

A high-contrast, close-up photograph of a cow's face, focusing on its white muzzle and dark eyes against a black background.

2006 Annual report

Passionate about animal health

Virbac



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Mission statement

An animal health specialist, Virbac has been looking after companion and food producing animals for close to 40 years. Striving to enhance our knowledge and understanding of them every day, we look to design treatments that meet their specific needs.

We offer practitioners and animal owners products that are easy to use and services that are ever more effective.

We also make every effort to promote animal health throughout the world.

All these missions are an inherent part of our business.

Virbac, passionate about animal health



A message from the Chairman

2006 was a very successful year for Virbac, with positive results being posted in most fields.

Growth first and foremost speeded up. Pro forma sales rose 6.8% and, as in 2005, involved all regions and our two major business activities: drugs and health products for companion and food producing animals. This growth was helped along by a positive trend in global markets, which was particularly marked in the United States and in the companion animal segment. The drugs for the food producing animal segment, which is still the largest, grew, as it did in 2005.

This strong organic growth was augmented by a series of acquisitions. At the end of July, we agreed the acquisition of GlaxoSmithKline's veterinary division in India, which propels us into a leadership position in a market that is already sizable and, more importantly, has significant future growth prospects. On a full-year basis, this acquisition will generate an additional €21 million in sales, with operating profitability in excess of the Group average. At the end of the year, we acquired an Italian company specialised in antibiotics for pigs, which will generate an additional €4 million in sales annually and complement the product range, in a country where we are looking to make up ground in development terms compared to the other major European markets. Lastly, we also finally completed our bid for the 40% minority interests in Virbac Corporation. This deal will enable us to resolve a real strategic and operational dilemma and to plan for expansion in the United States that is faster, better controlled and more in line with the rest of the Group.



Éric Marée, Chairman of the executive board of Virbac

This higher growth, combined with better cost control, enabled us to improve operating profitability by half a point, despite the fact that R&D expenditure rose faster than expected. Net profit rose even faster, jumping by over 25%, representing a net margin of over 6% of sales. At the same time, cash flow remained strong thanks to the rise in profitability and better control of the working capital requirement and investments, enabling us to finance the €82.5 million in acquisitions during the year while keeping debt at very reasonable levels; the net debt to equity ratio is still under 42%.

We were also able to launch a series of new products during the year that will drive growth in 2007, in particular a new version of our canine internal parasiticide for heart worms in the United States, Iverhart Max™. We also made great progress on projects established to continually improve the company's operating performance, in particular ongoing improvement initiatives in our plants and the programme to optimise sales and marketing expenditure in Europe. We also continued to invest in the worldwide roll out of our main IT systems and in the development of human resources.

In 2007, we expect the business to grow significantly, on the back of organic growth that is likely to be similar to that in 2006 and the full-year impact of the 2006 acquisitions. We continue to look for possible acquisitions to strengthen our positions in countries where our market share is still low. We moreover believe that this level of growth and the ongoing operational optimisation programmes should enable us to further improve operating profitability. Net profit, which will benefit from the accretive effect of the buyout of the minority interests in the United States, should, in this regard, see double-digit growth.

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.

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.

Members of the supervisory board
(from left to right):
Philippe Capron,
Pierre Madelpuech, Xavier Yon,
Marie-Hélène Dick,
François Guinot and Jeanine Dick.





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

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 **Jean-Pierre Giraud**.

Overview

of the Group



Profile

9th global veterinary pharmaceutical company*

6th veterinary pharmaceutical company in Western Europe**

2,564 employees

+6.8% growth in sales in 2006***

* Wood Mackenzie

** CEESA Western Europe

*** Pro forma at constant exchange rates

Position	Companies	2006 sales in \$ million	Market share
1	Pfizer	2,311	14.4%
2	Merial	2,195	13.7%
3	Intervet	1,412	8.8%
4	Bayer	1,061	6.6%
5	Fort Dodge	936	5.8%
6	Schering-Plough	910	5.7%
7	Novartis	884	5.5%
8	Elanco	876	5.4%
9	Virbac*	486	3.0%
10	Boehringer Ingelheim	469	2.9%

(Source: Wood Mackenzie)

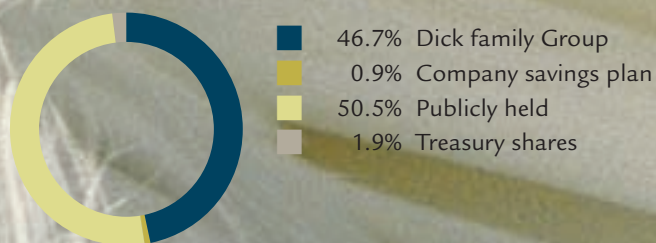
* excluding animal food

Stock Market

Virbac SA has been listed on the Paris Stock Market since 1985.

As of 31 December 2006, **46.7%** of capital and **64%** of voting rights are held by the family of Virbac's founder.

Breakdown of shareholders



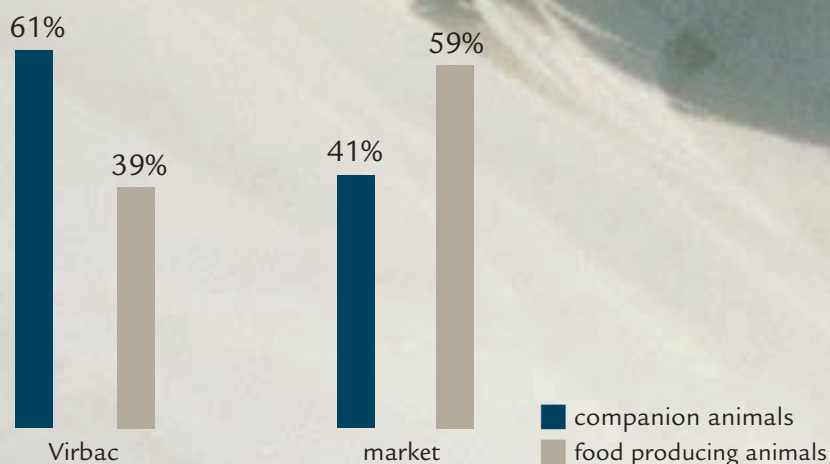
Focusing resources on two businesses

A pioneer in the field of companion animal health, Virbac now holds a leading position in this market: **6th** globally (Wood Mackenzie) and **5th** in Western Europe (CEESA Western Europe).

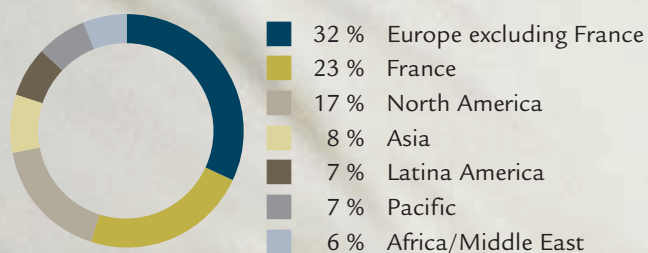
The Group has a more selective presence in the food producing animal health market where it holds solid positions in the most lucrative segments: **10th** globally in the food producing animal market (pigs and ruminants) (Wood Mackenzie).



Animal health market by species



Breakdown of sales



A strong international footprint

77% of sales are from outside France

25 sales subsidiaries outside France

A commercial presence in over **100** countries

61% of employees outside France

5 R&D centres

Production sites in **7** countries

A worldwide Group

North America
€68 million

Latin America
€27.5 million

Geographic breakdown of sales

- Group Head Office
- Subsidiaries outside France
- Production sites
- Research and development centres

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 2006, 77% of sales were generated outside France.

Virbac's growing international presence can also be seen in its workforce, now 61% 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.

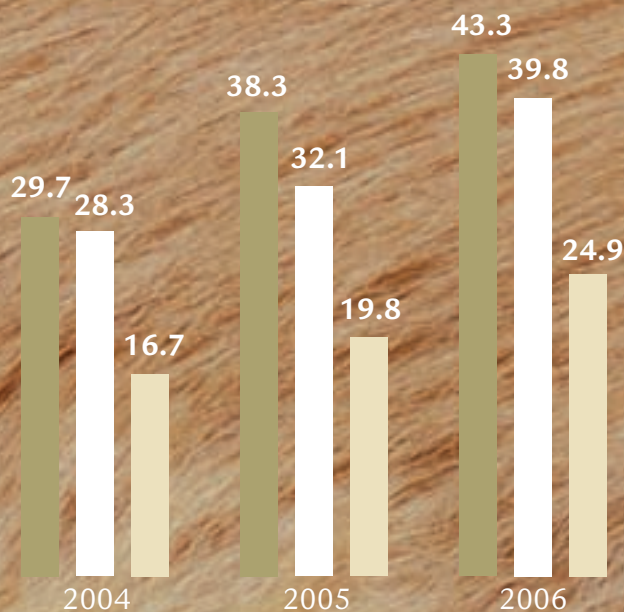


Key figures

Sales
(in € million)

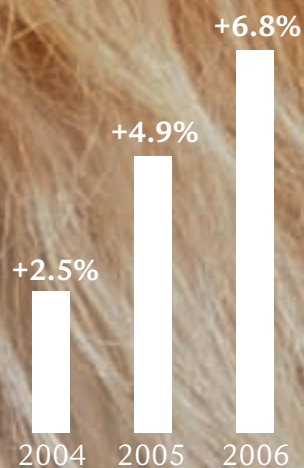


Profit
(in € million)



-  Current profit from operations
-  Operating profit after non-recurring items
-  Net income - Group share

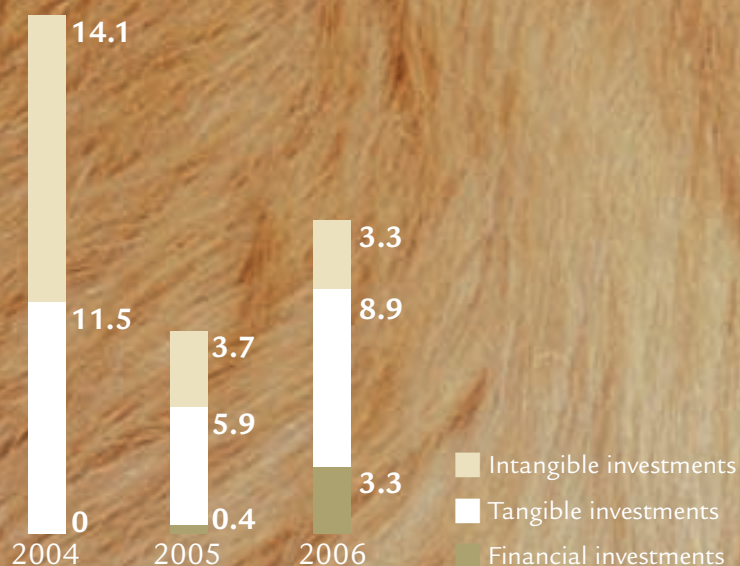
Virbac organic growth
(at constant exchange rates)



Cash flow (in € million)

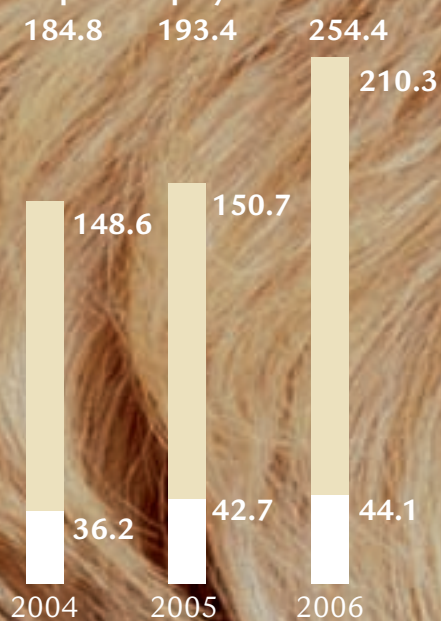


Investments (in € million)

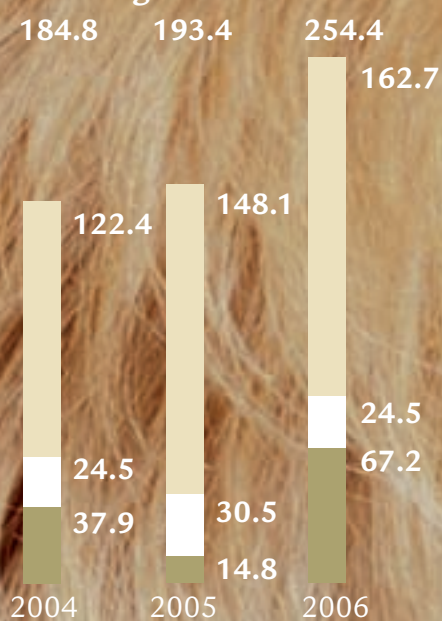


Financial structure (in € million)

Capital employed



Financing



■ Net long-term investments
■ Working capital requirement (WCR)

■ Equity - Group share
■ Minority interests and long-term provisions
■ Net debt

Key events



March

United States and France: Vet Aquadent® to conquer the dental market

This original and practical solution (to be poured into the animal's drinking water) for the oral dental hygiene of dogs and cats was launched in the US market, followed by France in June • With total global sales of over €1 million in 2006, Vet Aquadent® is one of the flagship products in this high-growth potential segment.

India: a world first in the fight against rabies

Virbac was granted marketing authorisation for an oral vaccine against rabies in stray dogs (strain SAG®2) • This bait, the palatability of which makes vaccination easier, enables Virbac to continue actions already taken in Europe and to take a decisive step in India, one of the countries most affected by this scourge.



April

France and Italy: a successful gamble for Anxitane®!

The simultaneous launch in the two countries of this nutritional supplement which helps control chronic anxiety in dogs and cats of all ages • With close to €400,000 in sales at the end of December, Anxitane® should be able to successfully compete in this segment (15% growth in Europe in 2005).

June

Mexico: the inauguration of the beta lactam antibiotic unit
Over €800,000 invested to renovate the injectables and intramammaries production workshops • This work enables Mexico to meet the manufacturing standards of its main customers and to strengthen its position as distributor for Asia.

July

India: Virbac becomes number 1!

The acquisition of AFC (veterinary division of GSK): 250 employees, €21 million in sales, over 10% market share and a strong reputation amongst veterinarians • Virbac becomes leader in the Indian market, one of the most promising of the next five years.

September

France: the geriatrics range is broadened with Novifit®

The introduction of a nutritional supplement based on Novi SAME™, also marketed in Japan since October (over €450,000 in sales in four months). Novifit® helps stimulate the vitality of dogs and cats • Virbac is expanding its product portfolio in the promising geriatrics market.



(anti-inflammatory for dogs that is applied to the skin).

A first in the history of the veterinary medicines agency!

- Virbac demonstrates its ability to innovate with two wholly new molecules launched in the French market during 2007.



November

Virbac Corporation: wholly owned subsidiary of Virbac SA

Following the successful bid for the minority interests in Virbac Corp., Virbac SA now wholly owns the US subsidiary • A buyout that should enable to implement a comprehensive strategy across all the company's key functions and which will free Virbac from the constraints of a US listing.

December

United States: an exciting marketing authorisation for Iverhart Max™

The most recent product of Virbac R&D on the North American market, Iverhart Max™, protects dogs against the three main internal parasites • This major innovation should revitalise the internal parasiticide market.

October

Group: the international roll out of Continuous Improvement

Representatives of the seven industrial subsidiaries met in Mexico to share the experiences of the French production units

- This is the first step in the roll out of Continuous Improvement methods designed to improve flexibility and responsiveness to customer requirements.

Italy: a strategic acquisition

Virbac buys Nuova ICC, an Italian subsidiary of Intervet specialised in pigs and poultry (€4 million in sales and a nationwide network of 16 representatives)

- This acquisition should consolidate Virbac Italy's position in the pig and poultry segment by expanding its product portfolio (amoxicillin-based premixes).



Europe: two centralised marketing authorisations

Virbac was granted European centralised marketing authorisation for two products on the same day: Ypozane® (prostatic disorders in dogs) and Cortavance™

Consistency drives growth

Strategy

A highly consistent strategy over the past few years

Virbac's strategy is based on several key principles:

- focus on animal health and the quality of the overall relationship with the customer,
- global ambition in the companion animal segment. It is designed to ensure a dominant position in certain highly-profitable niches (such as dermatology and equine parasiticides) and to create major differentiation in the more competitive segments such as vaccines. At the same time, the Group is continuing its targeted expansion by country and segment in the field of food producing animals,
- innovation targeted first and foremost at satisfying customer requirements, covering research, development and licensing,
- top priority growth areas (North America followed by Asia and Latin America) and growth and profitability optimisation areas (Europe and Pacific),
- an ongoing effort to identify possible acquisitions,
- emphasis on the human factor in strategy implementation.



Consistent and profitable growth

In a global animal health market that grew by 7.7% in dollar terms and 3.3% in volume terms (excluding impact of exchange rates and inflation) to 16 billion dollars in 2006, Virbac posted growth of 7.8% and 6.8% at constant scope and constant exchange rates and maintains its ambitious goal of exceeding annual global growth in each of the two major market segments by two percentage points. The Group's growth in food producing animals was very strong at +15.7%, on the back of the combined impact of acquisitions and solid organic growth (around 7.2%) in all areas. In the companion animal segment, the 5.9% in growth reflected the relatively weak growth of the European market in which Virbac still generates 60% of its sales, whereas the US market was much more dynamic. At the same time, operating profitability, up half a point in 2006 at 10.8%, is in line with the goals set in 2000 to improve it by on average half a point a year.



Non-stop growth over the past three years

The Group has posted steady growth over the past three years.

It stems not only from Virbac's innovation model but also the strengthening of the Group's positions in the various markets as well as acquisitions such as in India and Italy. Over the same period, operating profitability grew by 2.3 points, rising from 8.5% to 10.8%.

Virbac in India



In July 2006, Virbac acquired the veterinary division of GlaxoSmithKline India, better known under the Agrivet Farm Care (AFC) trading name.

Enjoying a very strong sales team and a well-established national network, AFC holds 10% of the Indian animal health market. This €36.8 million acquisition accordingly makes Virbac the Indian leader in veterinary products.

India represents a major future economic zone for Virbac:

- the animal health industry is, in fact, at the heart of the agricultural development of a country whose economy still largely depends on this sector and which leads the world in terms of bovine population and milk production,
- moreover, the rapid growth of a middle class with real purchasing power and the cultural affection for animals in India should result in significant growth in the companion animal market over the coming years.

Virbac is looking to expand its business using Virbac India's existing product offering, and the progressive introduction of certain Group products, both in the field of food producing animals and the field of companion animals. In 2006, AFC generated close to €21 million in sales.

On a full-year basis, the operating profitability of this business within the Virbac Group should be over 15% and then steadily increase.

The subsequent step represents a new challenge for the Group.

A vast and dispersed customer base, reliance on weather conditions, poor infrastructure and strong competition are some of the factors that Virbac will face. Determined to develop its leadership position and to help its growth, Virbac has already set its teams in motion to conquer India.

€21
million

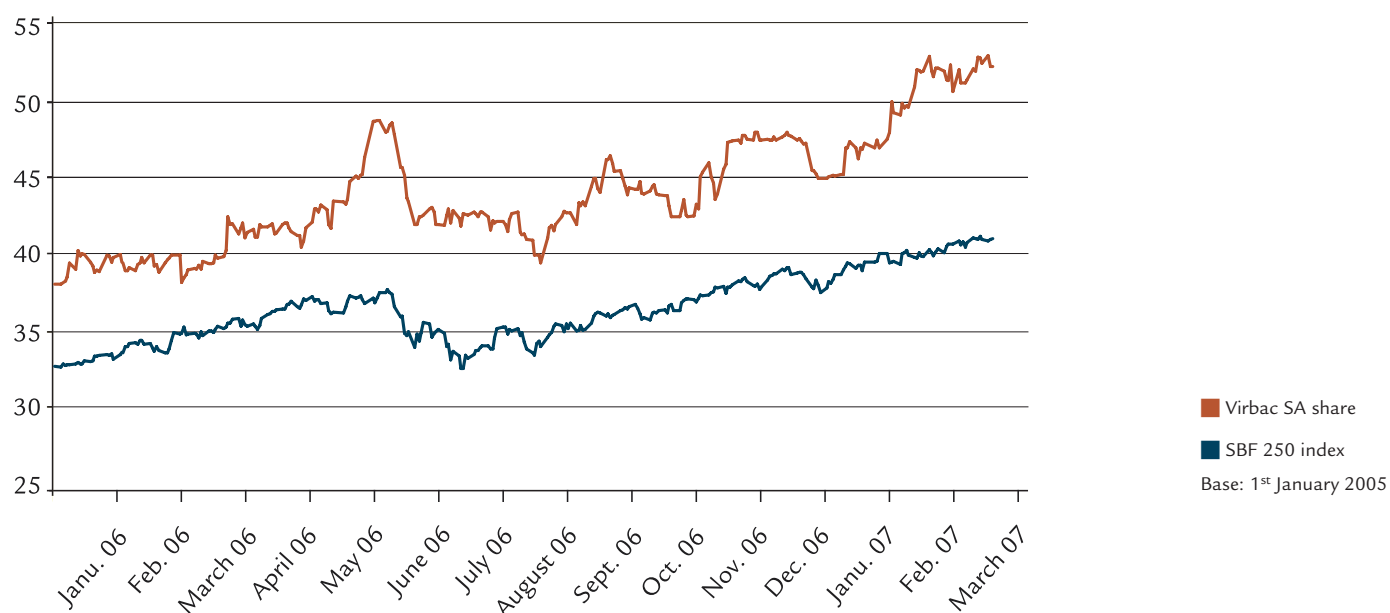
in sales



Finance and stock market

Share price (daily price)

The Virbac share price rose by 18.1% in 2006.

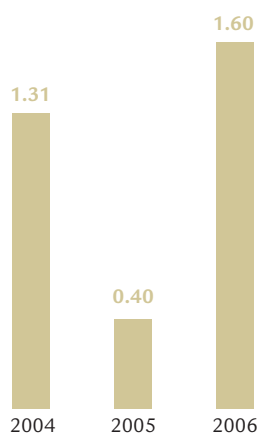


Debt ratios

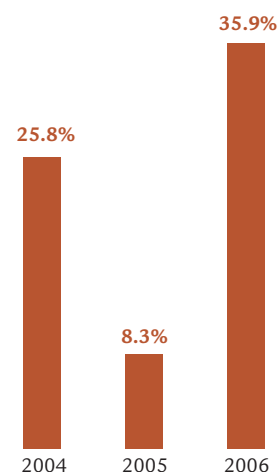
The Group's net debt amounted to €67.2 million as of 31 December, 2006, namely 35.9% of total equity and provisions compared to €14.8 million and 8.3% respectively at end 2005. This increase largely stems from the debt incurred by the Group to finance the Indian and US acquisitions.

