means of finance leases and restated as property, plant and equipment in accordance with IAS 17 amounted to €7,213 thousand.

The main constituents of the Group's property, plant and equipment are:

- ◆ land,
- ◆ buildings, which comprise the buildings themselves and any fixtures and fittings,
- ◆ machinery and industrial equipment,
- ◆ other property, plant and equipment, which comprise mainly computer hardware, office furniture and motor vehicles.

Property, plant and equipment by location of assets

(€ thousands)	France	Rest of Europe	Latin America	Asia	Africa / Middle East	North America	Pacific	Total
COST								
Land	1,491	241	48	0	4	2,823	1,584	6,191
Buildings	54,843	4,005	1,268	705	2,271	6,446	2,961	72,499
Machinery and industrial equipment	38,254	1,366	2,789	1,023	461	6,717	3,106	53,716
Other property, plant and equipment	6,249	2,345	2,106	354	694	3,638	2,124	17,510
TOTAL as at 31 December 2005	100,838	7,957	6,211	2,082	3,430	19,624	9,775	149,916
DEPRECIATION AND IMPAIRMENT								
Land	0	0	0	0	0	0	0	0
Buildings	28,977	1,746	386	233	284	2,331	919	34,876
Machinery and industrial equipment	27,278	901	1,395	521	264	3,837	2,759	36,955
Other property, plant and equipment	4,123	1,997	1,171	217	444	1,535	1,508	10,995
TOTAL as at 31 December 2005	60,378	4,644	2,952	971	992	7,703	5,186	82,826
CARRYING AMOUNT								
Land	1,491	241	48	0	4	2,823	1,584	6,191
Buildings	25,866	2,259	882	472	1,987	4,115	2,042	37,623
Machinery and industrial equipment	10,976	465	1,394	502	197	2,880	347	16,761
Other property, plant and equipment	2,126	348	935	137	250	2,103	616	6,515
TOTAL as at 31 December 2005	40,459	3,313	3,259	1,111	2,438	11,921	4,589	67,090

Change in property, plant and equipment

(€ thousands)	Land	Buildings	Machinery and industrial equipment	Other property, plant and equipment	Total
COST					
As at 1 January 2005	5,980	69,005	47,786	18,820	141,591
Acquisitions	18	1,675	3,077	2,086	6,856
Business combinations	0	56	1	170	227
Disposals	-320	-111	-2,437	-993	-3,861
Transfers	6	131	3,566	-3,707	-4
Impact of exchange rate fluctuations	507	1,743	1,723	1,134	5,107
As at 31 December 2005	6,191	72,499	53,716	17,510	149,916
DEPRECIATION AND IMPAIRMENT					
As at 1 January 2005	0	30,803	33,353	11,183	75,339
Depreciation	0	3,734	3,206	1,310	8,250
Impairment	0	0	0	0	0
Business combinations	0	53	1	162	216
Reductions	0	-244	-2,092	-809	-3,145
Transfers	0	1	1,523	-1,526	-2
Impact of exchange rate fluctuations	0	529	964	675	2,168
As at 31 December 2005	0	34,876	36,955	10,995	82,826
CARRYING AMOUNT					
As at 1 January 2005	5,980	38,202	14,433	7,637	66,252
As at 31 December 2005	6,191	37,623	16,761	6,515	67,090

Note B4 – Financial assets

(€ thousands)	2005		2004	
	Current (a)	Non-current	Current (a)	Non-current
Available-for-sale financial assets		198		347
Loans and other non-current receivables		569		758
Derivatives	27	36	66	1,064
Cash subject to restrictions		186		0
Other non-current assets		5		5
TOTAL	27	994	66	2,174

(a) amount included under the heading "other receivables"

Note B5 - Investments in subsidiaries and associates

(€ thousands)	Total assets	Individual financial statements of companies accounted for by the equity method			Consolidated financial statements	
		Total liabilities	Sales	Net profit (loss) (a)	Investment	Group share of earnings
German subsidiary	Not available	Not available	4,033	790	472	189
Finnish subsidiary	172,665	172,665	850	92	47	40
TOTAL					519	229

(a)) Net profit (loss): since the German company was acquired at the beginning of 2003, its results for the financial years 2003 to 2005 are taken into account, reduced by the dividends paid by the subsidiary and the 2003 charge for goodwill amortisation.

Virbac has joint control of a Finnish company. In accordance with IAS 31, the Group has opted to account for this associate by means of the equity method.

Note B6 - Other receivables

(€ thousands)	2005		2004	
	Current	Non-current	Current	Non-current
Cash subject to restrictions and other blocked accounts	0	1,217	0	155
Due from staff and social security bodies	100		46	
Due from the state (taxes, etc.)	6,557		7,824	
Advances and payments on account to suppliers	924		827	
Current accounts - assets	252		386	
Accrued income	529		584	
Provisions on other receivables	-44		-105	
Derivatives - current	46		28	
Prepaid expenses	2,657		2,401	
Sundry receivables	742		295	
TOTAL	11,763	1,217	12,286	155

Note B7 - Deferred income tax

As at 31 December 2005, the main sources of deferred income tax were as shown in the following table:

(€ thousands)	Deferred tax assets		Deferred tax liabilities	
Pension commitments and post-employment benefits	1,676		Revaluation gain on intangible assets	6,268
Margin on inventories	2,758		Depreciation differences on property, plant and equipment	2,505
Amortisation and provisions on intangible assets	1,446		Regulated provisions	1,268
Losses carried forward	711		Other	537
Other	2,779			
TOTAL	9,370	TOTAL		10,578

Deferred tax assets not recognised in the consolidated financial statements for the year ended 31 December 2005 amounted €3,414 thousand and arose in the subsidiary Virbac Corp.

Note B8 - Inventories and work-in-progress

Breakdown of inventories and work-in-progress by type:

(€ thousands)	2005			2004		
	Gross	Provision	Net	Gross	Provision	Net
Raw materials and supplies	24,124	3,582	20,542	22,428	3,037	19,391
Work-in-progress	4,396	968	3,428	3,727	533	3,194
Finished products and goods	35,879	1,272	34,607	32,516	844	31,672
TOTAL	64,399	5,822	58,577	58,671	4,414	54,257

Change in inventory and work-in-progress provisions

(€ thousands)	2004 the year	Charge for used	Write-backs for the year				2005
			Amounts not used	Amounts	Reclassifications adjustment	Translation	
Raw materials and supplies	3,037	1,167	-1,193	-	198	373	3,582
Work-in-progress	533	968	-533	-	-	-	968
Finished products and goods	845	636	-594	-	349	36	1,272
TOTAL	4,415	2,771	-2,320	0	547	409	5,822

