Report on corporate governance

CORPORATE GOVERNANCE

Article L225-68 of the French commercial code

This report was submitted to the audit committee and its recommendations were taken into account and unanimously adopted by the supervisory board at its meeting on March 13, 2018.
The content of this report is based on an analysis of the Group's position and organization primarily carried out through a series of meetings with Virbac's executive board.

The report refers to the recommendations of the corporate governance code for listed companies drawn up and consolidated by Afep-Medef (the Afep-Medef Code), which was adopted by the supervisory board as its code of reference. The Afep-Medef Code can be consulted online at the following address: www.medef.com.
In accordance with recommendations from the *AMF* (French financial markets authority), a summary table on pages 108 and 109 lists the measures of the Afep-Medef Code that the company has decided not to implement and gives the reasons for this.

Preparation and organization of the work of the supervisory board

Responsibilities and membership of the supervisory board

The mode of governance chosen by the company, i.e. an executive board and a supervisory board, allows a clear distinction to be made between the management of the company and the supervision of the company.
The supervisory board is responsible for supervising the management activities of the executive board. It exercises its supervisory powers by meeting every quarter to examine in particular the company's and Group's performance indicators and the annual and interim financial statements presented to it by the executive board. Where necessary, it carries out its responsibilities by obtaining information from the statutory auditors. It also reviews in more detail any proposed acquisitions based on analyses drawn up by the executive board.

The supervisory board has six members, three of whom are independent, i.e. Philippe Capron, Olivier Bohuon and the company Galix Conseils, represented by Grita Loebsack.

At its meeting on March 13, 2018, the supervisory board reviewed the independence criteria for its three members based on the criteria of the Afep-Medef Code, namely:

- is not and has not been over the previous five years an employee or executive director of the company or an employee or director of its parent company or a company that the latter consolidates;
- is not an executive director of a company in which the company directly or indirectly holds a directorship or in which an employee designated as such or an executive director of the company (currently or having been within the last five years) holds a directorship;
- is not a customer, supplier, corporate banker, investment banker:
  - of significance to the company or its group;
  - or for which the company or its group represents a significant part of the business;
- does not have close family ties with a corporate officer;
- has not been an auditor for the company over the previous five years;
- has not been a director of the company for more than twelve years.

The supervisory board noted that Philippe Capron reached 12 years seniority in August 2016, but considers that, based on the seniority criteria, a member of this supervisory board with more than 12 years of seniority does not automatically lose independence.

Indeed, the supervisory board considers:

- that the seniority criterion of even more than twelve years, may provide a member of the supervisory board with an increased capacity to question the executive board, along with a greater degree of independence. It was in this ability that the supervisory board was asked to make a case by case assessment of the independence of its members;
- that it is important that members of the supervisory board have a good understanding of the Group, based on hindsight and reasoned judgment concerning the Group's major strategic directions and the ability to gain perspective based on decisions made and actions taken in the past;
- that the leadership functions exercised by members of the supervisory board in companies other than Virbac strengthen their authority and constitute a guarantee of the independence of their judgment.

In particular, the supervisory board discussed whether significant ties existed between the members considered to be independent and the company or one of the Group’s companies.

The supervisory board noted that none of these members has a direct or indirect business relationship with the company or the Group and, in particular, that none of these members is a customer, supplier, corporate banker or investment banker of the company or Group and that none of these members had established any particular interest or special relationship with the Group or its officers.

Consequently the supervisory board declared the three above-mentioned members of supervisory board meet all the independence criteria of the Afep-Medef Code, with the exception of seniority, but decided not to retain the seniority criterion of more than twelve years, as this criterion would automatically mean the loss of Philippe Capron's independence status, and thus confirmed the independence of the three above-mentioned members.

The supervisory board is gender-balanced and made up of three women, including the chairwoman, and three men. The members of the supervisory board have a variety of skills related to their professional experience. Its members are aged between 24 and 59. Five members of the supervisory board are French and one is German.