The Group's cash flow from operations amounted to €41.9 million compared to €37.1 million in 2005, representing an increase of 13% on the back of improved profitability.

Net debt/cash flow



Net debt/consolidated equity and provisions



Listening, a key to innovation

Customers

The customer relationship: a competitive advantage

Since the Group was founded in 1968, Virbac has always seen the closeness of its customer relationship as its primary competitive advantage.

This philosophy has now been reconfirmed in an overall review of operating principles. This review combines an unswerving drive for the effectiveness and reliability of the services and products marketed by the brand, and building long-term relationships of trust between customers and the sales teams.

The customer culture is thus both a value and a driver that the company tries to instil in all its activities: sales and marketing but also research and development or even production. Noted and appreciated by customers, it represents a real competitive advantage.

Working Style in Europe: optimising resources to better serve the customer

In Europe, Virbac has put together a programme designed to strengthen the role, effectiveness and the quality of the relationships between the sales teams (sales, marketing, technical, administrative, etc.) and customers. This programme is built on ten key points, including:

- the putting in place of a customer-relations policy rather than global promotions: Virbac encourages personal visits to customers and has made loyalty a priority through appropriate sales and service policies,
- management of customer knowledge through, amongst other things, the development of a single database in each country, made available to the various departments to be shared, added to and updated by employees,
- segmentation criteria harmonised at European level,
- the development of a suitable training programme rolled out from 2007.

Customer acquisition and fostering of customer loyalty, sales effectiveness and service quality are the criteria Virbac uses to develop its future.

Virbac: the veterinary pharmaceutical company preferred by French small animal veterinarians

Virbac France, seeking to continually improve customer relations, took part in a survey on the requirements of small animal veterinarians. The results of this survey attest to Virbac's leadership in this market.

This performance is built on two cornerstones:

- a steadfastly veterinary strategy: specialisation, professional support, profitable relationship and communications policy in the veterinary practice, are the key factors appreciated by customers.
 - an understanding of and remarkable flexibility towards customer requirements:
 - Virbac France is developing a portfolio of essential products on the back of successive innovations in line with the requirements of practitioners,
 - it has a sales force that is seen as the most actively involved and accessible,
 - lastly, Virbac France anticipates the needs of its customers by developing a comprehensive professional services policy.
- Because trust is the basic requirement in building a top relationship between the practitioner and their pharmaceutical company, Virbac tries to support and facilitate the veterinarian in their day-to-day work.

The overall image of Virbac in France is built on the relationship with and the backing and support of veterinarians; values that the Group is continually nurturing and that underlie its current success.

*Source: EIDER study report:
Contribution to the strategic and commercial considerations
of veterinary pharmaceutical companies - May 2005.*

Innovation

The R&D teams represent 8.4% of employees spread across 5 research centres worldwide: France, United States, Australia, Mexico, Vietnam.

Firmly customer-focussed innovation

Since its founding, Virbac has had a customer-focussed innovation process that tightly links Research, Development and Licensing (RDL). The concept of innovation at Virbac is extensive covering both fundamental research and the creation of new processes on the basis of existing principles (packaging, product palatability, delayed action forms, etc.), but which considerably aid veterinary practitioners and owners on a day-to-day basis. In order to improve the success of its innovation process, 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. New products of less than three years thus generated close to €56 million in 2006, the goal being to achieve an annual sales contribution of 15%. Virbac launches four to five new products per annum in each area. The Group is currently the veterinary pharmaceutical company with the broadest product offering.

2006: a record year in terms of product innovation

Respect for local requirements and proximity, key aspects of the Group's strategy, are assured by the presence of R&D and production units in each of the major markets. In 2006, eight new products were added to Virbac's product offering in Europe. In companion animal general practice, Rilexine® (see opposite) in specialised practice; Humigel® in ophthalmology; Megaderm® in dermatology; Anxitane® for behaviour and Novifit® for geriatrics; for hygiene, Vet Aquadent® and the physiological eye cleanser; and for food producing animals, Tenotryl® enrofloxacin-based antibiotic designed to treat respiratory infections in poultry. These product developments make it possible to provide, per field, solutions adapted to day-to-day practice work as well as opportunities for growing the veterinary business.

Geographic breakdown of R&D expenditure in 2006



■ 65.2% France
■ 13.6% United States
■ 21.2% Other areas

Innovation in services

In 2006, Virbac France strengthened its service offering for veterinarians. Customers can thus benefit from a course entitled "Vet Manager" designed by Virbac in cooperation with the HEC Group which provides them with training on the strategic, financial and legal aspects necessary to build their business. A new communications service offering expands this training with:

- Vet Kit, support for the creation of documents printed by veterinarians,
- Vet Web, for the development of websites, and
- Vet Media, for the installation of communications screens in waiting rooms.

Moreover, the "Virbac Assistance" service answers questions on a daily basis from veterinarians on the use of the Group's products.

Rilexine[®]

total compliance

One fact underlies compliance: 50% of animal owners do not follow prescriptions which more often than not results in the treatment failing.

Compliance is defined as the ability to follow the full course of treatment in line with the recommended prescription, that is to say, giving the prescribed doses, the length of the treatment, the pace at which it is administered and attendant measures. To achieve this, significant involvement is required of all parties and, in particular, the veterinarian and the owner.

With the launch of the new Rilexine[®], antibiotic for dogs and cats, the Group demonstrates that innovation also comes in providing customers with new beneficial solutions built on existing technologies and active ingredients.

Since the best drug in the world is worthless if it is not administered, Virbac decided to make veterinarians aware of the benefits of compliance and to support them in their role as information providers. This in particular involves services designed to facilitate the education of owners on the dangers of the illness and to improve their adherence with all treatment recommendations. For the owner, the use of the new Rilexine[®] is made easier by the supply of carrying cases and clearer leaflets and by simplifying its administration through the addition to the formula of a highly palatable base so as to ensure that the animal takes it spontaneously.

Launched at the end of December 2005 in France, sales of Rilexine[®] total compliance rose 19.6% in France in 2006. In the United Kingdom and Germany, the product saw similar success with growth rates comparable to those in France.

Simplifying the daily lives of animal owners and practitioners, both with regard to the prescription and ease of use, and meeting the needs of customers on a daily basis stem from Virbac's pragmatic desire to offer solutions that lead to compliance and customer loyalty.

Total compliance

Animal

- increase the spontaneous nature with which it is taken,
- offer alternatives in the event of refusal.

Owner

- keep him/her informed,
- improve adherence,
- support him/her.

Veterinarian

- provide effective products,
- offer support services.

Illness

- properly understand its symptoms,
- draw up proper treatment lengths.

Drug

- definite value,
- easy to use,
- appropriate mass market pricing.

The company

- player in animal health,
- in partnership with the profession.



Production



Production units in each of the major markets: France, United States, Brazil, Mexico, South Africa, Australia and Vietnam.

8 production units in France.

An industrial base serving Group strategy

Virbac's production base is designed to effectively and quickly meet changes in customer demand. With a catalogue of some 3,000 listed products, strong pressure on production costs combined with ever-changing regulatory constraints, ensuring the flexibility and responsiveness of the industrial base is a real challenge that the Group has been able to meet. The production sites currently comply with Good Manufacturing Practices as a result of an appropriate investment policy. Moreover, the ERP system implemented has resulted in better cost control, improved inventory management and traceability; and Virbac can thus focus all its efforts on strengthening its industrial performance.

The lean concept, the driver of a competitive industrial model: the Virbac Industrial System (VIS)

In 2004, Virbac established an ongoing improvement policy based on lean manufacturing. As part of its ongoing drive to create added value, the putting in place of methods and indicators focussed on field performance made it possible to prevent waste in a whole range of areas. The putting in place of new organisations within the production workshops and control laboratories will make it possible to improve the quality of products and services. The standardisation of processes that are shared by all units will result in simplification and improve performance.

Since October 2006, the setting up of a special team focussed on coordinating the activities of the 500 people involved in this change process.

Focussed on actual customer needs and driven by a proactive industrial organisation, performance is based on a desire to make progress in the search for better practice and better sharing, a pairing that will combine quality and efficiency. In 2006, setting up new industrial production methods resulted in productivity gains of 9% on the production lines and 7% in other activities. This project, which is still focussed on France where 80% of the Group's production is done, is currently being rolled out; best practices are to be shared with the other subsidiaries.

Taking matters in hand

Human Resources



Managing human resources at Group level

The motivation of the company's employees is one of the keys to Virbac's success. The leading global French Group operating exclusively in veterinary pharmaceuticals, Virbac has long attracted capable and motivated employees who are passionate about animal health.

There were two main actions in 2006 in terms of human resources: training and support for major projects.

- The amount of training increased twofold in 2006 compared to the previous year and training was optimised. 659 people were thus trained and 27% of employees exercised their individual entitlement to training.
- In support of major projects, the Human Resources department concentrated its efforts on the industrial performance project: the organisation of social audits in the plants and the assignment of a dedicated HR manager provided particular support for the Lean Manufacturing programme in the Virbac Industrial System.

The search for excellence in personnel management

In 2006, the Human Resources department drove four top-priority projects:

- the *Business Partner* project relates to the day-to-day operational management of managers and individuals, supports and adds a professional touch to recruitment and major-change projects such as, for example, the production Continuous Improvement policy. In France, in 2006, 85 people were hired on permanent contracts, fixed-term contracts and temporary contracts and 30 people changed jobs.
- the *Performance Management* component provides effective support with regard to the major phases of personnel management. The PERF 2 programme (Performance, Evaluation, Compensation, Training), established in 2006, expanded upon the goals established the previous year: performance management, end-of-year evaluations, compensation and skills development.
- the *Effectiveness and Professionalism* project undertaken by the HR department is designed to optimise administration, improve HR skills and add a new dimension to personnel management. 2006 was the first full year of operation of the Group's new HR organisation.
- the *Skills Development* component represents the most important project as a result of a certain deficiency in the past. A targeted training offering that is open to all resulted in the number of people taking training rising twofold, ensuring access to all categories of staff. 270 individual right to training activities were thus carried out in 2006, placing Virbac well above the national average (27% compared to, on average, 10% to 12% of employees).



Upcoming projects

The top priority of human resource management is to deepen managerial expertise in France and to track progress in the field. It will subsequently be necessary to roll out these various programmes to Group subsidiaries, identifying common standards with regard to skills and training, while respecting the history and management culture of each subsidiary. A *Skills Development* programme has also been put in place: its goal is to identify Virbac's leadership expertise and to come up with an improvement programme for the Group's management.

The plans of skipper Jean-Pierre Dick

a perfect example of taking matters in hand

Upcoming races

August 2007:
Fastnet
(double-handed)

November 2007:
Barcelona World Race
(non-stop around the world
double-handed)

June 2008:
The Transat
(solo)

November 2008:
6th Vendée Globe
(non-stop around the world
solo)

Facing a challenge: Le Figaro 2006

If there is anyone who is not afraid of a challenge, that person is undoubtedly Jean-Pierre Dick, skipper of Virbac-Paprec. Having won his sailing stripes by twice taking the Transat Jacques Vabre, he took the unusual decision to try out a new sailing experience: entering a French sailing grand classic, La Solitaire Afflelou Le Figaro, for the first time. Leaving his trusty 60-foot monohull berthed, Jean-Pierre Dick took the helm of a boat half its size: a Figaro. What a change for this high-seas skipper! From 31 July to 30 August, he went toe to toe with the best sailors on a gruelling and technical course: a distance of 1,898 nautical miles, 44 top level competitors and four stages between France, Spain and Ireland. While it was a difficult experience, since every stage requires the participants to stay alert for on average four days, it enabled Jean-Pierre Dick to firstly improve his stress and sleep management and secondly to work on tactical decision-making, priceless lessons that played a part in his success in the Route du Rhum. An unusual and rewarding experience that demonstrates the tenacity and thirst for knowledge of this sailor.

Striving for results: an incredible list of achievements in 4 years

Four years ago, Jean-Pierre Dick was still an unknown in the world of ocean racing. How things have changed. The list of achievements of the skipper in the 60-foot takes your breath away: between 2003 and 2005, he took the Transat Jacques Vabre twice, was ranked 6th in the 2004 Vendée Globe, 3rd in the 2006 Route du Rhum and became FICO world champion (International Ocean Racing Federation). An entrepreneur at heart, Jean-Pierre Dick, aided by his team, equipped himself with the resources to successfully achieve his plans and become competitive. High standards and a multi-disciplinarian spirit are essential to succeed in such a short period of time. A skipper is without doubt a sportsman who must prepare himself physically and mentally, but he is also a sailor who must know the sea and develop sharp meteorological skills, a project manager who must involve himself in all aspects of the construction of his boat and finally a communicator who must spend some of his time with his partners, the media and all project supporters. The necessary skills to take matters in hand and win, requiring lots of energy.



12 days, 20 hours, 27 minutes and 58 seconds • The time it took Jean-Pierre Dick to pick up third place in the 2006 Route du Rhum • 70 veterinarians took part in a breakfast with the skipper, being present at the start and during the first two hours of the race • Around 30 veterinarians were invited to public relations events at the end of the race in Pointe-à-Pitre.

Striving for innovation: technological adventure with the new Paprec-Virbac

Off to New Zealand, where Jean-Pierre Dick's new boat was built.

The Paprec-Virbac design team spent two years working on the 60-foot that will enable Jean-Pierre Dick to meet the challenge of the 2008 Vendée Globe. The construction of the monohull was intentionally innovative in order to drive performance. As a result the boat is more powerful and broader than the previous one. It also has two novelties that are not to be underestimated when going around the world solo: the installation of a sliding roof that enables the skipper to sail while having added protection from spray and the addition of a detachable flap back under the hull that can be adjusted depending on sea and wind conditions. In a breeze, the flap drops down to surf the waves and in light winds, it rises back up to reduce friction with the water. The speed and stability of the boat are significantly impacted by this system. Paprec-Virbac will be the only boat equipped in this manner. A risky but interesting bet, which may set the stage for the racing boats of the 21st century.



A great team builder

Through the values and professionalism he displays, Jean-Pierre Dick's achievements have been a communications vehicle for Virbac over the past four years. The Group's reputation has, in fact, been enhanced as a result. Above and beyond the satisfaction given by the skipper's great results, Virbac closely identifies with his philosophy: constantly striving for results, continued innovation, ever-greater challenges.

This project enabled Virbac to bring employees and veterinarians together around the person and adventure of Jean-Pierre Dick. For employees, it has been a source of pride to play a part; for veterinarians, the sailing venture creates a feeling of working with a company that has human values. Jean-Pierre Dick has become a sort of standard bearer for the company.

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Management report 2006

In 2006, Virbac maintained its strong growth trend (7.8%, or 6.8% at constant exchange rates and scope), with sales continuing to rise in Europe and under the impact of the Group's rapid expansion in the rest of the world and the contribution of the new Indian acquisition.

The companion animal segment grew by 5.9% at constant exchange rates, with noteworthy progress made in the parasiticides, equine and specialties segments. The food producing animal segment achieved a 15.7% growth rate at constant exchange rates, under the combined impact of acquisitions (India, and Greece for a full year) and strong organic growth (6.5%) across all regions.

Major events during the year:

- ◆ The acquisition of Agrivet Farm Care (AFC), the veterinary division of GlaxoSmithKline (GSK) India. With this transaction, Virbac became market leader in India, with a share of over 10% thanks to the Indian company's broad range of products for veterinarians and breeders, especially in the bovine sector as India has the most livestock of any country in the world.
- ◆ The success of the public buyout offer for the remaining common shares of Virbac Corporation not yet held by Virbac SA and its subsidiaries. Following this transaction, Virbac Corporation became a fully-held subsidiary of the Virbac Group, and was definitively withdrawn from the Nasdaq.
- ◆ The acquisition of Nuova ICC, Intervet's Italian subsidiary specialised in pigs and poultry, at the end of 2006. This company offers many synergies with Virbac Italy and will broaden the subsidiary's product portfolio, notably in the area of amoxicillin-based premixes.
- ◆ The international launch of the Lean Manufacturing project, which has already been implemented within the French production units. The propagation of these methods is intended to improve productivity, flexibility and adaptability to customers' needs on an ongoing basis.
- ◆ The launch of major products in France: in the ophthalmology market, with physiological cleansers for the eyes, a niche segment in which Virbac would like to become a major player; in the promising geriatrics

market, with Novifit® (a nutritional supplement that helps stimulate the energy of older dogs and cats); and in poultry antibiotics, with the generic drug Tenotryl®.

- ◆ The launch in the United States of Epi-Otic® advanced formula (ear cleanser), the first product to incorporate “glycotechnology,” which confirmed Virbac’s position as the world leader in dermatology.
- ◆ The obtaining of marketing authorization in India for the SAG®2 strain in oral rabies vaccine form for stray dogs, which allows Virbac to propagate the measures it has already undertaken in Europe and to cross a decisive threshold in a country that suffers greatly from this plague.

Business activities in 2006

In 2006, the Group’s sales were up 8.6% at constant exchange rates, with strong growth recorded by both businesses: 5.9% for companion animals and 15.7% for food producing animals (7.2% excluding India).

Trends by segment

Companion animals

This business represented 61.5% of the Group’s total sales. Every segment contributed to this growth, with the exception of electronic identification, which was down very slightly.

❖ Parasiticides

Sales of parasiticide products were up 5.8% over 2005.

Virtually all of this growth came from the very good performances posted by two products: Iverhart Plus® (wormer against heart worms) sold by the US subsidiary, which had yet another year of very good sales (up 11.4%), and Preventic® spot-on (external parasiticide), marketed by the Group’s German subsidiary and which had its first full year of sales in 2006.

In Europe, the positive results of the spot-on and the diazinon-based collars also helped boost sales. On the other hand, the sales of Preventic® collars in Spain were lower. This segment posted significant growth in Asia, whereas sales in the Sanza area (including the Group’s subsidiaries in South Africa, Australia and New Zealand) and Latin America were lower despite the extension of this range into Mexico (launch of Duogard®, an external parasiticide) and the breakthrough achieved with Preventic® in South Africa.

❖ Immunology

This segment grew by 0.6% in 2006, with different results obtained by its two main components.

The dog vaccine range is continuing to enjoy sustained growth, despite very lively competition. The sales increase was focused basically on Europe, with excellent results posted by the subsidiaries in the UK and, albeit to a lesser extent, France. Latin America and the Sanza area also contributed to this increase, thanks respectively to Mexico (which successfully launched the Canigen® Puppy 2b dog vaccine at the beginning of the year) and Australia.

The cat vaccine market is also highly competitive, and while the Group maintained its positions in England, France, South Africa and Asia, total sales of this range of products were down from 2005.

❖ Antibiotics/Dermatology

These ranges increased by 9% over 2005, with higher sales in both segments.

In dermatology, all of the regions participated in this growth, with the successful launches of Epi-Otic® advanced formula in Europe, the United States and Asia, and new formula Megaderm® (nutritional supplement containing essential fatty acids, used in dermatology) in France and Asia. Sales of Pyoderm® (shampoo used for skin infections) were also sharply higher in Europe and Brazil (marketed under the name of Hexadene™).

Sales of the antibiotics range were higher on every continent, and especially in Europe with the launch of Rilexine® chewable tablets (part of the total compliance treatment) in late 2005 in France and early 2006 in England, Germany and Italy.

Strong US sales of Clintabs® (antibiotic against disorders of the mouth) also contributed to the growth of this segment.

❖ Specialties

Specialties, which include the reproduction and behavioural ranges, ophthalmological products, anaesthetics, endocrinology, anti-inflammatory and dental products, posted a rise of 13.7% in 2006.

In reproduction, the Group recorded strong sales of Alizine® (contraceptive for dogs and cats) in Europe, and more specifically in Spain and Scandinavia, and an increase of sales of Contralac® (anti-lactogenic) in Latin America. Sales of ophthalmological products are rising with the launches in France of Humigel® (ophthalmological hygiene product) in February and of the physiological eye cleanser in April 2006.

The remarkable growth seen in behavioural products is attributable to the launch of two new products in 2006: Anxitane® (nutritional supplement that helps manage chronic anxiety in dogs and cats of all ages) in France and Italy, and Novifit® in France and Japan.

In addition to these launches, it is worth noting the strong growth in sales of Feliway® (pheromones) in Australia and Japan.

The anaesthetic segment benefited from the success of several products: Zoletil® (general anaesthetic), sales of which are growing in all of the Group’s regions and especially in Asia; Euthasol® (euthanasia product) in the United States; and lastly Vetflurane (general anaesthetic), which is marketed only in England at present.

The anti-inflammatory and mobility range held its own; sales of Fortiflex® (nutritional supplement used for mobility problems) were flat in a very competitive market. In endocrinology, Virbac held on to its market leadership in the United States with Soloxine® (hormone used to treat canine hypothyroidism), despite heightened competition. Lastly, dental hygiene products are still posting high growth in 2006, especially in the United States. The launch of Vet Aquadent® (oral hygiene product added to drinking water to help fight bad breath in cats and dogs) in France and the United States explained a portion of this good result.

❖ Equine

Equine products finished the year up 9.1% over 2005, with good performances posted across all regions. In Europe, the Group's largest market in this segment, France recorded very good sales of Equimax® (broad-spectrum wormer for horses) since the launch of the product in September 2005, and of Eraquell® (internal parasiticide), and Holland reaped the benefits of an effective promotional marketing campaign. The United States and Australia also posted significant growth rates.

❖ Specialised petfood

This business grew by 4.3% over 2005. Sales of the Virbac Vet Complex® range were higher in France, as well as in Japan and South Korea where these products were launched in 2005. In France, the new formula of Virbac Mastery® for dogs and cats also met with considerable success. Sales were lower, though, in other European countries such as Holland and Italy. Lastly, in New Zealand, the Virbac Excellence® products for cats posted a very significant increase since its launch in 2005.

❖ Other businesses

This segment, which includes electronic identification and other products for companion animals, was down slightly in 2006.

Food producing animals

This business, which represented 34.6% of the Group's total sales, rose sharply: sales were up 7.2% over 2005 at same scope, and 15.7% including India, all of whose sales are in the food producing animal market. All segments and regions shared in this growth except North America, where the Group has no presence in this market.

❖ Bovine parasiticides

This segment grew by 10.6% over 2005 thanks to strong sales of ivermectin-based endectocides (internal and external parasiticides).

In Europe, France benefited from the impact of a full year's sales following the launch of a full range of products at the end of 2005. Italy, Portugal and Scandinavia all introduced Virbamec® F (broad-spectrum parasiticide) in their markets. In South Africa, the major expansion of the parasiticide products reflected the launch of Zeramec®.

The external parasiticides range also contributed to this favourable change, with strong growth in sales of Amipor® in South Africa and the launch of Stampede® in Australia. This greatly compensates the decline in sales of Auriplak®

(external parasiticide) in Europe following its being taken off the market in England and in the face of competition in the Netherlands.