Note B9 - Trade receivables

(€ thousands)	France	Rest of Europe	Latin America	Asia	Africa / Middle East	North America	Pacific	Total
Gross trade receivables	19,699	21,491	8,907	5,191	3,368	5,009	7,609	71,274
Provisions for doubtful debts	546	1,026	810	254	0	30	50	2,716
Net trade receivables as at 31 December 2005	19,153	20,465	8,097	4,937	3,368	4,979	7,559	68,558

Note B10 - Cash and cash equivalents

(€ thousands)	2005	2004
Cash	13,039	13,585
Marketable securities	1,100	896
Cash and cash equivalents	14,139	14,481
Cash subject to restrictions	187	0
Bank overdrafts	-5,199	-6,256
Closing net cash	9,127	8,225

Note B11 - Shareholders' equity – Group share

Breakdown of reserve accounts

(€ thousands)	2005	2004
Share premiums	6,534	6,534
Other reserves and retained earnings	119,804	108,782
Legal reserve	1,089	1,089
Group consolidation reserves	-14,812	-19,769
Group translation reserves	4,768	-1,818
Total reserves and retained earnings	117,383	94,818

Treasury shares

At 31 December 2005, Virbac held treasury shares largely for the purpose of making available shares to be transferred to employees under the Group's stock option plans. The carrying amount of such shares is recognised as a deduction from shareholders' equity.

Since some of the plans matured during the year, some employees exercised their options. At 31 December 2005, the number of treasury shares totalled 231,559 (compared with 403,078 shares at 31 December 2004) with a carrying amount of €4,409 thousand.

Changes in shareholders' equity: breakdown of other changes during the year

(€ thousands)		
IFRS 2	Spreading of stock option charge	235
IFRS 2	Stock options: recognition of deferred tax on exercise of options	314
IAS 12	Recognition of a deferred tax asset in respect of earlier years	96
IAS 16	Adjustment of IFRS journal entries	-51
IAS 17	Adjustment of IFRS journal entries	-59
IAS 19	Adjustment of the commitment in respect of medical cover for the South African subsidiary	-79
IAS 38	Adjustment of IFRS journal entries	42
IAS 32 & 39	Change in derivatives	-803
IAS 32 & 39	Impact of underlying instruments (Net investment hedge)	932
Other changes in shareholders' equity		31
Total other changes in shareholders' equity over the period		658

Note B12 - Employee benefits

(€ thousands)	2005	2004
Post-employment benefits	3,067	2,599
Directors' pensions	1,878	1,251
Virbac RSA medical cover	586	268
Other employee benefits	522	588
TOTAL	6,053	4,706

Pension schemes and post-employment benefits

❖ Commitments in respect of post-employment benefits

Pursuant to a collective labour agreement, French companies in the Group pay retiring employees post-employment benefits in accordance with their salary and length of service. At 31 December 2005, the corresponding provision amounted to €3,067 thousand (compared with €2,599 thousand at 31 December 2004).

◆ Vesting of rights:

- executives: 12/100 per year of service
- non-executives: 10/100 per year of service
- discount rate: 4% (compared with 4.5% at 31 December 2004)
- social security rate: 46%
- rate of staff turnover: determined by category, the age of the employee and his/her length of service.

◆ Other parameters:

	Senior executives	Executives	Employees and supervisory staff	Manual workers and technicians
Retirement age	64	64	62	60
Rate of salary increase	2.5	2.5	1.5	1

❖ Retirement commitments

Virbac SA has recognised a provision in respect of the defined benefit plan established in 2003 for members of the Executive board. The provision totalled €1,878 thousand at 31 December 2005 (compared with €1,250 thousand at 31 December 2004).

The commitment in respect of past service was spread over the remaining period in accordance with the terms and conditions of the plan. At 31 December 2005, the amount of the commitment not recognised amounted to €497 thousand (compared with €697 thousand at 31 December 2004), i.e. an impact of €200 thousand on the net income of the period.

Virbac RSA medical cover

A medical cover plan has been implemented by the South African subsidiary for its employees and some of its former employees.

Other employee benefits

Provisions are recognised in the financial statements of the subsidiaries in respect of the various employee benefit systems in respect of post-employment benefits, pension schemes and health insurance.

Note B13 - Provisions

(€ thousands)	2004	Charge for the year	Write-backs for the year		Reclassifications	Translation adjustment	2005
			Amounts used	Amounts not used			
Commercial or staff litigation and disputes		15			420		435
Tax disputes	114						114
Other contingencies and losses							
Non-current	114	15	0	0	420	0	549
Commercial or staff litigation and disputes		-15			-420		-435
Tax disputes		0					0
Other contingencies and losses		2,869				1	2,870
Current	0	2,854	0	0	-420	1	2,435
TOTAL	114	2,869	0	0	0	1	2,984

The increase in provisions in 2005 corresponds mainly to estimated contractual sales expenses of Virbac France, which, until 2004, had been classified as trade payables (accruals for goods and services: invoices not yet received).

Note B14 - Financial liabilities

(€ thousands)	2005		2004	
	Current	Non-current	Current	Non-current
Bank borrowings and overdrafts	20,049	4,225	6,257	40,682
Liabilities in respect of finance lease contracts	0	3,595	0	3,921
Employee profit sharing	0	386	0	370
Conditional advances	491	0	0	557
Derivatives	2	190	74	92
Other financial liabilities	0	0	0	381
TOTAL	20,542	8,396	6,331	46,003

Note B15 - Other payables

(€ thousands)	2005		2004	
	Current	Non-current	Current	Non-current
Social security liabilities	13,526		13,703	
Tax liabilities	6,615		4,404	
Tax payable	1,666		4,092	
Advances and prepayments received on orders	1,270		868	
Current accounts - liabilities	614		463	
Deferred income	6,561		6,548	
Other operating liabilities	14,288	14,471	12,888	10,335
TOTAL	44,540	14,471	42,966	10,335

Note R1 - Sales

Sales breakdown as follows:

(€ thousands)	2005	2004
Sales of finished products and goods	397,175	369,462
Provision of services	167	255
Related products	309	441
Income from ordinary activities	397,651	370,158
Sales discounts and rebates and provisions for returns	-21,262	-15,257
Other sales-related expenses	-3,986	-3,497
SALES	372,403	351,404

Breakdown of sales by geographical region

Within the context of the information required by IAS 14, the Group has chosen an analysis by location of assets. However, in order to provide additional relevant information, we have also provided an analysis of sales made by location and market.