As regards the diversity of its composition, the supervisory board's policy aims to maintain the current level of diversity, and particularly the diversity of its members' skills.

Lastly, it should be noted that no members of the supervisory board combine their terms of office with an employment contract with the Virbac group.

The offices held by supervisory board members are listed on pages 110 and 111 of the annual report.

Meetings of the supervisory board

The statutory auditors are invited to all supervisory board meetings. The documents, technical material and information necessary for the performance of the duties of board members relating to items on the agenda are sent out, by express delivery, as early as possible prior to the meeting. Supervisory board meetings are generally held at Virbac’s head office.
Discussions are led by the chairwoman of the supervisory board. If the chairwoman is unable to attend, the vice-chairwoman exercises the role of chairwoman, as determined by law. Minutes of supervisory board meetings are drawn up at the end of each meeting and submitted for the approval of supervisory board members at the subsequent meeting. In accordance with the articles of association, the supervisory board meets at least once a quarter. During the past financial year, the supervisory board met four times. All the members of the supervisory board attended all the board's meetings. Supervisory board members also met informally several times during the year for informal work and discussion sessions. During the 2017 financial year meetings, the supervisory board notably reviewed the annual and interim financial statements, quarterly revenue, the budget, the reports by the executive board on the Group's business activities, profits, performance and outlook as well as developments in each of the Group's major operational areas and its strategic outlook and plans and proposed acquisitions. Depending on the content of the meetings, all or some of the members of the executive board were present, as well as the Group's area directors or functional directors on an *ad hoc* basis.

The supervisory board's rules of procedures and operating methods

At its March 13, 2009 meeting, the supervisory board approved its internal rules of procedures covering its membership, operation, responsibilities, the board's reporting procedures as well as the membership, operation and responsibilities of the special committees.

The supervisory board's internal rules of procedures do not stipulate any cases of specific prior authorization by the supervisory board in relation to decisions made by the executive board. Indeed, the company considers that it is preferable to limit itself to prior authorizations that are expressly stipulated by law, given that the role of the supervisory board is to supervise the management of the executive board without taking part in it.
Nevertheless, the company does submit all operations involving significant acquisitions and disposals as well as, more generally, any significant strategic operations, to the supervisory board for approval.

In December 2015, the supervisory board carried out a formal review of its assessment, in accordance with the recommendations of the Afep-Medef Code, which stipulates such a review every three years. Prior to the meeting, an assessment questionnaire was sent to each member of the supervisory board. At a specific meeting, the members of the supervisory board talked about their answers, exercising their freedom of expression.
The assessment finds that the board's composition and operation as well as the attendance and contributions of each of its members are entirely satisfactory. The supervisory board is a long-term commitment, which promotes dialogue and trust throughout the board and with the executive board.
The supervisory board provided recommendations and suggestions in order to improve its operations and information.

Special committees

- **Compensation committee**

The compensation committee is chaired by the chairwoman of the supervisory board. The company considered it preferable for the compensation committee to be chaired by a member of the supervisory board who represents the family majority shareholder. It should be noted that because of the division between the executive board and the supervisory board, the compensation committee acts independently of the executive board members whose compensation it discusses.
The compensation committee has met three times during 2017.
All the members of the compensation committee attended these meetings.

At this meeting, the topics covered were:

- review of executive board member performance in 2016 in relation to their variable compensation;
- 2017 compensation of executive board members;
- review of compensation paid to the Group's key management.
- the financial conditions relating to the term of office of the new chairman of the executive board as of December 20, 2017 as well as the other conditions relating to its exercise and termination.

Audit committee

The audit committee, chaired by Philippe Capron, an independent member of the supervisory board, met four times during 2017 with the chairman of the executive board, the chief financial officer and the statutory auditors in attendance. All the members of the audit committee attended all the meetings.