❖ Other bovine products

This segment grew by 6.8% in 2006, thanks to the contribution of two ranges in particular.

Injectable bovine antimicrobials, with Multibio® (antibiotic used on bovine respiratory disorders) which experienced strong growth in France and Scandinavia (launch in 2006) and in Latin America, Shotapen® (antibiotic used on bovine respiratory disorders) which improved in Scandinavia and in Asia, and Citius® (antibiotic against bovine digestive disorders) which posted good results in Asia and in Latin America; and Revalor® (bovine hormone), sales of which increased in Australia.

❖ Pig and poultry antibiotics

These products grew by 6.9% over 2006, with upward trends everywhere other than the Pacific region.

Performances were extraordinary in Latin America and Asia. Sales were up significantly in every subsidiary, and especially in Mexico, the Philippines and Thailand.

In Europe, although the Group encountered problems stemming from very high pressure on premix prices (especially on the Suramox® premix in certain countries), the rapid growth achieved in Italy, the Netherlands, Greece and Central Europe allowed the Group to post an increase for the full year.

❖ Other pig and poultry products

This segment grew by 1% over 2005, due in large part to the launch in Greece of a range of vitamin-enriched premixes added to livestock feed.

Other businesses

These businesses, which represented 4% of total sales, correspond to the Group's less strategic markets and include primarily production on behalf of third parties in the United States. The decline in sales is related essentially to the full-year impact of the disposal of the assets of MR Manufacturing and Packaging in Australia in October 2005.

Breakdown of sales by segment (excluding India)

Business/Range (€ millions)	2006 sales at actual rates	Growth per segment at constant exchanges rates					
		> -5%	-5% to 0%	0% to 5%	5% to 10%	10% to 15%	> 15%
Companion animals	246.8				5.9%		
Parasiticides	50.1				5.8%		
Immunology	46.4			0.6%			
Antibiotics/Dermatology	40.0				9.0%		
Specialities	47.4					13.7%	
Equine	24.2				9.1%		
Specialised petfood	14.3			4.3%			
Others	24.4		- 3.3%				
Food producing animals	128.5				7.2%		
Bovine parasiticides	22.5					10.5%	
Other bovine products	65.5				6.8%		
Pig and poultry antibiotics	33.8				6.9%		
Other pig and poultry products	6.7			1.0%			
Other business activities	15.9		- 4.8%				
TOTAL EXCLUDING INDIA	391.2				5.9%		
India	10.4						
TOTAL	401.6					8.6%	

Geographic breakdown of sales

Europe

The sales of the Group's European businesses increased by 4.9% to €222 million in 2006 (4.8% at constant exchange rates).

❖ France

Sales were 2.5% higher in 2006.

The companion animal business was strong thanks to the good performances posted by Virbac France in vaccines, dental products (with the launch of Vet Aquadent®) and specialties (with the launches of Novifit® and Anxitane®). The specialised petfood business distributed by the Virbac Nutrition subsidiary continued to expand at a slightly lower pace than initially expected, and Francodex's sales through specialised channels were flat in 2006.

In food producing animals, the bovine endectocides launched by Virbac France at the end of 2005 met with great success, whereas the pig and poultry products such as Suramox® premix and Pulmodox® premix (antibiotics used for pig and poultry respiratory disorders) still face stiff competition from low-cost generics.

❖ Germany

Virbac Germany reported slight declines in both its businesses' sales in 2006.

In the companion animals market, the excellent results of the Preventic® spot-on launched in May 2005 could not compensate the drop in vaccine sales caused by the very strong competition faced by Leucogen® (vaccine for cats).

The food producing animal market continued to slow down under increasingly stringent regulatory conditions.

❖ United Kingdom

Sales of the UK subsidiary grew by 2.7% (2.2% at constant exchange rates) in 2006, due nearly entirely to the companion animal business.

The growth of this business is explained by the good results of the dog and cat vaccine range and especially sales of Leucogen®, antibiotics (Rilexine® chewable tablets), the specialties (Vetflurane) and electronic identification. In the food producing animal market, the subsidiary held up well in the pig and poultry antibiotic segment with Stabox®. Sales of bovine parasiticides, however, were adversely affected by the halt in the sale of Auriplak® and a slowdown in Goldfleece® (external parasiticide).

❖ Spain

The subsidiary finished 2006 slightly higher, in spite of some very lively competition in both the food producing and companion animal markets.

In the food producing animal business, pig and poultry antibiotics continued to be affected by strong price pressure, especially on the Stabox® premix.

Several companion animal segments posted gains, notably dermatology and specialties with anaesthetics and good sales of Alizine® (reproduction), which compensated the slowdown in Preventic®. The subsidiary also reported good results in electronic identification in 2006.

❖ Holland

In 2006, the Group's Virbac Netherlands and Emax subsidiaries recorded growth of 5% following a good year for both businesses.

In companion animals, the rise of the business came mainly from the equine range, which benefited from the marketing measures taken to promote endectocides. In the food producing animal business, pig and poultry antibiotics were up sharply on strong sales of the Suramox® premix.

❖ Italy

Italy posted 14.2% growth in 2006, with a remarkable performance by the food producing animal business. The success in this market was centred on pig and poultry antibiotics, with a significant increase in sales of Stabox®. The companion animal business improved, especially in the reproduction range with Alizine®, among others, and as a result of the launch of Anxitane® in the specialties range.

❖ Switzerland

Virbac Switzerland grew by 2.3% (4% at constant exchange rates), posting higher sales in both businesses.

The companion animal market was particularly buoyant for external parasiticides and specialties, whereas the immunology, antibiotics and dental ranges were all lower. The growth in the food producing animal business came from the bovine products.

❖ Belgium

In 2006, Virbac Belgium finished the year very slightly lower, with very different results in the two businesses.

In the food producing animal business, the subsidiary recorded strong growth on both the bovine and the pig and poultry segments as a result of having launched bovine endectocides in the rural market and the Suramox® and Pulmodox® OSP antibiotics (used against respiratory disorders in poultry) in the industrial market.

The decline in the companion animal business was due in large part to difficulties with the dog and cat vaccine range.

❖ Portugal

Virbac Portugal posted a 2.2% increase in third-party sales in 2006.

The subsidiary saw good results in its food producing animal business, which once again enjoyed good performances by the Pulmodox® premix, and benefited from the launch of Virbamec® F (bovine parasiticide).

The companion animal business was lower, however, due to the decline in electronic identification sales after two good years, and despite the strong growth achieved in equine products with Equimax®.

❖ Austria

Virbac Austria's sales improved in both markets, thanks primarily to companion animal equine products and good performances by all of the food producing animal segments.

❖ Greece

This subsidiary was acquired in July 2005, thus 2006 was its first full year within the Group.

Virbac Greece's business is focused heavily on food producing animals, which accounted for over 85% of its sales in 2006. Its flagship products are antibiotics in premixes in the pig and poultry range (Pulmodox® premix, Suramox® premix and Sulfatrim® premix). Virbac Greece's companion animal business is still weak, but includes all of the ranges other than immunology and specialised petfood.

❖ Eastern Europe

Virbac's sales were up 41.1% over 2005 in this region marked by its very high growth potential.

In 2006, a large part of this growth resulted from two invitations for bids for oral rabies vaccines that Virbac won in Estonia.

The Group also achieved strong growth in Hungary, Poland, Czech Republic and Estonia in the food producing animal market, and sales to the companion animals market improved.

North America

Sales increased by 7.8% (8.9% at constant exchange rates) to €68 million in 2006.

In North America, over four-fifths of Virbac's sales were of companion animal products, while the share of the food producing animal business, already very low, is now virtually nonexistent following the withdrawal of Virbac US from the generic bovine parasiticide market.

The segments that contributed to growth in 2006 were specialties, with the successful launch of C.E.T. Aquadent® in dental products, and parasiticides, with Iverhart Plus® and Preventic®.

The subsidiary also had a good year in its third party manufacturing.

Latin America

In 2006, the Group posted growth of 9.2% (8.5% at comparable exchange rates). Every subsidiary participated in this favourable trend, with the exception of Brazil whose sales declined slightly.

❖ Mexico

The Mexican subsidiary recorded a 15.4% rise in its sales at constant exchange rates in 2006, with upward trends in both markets.

In food producing animals, the subsidiary saw very good performances in both the rural and industrial markets. In the rural market, sales of bovine antibiotics were high, especially on Maxflor®, Fortius, Shotapen® (antibiotics against bovine respiratory disorders) and Citius (antibiotic against bovine digestive disorders).

In the industrial market, the increase came from the excellent sales of Aflorac (antibiotic against porcine respiratory disorders).

The remarkable growth of dog vaccines, external parasiticides and dermatological products also ensured Virbac Mexico of a good year in the companion animal business.

❖ Brazil

In 2006, the Brazilian subsidiary's sales fell from the previous year on a constant exchange rate basis, with differing results in its two businesses.

In the companion animal business, the subsidiary recorded increases in most segments, and especially in specialties (with the reproduction and anaesthetics ranges), but this was not enough to compensate the net drop in sales of external parasiticides brought on by the production difficulties experienced by an associated company.

In food producing animals, the results were driven by bovine, porcine and poultry antibiotics, and especially by sales of Alplucine® (antibiotic against porcine and poultry respiratory disorders).

❖ Costa Rica

The sales of Virbac Costa Rica grew by 32.2% at constant exchange rates.

The subsidiary's sales increased in both businesses: all ranges were higher in the companion animal sector, while bovine products truly stood out in the food producing animals market.

❖ Colombia

Virbac Colombia had good results in both businesses. In food producing animals, the growth came from the industrial range, while sales were higher in all companion animal segments.

Asia

In Asia, the Group continued the growth trend that began in 2005, with a 71.4% rise in sales (72.1% at constant exchange rates) due to the good results posted by every subsidiary and incorporating the impact of the acquisition in India.

Excluding India, sales growth came to 14.9% at constant exchange rates. It is also worth noting the sustained growth observed in China, where the Group has a representative office.

❖ Japan

Japan reported strong 12% growth (20.6% at constant exchange rates) in 2006.

In the companion animal market, several segments shared in these positive results: dermatology, notably with the launch of Epi-Otic® advanced formula; specialties, with a broadening of the range following the launch of Novifit®; specialised petfood, with the success of Virbac Vet Complex®; and, lastly, the entire dental range.

The food producing animal business is in full expansion, primarily as a result of strong sales of Prostavet® (bovine reproductive hormone).

❖ Korea

The South Korean subsidiary's sales grew by 13.1% in 2006 as a result of the good performances of the bovine business and a good year in companion animals. The subsidiary's progress in this market is attributable to the launch of Iverhart Plus®, the good results achieved in anaesthetics with Zoletil®, and the success of the Virbac Vet Complex® range in specialised petfood.

❖ Vietnam

The Vietnamese subsidiary finished the year 4.3% higher (6.4% at constant exchange rates). The sales of the companion animal business decreased following the loss of an invitation to tender on Zoletil®, but this was more than made up for by the results of the food producing animal business, which benefited from the renewed growth of the avian markets in Asia.

❖ Philippines

Sales grew by 24.8% at constant exchange rates, with positive contributions from all segments of both businesses.

❖ Thailand

In 2006, the subsidiary recorded a 27.4% rise in sales (21.8% at constant exchange rates), driven by the remarkable results achieved in both segments of its food producing animal business: bovine products, with the antibiotics Shotapen® and Citius®, and pig and poultry products, with Suramox® premix and OSP, sales of which more than doubled.

Sales in the companion animal business were lower, though, especially in the immunology range.

❖ Taiwan

The sales of the Taiwanese subsidiary increased 12.8% (13.9% at constant exchange rates) in 2006.

In companion animals, growth was fuelled by the specialties, dermatology and immunology ranges; in food producing animals, it came from bovine products.

❖ India

Virbac now has a subsidiary in India, following the August 2006 acquisition of GSK India's veterinary division. The company contributed five-month sales of €10.4 million, consisting at present solely of products for food producing animals (essentially dairy cows).

Pacific

Sales in the Pacific region fell 5.9% in euros and 2.8% at constant exchange rates. The decline in sales is attributable to a change of scope following the October 2005 disposal of the assets of MR Manufacturing and Packaging, a company specialised in the production of human pharmaceutical products. It is worth mentioning, however, that the veterinary business is growing in both the Australian and New Zealand subsidiaries.

❖ Australia

In 2006, the sales of the Australian subsidiary rose 10.7% (12.9% at constant exchange rates).

Sales were flat in the companion animal business, and all of Virbac Australia's growth in 2006 came from food

producing animals. The performance of the latter business is related to the full year's sales of a third party range of distributed bovine parasiticides and the signing of a new customer purchasing group in the rural market.

❖ New Zealand

The New Zealand subsidiary finished the year up 3.5% (13.4% at constant exchange rates).

Sales of both businesses were higher in 2006: companion animals benefited from the return of the specialised petfoods to the distributors of the Virbac Excellence® range in 2005, and all of the bovine products for food producing animals posted satisfactory results.

Africa/Middle East

Virbac South Africa had a very good year, posting growth of 7.7% at constant exchange rates (15.4% in euros).

Sales were higher in all segments of the companion animal business, but it was the food producing animal business, and especially the bovine range, that generated virtually all of the subsidiary's good performance.

Export sales to Africa and the Middle East were lower than the previous year, following the restrictive credit measures set in place to avoid debt collection problems in certain countries.

Geographic breakdown of sales

(€ millions)	2006	2005	Change (In % terms)	Change at constant exchange rates
France	93.4	91.1	2.5%	2.5%
Europe (excluding France)	128.7	120.7	6.6%	6.6%
North America	68.0	63.1	7.8%	8.9%
Latin America	27.4	25.1	9.2%	8.5%
Africa/Middle East	23.3	22.7	2.7%	8.9%
Asia	31.2	18.2	71.4%	72.1%
Pacific	29.6	31.5	- 5.9%	- 2.8%
TOTAL	401.6	372.4	7.8%	8.6%
Asia excluding India	20.8	18.2	14.3%	14.9%

Acquisitions and disposals

On 31 July 2006, Virbac SA acquired the veterinary division of GSK India, known under the trade name of AFC.

This €36.8 million acquisition provided Virbac with a dominant position in the Indian market, and promises high future growth potential in the animal health sector.

Virbac India markets a wide range of products for veterinarians and breeders, especially in the bovine segment, through a nationwide presence maintained through a powerful sales force and a broad network of industrial and logistical subcontractors. Virbac intends to use these forces to expand the product offer of this new subsidiary with the food producing and companion animal ranges of its portfolio. Virbac India was first consolidated on 1 August 2006.

The public buyout offer launched by Virbac SA in December 2005 for all outstanding shares of Virbac Corporation was concluded successfully on 1 November 2006 at a price of 5.75 US dollars per share.

After the buyout, Virbac Corporation absorbed Labogroup Holding Inc., the special purpose company it had set up in the United States to head up the buyout. Virbac Corporation thus became a fully-held subsidiary of the

Virbac Group, and its shares were withdrawn from the Nasdaq in the US.

Virbac Corporation was fully consolidated for the first time on 1 November 2006.

On 30 November 2006, Virbac SA acquired Nuova ICC, Intervet's Italian subsidiary specialising in pigs and poultry. With the acquisition of this company, whose product portfolio consists primarily of water-soluble amoxicillin-based premixes, on a standalone basis or in combination, as well as of a range of vitamins and minerals, Virbac intends to consolidate its positions in the pig and poultry segment in Italy. Given the late date of the acquisition, the Group was not able to incorporate the company's financial statements into the Group's scope of consolidation in 2006. The consolidation of this subsidiary would not, however, have had a material impact on the financial statements for the year given the amount of sales and profit recorded subsequent to the acquisition.

On 28 December 2006, Virbac SA acquired the remaining 10% of the capital of Virbac Korea previously held by minority interests. Virbac Korea is now a fully-held subsidiary of the Group.

In the United States, Virbac Corporation acquired virtually all of the business of Smart Drug Systems, consisting of a development project for an ivermectin-based product.

Research, Development and Licensing

Since its founding, Virbac's original innovation process has been focused on customers, in which the three dimensions RDL (Research, Development and Licensing) are tightly linked.

In 2006, the Group consecrated 6.7% of its total sales to RDL. Virtually the entire budget is allocated to development in the biological and pharmaceutical fields, and involves products that may or may not require marketing authorisation. Virbac possesses a hefty R&D portfolio composed primarily of projects with a probability of success - measured by a combination of technical, regulatory and marketing factors - of over 50%. In 2006, 14% of all sales were generated by new products that have been on the market for fewer than three years.

R&D employs 8.4% of total Group staffing, and is organised around five regional centres that serve the specific needs of the regions in which they are located: Carros (France) for Europe and all other regions for companion animal products; Fort Worth (Texas) for North America; Guadalajara (Mexico) for Latin America; Sydney (Australia) for the Pacific region; and Ho Chi Minh City (Vietnam) for Asia. There are also smaller structures specialised in local development and regulatory matters in South Africa and Japan.

The North American R&D portfolio was expanded in 2006 with the start-up of ambitious in-house projects and the assumption by Virbac of responsibility for a project initiated by Smart Drug Systems. Cooperation was increased with the R&D centre in Carros.

The US development team scored a major success, again in North America, by obtaining the registration of Iverhart Max™ (internal parasiticide for dogs), which was launched commercially at the end of 2006.

Japan obtained a major registration in 2006 for Virbagen DA2Ppi/L (multi-purpose dog vaccine), a key product in the companion animal vaccine range.

The Australian, Latin American and South African RDL entities all continued to obtain new registrations and to create new projects, notably for food producing animals. These certifications and projects are always adapted to the specificities and needs of local breeders.

The Asian entity reached maturity, filing the first request dossiers ever generated entirely by the local team. The acquisition of a small company, Bio Solutions International, in January 2007 will reinforce this entity's portfolio and enable Virbac to go ahead with its business development strategy in the Asia fish farming sector.

The RDL centre in Carros meets all European needs for all species, conducts all of the Group's biology projects and many companion animal projects concerning all of the regions.

The registrations and launches of Rilexine® chewable tablets continued in 2006. Of the many registrations obtained that filled out the European portfolios, it is worth noting the simultaneous obtaining of two centralised European registrations:

- Ypozane® is an innovative product used to treat canine prostatic hyperplasia, a frequent and incapacitating illness in older animals,
- Cortavance™ is an innovative, hydrocortisone aceponate-based dermatological product. In spray form, it is used as a local treatment for pruritis in companion animals; pruritis, or itching, is associated with many dermatological illnesses.

In biology, work on the regulatory review of applications enabled Virbac to obtain an extension of the duration of the legal protection afforded its rabies vaccines in Germany, a subject of fundamental importance for our sales base. These review activities are slowing down in Europe, as most of the updates and new requests were filed in 2006 or will be filed in 2007. This allows more significant efforts to be made in relation to new biological projects.

Progress was made with the development of a leishmaniasis vaccine in 2006, confirming its attractiveness despite the risks and uncertainties still persisting and inherent to the process of developing parasiticide vaccines.

The licensing activities continued in 2006, resulting in the marketing of Vet Aquadent®, and an enrofloxacin-based antibiotic for food producing animals.

The development of products not requiring marketing authorisation resulted in the launches of Anxitane® and Novifit®.

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

Virbac began work on Biotech 1, which should result in a more highly-effective bacteriology department that is compliant with pharmaceutical regulations.

In 2006, the Group incurred capital expenditures for the manufacturing of equipment, and notably a fermentation tank that will double the centre's production capacity. This project will continue in 2007, with the construction of a dedicated building.

Fire protection was improved at the various sites in Carros through the installation of automatic water extinguishers and remote fire detection and extinction equipment. Most of the work on this project began in 2006, and will continue in 2007.

A new pallet wrapping machine was installed on the secondary tablet packaging line to reduce packaging times. Virbac also invested in many renewal programmes to maintain the Group's industrial plant and equipment.

At the Magny site

Capital investments for new equipment included:

- a prehension system for handling twenty-five kilo sacks, to ameliorate the productivity of the medical premix tower,
- a cleaning and drying room for all of the site's storage and powder analysis containers.

Furthermore, in 2006 the Lean Manufacturing project, which began in France in 2004 and is designed to adapt to customer requirements as best possible by improving efficiency and flexibility (via the implementation of a pull system) and performance methods and indicators (batch and format switchover times, machine operating time at optimal speed, etc.), generated considerable savings through increased productivity of the production lines and production-related productivity gains in the other businesses.

In 2007, this project should engender a reduction in materials wastage during the production process, and wastage due to production irregularities.

Internationally

In Mexico

In 2006, the Mexican subsidiary invested over €0.8 million in the renovation of the production shops for beta lactamines (injectable and intramammary) which allow it to better meet the production standards of its main customers and to improve its positioning as manufacturer/exporter toward Asian countries. The main pieces of equipment put into service were an automatic flake washer and a closed tank equipped with in-place cleaning and drying.

The production unit for premixes and the storage facility were equipped with an air-cleaning system.

In Brazil

An automatic labeller was added to the shampoo filling line.

In Australia

The discussion regarding the reorganisation of the Peakhurst site resulted in a decision to transfer it to another industrial site. This will enable the storage capacities of the workshops and the distribution centre to be increased, in addition to expanding the floor space available for offices and laboratories by combining them in a single building. The move is planned for the first half of 2007.

In the United States

An automatic line for filling and labeling Equimax® and Equell® oral syringes was installed in 2006.

The production capacity for tablets (essentially Iverhart Plus® and Iverhart Max™) was increased significantly by putting the following equipment into service:

- a double envelope mixer,
- a rotary press for compression,
- a drying sterilizer for the wet granulation shop,
- the creation of four compression boxes.

The acquisition of a spectrophotometer and a high performance liquid chromatograph (HPLC) in the test laboratory improved the company's capacity to analyse both raw materials and finished goods.

Lastly, the Lean Manufacturing project set in place at the French production sites beginning in 2004 was launched abroad. In 2006, the Group's seven industrial subsidiaries got together to use the experience acquired within the French production units to take the first step in the propagation of lean manufacturing methods in their own operations.

Analysis of the 2006 financial statements

Consolidated financial statements

In order to improve the quality of the information provided to readers of the financial statements, the company has, in certain cases, adopted a classification in the 2006 financial statements that differs from the one employed the previous year. For purposes of comparability, the figures in the column for 2005 have been restated on a pro forma basis using the options applied in 2006.

These reclassifications had no impact on net profit, which remained unchanged from the figure presented last year.

These reclassifications were:

- in the balance sheet: €2,744 thousand of provisions for expenses were reclassified into trade payables,
- in the income statement: €2,744 thousand of provisions for expenses were reclassified into external expenses,
- taxes receivable of €4,047 thousand and €2,296 thousand in 2006 and 2005, respectively, were broken out on a separate line in the balance sheet.