(€ thousands)	By location of customers and markets			By location of assets		
	2005	2004	Change (as %)	2005	2004	Change (as %)
France	91.1	89.1	2.2%	108.9	104.8	3.9%
Rest of Europe	120.7	113.1	6.7%	107.7	103.5	4.0%
North America	63.1	60.2	4.9%	63.5	60.9	4.3%
Latin America	25.1	21.3	18.0%	24.7	20.8	18.8%
Africa/Middle East	22.7	20.5	10.5%	18.4	15.0	22.7%
Asia	18.2	15.9	14.2%	16.5	14.5	13.8%
Pacific	31.5	31.3	0.6%	32.6	31.9	2.3%
TOTAL	372.4	351.4	6.0%	372.4	351.5	6.0%

Note R2 - Other operating revenues and expenses

(€ thousands)	2005	2004
Fees and rental payments	-1,486	-1,297
Bad debts written off	-427	-197
Carrying amount of non-current assets sold	-1,004	-1,751
Operating charges	-2,917	-3,245
Proceeds from the sale of non-current assets	603	790
Operating revenues	603	790
Other operating revenues and expenses	-1,590	-1,624
Total other operating revenues and expenses	-3,904	-4,079

Note R3 - Other non-recurring operating revenues and expenses

(€ thousands)	2005	2004
Gains on sales of businesses	0	2,584
Investigation and audit costs: Virbac Corp.	-1,763	-3,603
Compromise fine negotiated with the SEC	0	-401
Impairment of intangible assets	-4,447	0
TOTAL	-6,210	-1,420

The gain in 2004 was realised on the disposal of non-strategic commercial activities.

Note R₄ - Other financial income and expenses

(€ thousands)	2005	2004
Interest and related expenses	2,743	3,193
Foreign exchange losses	286	1,146
Other financial expenses	149	36
Total financial expenses	3,178	4,375
Foreign exchange gains	944	1,043
Other financial income	491	361
Total financial income	1,435	1,404
Net financial expenses	-1,743	-2,971

Note R₅ - Taxes

Reconciliation of the Group's effective tax rate:

(€ thousands)	2005		2004	
	Base	Tax	Base	Tax
Profit before tax	30,346		25,281	
Current tax		10,536		7,347
- French companies		2,599		537
- Foreign companies		7,937		6,810
Deferred tax		-2,032		300
- French companies		-2,484		522
- Foreign companies		451		-222
Total tax recognised		8,504		7,647
Effective tax rate		28.02%		30.25%
Theoretical tax rate	34.43%		35.43%	
Theoretical tax		10,448		8,957
Variance between theoretical tax and tax recognised		1,945		1,310

Transactions which affect the amount of tax:

Earlier years' deferred tax credits not previously recognised	-1,057	0
Impact of differing tax rates applied outside France	-308	-470
Impact of tax credits recognised in 2005	-760	-878
Impact of provisions for tax investigations	249	0
Impact of share of expenses and losses of non-consolidated companies	208	203
Impact of revenues taxable at a reduced tax rate	-104	-94
Impact of deductions at source charged to income	-23	-23
Other effects	-149	-48
Total transactions justifying the variance	-1,945	-1,310

For the financial years 2005 and 2004, the reconciliation of the effective tax rate has been calculated on the basis of the tax rate applicable in France for the relevant year, i.e. 34.43% and 35.43% respectively.

Note R6 - Breakdown of net income by geographical area

(€ thousands)	France	Rest of Europe	Latin America	Asia	Africa / Middle East	North America	Pacific	Total
Segment income	358	16,118	5,074	586	1,466	7,179	1,308	32,089
Operating profit before tax and financial expenses								32,089
Net financial expenses								-1,743
Profit before tax and minority interests								30,346
Share in earnings of associated companies								229
Tax charge								-8,504
Net profit for the year								22,071

Note R7 - Earnings per share

	2005	2004
Net profit – Group share (in euros)	19,798,772	16,725,625
Total number of shares	8,714,352	8,714,352
Impact of dilutive instruments	N/A	N/A
Treasury shares	231,559	403,078
Total number of shares outstanding	8,482,793	8,311,274
Earnings per share - basic	2.33	2.01
Earnings per share - diluted	2.33	2.01

Note A1 - Workforce

Workforce by function

	2005	%	2004	%
Production	908	41%	955	42%
Administration	337	15%	330	15%
Sales	768	34%	757	33%
Research and Development	217	10%	218	10%
TOTAL	2,230	100%	2,260	100%

Change in workforce by geographical area

	2005	2004	Change
Europe	1,223	1,240	-1%
North America	279	270	+3%
Latin America	233	218	+7%
Pacific	163	231	-29%
Asia	203	172	+18%
Africa/Middle East	129	129	0%
TOTAL	2,230	2,260	-1%

Note A2 - Stock options

Background information on the stock option plans in force at Virbac SA

Plan	Date from which options can be exercised	Exercise price	Balance at 01/01/2005	Options exercised during the year	Cancellations/transfers	Balance remaining to be exercised at 31/12/2005	Expiry date
19 April 2000	19/04/2002	16.61	132,500	85,327	11,000	36,173	14/04/2006
6 April 2001	06/04/2003	21.66	137,200	65,950	10,800	60,450	06/04/2007
27 July 2002	27/07/2004	32.88	60,000	0	4,400	55,600	27/07/2008
14 April 2003	14/04/2005	22.87	58,000	0	0	58,000	06/04/2009

Fair value of stock option plans in force

In accordance with IFRS 2, only those plans established after 7 November 2002 the rights of which had not been vested by 1 January 2005 were measured and recognised in Virbac's consolidated financial statements for the year ended 31 December 2005. Accordingly, only the 14 March 2003 plan comes within the scope of this standard. The total cost of the plan measured in accordance with the Black & Scholes method amounted to €396,720. This charge is to be spread over four years, from 2005 to 2008. The charge for the year ended 31 December 2005 was therefore €99,180.

The other three plans are measured as described below but were not recognised as at 31 December 2005. The total cost of these plans for the financial year 2005 amounted to €209,098.

The four plans were measured on the basis of the Black & Scholes model using the following assumptions:

	2003 Plan	2002 Plan	2001 Plan	2000 Plan
Underlying instruments	24.75	28	22.25	16.98
Exercise price	22.87	32.88	21.66	16.61
Volatility*	36.17%	37.95%	41.70%	32.36%
Discount rate**	3.45%	4.28%	3.84%	5.14%
Dividend rate***	3.2%	3.7%	4.3%	4.3%
Expected life (years)	4	4	4	4
Fair value	6.84	5.98	6.11	3.92

* The calculated volatility corresponds to the average volatility of the shares over the period of one year preceding the setting up of the plan.

** The discount rate corresponds to a risk-free rate over the period over which options may be exercised. The rate used is that of a zero-coupon bond.

*** The dividend rate corresponds to the ratio average dividends/average share price over three years (the year the plan was set up and the two preceding years).