At the end of the statutory auditors' term of office, the audit committee, in conjunction with the Financial Affairs department, makes a recommendation about the statutory auditors put forward for appointment by the shareholders' meeting. This recommendation to the supervisory board is drawn up in accordance with the provisions of Article 16 of (EU) Regulation 537/2014.

To avoid lengthening the period of time between the closure of the accounts by the executive board and the control by the supervisory board, and due to the location of the company's head office near Nice, the audit committee's meeting to review the accounts is held the day before the supervisory board's meeting to close the annual accounts and on the same day for the interim financial accounts. However, documents relating to the accounts, including a summary document prepared by the statutory auditors and any comments they may have, are always given to the members of the audit committee and to the other members of the supervisory board several days before the audit committee meeting is held.

The audit committee receives a regular presentation from the Risk Management director on exposure to risks. Where relevant, significant off-balance sheet commitments are brought to the committee's attention. The audit committee may also turn to external experts.

During 2017, the audit committee examined the 2016 annual financial statements and the 2017 interim financial statements.

It checked the financial information and decided upon the accounting treatment for the financial year's major transactions, submitted either by the statutory auditors or by the members of the executive board. It also noted the efforts made by the executive board to ensure the establishment and effectiveness of internal control procedures, to identify risks and implement the measures considered necessary to manage them.

Absence of selection or appointments committee

The supervisory board does not believe it necessary to set up a selection or appointments committee. This decision is based on the following considerations:

- the size of the company and the stability of its management bodies;
- the small size of the supervisory board;
- all members of the supervisory board wish to be directly involved in the definition of the composition of the managing bodies.

Preparation and organization of the executive board's work

Executive board membership

Since December 20, 2017 the executive board has been composed of four members. The supervisory board of December 20, 2017 renewed the positions of all the executive board's members, with the exception of Éric Marée, who claimed his right to retire. The renewal was made for a new three-year term. Sébastien Huron was also appointed as the new chairman of the executive board, replacing Éric Marée.

The supervisory board approved the new assignment of functions and missions to the executive board members as follows:

- Sébastien Huron is the executive board chairman, supervising global marketing and commercial operations, human resources, communications, Environment, health and safety (EHS) and the board office.
- Christian Karst holds the position of qualified person and acts as general manager as well as executive vice-president Corporate Development. He supervises innovation, the Group Industrial operations and Corporate Quality Assurance department; business development, Corporate Sourcing, public affairs and the CreA function.
- Habib Ramdani is the chief financial officer and is responsible for Group financial policy. He supervises financial and legal duties as well as information systems and risk management.
- Jean-Pierre Dick is head of special projects. He ensures the communication and development of Virbac's corporate reputation through the actions of the Virbac corporate foundation, which he chairs.

Executive board meetings

Executive board members meet, as required by the law, in order to report quarterly to the supervisory board and whenever business so requires. In 2017, the executive board held ten formal meetings.

Special procedures regarding shareholder participation at shareholders’ meetings

Shareholders' meetings are called and deliberate in the legally required manner. Meetings are either held at the head office or at any other place specified in the meeting notice. Meetings are chaired by the chairwoman of the supervisory board. The roles of scrutineers are filled by the two members of the shareholders' meeting with the highest numbers of votes and who accept this position. The meeting's board appoints the secretary, who needs not be a shareholder.

The main powers of the ordinary shareholders' meeting consist of the right to approve or reject the parent statutory accounts and the consolidated accounts, to allocate profits, pay out dividend, appoint or dismiss supervisory board members and appoint the statutory auditors. The ordinary shareholders’ meeting also has an advisory vote on the compensation of the chairman and members of the executive board. Decisions by the ordinary shareholders' meeting are made by a majority of the votes of shareholders present or represented.

The extraordinary shareholders' meeting may make decisions such as amending the articles of association, authorizing financial transactions that may change the share capital, approving or rejecting mergers or spin-offs and granting or refusing shares subscription or purchase options plans or performance-related stock grants. Decisions by the extraordinary shareholders' meeting are made by a majority of two thirds of the votes of the shareholders present or represented.