Income trends

Operating profit from ordinary activities grew 13% on the previous year thanks to high margins and a controlled rise in operating expenses from ordinary activities, which increased less quickly than sales.

Sales amounted to €401.6 million, an increase of €29.2 million (7.8%) over 2005. With the exception of Germany and Belgium, every subsidiary contributed to the Group's sales growth in 2006. The South African and North American subsidiaries posted excellent results, with respective sales increases of more than €3 million and

€6 million, followed by the Australian, Italian, Japanese and French subsidiaries. It is also worth noting the impact of the first full year's sales of the Greek subsidiary (nearly €3.8 million, compared with six months' sales of €1.4 million in 2005) and the entry in the Group on 31 July 2006 of the Indian subsidiary, which in five months generated an additional €10.4 million in sales.

Margins on purchase costs increased 7.7%, slightly less than sales, resulting in a very minor deterioration of the gross margin percentage due to the weight of Virbac India, whose margins are lower than those of the Group.

Other operating expenses from ordinary activities increased 6.8% to €231.8 million, including the impact mainly of higher purchases, external expenses and personnel costs.

Net non-recurring operating expenses of €3.5 million included primarily €1.2 million in costs incurred by Virbac Corporation on the buyout of its minority shareholders and an additional €1.9 million provision for the impairment of an intangible asset set aside on the basis of impairment testing required by International Financial Reporting Standards (IFRS).

This impairment relates to romifidine, an original anaesthetic for which Virbac acquired the rights and authorisation to sell for use on cats and dogs in late 2003. This anaesthetic was launched in European markets in 2004 but did not meet the targets the Group had anticipated. The product's sales potential was reassessed, resulting in the recognition of partial impairment provisions on this asset for €3.5 million in 2005 and €1.9 million in 2006. At 31 December 2006, the residual carrying amount of this asset represented €0.6 million.

Net financial expense rose 16.8% to €2 million, from €1.7 million the previous year. This change is attributable to the higher interest expense on the debt taken on to finance the acquisition in India and the buyout in the United States.

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 rose 19.9% to €10.2 million. The decrease in the effective tax rate from 28% in 2005 to 27% in 2006 is explained essentially by the recognition of €2 million in deferred tax assets, which up until the present were not recognised in the financial statements of Virbac Corporation. As this subsidiary became very profitable, and in accordance with the applicable accounting standards, it recognised these deferred tax assets, which had previously been provisioned fully.

Minority interests went from €2.3 million in 2005 to €2.7 million in 2006 due to the increase in the profit of Virbac Corporation, the minority interests of which were taken into account up through the end of October 2006.

Consolidated balance sheet and financing

The Group's cash flow from operations rose 13% to €41.9 million, from €37.1 million in 2005, due to the improvement in profitability.

Net debt was up sharply at 31 December 2006, to €67.2 million from €14.8 million in 2005. This increase came from the debt taken on by the Group to finance the Indian and US acquisitions, while non-acquisition related debt was reduced by €31.2 million.

At 31 December 2006, the Group's net debt represented 1.60 times cash flow from operations and 35.9% of total consolidated shareholders' equity and provisions (including minority interests).

The increase in goodwill stemmed largely from the acquisition of Virbac India in July 2006 (€18.9 million) and the acquisition of the minority interests of Virbac Corporation (€31.5 million).

The €13.1 million increase in net intangible assets in 2006 reflected primarily the value of the brands held by Virbac India (€15.5 million), less the decrease recognized at Virbac SA on the additional impairment provision recorded on romifidine.

The Group's net property, plant and equipment fell €4.8 million in 2006 due to the relatively low capital spending incurred in 2006 and the impact of changes in exchange rates, especially on the US dollar.

The increase in financial assets due within one year is linked in large part to Virbac SA's investment in Nuova ICC, a company acquired in Italy on 30 November 2006 that will be consolidated in 2007.

Operating working capital requirements rose slightly to €44.1 million, compared with €42.7 million in 2005. This very good performance is attributable to the continued reduction of inventories and control over customer credit. 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.

€48 million of this line of credit had been drawn down at the end of 2006, following the acquisitions carried out in India and the United States, and the Group was in full compliance with all of its contractual obligations.

Parent company financial statements

Income trends

In 2006, the sales of the parent company Virbac SA amounted to €143.3 million, an increase of 7.3% compared with the previous year.

Of Virbac SA's total sales, 87% came from transactions with Group subsidiaries (89% in 2005), while the remaining 13% were generated by Virbac SA's direct sales in countries where the company has no subsidiaries.

In 2006, Virbac SA recorded sales growth in all regions except North America, where its sales are relatively low anyway. Sales of products for food producing animals were stable, with growth was centred on the companion animal business, especially in external parasiticides, specialties, immunology, dermatology and the dental range.

Operating profit declined slightly, from €5.6 million in 2005 to €4.1 million, reflecting a deterioration of the margin and a general increase in operating expenses. The latter is attributable primarily to higher acquisition, research and development and personnel costs.

Net financial income fell €4.9 million (27%) to €13.2 million. This decrease includes the impact of a €3 million net charge to a provision for impairment of equity investments, compared with a €2.4 million net recovery in 2005, and this despite a €1 million increase in dividends.

The company reported a net non-recurring loss of €3 million, including primarily:

- a €1.9 million provision for impairment of intangible assets, calculated as the difference between the carrying amount of the assets in the balance sheet and their value in use,
- €1.6 million in accelerated depreciation,
- the €1.3 million carrying amount of non-current assets disposed of during the year, corresponding to the abandoning of an IS project and a pilot study for an industrial capital expenditure,
- a €1.3 million recovery of the provision for senior managers' pensions, subsequent to the payment of €1 million to a pension administration firm in relation to the funding and updating of the assumptions used for the balance,
- a €0.8 million capital gain on the disposal of 150,856 treasury shares. These disposals stemmed from the exercise of stock options held by Group employees and movements recorded under the market-making agreement in place with Exane BNP Paribas.

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

Year	Dividend per share	Tax credit	Allowance provided for by article 158-3-2 of the French general tax code	Amount distributed
2003	€0.48	€0.24	N/A	€3,988,153.92
2004	€0.55	N/A	50%	€4,617,723.00
2005	€0.65	N/A	40%	€5,552,885.00

The 2004 French finance act removed the tax credit from which certain individuals benefited. Instead, from the taxing of 2005 income, all gross distributed income is eligible for an allowance. This allowance amounted to 50% in 2005, and from the taxing of 2006 income it was reduced to 40%. 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. This system is not applicable to corporate entities.

Net profit amounted to €14.6 million, compared with €15.8 million in 2005.

Furthermore, in 2005, the tax authorities audited the financial statements of Virbac SA for financial years 2002 and 2003.

In 2005, the company was advised of a revised assessment in respect of financial year 2002 and accordingly recognised a €544 thousand provision. This provision was increased to €672 thousand in 2006, following the notification during the year of a revised assessment in respect of 2003.

Proposals by the executive board

❖ Allocation of the net profit of Virbac SA

The net profit of the Virbac SA parent company amounted to €14,607,515.53.

The annual shareholders' meeting will be asked to grant a dividend of €0.80 for each share with a nominal value of €1.25.

In accordance with the provisions of article 243 bis of the French general tax code, it should be noted that all of the dividends distributed qualify for the 40% discount mentioned in article 158-3-2 of the French general tax code, it being added that this allowance is applicable only to individual shareholders domiciled in France.

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

- dividend distribution €6,971,481.60
- retained earnings € 7,636,033.93
- total equal to net profit for the period 14,607,515.53

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

All dividends will be paid on 26 July 2007.

❖ Share buyback scheme

The combined annual and extraordinary shareholders' meetings of 29 June 2006, authorised the Virbac SA parent company to buy back its own shares in accordance with article L225-209 of the French commercial code and in accordance with the buyback plan set out in the prospectus published in the financial press on 23 June 2006 and available from the French Financial Markets Authority (*Autorité des Marchés Financiers*, or AMF) website.

At 31 December 2006, Virbac SA held 160,929 treasury shares, purchased for a total of €4,067,279, net of purchase costs, at an average price of €25.27 per share. During the year, the company purchased 80,226 treasury shares, 63,226 of which under the market-making agreement and 17,000 in connection with a free share grant plan. Virbac also sold 150,856 shares, 65,933 of which under the market-making agreement and 84,923 in connection with stock option plans for Group employees. The treasury shares at 31 December 2006 represented 1.8% of the share capital of Virbac SA and are held primarily for the purposes of the stock option and free share grant plans. At 28 February 2007, the number of treasury shares amounted to 143,183 as a result of the exercise of stock options granted to employees.

A resolution will be submitted for the approval of the annual 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 market-making agreement, in accordance with the Code of Ethics approved by the AMF and in the light of the proposed resolution regarding the free share grant submitted to the annual shareholders meeting.

The maximum purchase price may not exceed €80 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 2006, 76,519 Virbac shares, namely 0.88% of the share capital, via the company savings plan.

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 €46,018 for the financial year ended 31 December 2006.

Material events after the balance sheet date

On 4 January 2007, Virbac SA acquired Bio Solutions International, a Thai company that produces and distributes aquaculture products.

This acquisition contributes to the Group's continuing aquaculture development strategy in Asia, which represented 85% of the total "fish farming market" worldwide. With a 20% p.a. growth rate, this is a very promising market, especially in high-growth countries such as China, Indonesia, Vietnam, Thailand, India and Bangladesh.

The major advantages of this company are its product portfolio and its specialised aquaculture distribution network. This acquisition gives Virbac a choice platform for the future expansion of its aquaculture businesses.

Management and supervisory bodies

Supervisory board

- ◆ Marie-Hélène Dick-Madelpuech, chairwoman of the supervisory board of Virbac SA.
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 directors' fees received in respect of 2006: €82,750.
- ◆ 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 directors' fees received in respect of 2006: €16,000.
- ◆ 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),
 - member of the executive board of VGC Distribution (France)
 - director of Panpharma SA (France),
 - director of Panmedica SA (France).
 Directors' fees received in respect of 2006 by ASERGI SARL: €15,250.
- ◆ François Guinot, member of the supervisory board of Virbac SA.
Other positions held:
 - chairman of the Académie des Technologies (France),
 - vice-chairman of the Fédération Française des Chimistes (France),
 - director of the Centre National de la Recherche Scientifique (France).
 Directors' fees received in respect of 2006: €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 Cosfi Holdings (United States),
 - director of Graceway Pharmaceuticals Inc. (United States),
 - director of Medical Instill (United States).
 Directors' fees received in respect of 2006 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 Maroc Telecom SA (Morocco).

Directors' fees received in respect of 2006: €18,250.

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),
- deputy director of Virbac Animal Health India Private Limited (India).

- ◆ Pierre Pagès, member of the executive board and chief operating officer of Virbac SA.

Other positions held:

- director of Panpharma SA (France).

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),
- joint manager of Virbac Österreich GmbH (Austria),
- vice-chairman and director of Virbac Philippines Inc. (Philippines),
- chairman of Virbac RSA (Pty) Ltd (South Africa),
- director of Virbac SRL (Italy),
- director of Nuova ICC SRL (Italy),
- director of Inomark AG (Switzerland),

- vice-chairman of Virbac Vietnam JV (Vietnam),
- chairman of Virbac Taiwan Co. Ltd (Taiwan),
- director of Virbac Thailand Co. Ltd (Thailand),
- chairman of Laboratorios Virbac Mexico SA de CV (Mexico),
- chairman of Virbac Mexico SA de CV (Mexico),
- vice-chairman of Virbac Hellas SA (Greece),
- vice-chairman of Animedica SA (Greece),
- chairman of Virbac Animal Health India Private Limited (India).

- ◆ 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).

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

Other positions held in Virbac subsidiaries:

- director of Virbac de Portugal Laboratorios Lda (Portugal),
- director of Vetarome SAS (France),
- member of the management board of Bio Véto 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).

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

Other positions held:

- president of the Virbac Foundation,
- member of the Défi Voile Sud association.

Compensation of members of the executive board

The compensation paid for the 2006 financial year relates to the fixed portion paid in 2006, the compensation for directorships in Group companies paid in 2006, the variable portion paid in 2007 for 2006 and benefits in kind granted in 2006 (company car).

Members of the executive board (in euros)	Fixed compensation (including benefits in kind)	Compensation for directorships in Group companies	Variable compensation	Total compensation
Éric Marée	253,313	52,295	121,000	426,608
Pierre Pagès	167,288	52,295	76,000	295,583
Christian Karst	155,007	38,000	61,000	254,007
Michel Garaudet	150,017	14,295	40,000	204,312
Jean-Pierre Dick	30,638	-	15,000	45,638

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).

Members 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

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,
- growth of operating profit from ordinary activities, as well as specific goals:
- inventory management,
- acquisitions (companies, products).

Other benefits

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

❖ Retirement

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:

	2006		2005	
	Options	Average price (in euros)	Options	Average price (in euros)
Options outstanding at the start of the period	209,823	€24.09	357,100	€21.93
Options granted during the period	-	-	-	-
Options exercised	- 84,923	€20.76	- 145,477	€18.73
Options cancelled	-	-	- 1,800	€27.89
Options outstanding at the end of the period	124,900	€26.33	209,823	€24.09
<i>Of which exercisable options at 31 December</i>	<i>66,900</i>		<i>96,623</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, 2005 or in 2006.

❖ Granting of free shares

In accordance with authorisation given it by the annual shareholders' meeting, in 2006 the executive board granted free shares to certain senior management employees of Virbac SA and its subsidiaries.

These grants are contingent upon the meeting of a performance objective - tied to the profitability and net debt of the Group - which will be evaluated at the end of 2008. Moreover, should this objective be met, any shares so acquired will be subject to a two-year holding period. The following numbers of free shares were granted to members of the executive board in 2006:

Member of the executive board	Number
Éric Marée	2,700
Pierre Pagès	1,700
Christian Karst	1,400
Michel Garaudet	900

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).

This information is relayed by means of financial announcements published in the national media, press releases published on financial web sites and the website of the French Financial Markets Authority (AMF), and the publication of Group quarterly sales and half-yearly profits in *Balo*, the French official journal of required publications.

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.

Beginning in 2007, in order to comply with the new obligations imposed by the transparency directive and the general regulations of the AMF, the page devoted to financial communications will be enriched with a section on regulated disclosures entitled "Regulated disclosures," consolidating all of the information required by the directive.

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.

The Financial Affairs department is available to answer any questions investors and analysts may have concerning the Group's strategy, products, published results or major events.

Provisional financial communications timetable for 2007:

- first quarter sales 2007, 5 April 2007,
- second quarter sales 2007, 10 July 2007,
- first half profit 2007, 4 October 2007,
- third quarter sales 2007, 4 October 2007,
- annual sales 2007, 15 January 2008.

Stock market data and ratios

(in euros)	2005	2006	At 28 February 2007*
Price			
High	41.50	49.00	53.65
Low	25.87	37.50	47.00
Average	33.08	43.44	51.26
Closing	39.80	47.00	50.10
Group price/earnings ratio			
High	22.9	29.2	32.0
Low	14.2	22.4	28.0
Monthly average	18.2	25.9	30.6
Closing	21.9	28.0	29.9
Net rate of return			
At average price	2.0%	1.8%	1.6%
At closing price	1.6%	1.7%	1.6%
Trading volumes	1,734,222	1,659,920	202,348
Average trading volume per session	6,774	6,509	4,818
Stock market capitalisation at end of period (€ million)	346.8	409.6	436.6

(*) Price/earnings ratio calculated on 2006 earnings

Share capital distribution at 31 December 2006

Breakdown of share capital at 31 December 2006:

	Shares	Voting rights	As a % of share capital	As a % of voting rights
Dick family Group	4,072,720	8,137,360	46.74%	63.99%
Company savings plan	76,519	153,038	0.88%	1.20%
General public	4,404,184	4,427,205	50.53%	34.81%
Treasury shares	160,929	-	1.85%	- %
TOTAL	8,714,352	12,717,603	100%	100%

No significant changes have taken place in the structure of the share capital or voting rights since 2005.

Outlook for 2007

Sales are expected to grow considerably yet again in 2007, including organic growth that is projected to be on the same order as in 2006, and the contribution of a full year's sales from the acquisitions made in 2006. Virbac will continue to seek to identify acquisition targets to strengthen its positions in those countries where its market share is still low. Moreover, these levels of growth and the pursuit of projects designed to optimise operations should allow the Group to improve its operating profitability even further. Net profit growth is expected to be in the double digits, due to the beneficial impact of the buyout of the minority interests in the US.

Risk factors

Risks related to the Group's businesses and strategy

Risks related to the research, development, licensing and product registration process

The veterinary pharmaceutical industry is highly competitive and each year, to maintain its market share and sustain its growth, Virbac must devote considerable resources to research and development in order to discover new products. In 2006, Virbac committed 6.7% of its total sales to research and development.

The research and development process generally takes several years and entails multiple steps.

Each of these steps entails a risk that objectives will not be met and that a project in which significant amounts have been invested will have to be abandoned.

Consequently, the investments underway for the development and launch of future products may involve costs that will not necessarily generate additional sales for Virbac. At the same time that it invests in in-house R&D projects, the Group also has a policy of acquiring licences granting it access to either new products ready to be marketed, or to projects under development that it will itself pursue up through their successful conclusion.

As is true of in-house R&D projects, there is always a risk that these projects will not be finished, or that the commercial prospects will turn out to be less attractive than expected, which may lead to the recognition of a provision for impairment of these assets.

Once the research and development phase is finished, Virbac, in its capacity as a veterinary pharmaceutical laboratory, must obtain any administrative authorisations necessary to market its products. This step is often long and complicated, and the Group's chances of success are not guaranteed. In fact, the filing of a registration dossier with the appropriate authority provides no automatic guarantee that the authorisation to market the product will be obtained, or such authorization may be only partial, *i.e.* limited to certain countries or to certain applications.

Once marketing authorisation has been obtained, products are subjected to continuous controls and their marketing may still be restricted, or they may be withdrawn from the market.

Virbac seeks to limit these risks by employing a stringent selection process for the research and development projects in which it invests (whose probabilities of success, as measured by a combination of technical, regulatory and marketing factors, are over 50%) and through the expertise of its department of Regulatory Affairs, which is responsible for the filing, monitoring and renewal of marketing authorisations.

Risks related to the Group's distribution

Virbac is present in many countries, either through its subsidiaries or through distributors in those countries in which the Group has no subsidiary.

Although there are many types of distribution networks, and each depends on the country in which the products are being sold, the Group's products are virtually always distributed to veterinarians through wholesalers and central purchasing groups.

Throughout the world, these relationships are defined by contracts that are reviewed regularly; nevertheless, this kind of distribution method can occasionally create a certain dependency for Virbac, or provide it with an insufficient degree of control over its presence and future growth.

Virbac seeks to reduce this risk by studying opportunities to create a distribution subsidiary each time its sales attain a sufficient level in any given market. Virbac then proceeds with the most appropriate solution, either acquiring its distributor or creating a new company.

Reputational risks

Product liability is a risk inherent to Virbac's type of business (pharmaceutical products).

In order to keep these risks low, Virbac has established drug monitoring procedures and stringent quality controls for all of the products the Group markets, in addition to taking out appropriate insurance.

It is nevertheless possible for Virbac to be involved in product liability suits, which could affect its reputation as well as its sales, operating profit or financial position.

Risk of dependency on third parties for the supply or manufacturing of certain products

All of the raw materials and active ingredients that make up the products Virbac produces are supplied by third parties.

In certain cases, the Group also uses manufacturers or industrial partners with expertise in or control over special technologies.

Virbac diversifies its sources of supplies to the greatest extent possible by establishing relationships with several suppliers, while ensuring that all of these different sources present adequate profiles in terms of quality and reliability. Virbac is exposed to some risk of supply shortages or price pressure, however, on certain supplies or technologies for which diversification is difficult or impossible.

To limit these risks, the Group strives to identify as many diverse suppliers as possible, and in certain cases acts to secure its supply chain by acquiring the technologies and expertise it is missing and that create too much of a dependency. An example of this was the 2004 acquisition of the patent rights and the industrial plant for the production of the protein used to make the main cat vaccine, Leucogen®.

Risk related to the Group's external growth policy

Ever since it was founded, Virbac has pursued an active acquisition policy. As a result, the Group now has operations in many countries and a broad range of products.

The Group pursued its geographic expansion in 2006 with two major acquisitions in India and the United States, and it intends to continue this policy in the future to reinforce both its geographic positioning and its product offer.

This growth through acquisitions entails both financial and operational risks.

Virbac's previous acquisitions, both older and more recent, demonstrate the company's ability to manage the acquisition process and all associated challenges effectively. It accomplishes this notably by using competent, multidisciplinary teams in all its acquisition projects; if needed, these teams may be backed up by independent advisors.

Industrial and environmental risks

Risks related to the utilisation of dangerous materials

As part of its business manufacturing veterinary medicine, Virbac uses substances that present health, fire and/or explosion, air pollution and water pollution risks at the various phases of the production process (manufacturing, storage and transport).

To minimise these risks, the Group complies with the safety measures prescribed by all prevailing laws and regulations, establishes best manufacturing and laboratory practices, and ensures that all its employees have been trained appropriately. Its manufacturing sites and research and development facilities are also inspected regularly by regulatory authorities.

Legal and tax risks

Risks related to the maintenance of patent rights

One of the major keys to the Group's success is its ability to effectively obtain and protect its intellectual property rights, and notably as concerns its formulas, technologies and patents.

Patents provide protection for only a limited time. Once a patent expires, there is always a risk that a greater number of competitors will bring generic products to market. The launch of a generic product results most often in a decrease in both the price and the volumes sold of the branded product.

In addition, patent laws are constantly changing, which can render the patentable nature of an innovation or the scope of a patent's protection uncertain.

The company is thus exposed to two risks: the risk of a competitor attacking or exploiting its intellectual property rights, and the risk of its product being counterfeited by third party rights holders.

Virbac's Legal departments and, above all, its own Patents department are responsible for managing both these rights and risks.

Risks of insufficient insurance

Virbac has established an exhaustive review process for insurable risks and their financial cover, and is assisted in this by a brokerage that is a member of an international network. As such, all contracts have been reviewed and standardised at the Group level, and the parent company helps subsidiaries set up local insurance policies and monitor all contractual insurance and liability clauses.

Once these procedures have been followed, insurable risks are taken into account in the Group insurance policies with a level of cover that the Group considers appropriate for its position, barring any completely unforeseeable events.

Risks of legal actions

In the normal course of its businesses, Virbac is exposed to the risk of being involved in legal actions, arising essentially from commercial, staff and tax-related issues.

The Group considers that the provisions for these legal actions that are recognised in the financial statements are sufficient to cover the financial risk that would be incurred in the event it should lose such actions.