Note A3 - Leases

The following table provides details of the main leases with rental charges recognised in the income statement for the year ended 31 December 2005:

Lessor	Purpose of the lease	Total rental paid in 2005 (€ thousands)
Diac	Car rental	907
Dial	Car rental	220
Arius	Computer hardware rental	29
IBM	Computer hardware rental	477
Xerobail	Office equipment rental	61
BNP Paribas	Office equipment rental	482
Barthelemy	Lifting equipment rental	109
BT France	Lifting equipment rental	159

Note A4 - Composition of Virbac's share capital

	2004	Increases	Decreases	2005
Number of shares authorised	8,714,352			8,714,352
Number of shares issued and fully paid-up	8,714,352			8,714,352
Number of shares issued and not fully paid-up	0			0
Nominal value of the shares	1.25			1.25
Shares outstanding	8,311,274	197,343	-25,824	8,482,793
Treasury shares	403,078	25,824	-197,343	231,559

Note A5 - Proposed dividends

The annual shareholders meeting will be asked to approve the payment of a net dividend of €0.65 per share. The shares have a nominal value of €1.25.

Note A6 - Financial instruments

Impact of financial instruments on changes in shareholders' equity:

	2004	Acquisitions (impact on shareholders' equity)	Impact on 2005 net profit	Change in shareholders' equity in 2005	2005
(€ thousands)					
Cash flow hedge - exchange rate	-38	21	0	38	21
Cash flow hedge - interest rate	-91	0	0	91	0
Net investments - hedge	932	0	-95	-932	-95
TOTAL	803	21	-95	-803	-74

Breakdown of derivatives:

	Nominal value		Positive fair value		Negative fair value	
(€ thousands)	2005	2004	2005	2004	2005	2004
Exchange rate instruments						
Forward exchange contracts	13,650	11,346	46	1,088	192	66
Over-the-counter foreign exchange options	0	0	0	0	0	0
Interest rate instruments						
Interest rate swaps	21,403	27,653	36	0	1	92
Interest rate options	6,403	12,653	0	50	0	0
TOTAL DERIVATIVES	41,456	51,652	82	1,138	193	158

Table of liabilities

The information provided below corresponds to amounts drawn down as at 31 December 2005 in respect of Virbac SA's total line of €100 million. The borrowing is partially hedged by the fixed rate swap.

(€ thousands)	2005			2004		
	Remaining term	Actual average interest rate as %	Carrying amount	Remaining term	Actual average interest rate as %	Carrying amount
Fixed-rate borrowing				2 days	3.440	13,000
Variable-rate borrowing	3 days	2.597	7,000	23 days	2.790	5,000
				23 days	2.795	5,000
TOTAL			7,000			23,000

Note A7 - Information on related parties

Directors' remuneration

(euros)	Fixed remuneration (including benefits in kind)	Remuneration paid in respect of appointments as directors within Group companies	Variable remuneration	Total remuneration
Mr Eric Marée	240,313	52,401	115,000	407,714
Mr Pierre Pagès	158,265	52,401	60,000	270,666
Mr Christian Karst	142,891	38,000	55,000	235,891
Mr Michel Garaudet	149,972		35,000	184,972
Mr Jean-Pierre Dick	30,638		15,000	45,638

The remuneration paid in respect of the financial year 2005 corresponds to the fixed remuneration paid in 2005, the remuneration in respect of appointments as directors in Group companies paid in 2005, the variable remuneration paid in 2006 in respect of 2005 and the benefits in kind granted in 2005 (company cars).

Transactions with non-consolidated subsidiaries

Not applicable.

Note A8 - Off-balance sheet commitments

Guarantees given:

- to the Virbac Foundation: €64,500
- to Sanofi/Navetco on behalf of Virbac Vietnam: €76,225

Note A9 - Contingent assets and liabilities

Not applicable.

Note A10 - Consolidation scope as at 31 December 2005

Fully consolidated subsidiaries	Nationality	% ownership	% control
Virbac SA - Carros	French	Parent company	
Virbac RSA (Pty) Ltd - Centurion	South African	100	100
Virbac Tierarzneimittel GmbH - Bad Oldesloe	German	100	100
Virbac Pharma Handelsgesellschaft mbH - Bad Oldesloe	German	100	100
Virbac Corporation - Fort Worth	American	60.09	60.09
Virbac Ltd - Bury St Edmunds	British	99.95	99.95
Virbac (Australia) Pty Ltd - Peakhurst	Australian	100	100
Virbac Österreich GmbH - Vienna	Austrian	100	100
Virbac Belgium SA - Wavre	Belgian	75.27	99.99
Virbac do Brasil Industria e comercio Ltda - Sao Paulo	Brazilian	100	100
Virbac Korea Co. Ltd - Seoul	South Korean	90	90
Virbac España SA - Barcelona	Spanish	100	100
Virbac Czv SL (JV) - Porrino Pontevedra	Spanish	100	100
Alfamed SAS - Carros	French	99.7	99.7
Soparlic SARL - Carros	French	100	100
Dog N'Cat International SAS - Vauvert	French	100	100
Francodex SAS - Carros	French	99.6	99.6
Interlab SAS - Carros	French	100	100
Virbac Distribution SAS - Wissous	French	100	100
Virbac France SAS - Carros	French	100	100
Virbac Nutrition SAS - Vauvert	French	100	100
Bio Vêto Test SAS - La Seyne sur Mer	French	100	100
Virbac SRL - Milan	Italian	99.9	99.9
Virbac Japan Co. Ltd - Osaka	Japanese	100	100
Laboratorios Virbac Mexico SA de CV - Guadalajara	Mexican	100	100
Virbac Mexico SA 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 (Switzerland) AG - Glattbrugg	Swiss	99.9	99.9
Virbac Thailand Co. Ltd - Bangkok	Thai	100	100
Virbac Vietnam JV Co. - Ho Chi Minh City	Vietnamese	75	75
Virbac Taiwan Co. Ltd - Taipei	Taiwanese	100	100
Virbac Colombia Ltda - Bogota	Colombian	100	100
Laboratorios Virbac Costa Rica SA - San José	Costa Rican	100	100
PPM Corporation - Framingham	American	100	100
Virbac Hellas SA - Agios Stefanos	Greek	100	100
Animedica SA - Agios Stefanos	Greek	100	100
Subsidiaries accounted for by the equity method		% ownership	% control
German subsidiary		24	24
Finnish subsidiary		44	44