It should also be specified that, following the success and the conclusion in November 2006 of the public buyout offer launched on the shares held by the minority interests of Virbac Corporation in the United States, that subsidiary was withdrawn from its listing on the Nasdaq and the Group is no longer exposed to any stock exchange-related risks in the United States. Furthermore, as part of the accounting and stock market audit initiated at the end of 2003, all legal actions and complaints filed against Virbac Corporation, Virbac SA and its senior managers have been settled by definitive agreements and have henceforth been withdrawn. One last suit that had been brought at the time of the launch of the public buyout offer is expected, following the success of that offer, to be definitively withdrawn during the first half of 2007.

Financial risks

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 primary exposure to interest rate risk comes from the variable-rate lines of credit it has set in place in France and in the United States. These lines are based on Euribor in France and on the prime rate in the United States. To manage its risks and optimise the cost of its debt, the Group tracks expectations of market rates and may choose to enter into interest rate swaps (into fixed rates) that never exceed either the maturity or the value of its actual commitments.

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.

The Virbac SA parent company also has a line of credit whose term and amount guarantee sufficient funding for the Group and its development projects.

Other financial risks

❖ Hedge accounting

Hedge accounting is used to offset the impact of the item hedged against that of the hedging instrument in the income statement. In order to qualify for hedge accounting, all hedging relationships must satisfy several stringent conditions in terms of documentation, probability of event, effectiveness of the hedge and reliability of measurement.

The Group recognizes only those hedges used to cover actual exposures, and does not create any speculative risk. Nevertheless, due to the constraints imposed by documentation of hedging relationships, the Group has elected not to classify any of the derivatives that it held on the balance sheet date as hedges for accounting purposes. As such, all changes in the value of these instruments are taken directly to net profit for the year.

The interest rate swap that had been classified as a cash flow hedge up through June 2005 was restated at the 31 December 2005 closing.

Forward exchange contracts are measured at their forward rate.

The impact on profit was very low.

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.

Sustainable development

Safety - Environment

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

Consumption of water and energy resources:

m3	2006	2005	2004
Water	80,000	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)	2006	2005	2004
Gas	9,939,937	10,592,962	9,624,692
Electricity	17,674,180	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 Workplace Safety project has now been made part of the Lean Manufacturing project.

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. Virbac SA carries out all modifications and improvements to its classified facilities related to changes in those of its businesses requiring updating of operating permits issued by the *Drire* (French regulatory departments responsible for industry, research and the environment). 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 2006:

- improved security of handling systems for technical/ burglary alarms (four year plan). Phase four consisted of securing the company's networks through use of fibre optics, and was rolled out in 2006,
- increased security of fire detection systems (four year project). Phase four was rolled out in 2006,
- launch of the "potentially explosive atmospheres" (*Atex*) study, which consists of classifying each work area based on the potential risk of each activity's likelihood of explosion,
- audit of work atmospheres,
- inspection of industrial and used water networks (carried out each year),
- launch of the automatic fire extinguisher installation programme, in accordance with the recommendations of the insurance companies,
- installation of fire containment walls at Virbac 1 and Virbac 3.

Total related investments amounted to €1,044,000 in 2006. This programme of improving the company's safety and environmental conditions will be continued in 2007.

Special training Hygiene-Safety-Environment

In 2006, 700 people participated in yearly regulatory fire safety training programmes.

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 achievements in this area in 2006 were:

- finalisation of the intranet database of product and reagent safety data for laboratory materials and finished products,
- continued updating of the prefectorial operating permit for environmental protection within classified facilities (*ICPE*) for Virbac 13e rue LID, for *Drire* compliance,
- continued negotiations on a waste agreement with the Carros Town Hall, with the aim of cutting clean up costs.

Energy savings

Virbac launched two energy audits during the final quarter of 2006.

The first, a highly technical audit, concerned the treatment of air, for which technical solutions were proposed; the second concerned office buildings, for which a behavioural analysis will be added to the technical conclusions.

The technical propositions will be implemented over several years, starting in 2007.

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.

Human resources

The Group has 2,564 employees in 29 countries, 37 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.

The human resources policy works to further the company's strategy, and may be summed up very simply by: striving for excellence in HR management in order to drive the company's growth and help all employees fulfil their potential.

This strategy has a few clear goals:

- remaining close and attentive to factory personnel, administrative employees and managers, in order to provide them with the best possible help to face the challenges they encounter every day,
- reinforcing the effectiveness of the Group's employees and organizations in partnership with the businesses with regard to all major growth and optimisation initiatives,
- training managers, and making them party to bringing about change in and developing their colleagues,
- encouraging geographic and functional mobility in order to strengthen the Group's culture and values around the world,
- promoting innovation and effectiveness by developing a style and a culture that favour open discussion.

Recruitment and mobility

Virbac has a selective recruitment policy designed to attract highly professional candidates to the sales and marketing functions in its animal health business and to its other industrial and research and development operations on a permanent basis. Virbac also recruits specialists for its support functions, such as the finance, legal, human resources, communications and IS departments, all of which help add value to the business.

In France, the head office recruits young interns, in order to expose the future graduates to the business world, while offering some of them the chance to join the company once they have finished their studies.

Virbac attaches a great deal of importance to the concepts of commitment and results, and to the heightened sense of social responsibility that is characteristic of the Group and is a key criterion during the selection process.

The professionalism with which all recruitment is performed, often both in-house and outside of the Group, stimulates internal mobility while increasing the quality of the recruits.

Training and development

Training and development have been practical priorities of Virbac's human resources strategy since 2006. Management of the training function was optimised greatly by the creation of a specific Virbac training catalogue and the use of a participatory definition of needs process that increased employees' sense of responsibility. The numbers of employees participating in training programmes doubled, with all categories of personnel participating. Considerable efforts were made to assist and train managers to bring about major changes within their organisations. The Lean Manufacturing programme was the driver for this effort. The Performance Management process was made an obligatory part of career training for all management personnel in France. Major projects are in the process of being developed for the sales functions in Europe; an audit was performed on the 180-person European sales force in order to design a skill development training programme. A similar project is also in the works for the marketing

function. Lastly, the areas of expertise of the leaders of Virbac were laid out, and constitute the basis for Virbac's worldwide managerial development measures.

Compensation

The Virbac Group's compensation policy is tied directly to the performance of the company as a whole and the individual contribution made by each employee.

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 that are also above average for the industry. 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. Considerable upgrades have been achieved in this area through efforts made in the areas of compensation, training and communications.

Outside of France, Virbac has taken an initial step in its plan to standardise compensation by starting with the Group's managers, who follow an international career path in order to facilitate exchanges of expertise around the globe.

Group workforce

Analysis of workforce by geographic region	Total	%	Women	%	Men	%
Europe	1,249	49%	645	52%	604	48%
North America	293	11%	112	38%	181	62%
Latin America	250	10%	100	40%	150	60%
Pacific	162	6%	75	46%	87	54%
Asia	481	19%	87	18%	394	82%
Africa/Middle East	129	5%	45	35%	84	65%
TOTAL	2,564	100%	1,064	41%	1,500	59%

Nearly half of the Group's workforce is located in Europe (49%), with 990 employees (39%) in France alone.

Change in workforce per geographic area	2006	2005	Change	%
Europe	1,249	1,223	26	2%
North America	293	279	14	5%
Latin America	250	233	17	7%
Pacific	162	163	- 1	- 1%
Asia	481	203	278	137%
Africa/Middle East	129	129	-	- %
TOTAL	2,564	2,230	334	15%

The total permanent workforce at 31 December 2006 was 15% higher than the previous year (334 more employees), due primarily to the impact of the 266 employees added by the acquisition of Virbac India in 2006.

Workforce by function	2006	%	2005	%
Production	947	37%	908	41%
Administration	352	14%	337	15%
Sales & Marketing	1,049	41%	768	34%
Research & Development	216	8%	217	10%
TOTAL	2,564	100%	2,230	100%

The acquisition of Virbac India alters the breakdown of the workforce by function significantly, with the sales and marketing function increasing to 41% of the total workforce in 2006 from 34% in 2005.

Virbac in France

Workforce

Virbac has a workforce of 990 permanent employees and 3 apprentices in France. With 56% women and 44% men, the workforce breaks down as follows in terms of status:

Statuts	%
Executives	40%
Supervisory staff/technicians/ non-manual employees	43%
Manual workers	17%

Changes in staffing

In 2006, there were five more new recruits than there were people leaving the company.

Compensation

In 2006, gross compensation amounted to €34,750,434, and social security to €14,988,153. The average gross annual salary was €37,332, 3.46% higher than in 2005.

Social and community services

In 2006 the company allotted €333,500 to social and community services.

Training

Training expenditures increased to €1,434,720 in 2006, representing 4.13% of gross payroll.

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. The decision to replace this national solidarity day by one less "working time reduction" (RTT) day during the year was upheld. Following the agreement signed in November 2004, executives legally classified as 'autonomous' (above grade 7 and salespeople) organise their work on a fixed annual basis of 213 days (212 days plus the national 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.

This agreement was renewed in 2006 for an unspecified duration, and by modifying the amendments to the work contract over the same period as for paid holidays and RTT in order to simplify administration.

Workplace safety

In 2005, there were a total of 20 work-related accidents, resulting in 239 days of absence from work. In 2006, there were a total of 18 such accidents, resulting in 148 days of absence.

More important than the number of accidents is the average length of absence from work due to accidents on the job, which declined from 12 days per accident in 2005 to 8 days in 2006.

Employee safety remains an ongoing concern. Virbac's industrial facilities comply with European standards, and the Group also conducts regular audits to guarantee that protection measures are effective.

This approach is combined with an information and training campaign for Group employees. Particular attention is paid to the following subjects:

- movements and posture,
- behaviour and vigilance.

Furthermore, all work-related accidents are followed up by an internal investigation, with solutions proposed and set in place with the involvement of the line management concerned and monitoring of the action plan for corrective measures.

Absenteeism

Absenteeism in the company amounted to 5.71%, and may be analysed as follows:

Causes	%
Work accident	0.30%
Maternity	0.79%
Illness	4.48%
Commuting accident	0.03%
Part-time medical leave	0.10%

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 7 permanent employee representatives and 2 substitutes; there are 2 employee representatives (one permanent and one substitute) at Magny-en-Vexin and at Verzeille.

A new labour representative from the CGT labour union was appointed in 2006.

The Virbac Distribution site re-elected a permanent and a replacement representative in 2006.

Disabled workers

In France, Virbac employs the equivalent of 42 people with a legally-recognised disability, representing 4% of the workforce.

Virbac and Francodex both fulfilled their employment obligations, notably by making significant efforts to retain disabled people in the workforce (using transfers and modifications of job functions) and by financing the needed equipment.

Virbac France and Virbac Distribution, which do not employ any workers meeting this description, made respective contributions of €23,156 and €3,328 to Agefiph.

Agefiph is the French agency responsible for financing measures to retain and integrate handicapped people into the workplace.

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.

The agreement signed in June 2005 incorporated one new aspect that was not included in previous agreements, associating two profitability ratios with the discretionary profit-sharing calculation:

- 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).

An amendment to adapt this agreement to IFRS was signed in June 2006, with the ratio based on 'operating profit' being replaced by one based on 'operating profit from ordinary activities'.

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).

Since 2005, Virbac has also established a matching programme whereby employees electing to invest their discretionary profit-sharing bonus in the company savings plan (*PEE*) or the collective retirement savings plan (*Perco*) receive, respectively, an additional 25% or 50% matching payment from the company.

❖ 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

	Deloitte et Associés				David et Associés Groupe Novances			
	2006		2005		2006		2005	
(€ thousands)	€	%	€	%	€	%	€	%
Audit, opinion, review of statutory and consolidated financial statements:								
France	216.6	32%	257.9	39%	155.2	97%	139.6	78%
Outside France	442.8	65%	331.9	50%	-	- %	-	- %
SUBTOTAL	659.4	96%	589.8	88%	155.2	97%	139.6	78%
Other services* :	25.2	4%	76.8	12%	5.3	3%	40.0	22%
TOTAL	684.6	100%	666.7	100%	160.5	100%	179.6	100%

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

The increase in fees on non-French subsidiaries is related to the incorporation of new subsidiaries into the Group (India and Greece) and the appointment of Deloitte et Associés for the Benelux subsidiaries.

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 SA.

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.

Preparation and organisation of the work of the supervisory board and the executive board

Preparation and organisation of the work of the supervisory board

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 1 March 2007, the supervisory board was comprised of six members, three of whom are independent:

- ◆ **François Guinot**
Aged 64, 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 67 years, a graduate of Faculté des Sciences de Paris and Harvard Business School, Xavier Yon is XYC SARL's permanent representative. The former chairman and general manager of Laboratoires Galderma, he is currently chairman of École de Biologie Industrielle de Cergy-Pontoise, chairman of Cosfi Holdings, and a director of both Graceway Pharmaceuticals Inc. (Philadelphia, Pennsylvania) and Medical Instill (New Milford, Connecticut).
- ◆ **Philippe Capron**
Aged 49, a graduate of the HEC and Institut d'Études Politiques de Paris, a former ENA student and auditor at the treasury (with special responsibility for the inspection of public finances), Philippe Capron is an executive vice president of the Vivendi group. He is also a director of Tinubu Square SAS, and chairman of the supervisory board of Achatpro SA.

The other members are:

- ◆ **Marie-Hélène Dick**
Aged 42, 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 70, 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 46, 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.

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.

In accordance with the Articles of association, the supervisory board meets at least once each quarter. During the past year, the supervisory board met four times. Every member of the supervisory board attended all of the meetings, with the exception of Jeanine Dick and Philippe Capron who each attended three of the four meetings. Members of the supervisory board also met informally several times during the year for work and review sessions.

Special committees

- ❖ **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 five times during 2006, two of which with the chairman of the executive board in attendance.

❖ 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 2006 with the chairman of the executive board, the chief financial officer and the statutory auditors in attendance.

Executive board membership

The executive board has five members:

- ◆ **Éric Marée**
Aged 54, 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 55, a 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 48, a 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 52, 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 41, a 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 met eleven times in an official capacity during 2006 and much more frequently on an informal basis.

In accordance with Act no. 2006-1770 of 30 December 2006 regarding the expansion of mandatory profit-sharing and employee stock ownership, the methods and rules used to calculate compensation and all types of benefits granted to members of the executive board are described in the section of the management report on “Compensation of members of the executive board.”

Internal control system

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.

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 Group is organised into five decentralised international regions, each of which is headed up by managers familiar with and able to apply the Group’s best operational practices, and regional financial controllers responsible for ensuring that the Group’s internal control rules are applied correctly. Each region is responsible for its own operations, after discussion and validation of their strategic choices by the executive board. The executive board determines the Group’s strategic orientations and areas for development, which are then adapted 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.

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).

❖ 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-nine 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 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.

❖ 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,
- the Industrial 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.

❖ 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 in 2004 and is updated on a regular basis. 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,
 - the Accounting department regularly updates the instructions issued to the subsidiaries concerning the submission of accounting and financial information. These instructions were overhauled entirely in 2004 following the adoption of International Financial Reporting Standards (IFRS), which enabled the department to carry out a comprehensive inventory of all of the Group's operating and accounting procedures. The need for absolute transparency in all transactions in order to provide the best possible reconstitution in the financial statements and to improve anticipation of potential risks was reaffirmed. Additional staffing was added to the consolidation unit in 2006 in order to improve its ability to handle increasing regulatory requirements, to multiply exchanges with the subsidiaries and to accelerate financial reporting times.
- 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 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 documented in a procedures manual,
- enabling remedial actions to replace preventive actions.

The updating of this system was begun in the second half of 2006, and will be finalised in 2007.

◆ Insurance

With the assistance of a broker that is part of an international network, the Legal department reviewed all insurable risks and, whenever possible, established the most appropriate associated financial coverage possible. A monitoring and updating system guarantees that this coverage remains optimal.

The Group's main sites were also visited to check that all insurance programmes match requirements and to update certain covers.

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 Legal Information System, whose development was initiated in 2004, an information management module is expected to be finalised in 2007 and would allow Virbac to share insurance and claims management-related information with its 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

In order to respond to increasing regulatory requirements, the HSE process covers the management of risks related to materials handling, 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,
- implementation of a risk-analysis strategy for the Group's production sites which resulted in France, for instance, in the finalisation of an intranet database of product and reagent safety datasheets for laboratory materials and finished products.

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.

❖ 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.

❖ 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.

❖ 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.

❖ 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, whose implementation within the subsidiaries was finalised in 2006, will continue in France in 2007.

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.

❖ 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 single chart of accounts for the entire Group is used to prepare the financial statements; accounting and financial procedures are in place to guarantee the consistency and accuracy of the recognition of transactions, in line with Group rules and compliance with local regulations. When Virbac adopted IFRS, these procedures were reviewed, requiring a high level of transparency for operational managers to better assess the accounting and financial treatment of transactions.

In 2006, the Group set in place the Magnitude consolidation software. This software improves the consolidation process by increasing the fluidity of exchanges of information between the consolidation unit and the subsidiaries' finance departments.

◆ Financial Controlling

The Financial Control department 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 department 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 department 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.

This review resulted in the redefinition of operational management levels and the drafting of a new procedure for monitoring commitments, which will be accompanied in 2007 by the implementation of tracking software that will enable the process to be made fully automatic.

◆ 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. Toward this end, Movex ERP software was successfully implemented in South Korea and Japan in 2005, and in South Africa and England in 2006, and will be progressively rolled out to all Group subsidiaries.

IS and Financial Affairs department staff also collaborated in the implementation of the Movex ERP financial module in the Group's French subsidiaries. This module, which includes general and management accounting systems and trade receivables and payables sub-systems, started up in January 2007.

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 several years ago, 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

Virbac's human resource management strategy is based on several clear objectives:

- remaining in touch with and sensitive to the needs of operational personnel, employees and managers, to provide them with the best possible assistance in accomplishing their daily tasks,
- making Virbac's people and organisation more effective, helping the business with its major growth and optimisation initiatives,
- training managers and making them drivers of change and growth for their personnel,
- encouraging geographic and functional mobility, to spread the Group's business culture and values throughout the world,
- developing a style and a culture open to discussion, in order to promote innovation and effectiveness.

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

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 and should both be operational in 2007.

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.

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, business law, and litigation.

◆ 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 provides for a dynamic exchange of information and improves 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 department 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.

The European Global Marketing and Sales Effectiveness project 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.

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 recent years helped significantly and new leads for improvement have since been identified and followed:

- integration of subsidiaries acquired in 2006 (USA, India) into the Group's internal control system,
- implementing a proactive risk identification policy. Completion of this project, which was initiated in 2005, has been pushed to 2007, as priority for the considerable resources required had to be assigned to the acquisitions that were carried out. The goal of the project will be to establish a risk mapping for the Group,
- continuing the improvement of the process for monitoring undertakings by an automated monitoring system in the French companies,
- harmonising Group information systems with the progressive rolling out of Movex ERP in all Group subsidiaries,
- overhaul of the Group's budget process.

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 prepared in accordance with
article L.225-235
of the French commercial code regarding the report of the
chairwoman of the supervisory board of Virbac
on the internal control procedures relating
to the preparation and processing of accounting
and financial information

Year ending 31 December 2006

Dear shareholders,

As Virbac's statutory auditors and in accordance with the provisions of article L.225-235 of the French commercial code, we present you with our report on the report prepared by the chairwoman of your supervisory board in accordance with the provisions of article L.225-68 of the French commercial code for the year ending 31 December 2006.

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 chairwoman on the internal control procedures relating to the preparation and processing of accounting and financial information.

We carried out our audit in accordance with professional standards applicable in France. This requires us to carry out our work in such a manner as to ensure the accuracy of the information set out in the report of the chairwoman on the internal control procedures relating to the preparation and processing of accounting and financial information. This work consisted notably of:

- familiarising ourselves with the objectives and general organisation of the internal control system, as well as the internal control procedures relating to the preparation and processing of accounting and financing information, set out in the report of the chairwoman;
- 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 presented in the report of the chairwoman of the supervisory board regarding the internal control procedures of the company relating to the preparation and processing of accounting and financial information, prepared in accordance with the provisions of the final paragraph of article L.225-68 of the French commercial code.

Nice and Marseilles
16 April, 2007
The statutory auditors

David & Associés
Jean-Pierre Giraud

Deloitte & Associés
Vincent Gros

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Consolidated financial statements

Balance sheet

	Notes	2006	2005
(€ thousands)			
NON-CURRENT ASSETS			
Goodwills	B1	82,136	34,829
Intangible assets	B2	60,361	47,267
Property, plant and equipment	B3	62,295	67,090
Non-current financial assets	B4	5,005	994
Investments in associates	B5	475	519
Other non-current receivables	B6	591	1,217
Deferred tax assets	B7	13,941	9,370
		224,804	161,286
CURRENT ASSETS			
Inventories and work-in-progress	B8	59,649	58,577
Trade receivables	B9	65,225	68,558
Tax receivables		4,047	2,296
Other current receivables	B6	11,899	9,421
Current financial assets	B4	75	46
Cash and cash equivalents	B10	13,166	14,139
		154,061	153,037
TOTAL ASSETS		378,865	314,323
SHARE CAPITAL AND RESERVES			
Share capital		10,893	10,893
Reserves and retained earnings		126,939	117,383
Net profit for the year		24,913	19,799
Shareholders' equity - Group share	B11	162,745	148,075
Minority interests		2,183	12,112
		164,928	160,187
NON-CURRENT LIABILITIES			
Deferred tax liabilities	B7	14,290	10,578
Employee benefits	B12	5,457	6,053
Long-term provisions	B13	816	549
Non-current financial liabilities	B14	67,378	8,396
Other non-current payables	B15	13,835	14,471
		101,776	40,047
CURRENT LIABILITIES			
Current provisions	B13	1,768	1,268 *
Trade payables	B14	47,738	46,073 *
Tax payables		1,422	1,666
Current financial liabilities	B15	12,975	20,542
Other current payables	B16	48,258	44,540
		112,161	114,089
TOTAL LIABILITIES		378,865	314,323

* Reclassification of €2,744 thousand of provisions for expenses into "trade payables" (see "Accounting principles applied" in the notes to the financial statements).