Transition to IFRS

Restatement of 2003 and 2004 financial statements - List of tables

Conversion to IFRS of opening shareholders' equity

Conversion to IFRS of balance sheet as at 31 December 2003

Conversion to IFRS of balance sheet as at 31 December 2004

Conversion to IFRS of income statement for the year ended 31 December 2004

Opening consolidated shareholders' equity (restated) at 1 January 2004

	Share capital	Share premium	Consolidation reserves	Profit	Translation adjustment	Total
Shareholders' equity – Group share						
at 31 December 2003 - French GAAP	10,893	6,534	112,844	0	-11,728	118,543
Reclassification within reserves of translation adjustment			-11,728		11,728	0
Treasury shares			-6,589			-6,589
Adjustment of depreciation and amortisation			6,543			6,543
Impact of IAS 38 on intangible assets		-743			-743	
Adjustment of goodwill			-380			-380
Cancellation of deferred charges			-364			-364
Impact of IAS 18 on revenue recognition		-1,451			-1,451	
Deferred tax assets on IFRS restatements		1,231			1,231	
Deferred tax liabilities on IFRS restatements		-2,379			-2,379	
Corrections of errors: Virbac Corp.			-4,488			-4,488
Impact on minority interests of Virbac Corp. restatements			1,808			1,808
Impact of IAS 17 on leases		-194			-194	
Impact of IAS 32 and 39 on financial instruments		-560			-560	
Other changes			-8			-8
Shareholders' equity – Group share						
at 1 January 2004 - IFRS	10,893	6,534	93,542	0	0	110,969
Minority interests at 31 December 2003 - FR GAAP	0	0	13,581	0	-3,039	10,542
Reclassification within reserves of translation adjustment		-3,039		3,039	0	
Impact on minority interests of Virbac Corp. restatements			-1,808			-1,808
Minority interests at 1 January 2004 - IFRS	0	0	8,734	0	0	8,734

Transition to IFRS

Consolidated balance sheet (restated) at 31 December 2003

(€ thousands)	2003 FR GAAP	Reclassifications	Restatements	2003 IFRS	
NON-CURRENT ASSETS					
Goodwill	28,983		-380	28,603	Impact of application of IFRS 3
Intangible assets	39,646		-743	38,903	Impact of application of IAS 38
Property, plant and equipment	56,508		8,463	64,971	Impact of application of IAS 16 and IAS 17
Financial assets	2,221			2,221	
Deferred tax assets	10,014		1,231	11,245	IAS 12: deferred tax on IFRS restatements
	137,372	0	8,571	145,943	
CURRENT ASSETS					
Inventories and work-in-progress	63,086	714	228	64,028	Combined impact of application of IAS 2 and IAS 18
Trade receivables	49,825	13,049	-1,679	61,195	Impact of application of IAS 18
Other receivables	18,318	-953	-372	16,993	Reclassification of deferred charges to past service costs and cancellation of other deferred charges
Cash and cash equivalents	16,712		-6,589	10,123	Treasury shares
	147,941	12,870	-8,412	152,339	
TOTAL ASSETS	285,313	12,810	159	298,282	
SHARE CAPITAL AND RESERVES					
Shareholders' equity – Group share	118,543		-7,574	110,969	
Minority interests	10,542		-1,808	8,734	Impact on minority interests of IFRS restatements
Shareholders' equity and minority interests	129,085	0	-9,382	119,703	
NON-CURRENT LIABILITIES					
Deferred tax liabilities	7,857		2,379	10,236	IAS 12: deferred tax on IFRS restatements
Long-term provisions	6,431	-953		5,478	Reclassification of deferred charges to past service costs (IAS 19)
Financial liabilities due over one year	61,087	-8,551	2,114	54,650	Impact of application of IAS 17
	75,375	-9,504	4,493	70,364	
CURRENT LIABILITIES					
Trade payables	38,932	714		39,646	Impact of application of IAS 18
Financial liabilities due within one year	0	8,551	560	9,111	Reclassification of liabilities as current and non-current
Other payables due within one year	41,921	13,049		54,970	Impact of application of IAS 18
	80,853	22,314	560	103,727	
Correction of 2004 errors	0	0	4,488	4,488	Corresponding entry in the balance sheet of corrections of errors noted in 2004
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	285,313	12,810	159	298,282	

Transition to IFRS

Consolidated balance sheet (restated) at 31 December 2004

ASSETS

(€ thousands)	2004 FR GAAP	Impact of IFRS		2004 IFRS	
		Reclassifications	Restatements		
NON-CURRENT ASSETS					
Goodwill	29,616	321	1,538	31,475	Impact of application of IFRS 3 Business goodwill reclassified within goodwill arising on consolidation Goodwill no longer amortised
Intangible assets	50,508	-321	-708	49,479	Impact of application of IAS 38 Intangible assets with indefinite useful lives no longer amortised Capitalisation of costs of certain projects previously expensed Expensing, rather than capitalising, of expenses on internally-generated trademarks
Property, plant and equipment	56,994		9,258	66,252	Impact of application of IAS 16 and IAS 17 Revision of depreciation periods of property, plant and equipment combined with the component approach Restatement of finance lease contracts
Financial assets	1,265		-155	1,110	Impact of application of IAS 32 and IAS 39
Derivatives due in more than one year	0		1,064	1,064	Impact of application of IAS 32 and IAS 39
Deferred tax assets	5,080		1,165	6,245	IAS 12: Deferred tax on IFRS restatements
Cash subject to restrictions	0	155		155	Reclassification of blocked accounts
	143,463	155	12,162	155,780	
CURRENT ASSETS					
Inventories and work-in-progress	53,603		654	54,257	Combined impact of application of IAS 2 and IAS 18
Trade receivables	45,609	13,243	-1,523	57,329	Impact of application of IAS 18 Reclassification as liabilities of outstanding credit notes
Derivatives, due within one year	0		66	66	Impact of application of IAS 32 and IAS 39
Other receivables	13,546	28	-1,354	12,220	Cancellation of deferred charges
Cash and cash equivalents	14,673	-155	-37	14,481	Impact of application of IAS 32 and IAS 39
	127,431	13,116	-2,194	138,353	
TOTAL ASSETS	270,894	13,271	9,968	294,133	

Transition to IFRS

LIABILITIES AND SHAREHOLDERS' EQUITY

(€ thousands)	2004 FR GAAP	Impacts Reclassifications	IFRS Restatements	2004 IFRS	
SHARE CAPITAL AND RESERVES					
Share capital	10,893			10,893	
Share premium	6,534			6,534	
Reserves and profit for the year	100,913		4,097	105,010	Impact of IFRS restatements on shareholders' equity
Shareholders' equity – Group share	118,340	0	4,097	122,437	
Minority interests	8,406		327	8,733	Impact of IFRS restatement on minority interests
Shareholders' equity and minority interests	126,746	0	4,424	131,170	
NON-CURRENT LIABILITIES					
Deferred tax liabilities	7,401		2,530	9,931	IAS 12: deferred tax on IFRS restatements
Provisions for employee benefits	0	4,706		4,706	Reclassification of liabilities as current and non-current
Other long-term provisions	5,762	-5,648		114	Reclassification of liabilities as current and non-current
Financial liabilities due over one year	49,897	-6,292	2,306	45,911	Impact of application of IAS 17 Recognition of a liability in respect of finance lease contracts
Other payables due in more than one year	0	10,335		10,335	Reclassification of liabilities as current and non-current
Derivatives due in more than one year	0		92	92	Impact of application of IAS 32 and IAS 39
	63,060	3,101	4,928	71,089	
CURRENT LIABILITIES					
Provisions due within one year	0	942		942	Reclassification of liabilities as current and non-current
Trade payables	37,869	-868	542	37,543	Impact of IAS 2
Tax payable	0	4,092		4,092	Presentation reclassification
Financial liabilities due within one year	0	6,257		6,257	Reclassification of liabilities as current and non-current
Other payables due within one year	43,219	-253		42,966	Presentation reclassification
Derivatives, due within one year	0	0	74	74	Impact of application of IAS 32 and IAS 39
	81,088	10,170	616	91,874	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	270,894	13,271	9,968	294,133	