Income statement

	Notes	2006	2005	Change
(€ thousands)				
SALES	R1	401,636	372,403	7.8%
Purchases consumed	R2	-126,581	-116,980	
External expenses		-100,481	-92,632 *	
Personnel costs		-105,996	-100,297	
Taxes and duties		-9,665	-9,287	
Depreciations and provisions		-12,525	-11,004 *	
Other operating revenues and expenses	R3	-3,111	-3,904	
Operating profit from ordinary activities		43,277	38,299	
Other non-recurring operating revenues and expenses	R4	-3,463	-6,210	
OPERATING PROFIT		39,814	32,089	24.1%
Interest expense on gross debt	R5	-2,750	-2,744	
Other financial income and expenses		714	1,001	
PROFIT BEFORE TAX		37,778	30,346	24.5%
Tax charge	R6	-10,194	-8,504	
Share in the earnings of companies accounted for by the equity method		43	229	
CONSOLIDATED NET PROFIT	R7	27,627	22,071	25.2%
<i>Of which</i>				
Group share		24,913	19,799	25.8%
Minority interests		2,714	2,272	
Basic earnings per share - Group share (in euros)	R8	2.91 €	2.33 €	
Diluted earnings per share - Group share (in euros)		2.91 €	2.33 €	

* Reclassification of €2,744 thousand of provisions for expenses into "external expenses" (see "Accounting principles applied" in the notes to the financial statements).

Cash flow statement

(€ thousands)	2006	2005
Consolidated net profit	27,627	22,071
Elimination of Group's share of earnings of companies accounted for by the equity method	-43	-229
<u>Elimination of revenues and expenses with no impact on cash flow:</u>		
Elimination of amortisations and provisions	13,642	16,698*
Elimination of the change in deferred taxes	-4	-2,032
Elimination of (gains) losses on asset disposals	1,202	129
Other non cash items	-493	469
Cash flow	41,931	37,106
<u>Impact of working capital items net movements:</u>		
Net change in inventories	-1,794	-1,720
Net change in trade receivables	2,621	-5,364
Net change in trade payables	4,083	5,460*
Net change in other receivables and payables	1,297	-4,862
Cost of net debt	2,740	2,743
Changes in taxes	-2,071	2,401
Net cash flow from operating activities	48,807	35,764
<u>Acquisition of non-current assets:</u>		
Intangible assets	-3,282	-3,692
Property, plant and equipment	-8,939	-5,917
Financial assets	-3,563	-585
Disposals of non-current assets	237	603
Dividends received	88	-
Acquisitions of subsidiaries, net of cash acquired	-36,376	-
Acquisitions/disposals of minority interests	-42,980	1,363
Net cash flow allocated to investments	-94,815	-8,228
Dividends paid by the parent company	-5,552	-4,618
Dividends paid to minority interests	-487	-435
Change in treasury shares	1,154	3,610
New borrowings	57,120	2,945
Net repayments of borrowings	-11,666	-29,223
Net cash provided by financing activities	40,569	-27,721
CHANGE IN CASH AND CASH EQUIVALENTS	-5,439	-185

* Reclassification of €2,744 thousand in provisions for expenses into "trade payables" (see "Accounting principles applied" in the notes to the financial statements).

Statement of changes in cash position

(€ thousands)	2006	2005
Cash and cash equivalents	14,139	14,481
Bank overdrafts	-5,199	-6,256
Accrued interest not yet payable	-38	-
Opening net cash position	8,902	8,225
Cash and cash equivalents	13,166	14,139
Bank overdrafts	-10,116	-5,199
Accrued interest not yet payable	-84	-38
Closing net cash position	2,966	8,902
Impact of translation adjustments	-497	862
Change in net cash position	-5,439	-185*
* Correction of the 2005 statement of changes in cash position (see "Accounting principles applied" in the notes to the financial statements):		
Change in net cash [Publication 2005]		40
Reclassification of cash subject to restrictions into "financial assets"		-187
Reclassification of "accrued interest not yet payable" as a cash liability		-38
		-185

Consolidated statement of changes in shareholders' equity

(€ thousands)	Share capital	Share premium	Reserves	Net profit	Translation adjustments	Shareholders' equity, Group share	Minority interests	Total shareholders' equity
Shareholders' equity at 1 January 2005	10,893	6,534	106,828	-	-1,818	122,437	8,733	131,170
Dividends distribution	-	-	-4,618	-	-	-4,618	-438	-5,056
Translation adjustments	-	-	-	-	6,586	6,586	1,220	7,806
Treasury shares	-	-	3,213	-	-	3,213	-	3,213
Other changes	-	-	658	-	-	658	325	983
Net profit of the period	-	-	-	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
Allocation of 2005 net profit	-	-	19,799	-19,799	-	-	-	-
Dividends distribution	-	-	-5,552	-	-	-5,552	-487	-6,039
Translation adjustments	-	-	-	-	-5,619	-5,619	-703	-6,322
Treasury shares	-	-	1,044	-	-	1,044	-	1,044
Changes of scope	-	-	-	-	-	-	-11,453	-11,453
Other changes (see note B11)	-	-	-116	-	-	-116	-	-116
Net profit of the period	-	-	-	24,913	-	24,913	2,714	27,627
Shareholders' equity at 31 December 2006	10,893	6,534	121,256	24,913	-851	162,745	2,183	164,928

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 1st avenue 2065m LID, 06511 Carros, France. The company is registered on the Grasse trade and companies register under number 417350311 RCS Grasse.

The 2006 financial statements were prepared by the executive board on 19 March 2007.

The following notes to the financial statements form an integral part of the consolidated financial statements.

Post-balance sheet events

On 4 January 2007, Virbac acquired Bio Solutions International, a Thai company specialised in the manufacture and distribution of aquaculture products.

Accounting principles applied

Under the terms of regulation 1606/2002 of the European Council adopted on 19 July 2002, the Group's 2006 consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted within the European Union.

The Group did not choose to adopt early application of any of the following new standards or interpretations for the presentation of the 2006 consolidated financial statements:

- new standards:
 - IFRS 7: disclosure checklist for financial instruments - applicable as from 1 January 2007,
 - IFRS 8: operating segments - applicable as from 1 January 2009;
- amendments of existing standards:
 - IAS 1: presentation of financial statements - amendments relating to share capital information (as a result of IFRS 7) - applicable as from 1 January 2007;
- interpretations:
 - IFRIC 7: applying the restatement approach under IAS 29 financial reporting in hyperinflationary economies - applicable to financial years beginning on or after 1 March 2006,
 - IFRIC 8: scope of IFRS 2 - applicable to financial years beginning on or after 1 May 2006,
 - IFRIC 9: reassessment of embedded derivatives - applicable to financial years beginning on or after 1 June 2006,
 - IFRIC 10: interim financial reporting and impairment - applicable to financial years beginning on or after 1 November 2006,
 - IFRIC 11: group and treasury share transactions - applicable as from 1 March 2007,
 - IFRIC 12: service concession arrangements - applicable as from 1 January 2008.

The Group has not yet evaluated the potential impacts of these standards, amendments and interpretations on its consolidated financial statements in future years.

In order to improve the quality of the information provided to readers of the financial statements, the company has, in certain cases, adopted a classification in the 2006 financial statements that differs from the one employed the previous year. For purposes of comparability, the figures in the column for 2005 have been restated pro forma, in accordance with the options selected for 2006.

These reclassifications are identified by an asterisk (*) in the financial statements and had no impact on net profit, which remained unchanged from the figure presented last year.

Scope of consolidation

The consolidated financial statements for the year ended 31 December 2006 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:

- in late July 2006, Virbac SA acquired GlaxoSmithKline's veterinary division in India. This acquisition resulted in the entry of Virbac India, a wholly-owned subsidiary, in the Group scope of consolidation;
- following a public buyout offer for the minority interests of its subsidiary Virbac Corporation that was finalised on 31 October 2006, Virbac's stake in that company increased from 60.09% to 100% during the year;

- at the end of 2006, Virbac acquired the minority interests in its subsidiary Virbac Korea; Virbac's stake in that company increased from 90% to 100% during the year.

At the end of 2006, Virbac also acquired all of the shares of Nuova ICC, an Italian company. Given the lateness in the year of the acquisition date, the Group was not able to include the financial statements of that company in the 2006 scope of consolidation. The consolidation of that subsidiary would not, however, have had a material impact on the financial statements for the year, due to the immateriality of the sales (€511 thousand) and net result (a €12 thousand loss) generated by that company subsequent to its acquisition.

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 2006.

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.

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

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, acquisition expenses included, 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%.

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%.

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 years;
- 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.

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.

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 the vending company.

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.

Derivatives and hedge accounting

The Group holds derivative instruments solely in order to reduce its exposure to interest rate and exchange rate risks on any balance sheet items, firm or highly-probable off-

balance sheet commitments and certain foreign currency-denominated investments in foreign entities.

❖ 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.

In order to protect itself against adverse movements in the various currencies in which its sales and certain specific transactions are denominated, Virbac uses forward contracts on foreign currencies to hedge its exposure to exchange rate risk.

The Group notably hedges a portion of its future sales and firm orders denominated in foreign currencies, as well as the dividends of consolidated companies and certain intercompany loans.

❖ Interest rate risk

Virbac is financed by means of a variable-rate credit line. In order to control its exposure to interest rate risk, Virbac has set in place an interest rate swap designed to convert a variable-rate borrowing to a fixed rate.

❖ Embedded derivatives

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

❖ Hedge accounting

Hedge accounting is used to offset the impact of the item hedged against that of the hedging instrument in the income statement. In order to qualify for hedge accounting, all hedging relationships must satisfy several stringent conditions in terms of documentation, probability of event, effectiveness of the hedge and reliability of measurement.

Due to the constraints imposed by documentation of hedging relationships, the Group has elected not to classify any of the derivatives that it held on the balance sheet date as hedges for accounting purposes. As such, all changes in the value of these instruments are taken directly to the net profit for the year.

The interest rate swap that had been classified as a cash flow hedge up through June 2005 was restated at the 31 December 2005 closing.

Forward exchange contracts are measured at their forward rate.

Financial liabilities

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

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 recognises deferred taxes on temporary difference between the carrying amount and the tax value of an asset or a liability. Tax assets and liabilities are not restated at their present value.

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

In France, the current tax rate in 2006 amounted to 34.43%, including the additional social contribution. This same rate was applied for the calculation of French deferred taxes.

Non-current assets held for sale and discontinued operations

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. No assets were included in this category at 31 December 2006.

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 spread over the period during which the services are rendered.

Personnel costs

Personnel costs include all expenses related to 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.

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.

Consequently, the Group uses only one reporting segment.

Information by geographic region is broken down into seven zones, based on the location of the Group's assets and operations:

- France,
- Europe (except France),
- Latin America,
- North America,
- Africa and Middle East,
- Asia,
- Pacific.

The transfer prices used between the Group subsidiaries are the same prices that would have been used in arm's length transactions with third parties.

Main sources of uncertainty regarding estimates

In order to prepare its consolidated financial statements in accordance with IFRS, the Group is required to make a certain number of estimates and use certain assumptions that it deems realistic and reasonable.

Certain facts and conditions may cause these estimates and assumptions to change, which would affect the value of the Group's assets, liabilities, shareholders' equity and net results.

Goodwill and other intangible assets

The Group possesses intangible assets that were purchased or acquired during business combination transactions, in addition to the resulting goodwill. As indicated in the section on "Accounting principles applied," every year the Group tests its goodwill and other intangible assets whose economic lives cannot be defined for impairment. These impairment tests are based on an estimate of the future cash flows over a period of between five and twenty years. The estimates calculated at the time these tests are performed are sensitive to assumptions of sale prices and future costs, and discount and growth rates.

The Group may in the future have cause to write down the value of certain non-current assets, in the event of a worsening of the outlook for the profitability of these assets or if there is an indication of a loss of their value, as was the case in 2006 for one particular intangible asset Virbac had acquired.

At 31 December 2006, the company had net goodwill and other intangible assets of, respectively, €82,136 thousand and €60,361 thousand.

Deferred taxes

Deferred tax assets are recognised essentially on unused tax losses and deductible temporary differences between the tax and accounting values of the company's assets and liabilities. Assets relating to tax losses are recognised if it is probable that the Group will have future taxable profits against which these tax losses can be applied, based in part on a major judgement call.

Therefore, at each balance sheet date the amount of deferred tax assets may be significantly modified either downwards or upwards, as was the case in 2006 following the reassessment of the Virbac Corporation's ability to utilise its tax losses.

The company had €13,941 thousand in deferred tax assets at 31 December 2006.

Provisions for pension schemes and other post-employment benefits

As indicated in note B12, the Group has set up pension schemes and other post-employment benefits. The corresponding commitments were calculated using actuarial methods that take account of assumptions such as the benchmark salary for scheme beneficiaries and the discount rate. These assumptions are updated every year. Actuarial gains or losses are recognised immediately in profit or loss. In 2006, the reassessment of the benchmark salary for the defined benefits scheme and the increase in the discount rate resulted in a €268 thousand year-on-year decrease in the Group's total commitment at 31 December 2006. Total employee benefits commitments amounted to €5,457 thousand at 31 December 2006.

Notes to the consolidated financial statements

Note B1 - Goodwill

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

(€ thousands)	France (except France)	Europe	Latin America	North America	Africa and Middle East	Asia	Pacific	Total
Carrying amount as at 1 January 2006	6,729	3,195	423	20,549	409	481	3,043	34,829
Increases	-	251	-	31,449	-	19,037	-	50,737
Disposals	-	-	-	-	-	-	-	-
Impairment	-	-	-	-	-	-	-	-
Transfers	-	-	-	-1,585	-	-	-	-1,585
Translation adjustments	-	-	-2	-2,001	-78	298	-62	-1,845
Carrying amount as at 31 December 2006	6,729	3,446	421	48,412	331	19,816	2,981	82,136

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

The increase of this item is attributable primarily to the acquisitions made during the year:

The acquisition of minority interests is not a business combination as defined by IFRS 3. IAS 8.10 states that in the absence of a standard or an interpretation that specifically applies to a transaction, other event or condition, management must use its judgement in developing and applying an accounting policy. Virbac recognised these transactions at their historical accounting values.

❖ North America: public buyout offer on the minority interests of Virbac Corporation

This concerned the acquisition of an additional 39.91% of the capital of a Group subsidiary already accounted for by the full consolidation method.

Purchase price of the shares held by minority interests	€40,769 thousand
Associated acquisition expenses	€1,909 thousand
Total acquisition cost of the minority interests	€42,678 thousand
Share of net assets acquired	€11,229 thousand
Goodwill	€31,449 thousand

❖ Asia: acquisition of the division veterinary of GlaxoSmithKline

This transaction was recognised in accordance with the acquisition method defined by IFRS 3.

Purchase price of the shares	€35,502 thousand
Associated acquisition expenses	€874 thousand
Total acquisition cost of Virbac India	€36,376 thousand
Fair value of assets acquired	€17,469 thousand
Goodwill	€18,907 thousand

Assets acquired:

(€ thousands)	Fair value	Carrying amount prior to the business combination
Brands	15,205	798
Inventories	2,063	1,686
Other	201	201
Total	17,469	2,685

❖ Asia: acquisition of the minority interests of Virbac Korea

This concerned the acquisition of an additional 10% of the capital of a Group subsidiary already accounted for by the full consolidation method.

Purchase price of the shares held by minority interests	€302 thousand
Share of net assets acquired	€172 thousand
Goodwill	€130 thousand

The other events that affected goodwill were:

❖ Europe

The goodwill of Virbac Hellas and Animédica were adjusted respectively by €167 thousand and €84 thousand following the receipt in 2006 of the definitive audit report, which highlighted variances between the net asset values at the acquisition date and the amounts taken into account for the consolidated financial statements at 31 December 2005.

❖ North America

In its 2006 financial statements, Virbac Corporation, the US subsidiary, recognized a deferred tax asset, a significant portion of which (€1,585 thousand) resulted from the 1999 merger of Virbac Inc. and Agrinutrition. This merger-related deferred tax, which had been recognized retroactively, was recorded as a deduction against the goodwill recognized on the merger.

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.

Breakdown of intangible assets by geographic region

(€ thousands)	France (except France)	Europe	Latin America	North America	Africa and Middle East	Asia	Pacific	Total
Concessions, patents, licences and trademarks	34,645	1,290	245	12,580	-	15,448	-	64,208
Other intangible assets	20,466	383	60	2,345	56	185	1,163	24,658
Gross value	55,111	1,673	305	14,925	56	15,633	1,163	88,866
Concessions, patents, licences and trademarks	-12,742	-907	-245	-3,528	-	-	-	-17,422
Other intangible assets	-9,658	-321	-60	-188	-8	-41	-807	-11,083
Depreciations	-22,400	-1,228	-305	-3,716	-8	-41	-807	-28,505
Concessions, patents, licences and trademarks	21,903	383	-	9,052	-	15,448	-	46,786
Other intangible assets	10,808	62	-	2,157	48	144	356	13,575
Carrying amount	32,711	445	-	11,209	48	15,592	356	60,361

The increase of the item corresponded to the non-current assets acquired. No intangible assets were produced internally.

Change in intangible assets

(€ thousands)	Concessions, patents, licences and trademarks		Total	Other intangible assets	TOTAL
	Indefinite useful life	Finite useful life			
Cost as at 1 January 2006	29,919	19,677	49,596	20,638	70,234
Acquisitions	659	-	659	4,678	5,337
Disposals	-25	-	-25	-1,010	-1,035
Business combinations	15,189	-	15,189	-	15,189
Transfers	-	-	-	574 *	574
Impact of exchange rate fluctuations	-1,210	-	-1,210	-223	-1,433
Cost as at 31 December 2006	44,532	19,677	64,209	24,657	88,866
Depreciations as at 1 January 2006	-5,493	-8,617	-14,110	-8,857	-22,967
Allowances	-1,869	-1,796	-3,665	-1,840	-5,505
Written-back provisions	-	10	10	18	28
Business combinations	-	-	-	-	-
Transfers	-	-	-	-486 *	-486
Impact of exchange rate fluctuations	-	342	342	83	425
Depreciations as at 31 December 2006	-7,362	-10,061	-17,423	-11,082	-28,505
Carrying amount as at 1 January 2006	24,426	11,060	35,486	11,781	47,267
Carrying amount as at 31 December 2006	37,170	9,616	46,786	13,575	60,361

* Reclassification of Virbac Corporation software initially recorded in "other property, plant and equipment."

❖ Concessions, patents, licences and brands

The increase of this item is related primarily to the acquisition of the veterinary division of GlaxoSmithKline (Virbac India). Following an impairment test, a €1.9 million impairment provision was recognised in 2006 on an intangible asset with an unspecified useful life.

❖ Other intangible assets

The increase in this item is related primarily to the implementation of the Movex ERP software in several subsidiaries, and of Oracle at Virbac Corporation.

Note B3 - Property, plant and equipment

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

At 31 December 2006, the gross value of assets acquired under finance leases and restated as property, plant and equipment, in accordance with IAS 17, amounted to €6,976 thousand.

The main assets comprising the Group's property, plant and equipment are:

- land,
- buildings, including:
 - buildings,
 - building improvements,
- plant, machinery and equipment,
- other property, plant and equipment, including notably:
 - hardware,
 - office furniture,
 - motor vehicles.

Breakdown of property, plant and equipment by geographic region

(€ thousands)	France (except France)	Europe	Latin America	North America	Africa and Middle East	Asia	Pacific	Total
Land	1,491	241	46	2,529	267	-	1,520	6,094
Buildings	56,011	4,106	1,220	5,950	1,573	651	2,914	72,425
Plant, machinery and equipment	39,999	1,397	3,218	6,501	384	1,217	2,650	55,366
Other property, plant and equipment	6,473	2,470	1,915	1,917	661	519	2,283	16,238
Cost	103,974	8,214	6,399	16,897	2,885	2,387	9,367	150,123
Land	-	-	-	-	-	-	-	-
Buildings	-31,546	-1,924	-352	-2,314	-293	-248	-1,067	-37,744
Plant, machinery and equipment	-29,115	-1,038	-1,613	-3,935	-257	-608	-2,394	-38,960
Other property, plant and equipment	-4,365	-2,123	-1,156	-1,111	-390	-203	-1,776	-11,124
Depreciations	-65,026	-5,085	-3,121	-7,360	-940	-1,059	-5,237	-87,828
Land	1,491	241	46	2,529	267	-	1,520	6,094
Buildings	24,465	2,182	868	3,636	1,280	403	1,847	34,681
Plant, machinery and equipment	10,884	359	1,605	2,566	127	609	256	16,406
Other property, plant and equipment	2,108	347	759	806	271	316	507	5,114
Carrying amount	38,948	3,129	3,278	9,537	1,945	1,328	4,130	62,295

Change in property, plant and equipment

(€ thousands)	Land	Buildings	Machinery and industrial equipment	Other property, plant and equipment	Total
Cost as at 1 January 2006	6,191	72,499	53,716	17,510	149,916
Acquisitions	-	1,718	3,475	858	6,051
Disposals	-	-65	-608	-827	-1,500
Business combinations	-	-	50	9	59
Transfers	330	-330	-	-574	-574
Impact of exchange rate fluctuations	-427	-1,397	-1,267	-738	-3,829
Cost as at 31 December 2006	6 094	72,425	55,366	16,238	150,123
Depreciations as at 1 January 2006	-	-34,876	-36,955	-10,995	-82,826
Allowances	-	-3,378	-3,260	-1,492	-8,130
Written-back provisions	-	65	513	490	1,068
Business combinations	-	-	-	-	-
Transfers	-	-	-	486	486
Impact of exchange rate fluctuations	-	445	742	387	1,574
Depreciations as at 31 December 2006	-	-37,744	-38,960	-11,124	-87,828
Carrying amount as at 1 January 2006	6,191	37,623	16,761	6,515	67,090
Carrying amount as at 31 December 2006	6,094	34,681	16,406	5,114	62,295

Note B₄ - Financial assets

Breakdown of financial assets by geographic region

(€ thousands)	France (except France)	Europe (except France)	Latin America	North America	Africa and Middle East	Asia	Pacific	Total
Participating interests in non-consolidated companies	2,883	-	-	-	-	32	-	2,915
Loans and other non-current receivables	333	28	1	63	-	698	-	1,123
Derivatives	675	-	-	-	-	-	-	675
Cash subject to restrictions	-	-	189	-	-	173	-	362
Other financial assets	-	5	-	-	-	-	-	5
TOTAL	3,891	33	190	63	-	903	-	5,080

Change in financial assets

(€ thousands)	2006		2005	
	Current	Non-current	Current	Non-current
Participating interests in non-consolidated companies	-	2,915 *	-	198
Loans and other non-current receivables	13	1,110	-	569
Derivatives	62	613	46	36
Cash subject to restrictions	-	362	-	186
Other financial assets	-	5	-	5
TOTAL	75	5,005	46	994

* The increase in this item is related primarily to the acquisition of the shares of Nuova ICC, which was not consolidated in 2006 (see "Scope").

Note B₅ - Investments in associates

(€ thousands)	Individual financial statements of companies accounted for by the equity method				Consolidated financial statements	
	Total assets	Total liabilities	Sales	Net profit (loss)	Investment	Group share of earnings
German associate	1,213	1,213	3,952	92	406	22
Finnish associate	440	440	1,661	48	69	21
TOTAL					475	43

❖ German associate

Virbac holds 24% of the shares of a German associate which is accounted for by the equity method.