Transition to IFRS

Income statement (restated) for the year ended 31 December 2004

(€ thousands)	2004 French GAAP published	Impact of IFRS		2004 IFRS	
		Reclassifications	Restatements		
SALES	358,454	-7,170	120	351,404	a
Purchases consumed	-116,196	147	-132	-116,181	b
External expenses	-87,657	3,497	323	-83,837	c
Personnel costs	-95,219	-562	-335	-96,116	d
Taxes and duties	-9,364	606	0	-8,758	
Depreciation and amortisation	-12,824	-626	689	-12,761	e
Other revenues and expenses	-2,874	-1,167	-38	-4,079	
Operating profit on ordinary activities	34,320	-5,275	627	29,672	
Other non-recurring revenues and expenses	0	-1,420	0	-1,420	
OPERATING PROFIT	34,320	-6,695	627	28,252	
Financial income and expenses	-5,783	3,052	-240	-2,971	f
Non-recurring income and expenses	-3,643	3,643	0	0	
PROFIT BEFORE TAX	24,894	0	387	25,281	
Correction of errors	-4,488	0	4,488	0	
Tax charge	-6,973	0	-674	-7,647	g
Amortisation of goodwill	-2,408	0	2,408	0	h
CONSOLIDATED NET PROFIT	11,025	0	6,609	17,634	
Of which					
Group share	12,180			16,726	
Minority interests	-1,155			908	i

Transition to IFRS

Breakdown of effects of conversion to IFRS on the income statement for the year ended 31 December 2004

	Standard	Effects of conversion
a	IAS 18	Reclassifications: - discounts given have been reclassified as a deduction from sales - certain charges have been reclassified as a deduction from sales since they were incurred in connection with the sales policy of the subsidiaries concerned.
	IAS 18	The adoption of IAS 18 has resulted in cut-off on revenue recognition in respect of sales until the effective transfer of the risks and rewards. At the year end closing this difference is not material, given the fact that deliveries stop during the end-of-year celebrations at some subsidiaries.
b	IAS 2	The cut-off on revenue recognition (IAS 18) has resulted in an increase in closing inventories.
c	IAS 18	Reclassifications: corresponding to the charges that have been reclassified as a deduction from sales.
	IAS 17	Certain leases have been restated in accordance with the principles applicable to finance leases.
	IAS 38	Expenses in respect of internally-developed trademarks may no longer be capitalised.
d	IAS 1	Reclassifications: change in the provision for employee benefits (pensions, post-employment benefits, etc.).
e	IAS 1	Reclassifications: change in provisions classified as non-recurring (excluding employee benefits).
	IAS 16	Impact of revision of depreciation periods applied to property, plant and equipment.
f	IAS 1	Reclassifications: discounts granted are presented as a deduction from sales.
	IAS 32 & 39	Impact of restatements at fair value of financial assets and liabilities.
g	IAS 12	Impact of tax on IFRS restatements.
h	IFRS 3	Goodwill no longer amortised.
i		Impact on minority interests of IFRS restatements.

Statutory auditors' report

Consolidated financial statements for the year ended 31 December 2005

In accordance with the assignment entrusted to us by the shareholders in General meeting, we have audited the consolidated financial statements of Virbac for the year ended 31 December 2005, as attached to this report. The consolidated financial statements were prepared by the Executive board. Our responsibility is to express an opinion on these financial statements, based on our audit. These financial statements have been prepared for the first time in accordance with the IFRS framework as adopted by the European Union. They comprise, by way of comparison, the data relating to the financial year 2004 restated in accordance with the same rules.

I. Opinion on the consolidated financial statements

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

In our opinion, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and results of the consolidated group of companies and other entities in accordance with the IFRS framework as adopted within the European Union.

II. Justification of our assessments

In accordance with the requirements of article L.823-9 of the French *Code de commerce* relating to the justification of our assessments, we draw to your attention the following matters:

at each balance sheet date, the Company systematically carries out an impairment test in respect of goodwill and intangible assets with indefinite useful lives and also assesses whether there is any indication of impairment in respect of its long-term assets, in accordance with the procedures described in the note to the financial statements entitled "accounting policies". We have examined the procedures for carrying out these impairment tests as well as the forecast cash flows and assumptions used and have verified that the note entitled "accounting policies" provides appropriate information.

These assessments form part of our audit of the consolidated financial statements as a whole and therefore contributed to the formation of the audit opinion expressed in the first section of this report.

III. Specific verification

We have also verified the information provided in the Group management report, in accordance with professional standards applicable in France. We have no matters to report regarding its fair presentation and its conformity with the consolidated financial statements.

Nice and Marseilles

25 April 2006

The Statutory auditors

David & Associés
Roger DAVID

Deloitte & Associés
Vincent GROS

Supervisory board report

The Executive board presented to the Supervisory board, which approved them, the financial statements and management report for the year ended 31 December 2005.

The Group's consolidated sales increased by 6% to €372.4 million. At constant scope and exchange rates, the increase over 2004 would have been 4.9%. Operating profit from ordinary activities totalled €38.3 million (10.3% of sales), a significant (29.1%) increase over 2004, due mainly to the improvement of nearly two points in the gross margin rate and to the fact that operating costs rose at a slightly lower rate than sales. In addition, non-recurring expenses rose from €1.4 million in 2004 to €6.2 million in 2005, composed mainly of the most recent non-recurring expenses of Virbac Corporation and impairment losses in respect of the Group's intangible assets.

The net profit of €19.8 million was 18.4% higher than in 2004.

Other financial developments included the continuing reduction in the Group's ratio of net debt to shareholders' equity, which fell from 31% at the end of 2004 to 10% at the end of 2005. The Group thus has significant capacity to make major acquisitions. Moreover, the purchase of Glaxo's veterinary business in India is expected to take place in the first half of 2006. In addition, the Group expects to launch a successful takeover bid to acquire all of the shares that it does not already own in its US subsidiary Virbac Corporation.

As regards changes in the Group's structure, in June 2005 Virbac SA acquired its main Greek distributor Zoforos, which, in six months, generated €1.4 million of additional sales. In October 2005, the Group divested itself of the non-strategic assets of MR Manufacturing and Packaging, an Australian company involved in the processing of human pharmaceutical products, which posted sales of €3.7 million in 2005.

Also of note is the excellent performance of the share price, which closed at €39.8 at the end of 2005, representing a 52.5% increase over the year in which the SBF 250 index increased by only 25.3%.

The General ordinary shareholders meeting will be asked to approve the payment of a dividend of €0.65 per share. In total, the dividends per share paid for 2005 will be 18% higher than those for 2004.

The Supervisory board is currently composed of six members, of which three are independent. The Board met formally on six occasions during the year, and on many other occasions for more informal work sessions. The Audit committee met three times during the year and the Compensation committee met four times.

The Supervisory board once again expressed its complete confidence in the Executive board by renewing, on 16 December 2005, its term of office for a further three years.

On 4 April 2006, Jeanine Dick, who had been Chairman of the Supervisory board since 1993, decided in her seventieth year to hand over to Marie-Hélène Dick, who was already a member of the Board in her capacity as representative of Investec. Marie-Hélène Dick was thus appointed Chairman and Jeanine Dick Vice-Chairman of the Supervisory board, the other members remaining unchanged. We would like to thank Jeanine Dick for having, in her role as Chairman of the Board, promoted and encouraged the Group's development for more than 13 years.

Similarly, the Supervisory board would like to thank the members of the Executive board, Virbac's managerial staff and all of its employees worldwide for their continuing hard work, commitment and enthusiasm and the shareholders for their loyalty to the Group.

Resolutions put to the General ordinary and extraordinary shareholders meeting of 29 June 2006

I - Within the competence of the General ordinary shareholders meeting

First resolution

The General meeting, ruling under the conditions of *quorum* and majority required for General ordinary meetings, having heard the report of the Executive board, the report of the Supervisory board, the report of the Chairman of the Supervisory board on internal control and the report of the Statutory auditors, approves the annual financial statements for the year ended 31 December 2005 as presented and the transactions recorded in the financial statements or summarised in the reports.

The General meeting also approves the expenditure incurred during the year ended 31 December 2005 that comes within the scope of article 39-4 of the French General Tax Code (*code général des impôts*). Such expenditure amounted to €44,210.

Accordingly, the General meeting gives the members of the Executive board full discharge in respect of the performance of their duties for the said financial year.

Second resolution

The General meeting, ruling under the conditions of *quorum* and majority required for General ordinary meetings, having heard the report of the Executive board, the report of the Supervisory board and the report of the Statutory auditors for the year ended 31 December 2005, approves the consolidated financial statements for said financial year, as presented.

The General meeting also approves the transactions recorded in the financial statements or summarised in the reports.

Third resolution

The General meeting, ruling under the conditions of *quorum* and majority required for General ordinary meetings, decides to allocate the net profit for the year of €15,821,047 as follows:

- Net income for the year	€15,821,047
- Increased by retained earnings brought forward of	€12,276,727
- Forming distributable profit of	€28,097,774
- Dividend distribution	€5,664,329
- Retained earnings carried forward	€10,156,718

Total, equal to the net income of the year	€15,821,047

The dividend allocated to each share with a nominal value of €1.25 amounted to €0.65. Dividends will be paid on 27 July 2006.

The meeting decides that, in accordance with the provisions of article L.225-210 of the French *Code de commerce*, the amount of the dividends in respect of the treasury shares held as at the date of payment will be allocated to retained earnings.

This dividend is eligible for the 40% reduction specified by article 158-3 2 of the French General Tax Code for individual shareholders domiciled in France.

As required by law, details of the dividends paid in respect of the preceding three financial years are provided in the table below:

Year	Net dividend	Tax credit	Total income	Amount paid
2002	€0.63	€0.32	€0.95	€5,234,220.18
2003	€0.48	€0.24	€0.72	€3,988,153.92

Exercice	Net dividend	Income paid eligible for the 50% reduction	Income paid not eligible for the 50% reduction	Amount paid
2004	€0.55	€0.55	None	€4,617,723.00

Fourth resolution

The General meeting, ruling under the conditions of *quorum* and majority required for General ordinary meetings, having heard the special report of the Statutory auditors on agreements subject to articles L.225-86 et seq. of the French *Code de commerce*, approves the report and the agreements referred to therein.

Fifth resolution

The General meeting, ruling under the conditions of *quorum* and majority required for General ordinary meetings, ratifies the provisional appointment, made by the Supervisory board at its meeting on 16 December 2005, of ASERGI, whose registered office is at 26 Bis, rue du Regard, 92380 Garches, France, represented by Mr Pierre Madelpuech, whose address is 26 Bis, rue du Regard, 92380 Garches, France, as a member of the Supervisory board to replace Mr Pierre Madelpuech.

ASERGI will perform its duties for the remainder of its predecessor's term of office, that is until the close of the General meeting called to approve the financial statements for the year ended 31 December 2009.

Sixth resolution

The General meeting, ruling under the conditions of *quorum* and majority required for General ordinary meetings, ratifies the provisional appointment, made by the Supervisory board at its meeting on 4 April 2006, of Mrs Marie-Hélène Dick, whose address is 26 Bis, rue du Regard, 92380 Garches, France, as a member of the Supervisory board to replace Investec.

Mrs Marie-Hélène Dick will perform her duties for the remainder of her predecessor's term of office, that is until the close of the General meeting called to approve the financial statements for the year ended 31 December 2009.

Seventh resolution

The General meeting, ruling under the conditions of *quorum* and majority required for General ordinary meetings, resolves, for the current year, to set at €91,500 the total amount of attendance fees to be allocated by the Supervisory board between its members.

Eighth resolution

The General meeting, ruling under the conditions of *quorum* and majority required for General ordinary meetings, having acquainted itself with the report of the Executive board, authorises the Executive board, with the option of sub-delegation, in accordance with articles L.225-209 et seq. of the French *Code de commerce*, to purchase the Company's shares up to a limit of 5% of the Company's share capital on the date of this meeting.

Shares may be purchased with a view to:

- ❖ an investment services provider, acting independently, stimulating the liquidity of or the market for the shares by means of a liquidity contract in accordance with the code of business ethics recognised by the French financial markets authority (*Autorité des marchés financiers*);
- ❖ their allocation, free of charge, in accordance with the provisions of articles L.225-197-1 et seq. of the French *Code de commerce*.

The maximum purchase price must not exceed €70 per share.

The maximum amount of funds that may be used to repurchase the Company's shares, after taking into account the 178,950 shares already held at 30 April 2006, is set at €17,973,760.