❖ Finnish associate

Virbac has joint control of a Finnish company that the Group has elected to account for by the equity method, as is permitted under IAS 31.

Note B6 - Other receivables

Breakdown of other receivables by geographic region

(€ thousands)	France	Europe (except France)	Latin America	North America	Africa and Middle East	Asia	Pacific	Total
Due from staff and social security bodies	28	37	-	-	-	236	-	301
Due from the State	4,550	294	-	16	-	389	-	5,249
Advances and payments on account to suppliers	604	19	211	30	-	-	-	864
Accrued income	-	-	-	-	-	-	-	-
Provisions on other receivables	-44	-	-	-	-	-11	-	-55
Prepaid expenses	1,354	197	120	850	-	89	82	2,692
Blocked accounts	591	-	-	-	-	-	-	591
Sundry receivables	1,419	300	421	33	312	294	69	2,848
TOTAL	8,502	847	752	929	312	997	151	12,490

Change in other receivables

(€ thousands)	2006		2005	
	Current	Non-current	Current	Non-current
Due from staff and social security bodies	301	-	100	-
Due from the State	5,249	-	4,261	-
Advances and payments on account to suppliers	864	-	924	-
Accrued income	-	-	529	-
Provisions on other receivables	-55	-	-44	-
Prepaid expenses	2,692	-	2,657	-
Blocked accounts	-	591	-	1,217
Sundry receivables	2,848	-	994	-
TOTAL	11,899	591	9,421	1,217

In order to improve the quality of the financial information, tax receivables were broken out from other receivables and presented on a specific line in the balance sheet. Amounts receivable from the State government consisted primarily of VAT receivables.

Note B7 - Deferred taxes

Breakdown of deferred taxes by geographic region

(€ thousands)	France	Europe (except France)	Latin America	North America	Africa and Middle East	Asia	Pacific	Total
Deferred tax assets	6,577	914	561	4,646	239	679	325	13,941
Deferred tax liabilities	10,909	109	442	1,921	32	877	-	14,290

Main sources of deferred taxes

(€ thousands)	Deferred tax assets		Deferred tax liabilities
Deferred taxes not previously recognised (Virbac Corporation)	3,754	Revaluation gain on intangible assets	7,604
Margins on inventories	3,625	Impairment differences on property, plant and equipment	2,705
Depreciation, amortisation and provisions	2,865	Regulated provisions	1,802
Pension commitments and termination benefits	1,295	Capitalisation of acquisition-related costs	991
Restatement of finance leases	309	Other	1,188
Losses carried forward	192		
Other	1,901		
TOTAL	13,941	TOTAL	14,290

Note B8 - Inventories and work-in-progress

Breakdown of inventories and work-in-progress by type

(€ thousands)	2006			2005		
	Gross	Provision	Net	Gross	Provision	Net
Raw materials and supplies	21,129	-2,939	18,190	24,124	-3,582	20,542
Work-in-progress	4,483	-644	3,839	4,396	-968	3,428
Finished products and goods	39,003	-1,383	37,620	35,879	-1,272	34,607
TOTAL	64,615	-4,966	59,649	64,399	-5,822	58,577

Breakdown of inventories and work-in-progress by geographic region

(€ thousands)	France (except France)	Europe (except France)	Latin America	North America	Africa and Middle East	Asia	Pacific	Total
Raw materials and supplies	9,679	1,396	1,894	4,688	1,606	175	1,691	21,129
Work-in-progress	4,334	14	129	6	-	-	-	4,483
Finished products and goods	7,947	10,960	2,290	6,400	1,446	5,325	4,635	39,003
Gross value	21,960	12,370	4,313	11,094	3,052	5,500	6,326	64,615
Raw materials and supplies	-1,069	-116	-119	-1,635	-	-	-	-2,939
Work-in-progress	-644	-	-	-	-	-	-	-644
Finished products and goods	-479	-260	-83	-	-26	-120	-415	-1,383
Provisions	-2,192	-376	-202	-1,635	-26	-120	-415	-4,966
Raw materials and supplies	8,610	1,280	1,775	3,053	1,606	175	1,691	18,190
Work-in-progress	3,690	14	129	6	-	-	-	3,839
Finished products and goods	7,468	10,700	2,207	6,400	1,420	5,205	4,220	37,620
Net value before neutralisation of intercompany margin in inventories	19,768	11,994	4,111	9,459	3,026	5,380	5,911	59,649
Neutralisation of intercompany margin in inventories	-3,915	4,267	22	-1,590	208	889	119	-
Net value after neutralisation of intercompany margin in inventories	15,853	16,261	4,133	7,869	3,234	6,269	6,030	59,649

Change in inventory and work-in-progress provisions

(€ thousands)	2005	Allowances	Write-backs	Reclassifications adjustment	Translation	2006
Raw materials and supplies	-3,582	-1,280	1,691	-	232	-2,939
Work-in-progress	-968	-645	968	-	-	-645
Finished products and goods	-1,272	-682	526	-	46	-1,382
TOTAL	-5,822	-2,607	3,185	-	278	-4,966

Note B9 - Trade receivables

(€ thousands)	France (except France)	Europe	Latin America	North America	Africa and Middle East	Asia	Pacific	Total
Trade receivables - gross	18,223	21,108	8,229	5,088	2,501	7,265	5,327	67,741
Provisions	-374	-986	-854	-24	-	-266	-12	-2,516
Trade receivables - net	17,849	20,122	7,375	5,064	2,501	6,999	5,315	65,225

Note B10 - Cash and cash equivalents

Breakdown of net cash by geographic region

(€ thousands)	France (except France)	Europe	Latin America	North America	Africa and Middle East	Asia	Pacific	Total
Cash	544	3,604	1,094	468	1,529	3,213	1,568	12,020
Marketable securities	1,145	-	1	-	-	-	-	1,146
Cash and cash equivalents	1,689	3,604	1,095	468	1,529	3,213	1,568	13,166
Bank overdrafts	-6,619	-	-	-1,275	-	-2,222	-	-10,116
Accrued interest not yet payable	-84	-	-	-	-	-	-	-84
Closing net cash position	-5,014	3,604	1,095	-807	1,529	991	1,568	2,966

Change in net cash

(€ thousands)	2006	2005
Cash	12,020	13,039
Marketable securities	1,146	1,100
Cash and cash equivalents	13,166	14,139
Bank overdrafts	-10,116	-5,199
Accrued interest not yet payable	-84	-38
Closing net cash position	2,966	8,902*

* Correction of the increase (decrease) in 2005 net cash and cash equivalents (see "Accounting principles applied" in the notes to the financial statements):

Closing net cash position [2005 actual]	9,127
Reclassification of "cash subject to restrictions" into "financial assets"	-187
Reclassification of "accrued interest not yet payable" as a cash liability	-38
	8,902

Note B11 - Shareholders' equity - Group share

Analysis of shareholders' equity accounts

(€ thousands)	2006	2005
Share capital	10,893	10,893
Share premium	6,534	6,534
Legal reserve	1,089	1,089
Other reserves and retained earnings	125,051	119,804
Consolidation reserves	-4,884	-14,812
Translation reserves	-851	4,768
Net profit for the year	24,913	19,799
Shareholders' equity - Group share	162,745	148,075

Treasury shares

At 31 December 2006, Virbac held treasury shares to be used, essentially, for stock option plans and free share grants. These treasury shares are recognised as a deduction against shareholders' equity.

As certain plans expired during the year, some employees exercised their options. At 31 December 2006 there were 160,929 treasury shares (231,559 actions at 31 December 2005) with a total value of €4,067 thousand.

Change in shareholders' equity: analysis of other changes during the year

(€ thousands)	
IAS 32 & 39 - Change in derivatives	75
IAS 32 & 39 - Impact of underlying instruments (Net investment hedge)	-175
Other changes in shareholders' equity	-16
TOTAL	-116

Note B12 - Employee benefits

Analysis of provisions for employee benefits

(€ thousands)	2006	2005
Post-employment benefits	3,553	3,067
Directors' pensions	610	1,878
Termination benefits	754	493
Medical cover	511	586
Other employee benefits	29	29
TOTAL	5,457	6,053

Breakdown of provisions for employee benefits by geographic region

(€ thousands)	France	Europe (except France)	Latin America	North America	Africa and Middle East	Asia	Pacific	Total
Post-employment benefits	3,152	401	-	-	-	-	-	3,553
Directors' pensions	610	-	-	-	-	-	-	610
Termination benefits	-	262	-	-	-	492	-	754
Medical cover	-	-	-	-	511	-	-	511
Other employee benefits	-	29	-	-	-	-	-	29
TOTAL	3,762	692	-	-	511	492	-	5,457

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.

- Vesting of rights:

- executives: 12/100 per year of service,
- non-executives: 10/100 per year of service,
- discount rate: 4.5% (versus 4% at 31 December 2005),
- 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%	1.0%

Calculations of benefits commitments take account of the modifications brought about by the 2007 French Social Security Finance Act regarding the impact the retirement of employees who are not yet 65 years old will have on social security.

❖ Pension commitments

Virbac SA recognised a provision for the defined benefits plan set place in 2003 for the members of the executive board. The total provision amounted to €610 thousand at 31 December 2006. A recovery of this provision was recognised during 2006, in the light of the following items: the revision of the benchmark salary assumptions for beneficiaries at the time of retirement; the discount rate used for the actuarial calculation of the commitment, which was reassessed in order to take account of the change in rates.

At the end of 2006, the company paid €1 million toward the funding of the pension plan. This amount constitutes a hedging asset, and as such is recognised as a deduction against the provision.

At the time this new pension plan was set up, 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 2006, the amount of the commitment not yet recognised amounted to €370 thousand (€497 thousand at 31 December 2005), *i.e.* an impact of €127 thousand on the net profit for the year.

Note B13 - Provisions

Change in provisions

	2005	Charges	Write-backs Amounts used	Reclassifications Amounts not used	Translation adjustments	2006
(€ thousands)						
Commercial or staff litigation	435	241	-35	-	-3	638
Tax litigation	114	-	-	-	-	114
Other contingencies and losses	-	64	-	-	-	64
Non-current provisions	549	305	-35	-	-3	816
Commercial or staff litigation	266	10	-205	-	-	71
Tax litigation	773	915	-139	-	-	1,549
Other contingencies and losses	229	25	-76	-	-1	148
Current provisions	1,268	950	-420	-	-1	1,768
TOTAL	1,817	1,255	-455	-	-4	2,584

The provision for contingent losses (estimated contractual sales expense), with an opening balance of €2,744 thousand, was reclassified as trade accounts payable.

Breakdown of provisions by geographic region

(€ thousands)	France	Europe (except France)	Latin America	North America	Africa and Middle East	Asia	Pacific	Total
Commercial or staff litigation	507	-	131	-	-	-	-	638
Tax litigation	114	-	-	-	-	-	-	114
Other contingencies and losses	39	25	-	-	-	-	-	64
Non-current provisions	660	25	131	-	-	-	-	816
Commercial or staff litigation	58	13	-	-	-	-	-	71
Tax litigation	784	765	-	-	-	-	-	1,549
Other contingencies and losses	72	40	36	-	-	-	-	148
Current provisions	914	818	36	-	-	-	-	1,768
TOTAL	1,574	843	167	-	-	-	-	2,584

Note B14 - Trade payables

(€ thousands)	France	Europe (except France)	Latin America	North America	Africa and Middle East	Asia	Pacific	Total
Trade payables	28,256	4,987	1,608	4,031	2,139	1,172	3,803	45,996
Amounts owed suppliers of non-current assets	1,505	13	-	224	-	-	-	1,742
TOTAL	29,761	5,000	1,608	4,255	2,139	1,172	3,803	47,738

Note B15 - Financial liabilities

Analysis of financial liabilities by geographic region

(€ thousands)	France	Europe (except France)	Latin America	North America	Africa and Middle East	Asia	Pacific	Total
Bank borrowings and overdrafts	45,338	1,767	2	11,054	-	17,558	1,198	76,917
Liabilities in respect of finance lease contracts	838	-	-	-	1,850	-	-	2,688
Employee profit sharing	401	-	78	-	-	15	-	494
Conditional advances	120	-	-	-	-	-	-	120
Derivatives	7	-	-	-	-	-	-	7
Other financial liabilities	-	5	-	-	-	122	-	127
TOTAL	46,704	1,772	80	11,054	1,850	17,695	1,198	80,353

Change in financial liabilities

(€ thousands)	2006		2005	
	Current	Non-current	Current	Non-current
Bank borrowings and overdrafts	12,555	64,362	20,049	4,225
Liabilities in respect of finance lease contracts	218	2,470	-	3,595
Employee profit-sharing	78	416	-	386
Conditional advances	-	120	491	-
Derivatives	7	-	2	190
Other financial liabilities	117	10	-	-
TOTAL	12,975	67,378	20,542	8,396

The increase in financial liabilities came primarily from €41 million in drawings under Virbac SA's €100 million line of credit. This increase in debt was essentially used to finance the acquisitions made during the year.

A description of the debt is provided in the table below. A portion of the debt is hedged by a €15 million swap into a fixed rate of interest.

(€ thousands)	2006			2005		
	Term to maturity	Average actual interest rate	Carrying amount	Term to maturity	Average actual interest rate	Carrying amount
Fixed rate debt	-	-	-	-	-	-
Variable rate debt	28 days	4.025%	18,000	3 days	2.597%	7,000
	7 days	3.996%	30,000	-	-	-
TOTAL			48,000			7,000

Note B16 - Other payables

Breakdown of other payables by geographic region

(€ thousands)	France	Europe (except France)	Latin America	North America	Africa and Middle East	Asia	Pacific	Total
Social liabilities	11,378	1,075	658	1,368	46	307	-	14,832
Tax liabilities	1,717	2,115	322	196	-	656	87	5,093
Advances and prepayments received on orders	34	879	-	-	-	23	-	936
Prepaid income	17	351	2	4,833	-	-	-	5,203
Other liabilities	20,528	5,684	856	981	702	6,711	567	36,029
TOTAL	33,674	10,104	1,838	7,378	748	7,697	654	62,093

Change in other payables

(€ thousands)	2006		2005	
	Current	Non-current	Current	Non-current
Social liabilities	14,832	-	13,526	-
Tax liabilities	5,093	-	6,615	-
Advances and prepayments received on orders	936	-	1,270	-
Prepaid income	338	4,865	6,561	4,745
Other liabilities	27,059	8,970	14,902	9,726
TOTAL	48,258	13,835	42,874	14,471

Note R₁ - Sales

Analysis of sales

(€ thousands)	2006	2005	Variation
Sales of finished products and goods	437,090	398,921	9.6%
Provision of services	201	167	20.4%
Other income from ordinary activities	423	309	36.9%
Rebates, reductions and discounts on sales	-28,113	-21,262	32.2%
Income from ordinary activities	409,601	378,135	8.3%
Sales-related expenses	-5,206	-3,986	30.6%
Payment discounts	-2,124	-1,746	21.6%
Provisions for returns	-635	-	- %
SALES	401,636	372,403	7.8%

Breakdown of sales by geographic region

Within the context of the information required by IAS 14, the Group has chosen a breakdown by location of assets. However, in order to provide additional relevant information, a breakdown of sales by customer location and by market has also been provided.

(€ million)	By location of customers and markets			By location of assets		
	2006	2005	Change (as %)	2006	2005	Change (as %)
France	93.3	91.1	2.5%	114.2	108.9	4.9%
Europe (except France)	128.7	120.7	6.7%	112.3	107.7	4.3%
Latin America	27.4	25.1	9.2%	26.9	24.7	8.9%
North America	68.0	63.1	7.8%	68.1	63.5	7.2%
Africa/Middle East	23.3	22.7	2.6%	19.8	18.4	7.6%
Asia	31.2	18.2	71.4%	29.4	16.5	78.2%
Pacific	29.6	31.5	-6.0%	30.8	32.6	-5.5%
TOTAL	401.6	372.4	7.8%	401.6	372.4	7.8%

Note R₂ - Purchases consumed

(€ thousands)	2006	2005
Purchases transferred to inventory	-117,033	-106,493
Purchases not transferred to inventory	-11,343	-10,484
Related costs on purchases	-781	-425
Rebates, reductions and discounts obtained	396	248
Purchases	-128,761	-117,154
Change in net inventories	2,180	174
PURCHASES CONSUMED	-126,581	-116,980

Note R3 - Other operating revenues and expenses

(€ thousands)	2006	2005
Fees and rental payments	-1,603	-1,486
Capitalised costs	1,104	1,146
Other revenues and expenses	-1,452	-3,549
	-1,951	-3,889
Charges to provisions for bad debts	-298	-550
Recoveries of provisions for bad debts	500	1,363
Losses on bad debts	-160	-427
	42	386
Carrying amount of assets sold	-1,439	-1,004
Proceeds from sales of assets	237	603
	-1,202	-401
TOTAL	-3,111	-3,904

Note R4 - Other non-recurring operating revenues and expenses

(€ thousands)	2006	2005
Impairment of intangible assets	-1,869	-4,447
Costs incurred by Virbac Corporation for the acquisition of minority interests	-1,212	-1,763
Remeasurement of Virbac India's inventories (<i>purchase accounting</i>)	-382	-
TOTAL	-3,463	-6,210

Note R5 - Financial income and expenses

(€ thousands)	2006	2005
Interest expense on gross debt	-2,750	-2,744
Foreign exchange losses	-1,750	-286
Foreign exchange gains	1,298	944
Changes in fair value of foreign currency and interest rate derivatives	704	-134
Other financial expenses	-19	-15
Other financial income	481	492
TOTAL	-2,036	-1,743

Note R6 - Tax charge

Reconciliation of the Group's effective tax rate

(€ thousands)	2006		2005	
	Base	Tax	Base	Tax
Profit before tax	37,778		30,346	
Current taxes		-10,198		-10,536
- French companies		-110		-2,599
- Foreign companies		-10,088		-7,937
Deferred taxes		4		2,032
- French companies		-648		2,484
- Foreign companies		652		-452
Total taxes recognized		-10,194		-8,504
Effective tax rate		26.98%		28.02%
<i>Theoretical tax rate</i>		<i>34.43%</i>		<i>34.43%</i>
Theoretical taxes		-13,007		-10,448
Variance between theoretical taxes and taxes recognized		-2,813		-1,944

For financial years 2006 and 2005, the reconciliation of the effective tax rate has been calculated on the basis of the tax rate applicable in France, *i.e.* 34.43%.

Items affecting the amount of the tax

(€ thousands)	2006	2005
Earlier years' deferred tax credits not previously recognized	-2,024	-1,057
Impact of tax credits recognized in 2006	-1,123	-760
Impact of differing tax rates applied outside France	-659	-308
Impact of provisions for tax audits	471	249
Impact of share of expenses and losses of non-consolidated companies	294	208
Impact of revenues taxable at a reduced tax rate	-131	-104
Impact of deductions at source charged to income	-23	-23
Other	382	-149
TOTAL	-2,813	-1,944

Note R7 - Breakdown of net profit by geographic region

(€ thousands)	France (except France)	Europe (except France)	Latin America	North America	Africa and Middle East	Asia	Pacific	Total
Operating profit	4,706	15,748	5,575	7,944	1,874	1,578	2,389	39,814
Financial income and expenses								-2,036
Profit before tax								37,778
Share in earnings of associated companies								43
Tax charge								-10,194
Consolidated net profit	4,193	10,554	3,947	6,198	907	568	1,260	27,627

Note R8 - Earnings per share

	2006	2005
Net profit - Group share (in euros)	24,912,961	19,798,772
Total number of shares	8,714,352	8,714,352
Impact of dilutive instruments	N/A	N/A
Number of treasury shares	160,929	231,559
Number of shares outstanding	8,553,423	8,482,793
Basic earnings per share - Group share (in euros)	2.91	2.33
Diluted earnings per share - Group share (in euros)	2.91	2.33

Note A1 - Workforce

Breakdown of workforce by function

	2006	%	2005	%
Production	947	37%	908	41%
Administration	352	14%	337	15%
Sales and marketing	1,049	41%	768	34%
Research and development	216	8%	217	10%
TOTAL	2,564	100%	2,230	100%

Change in workforce by geographic region

	2006	2005	Change
Europe	1,249	1,223	2.1%
Latin America	250	233	7.3%
North America	293	279	5.0%
Africa and Middle East	129	129	- %
Asia	481	203	136.9%
Pacific	162	163	-0.6%
TOTAL	2,564	2,230	15.0%

The increase in the workforce resulted primarily from the incorporation of Virbac India into the scope of consolidation. The acquisition of GSK's veterinary business in India resulted in the transfer of this business's dedicated sales force to the new entity. Virbac India had 266 employees at 31 December 2006.

Note A2 - Stock options and free shares

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

Plan	Date from which options can be exercised	Exercise price	Options exercised Balance at 01/01/2006	during the year	Cancellations/ transfers	Balance remaining to be exercised at 31/12/2006	Expiry date
19 April 2000	19/04/02	€16,61	132,500	121,500	11,000	-	19/04/06
6 April 2001	06/04/03	€21,66	137,200	105,200	10,800	21,200	06/04/07
27 July 2002	27/07/04	€32,88	60,000	9,500	4,800	45,700	27/07/08
14 April 2003	14/04/05	€22,87	58,000	-	-	58,000	14/04/09

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 2006 were measured and recognised in Virbac's consolidated financial statements for the year ended 31 December 2006.

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 2006 was therefore €90,180.

The other three plans are measured as described below but were not recognised as at 31 December 2006.

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).

Granting of free shares

In accordance with authorisation given it by the annual shareholders' meeting, on 24 July 2006 the executive board granted free shares to certain senior management employees of Virbac SA and its subsidiaries. These grants are contingent upon the meeting of a performance objective - tied to the profitability and net debt of the Group - which will be evaluated at the end of 2008. Moreover, should this objective be met, any shares so acquired will be subject to a two-year holding period.

In accordance with IFRS 2, in the consolidated financial statements of Virbac SA this plan was measured at the fair value of the shares on the date they were granted, i.e.: 17,050 shares at €41.10 per share, for a total of €700,755. This amount was spread over the 29-month vesting period. The expense recognised in 2006 (€120,820) corresponded to 5/29^{ths} of the total charge.

Note A3 - Information regarding the Individual Entitlement to Training (DIF)

	Accumulated DIF hours at 1 January 2006	DIF hours used during the year	DIF hours available at 31 December 2006
	33,424	4,234	29,190

All requests submitted were for training programmes related to the company's business activities.