In the event of a capital increase by means of the capitalisation of reserves, the attribution of bonus shares, a stock split or reverse stock split, this amount will be adjusted by a coefficient equal to the ratio between the number of shares making up the share capital before the transaction and the number after the transaction.

This authorisation, which cancels and replaces all previous authorisations of the same nature, and, in particular, that granted by the General meeting of 14 October 2005 (ninth resolution), is granted for a period of eighteen months as from the date of this meeting.

All powers are invested in the Executive board, with the option of delegation, to place any orders, conclude any agreements, carry out any formalities and make any declarations to any bodies, in particular the French financial markets authority (*Autorité des marchés financiers*) and, generally, to do all that is necessary for the implementation of transactions carried out under the terms of this authorisation.

II - Within the competence of the Extraordinary shareholders meeting

Ninth resolution

The Extraordinary shareholders meeting, ruling under the conditions of *quorum* and majority required for Extraordinary shareholders meetings, having acquainted itself with the report of the Executive board and the special report of the Statutory auditors, resolves, in accordance with articles L.225-129-1, L.225-129-6 section 2 and L.225-138-1 of the French *Code de commerce* and articles L.443-1 et seq. of the French labour code (*code du travail*), to increase the Company's share capital by a maximum amount of €231,140 by the issue of shares, to be paid up in cash, reserved for employees of the Company (and of companies connected to it within the meaning of article L.225-180 of the French *Code de commerce*) that are members of a corporate savings plan.

The Extraordinary shareholders meeting decides to withdraw the preferential subscription right of shareholders in favour of the members of the Company's corporate savings plan.

The Extraordinary shareholders meeting delegates all powers to the Executive board, with the option of sub-delegation to the Chairman of the Executive board in accordance with the provisions of article L.225-129-4 of the French *Code de commerce*, to implement this decision within the limits and subject to the conditions laid down above, specifically to the following effect:

- ❖ to increase the share capital in accordance with this resolution on one or more occasions;
- ❖ to set the length-of-service conditions to be fulfilled by the employees who are members of the corporate savings plan in order to qualify for new shares and, within legal limits, the timescale granted to subscribers to pay up their shares;
- ❖ to determine whether the applications are to be made through a collective investment fund or directly;
- ❖ to decide on the number and characteristics of the shares to be issued, the subscription price in accordance with the conditions stipulated by article L.443-5 of the French labour code (*code du travail*), the duration of the application period, the date from which the new shares will bear dividends and, more generally, all the terms and conditions applicable to the issue;

- ❖ to record the finalisation of each capital increase up to the extent of the amount of shares effectively applied for;
- ❖ to proceed with the formalities connected therewith and to amend the Memorandum and articles of association accordingly;
- ❖ if it judges it appropriate, to charge the costs of the capital increase to the amount of the premium related to the increase and to deduct from said amount the sums required to bring the legal reserve to one-tenth of the new capital;
- ❖ to take all measures to record the capital increase or increases carried out in accordance with this authorisation up to the extent of the amount of shares effectively issued, amend the Memorandum and articles of association accordingly and, generally, do all that is necessary.

This authorisation is valid for a period of five years from the date of this meeting.

Tenth resolution

The Extraordinary shareholders meeting, ruling under the conditions of *quorum* and majority required for Extraordinary shareholders meetings, having acquainted itself with the report of the Executive board and the special report of the Statutory auditors, and in accordance with articles L.225-197-1 et seq. of the French *Code de commerce*:

- ❖ authorises the Executive board to allocate, on one or more occasions, for the benefit of managerial staff or certain categories of managerial staff as well as corporate officers as defined by article L.225-197-1 of the French *Code de commerce*, of both Virbac and companies directly or indirectly linked to it as defined in accordance with article L.225-197-2 of the French *Code de commerce*, bonus shares, such shares to be existing Virbac shares;
- ❖ decides that the Executive board shall determine the beneficiaries of the bonus shares as well as the conditions and criteria for the allocation of the shares, which will be linked to the Group's performance;
- ❖ decides that the total number of such bonus shares shall not exceed 1% of Virbac's share capital as of today's date;
- ❖ decides that the allocation of such shares to the beneficiaries shall become definitive at the end of an acquisition period of not less than two years and that the minimum period for which beneficiaries shall be required to hold such shares shall be set at two years, the Executive board having all powers to set longer periods in the case of the acquisition period and period for which beneficiaries shall be required to hold the shares, up to a maximum of four years;
- ❖ authorises the Executive board to, where necessary, make adjustments to the number of shares allocated to take account of any transactions in Virbac's capital;
- ❖ sets at 38 months as from the date of this Extraordinary shareholders meeting the duration of this authorisation.

The Extraordinary shareholders meeting invests all powers in the Executive board, with the latter having the option to sub-delegate within the limits set by law, to implement this authorisation, carry out any formalities, make any declarations and generally to do all that is necessary.

Any actions taken by the Executive board under the terms of this authorisation must receive the prior approval of the Supervisory board.

Eleventh resolution

The Extraordinary shareholders meeting grants all powers to the bearer of an original, copy or extract of these minutes to carry out all filings, formalities and notifications required.

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.

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

Registration: see marketing authorisation.

Electronic identification: animal identification by a tiny subcutaneous implant containing a microchip called a transponder. A specific scanner reads at a distance the unique animal ID number engraved on the transponder.

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).

Lean manufacturing : method which aims to focus on maximising added value for the customer while optimising the resources used.

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

SANZA : South Africa, New Zealand and Australia.

Index

Page 5

- ◆ Shareholder structure
- ◆ Animal health market by species
- ◆ Breakdown of sales

Pages 8 and 9

- ◆ Change in sales
- ◆ Change in results
- ◆ Change in cash flow
- ◆ Internal growth
- ◆ Change in investments
- ◆ Financial structure

Page 12

- ◆ Share price
- ◆ Gearing ratios

Page 17

- ◆ Geographical breakdown of R&D expenditure

Animals viewed by Frédéric Decante

Frédéric Decante has a passion for animals: a well-known veterinarian and keen photographer, he alternates between, and develops as a result of, both activities. His photographs of companion and food producing animals, which he produces in both black and white and colour and in a wide variety of lay-outs, formats, etc., are so instantaneous that we gain a close understanding of the animals, the work of veterinarians and the links that unite them. His experience and knowledge of the animal world heightens his powers of observation and the accuracy of his photography, resulting in work that is both touching and realistic.

His work has captivated Virbac, which has decided to give it considerable exposure in the 2005 edition of its annual report. All the photos on the inside pages were taken by Frédéric Decante. Virbac's way of paying homage to those who, like Virbac, have a keen interest in animal health.

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The Virbac logo consists of the word "Virbac" in a white, italicized, sans-serif font, positioned above a thin red horizontal line. The entire logo is set against a solid blue rectangular background.