Note A4 - Operating lease contracts

The main operating lease contracts recognised in the expenses of Virbac SA during 2006 were:

Lessor	Purpose of the lease	Total rental paid in 2006 (€ thousands)
Diac	Car rental	636
Dial	Car rental	159
Arius	Computer hardware rental	61
IBM	Computer hardware rental	15
Xerobail	Office equipment rental	46
NRG	Office equipment rental	53
BNP Paribas	Office equipment rental	411
Barthelemy	Lifting equipment rental	79
BT France	Lifting equipment rental	187

Note A5 - Composition of Virbac's share capital

	2005	Increases	Decreases	2006
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	-	-	-	-
Nominal value of the shares	€1.25	-	-	€1.25
Shares outstanding	8,482,793	150,856	-80,226	8,553,423
Treasury shares	231,559	80,226	-150,856	160,929

Note A6 - Proposed dividends

The annual shareholders meeting will be asked to approve the payment of a net dividend of €0.80 per share. The shares have a nominal value of €1.25.

Note A7 - Financial instruments

(€ thousands)	Nominal value		Positive fair value		Negative fair value	
	2006	2005	2006	2005	2006	2005
Exchange rate instruments						
Forward exchange contracts	9,985	13,650	536	46	7	192
Over-the-counter foreign exchange options	-	-	-	-	-	-
Interest rate instruments						
Interest rate swaps	15,000	21,403	139	36	-	1
Interest rate options	-	6,403	-	-	-	-
TOTAL	24,985	41,456	675	82	7	193

Note A8 - Information on related parties

Directors' remuneration

Members of the executive board	Fixed remuneration (including benefits in kind)	Remuneration paid in respect of appointments as directors of Group companies	Variable remuneration	Total remuneration
(euros)				
Mr Éric Marée	253,313	52,295	121,000	426,608
Mr Pierre Pagès	167,288	52,295	76,000	295,583
Mr Christian Karst	155,007	38,000	61,000	254,007
Mr Michel Garaudet	150,017	14,295	40,000	204,312
Mr Jean-Pierre Dick	30,638	-	15,000	45,638

The remuneration paid in respect of the financial year 2006 corresponds to the fixed remuneration paid in 2006, the remuneration in respect of appointments as directors in Group companies paid in 2006, the variable remuneration paid in 2007 in respect of 2006 and the benefits in kind granted in 2006 (company cars).

Transactions with non-consolidated subsidiaries

Not applicable.

Note A9 - Off-balance sheet commitments

Guarantees given:

- to the Virbac Foundation: €64,500

- to Sanofi/Navetco on behalf of Virbac Vietnam: €76,225

Amount of residual contractual rental payments on the operating leases of Virbac Corporation: 253,000 US dollars.

Note A10 - Contingent assets and liabilities

Not applicable.

Note A11 - Consolidation scope as at 31 December 2006

Corporate name	Location	Country	% ownership	% control
Fully-consolidated subsidiaries				
Virbac SA	Carros	France	Parent company	100.00
Interlab SAS	Carros	France	100.00	100.00
Virbac France SAS	Carros	France	100.00	100.00
Virbac Belgium SA	Wavre	Belgium	75.27	99.99
Virbac Nederland BV	Barneveld	Netherlands	75.28	75.28
Virbac (Switzerland) AG	Glattbrugg	Switzerland	99.90	99.90
Virbac Ltd	Bury St. Edmunds	United Kingdom	99.95	99.95
Virbac SRL	Milan	Italy	99.90	99.90
Inomark AG	Glattbrugg	Switzerland	99.90	99.90
Virbac Mexico SA de CV	Guadalajara	Mexico	100.00	100.00
Laboratorios Virbac Mexico SA de CV	Guadalajara	Mexico	100.00	100.00
Virbac Pharma Handelsgesellschaft mbH	Bad Oldesloe	Germany	100.00	100.00
Virbac Tierarzneimittel GmbH	Bad Oldesloe	Germany	100.00	100.00
Soparlic SARL	Carros	France	100.00	100.00
Virbac Distribution SAS	Wissous	France	100.00	100.00
Virbac Nutrition SAS	Vauvert	France	100.00	100.00
Phavi International BV	Amsterdam	Netherlands	99.90	99.90
Dog N'Cat International SAS	Vauvert	France	100.00	100.00
Bio Veto Test SAS	La Seyne-sur-Mer	France	100.00	100.00
Francodex SAS	Carros	France	99.60	99.60
Virbac Hellas SA	Agios Stefanos	Greece	100.00	100.00
Animedica SA	Agios Stefanos	Greece	100.00	100.00
Virbac Czv SL (JV)	Porrino Pontevedra	Spain	100.00	100.00
Virbac España SA	Barcelona	Spain	100.00	100.00
Virbac Österreich GmbH	Vienna	Austria	100.00	100.00
Virbac Korea Co. Ltd	Séoul	South Korea	100.00	100.00
Virbac Thailand Co. Ltd	Bangkok	Thailand	100.00	100.00
Virbac Taiwan Co. Ltd	Taipei	Taiwan	100.00	100.00
Virbac Colombia Ltda	Bogota	Colombia	100.00	100.00
Virbac Philippines Inc.	Pasig City	Philippines	100.00	100.00
Virbac Japan Co. Ltd	Osaka	Japan	100.00	100.00
Laboratorios Virbac Costa Rica SA	San José	Costa Rica	100.00	100.00
Virbac de Portugal Laboratorios Lda	Almerim	Portugal	100.00	100.00
Virbac Vietnam JV Co.	Ho Chi Minh	Vietnam	75.00	75.00
Virbac RSA (Pty) Ltd	Centurion	South Africa	100.00	100.00
Alfamed SAS	Carros	France	99.70	99.70
Virbac Animal Health India Pvt. Ltd	Mumbai	India	100.00	100.00
Virbac do Brasil Industria e Comercio Ltda	São Paulo	Brazil	100.00	100.00
Virbac Corporation	Fort Worth	United States	100.00	100.00
PP Manufacturing Corporation	Framingham	United States	100.00	100.00
Virbac (Australia) Pty Ltd	Peakhurst	Australia	100.00	100.00
Companies accounted for by the equity method				
German subsidiary	-	-	23.99	23.99
Finnish subsidiary	-	-	44.00	44.00

Report of the statutory auditors on the consolidated financial statements

Year ended 31 December 2006

In accordance with the assignment entrusted to us by your annual shareholders' meeting, we have audited the consolidated financial statements of Virbac for the year ended 31 December 2006, as attached to this report.

The consolidated financial statements were prepared by the executive board. It is our responsibility to express an opinion on these financial statements on the basis of our audit.

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 commercial code relating to the justification of our assessments, we draw to your attention the following matters:

The notes "Goodwill" in the accounting principles and "B1-Goodwill" in the notes to the financial statements detail the accounting principles applied to measure goodwill. As part of our evaluation of the accounting principles applied by your company, we verified the appropriateness of the accounting principles described above and the information provided in the notes to the financial statements.

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

Nice and Marseilles

16 April 2007

The statutory auditors

David & Associés
Jean-Pierre Giraud

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 2006.

The Group's consolidated sales increased by 7.8% to €401.6 million. At constant scope and exchange rates, the increase over 2004 would have been 6.8%. Operating profit from ordinary activities totalled €43.3 million (10.8% of sales, compared with 10.3% in 2005), a 13% increase over 2005, due to the improvement in the gross margin rate (excluding India) and to the fact that operating costs rose at a slightly lower rate (6.8%) than sales. In addition, non-recurring expenses fell from €6.2 million in 2005 to €3.5 million in 2006; these expenses consisted nearly entirely of the costs borne by Virbac Corporation on the public buyout offer it launched for the 40% of its share capital held by minority interests, and the impact of the nearly total impairment of one of the Group's intangible assets, a portion of which had already been written down in 2005.

The net profit of €24.9 million was 25.8% higher than in 2005.

The year was particularly rich in terms of acquisitions: in July 2006, Virbac SA acquired GlaxoSmithKline's veterinary business in India, where it is market leader. The public buyout offer initiated at the end of 2005 for all of the shares of the US subsidiary Virbac Corporation not held by the Group was successfully concluded in November 2006. It is also worth noting two, more minor acquisitions: Nuova ICC in Italy, a former subsidiary of Intervet, which strengthens the Group's Italian subsidiary's pig and poultry business; and the acquisition of the minority interests of the South Korean subsidiary. In all, a total of €82.5 million was spent on all of these acquisitions.

The Group had net debt of €67.2 million at 31 December 2006, compared with €14.8 million in 2005, yielding a ratio of net debt to shareholders' equity of 41.3%, low enough to allow the Group to consider other large acquisitions. Excluding the impact of acquisitions, the Group continued to reduce its debt very significantly, thanks notably to good control over its operational working capital needs, which, at year-end, represented 14.6% of sales in real terms, *i.e.* a reduction of 8.3%.

It is also worth mentioning the good performance of the share price, which closed at €47 at the end of 2006, representing an 18.1% increase during the year, very similar to the performance of the SBF 250 index.

The annual shareholders' meeting will be asked to approve the payment of a dividend of €0.80 per share. In total, the dividends per share paid for 2006 will be 23% higher than those for 2005, in line with the change in net profit.

The supervisory board is currently composed of six members, three of whom are independent. The board met in an official capacity on four 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 five times.

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, and the shareholders for their loyalty to the Group.

Resolutions put to the annual shareholders' meeting of 29 June 2007

First resolution (approval of the annual financial statements)

The annual shareholders' meeting, having heard the report of the executive board, the report of the supervisory board, the report of the chairwoman of the supervisory board and the report of the statutory auditors, approves the annual financial statements for the year ended 31 December 2006 as presented and the transactions recorded in the financial statements or summarised in the reports.

The annual shareholders' meeting also approves the expenditures incurred during the year ended 31 December 2006 that comes within the scope of article 39-4 of the French general tax code (*code général des impôts*), which amounted to €46,018.

Accordingly, the annual shareholders' meeting gives the members of the executive board full, unqualified discharge in respect of the performance of their duties for the said financial year.

Second resolution (approval of the consolidated financial statements)

The annual shareholders' meeting, 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 2006, approves the consolidated financial statements for said financial year, as presented.

The annual shareholders' meeting also approves the transactions recorded in the financial statements or summarised in the reports.

Third resolution (allocation of net profit)

The annual shareholders' meeting decides to allocate the net profit for the year of €14,607,515.53 as follows:

- net income for the year	€14,607,515.53
- increased by retained earnings brought forward of	€22,544,890.27
- forming distributable profit of	€37,152,405.80
- dividend distribution	€6,971,481.60
- retained earnings carried forward	€7,636,033.93
.....	-----
total, equal to the net income of the year	€14,607,515.53

The dividend allocated to each share with a nominal value of €1.25 amounted to €0.80. Dividends will be paid on 26 July 2007.

The meeting decides that, in accordance with the provisions of article L.225-210 of the French commercial code, 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	Dividend per share	Tax credit	Allowance provided for by article 158-3-2 of the French general tax code	Distributed amount
2003	€0.48	€0.24	N/A	€3,988,153.92
2004	€0.55	N/A	50%	€4,617,723.00
2005	€0.65	N/A	40%	€5,552,885.00

Fourth resolution (regulated agreements)

The annual shareholders' meeting, having heard the special report of the statutory auditors mentioning the absence of any new agreements subject to articles L.225-86 *et seq.* of the French commercial code, purely and simply acknowledges that fact.

Fifth resolution (approval of total amount of directors' fees)

The annual shareholders' meeting resolves, for the current year, to set at €95,000 the total amount of directors' fees to be allocated by the supervisory board between its members.

Sixth resolution (authorisation of the executive board to acquire shares of the company)

The annual shareholders' meeting, 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 commercial code, 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:

- stimulating the liquidity of, or the market for, the shares through an independent investment services provider, acting under a market-making agreement that complies with the code of business ethics recognised by the French Financial Markets Authority (*Autorité des Marchés Financiers*, or AMF);
- their being granted, free of charge, in accordance with the provisions of articles L.225-197-1 *et seq.* of the French commercial code.

The maximum purchase price must not exceed €80 per share.

The maximum amount of funds that may be used to repurchase the company's shares, after taking into account the 126,836 shares already held at 31 March 2007, is set at €24,710,480.

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 annual shareholders' meeting of 29 June 2006 (eighth 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 AMF and, generally, to do all that is necessary for the implementation of transactions carried out under the terms of this authorisation.

Glossary

Aquaculture: aquaculture includes pisciculture (salmon farming, pond pisciculture and marine pisciculture) and shellfish farming (oysters, mussels and other shellfish).

Beta lactamins: antibiotics active against certain bacteria. Beta lactamins are a large class of antibiotics that include both penicillin and cephalosporin derivatives, among other things.

CRM: Customer relationship management
Customer relationship management is used to establish and maintain mutually beneficial relationships between a company and its customers.

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.

ERP: Enterprise resource planning, also referred to as “integrated management,” is the integration of the various functions of a company into a centralized information system configured in customer-server mode.

Glycotechnology: the addition of specific simple sugars and complex carbohydrates into topical products (shampoos) prevents adhesion, and thus proliferation, of microbial agents to the surface of the skin. Furthermore, the use of sugars provides regulation of cutaneous inflammation.

Ivermectin: principal endectocide molecule (active against both internal and external parasites).

Lean manufacturing: method which aims at focusing on maximising added value for the customer while optimising the resources used (just-in-time manufacturing).

Leishmaniasis: serious disease afflicting dogs and present in Mediterranean countries; transmitted by insects of the phlebotomus genus (sand flies).

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.

Pheromones: pheromones are substances produced by most animals and certain plants. They act as messengers for individuals of the same species, and provoke specific reactions (such as modification of behaviour or biological character).

SANZA: South Africa, New Zealand and Australia.

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Virbac on five continents

Africa

South Africa

Virbac RSA (Pty) Ltd
38 Landmarks Avenue
Samrand Business Park
Centurion 0157
Tel.: +27 (12) 657 6000
Fax : +27 (12) 657 0269
contacts@virbac.co.za

North America

Canada

Canadian Business Unit
Virbac Corporation
2417 Saint Charles Road
St Lazare, Québec, J7T 2J1
Tel.: +1 (866) 458 33 50
Fax : +1 (450) 458 57 99

United States

Virbac Corporation
3200 Meacham Boulevard
Fort Worth, Texas 76137-4611
Tel.: +1 (817) 831 50 30
Fax : +1 (817) 831 83 27
www.virbaccorp.com
virbacfw@virbacus.com

Latin America

Brazil

Virbac do Brasil Indústria
e Comércio Ltda
Av. Eng. Eusébio Stevaux n° 1368
Jurubatuba – Santo Amaro
CEP 04696-000 São Paulo
Tel.: +55 (11) 5525 5000
Fax: +55 (11) 5525 5020
www.virbac.com.br
virbac@virbac.com.br

Colombia

Virbac Colombia Ltda
CRA 54 n° 76-20
Bogotá
Tel.: +57 (1) 225 2100
Fax: +57 (1) 225 4133
www.virbac.com.co

Costa Rica

Laboratorios Virbac Costa Rica SA
Del Hotel Torremolinos
100 mts Este, 25 mts Norte
Calle 38 entre avenidas 7 y 9
Distrito Merced
San José
Tel.: +506 258 3362
Fax: +506 258 4784
www.virbac.co.cr

Mexico

Laboratorios Virbac Mexico SA de CV
Avenida Mayas n° 3305
Fraccionamiento Monraz
CP 44670 Guadalajara, Jalisco
Tel.: +52 (33) 5000 2500
Fax: +52 (33) 5000 2515
www.virbac.com.mx
clientes@virbac.com.mx

Asia

China

Virbac SA Beijing
Representative Office
Room 804, Kaida Building
19B Minwang
Hepingli Dong Street
Dongcheng District
100013 Beijing
Tel.: +86 (10) 64276076
Fax: +86 (10) 64276078
bingxu@virbac.cn

South Korea

Virbac Korea Co. Ltd
180-68 Myeonmok 2-Dong
Chungrang-Gu
Seoul 131-202
Tel.: +82 (2) 496 40 70
Fax: +82 (2) 496 40 76
www.virbackorea.com
virbac@virbackorea.com

India

Virbac Animal Health India Pvt. Ltd
5th Floor, B-Wing
Dynasty Business Park
Andheri - Kurla Road, Andheri (East)
Mumbai 400 059
Tel.: +91 (22) 40 08 13 33
Fax: +91 (22) 40 08 13 00/04
mkolgaon@virbac.in

Japan

Virbac Japan Co. Ltd
C/o New Awajimachi Building
8th floor
1-3-14 Awajimachi
Chuo-ku
541-0047 Osaka
Tel.: +81 (6) 62 03 48 17
Fax: +81 (6) 62 03 16 70
yniimi@virbac.co.jp

Philippines

Virbac Philippines Inc.
E-1204 Philippine Stock
Exchange Center
Exchange Road
Ortigas Center 1605
Pasig City
Tel.: +63 (2) 635 99 93/95/97
Fax: +63 (2) 635 99 87
www.virbac.ph
rjacela@virbac.ph

Taiwan

Virbac Taiwan Co. Ltd
4F-3, n° 28, Lane 123
Min Chuan E. Road, Sec. 6
Taipei 114
Tel.: +886 (2) 8791 8636
Fax: +886 (2) 8791 8223
www.virbac.com.tw
virbac@virbac.com.tw

Thailand

Virbac (Thailand) Co. Ltd
222 Moo 9, Thansettakij Building
11th floor, Zone D3
Vibhavadi-Rangsit Road
Chatuchak Subdistrict
Chatuchak District
Bangkok 10900
Tel.: +66 (2) 512 04 66/67
Fax: +66 (2) 512 04 68
csuwanar@virbac.co.th

Bio Solutions International Co. Ltd

134/4 Moo 5
Bangkradi Industrial Park
Tiwanon Road, Bangkradee
Muang District
Pathumtani 12000
Tel.: +66 (2) 501 20 45/46
Fax: +66 (2) 501 20 47

Vietnam

Virbac Vietnam JV Co.
12A14 Me Linh Street
Ward 19
Binh Thanh District
Ho Chi Minh
Tel.: +84 (8) 840 46 29
Fax: +84 (8) 840 12 60
contact@virbac.vnn.vn

Europe

Germany

Virbac Tierarzneimittel GmbH
Rögen 20
D 23843 Bad Oldesloe
Tel.: +49 (4531) 805 555
Fax: +49 (4531) 805 100
www.virbac.de
info@virbac.de

Austria

Virbac Österreich GmbH
Hildebrandgasse 27
A 1180 Vienne
Tel.: +43 (0) 1 2183426 0
Fax: +43 (0) 1 2183426-77
www.virbac.at
virbac@virbac.at

Belgium

Virbac Belgium SA
Rue de la Station 17
B 1300 Wavre
Tel.: +32 (0) 10 47 06 35
Fax: +32 (0) 10 45 75 30
www.virbac.be
info@virbac.be

Spain

Virbac España SA
Angel Guimerà, 179*181
Esplugues de Llobregat
E 08950 Barcelona
Tel.: +34 (93) 470 79 40
Fax: +34 (93) 371 91 11
infocliente@virbac.es

France

Virbac SA
13^e rue LID – BP 27
F 06511 Carros cedex
Tel.: +33 (0) 4 92 08 71 00
Fax: +33 (0) 4 92 08 71 65
www.virbac.com
contact@virbac.com

Virbac France SAS
13^e rue LID – BP 447
F 06515 Carros cedex
Tel.: +33 (0) 4 92 08 72 15/75 67
Fax: +33 (0) 4 92 08 71 75/75 90
www.virbac.fr
mnahim@virbac.fr

Francodex SAS

1^{re} avenue 2065 m LID – BP 105
F 06513 Carros cedex
Tel.: +33 (0) 4 92 08 71 83
Fax: +33 (0) 4 92 08 71 86

Virbac Nutrition SAS

Zone Industrielle
252 rue Philippe Lamour
F 30600 Vauvert
Tel.: +33 (0) 4 66 88 84 36
Fax: +33 (0) 4 66 88 86 05

Dog N'Cat International SAS

Zone Industrielle
252 rue Philippe Lamour
F 30600 Vauvert
Tel.: +33 (0) 4 66 88 30 07
Fax: +33 (0) 4 66 88 81 11
www.dogcatinter.com

Bio Vêto Test SAS

285 avenue de Rome
F 83500 La Seyne sur Mer
Tel.: +33 (0) 4 94 10 58 94
Fax: +33 (0) 4 94 10 58 90
www.bvt.fr
bvt@bvt.fr

Greece

Virbac Hellas SA
23rd km National Road Athens Lamia
14565 Agios Stefanos
Tel.: +30 210 621 9520
Fax: +30 210 814 0900
www.virbac.gr
contact@virbac.gr

Hungary

Virbac SA Representative Office
Váci út 18
1132 Budapest
Tel.: +36 70 338 71 77
Fax: +36 1 326 52 98

Italy

Virbac SRL
Via dei Gracchi 30
I 20146 Milan
Tel.: +39 02 48 53 451
Fax: +39 02 48 00 26 44
www.virbac.it

Netherlands

Virbac Nederland BV
Hermesweg 15
3771 ND Barneveld
Tel.: +31 (0) 342 427 100
Fax: +31 (0) 342 490 164
www.virbac.nl
info@virbac.nl

Portugal

Virbac de Portugal
Laboratórios Lda
Beloura Office Park
Edifício 13, Piso 1, Escritório 3
Quinta da Beloura
P 2710-444 Sintra
Tel.: +351 219 245 020
Fax: +351 219 245 029

United Kingdom

Virbac Ltd
Windmill Avenue
Woolpit Business Park
Woolpit
Bury St Edmunds, Suffolk IP30 9UP
Tel.: +44 (0) 1359 243243
Fax: +44 (0) 1359 243200
www.virbac.co.uk
enquiries@virbac.co.uk

Switzerland

Virbac (Switzerland) AG
Europastrasse 15
CH 8152 Glattbrugg
Tel.: +41 (44) 809 11 22
Fax: +41 (44) 809 11 23
www.virbac.ch
info@virbac.ch

Pacific

Australia

Virbac (Australia) Pty Ltd
15 Pritchard Place
Peakhurst, NSW 2210
Tel.: +61 (2) 9717 2000
Fax: +61 (2) 9533 1522
www.virbac.com.au
mail@virbac.com.au

New Zealand

Virbac New Zealand Ltd
30-32 Stonedon Drive
East Tamaki
Auckland 1706
Tel.: +64 (9) 273 9501
Fax: +64 (9) 272 7667
www.virbac.co.nz
enquiries@virbac.co.nz

Virbac
13^e rue LID - BP 27
06511 Carros cedex - France
Tel.: +33 (0)4 92 08 71 00 - Fax: +33 (0)4 92 08 71 65
www.virbac.com
Investor relations
E-mail: finances@virbac.com
Corporate communications
E-mail: contact@virbac.com

Public limited company with an executive board and a supervisory board and a capital of €10,892,940
1^{ère} avenue 2065 m LID - BP 27 - 06511 Carros cedex - France
417 350 311 RCS Grasse

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.