Irrespective of the number of shares he or she owns, any shareholder is entitled to attend the shareholders' meeting or to be represented there by another shareholder, a spouse, the partner with whom he or she has entered into a civil solidarity pact under French law as well as by any other individual person or legal entity of his or her choice, or alternatively to vote by mail. Legal entity shareholders attend general shareholders' meetings through their legal representatives or any person they appoint for the purposes thereof. In accordance with the law, the entitlement of shareholders to attend in person, by proxy or by mail at shareholders' meetings is subject to the registration of the shares in the name of the shareholder or in the name of the intermediary acting on his behalf, on the second business day prior to the meeting, at midnight Paris time, either in the registered share accounts administered for the company by its agent or in the bearer share accounts held by the authorized banking or financial intermediary, acting as security custodian.

The registration of shares in the bearer share accounts held by the authorized intermediary must be confirmed by a certificate issued by the latter, attached to the postal voting or proxy form or admission card request filled out in the name of the shareholder or on behalf of the shareholder represented by the registered intermediary. To be valid, postal voting or proxy forms must have been effectively received at the company's registered office or the location specified in the meeting notice at the latest three days prior to the date set for the shareholders' meeting, except where a shorter period is specified in the meeting notice.

Each shareholder is entitled to exercise as many votes as the shares they hold or represent without limitation. Nevertheless, a double voting right is granted to all fully paid-up shares that have been registered in the name of the same shareholder for at least two years.

TABLE SUMMARIZING EXCEPTIONS TO RECOMMENDATIONS GIVEN IN THE AFEP-MEDEF CODE

Afep-Medef Code (the "Code") Recommendations	Company practices and justifications	Reference
The supervisory board's internal rules of procedures (Article 3.2 of the code) The internal bylaws of the board of directors should specify the cases in which prior approval by the board of directors is required	The company considered it preferable to limit itself to prior approvals that are expressly stipulated by law, given that the role of the supervisory board is to supervise the management of the executive board without taking part in it. Nevertheless, the company does submit all operations involving significant acquisitions and disposals as well as, more generally, any significant strategic operations, to the supervisory board for approval.	page 105
Member of the supervisory board deemed to be independent (Article 8.5.6 of the code) The loss of independent (director) status occurs on the twelve-year anniversary date	Philippe Capron reached twelve years seniority in August 2016. The supervisory board considers that the seniority criterion of more than twelve years for a member of the supervisory board does not automatically lead to the loss of independence of said supervisory board member. Indeed, the supervisory board considers: · that the seniority criterion of even more than twelve years, may provide a member of the supervisory board with an increased capacity to question the executive board, along with a greater degree of independence. It was in this capacity that the supervisory board was asked to make a case by case assessment of the independence of its members, it being specified; · that it is important that members of the supervisory board have a good understanding of the Group, based on hindsight and reasoned judgment concerning the Group's major strategic directions and the ability to gain perspective based on decisions made and actions taken in the past; · that the leadership functions exercised by members of the supervisory board in companies other than Virbac strengthen their authority and constitute a guarantee of the independence of their judgment.	page 104
Creation of an appointments committee (Article 16 of the code)	The company has not followed this recommendation, firstly because of the size of the company and the stability of its management bodies, and secondly because all supervisory board members wish to be directly involved in the definition of the composition of the managing bodies.	page 106
Compensation committee chaired by an independent member (Article 17.1 of the code)	The company considered it preferable for the compensation committee to be chaired by a member of the supervisory board who represents the family majority shareholder. It should be noted that because of the division between the executive board and the supervisory board, the committee acts independently of executive corporate officers whose compensation it discusses.	page 105
Director's fees for attending supervisory board meetings (Article 20.1 of the code) Rules for distribution of directors' fees: compensation should be primarily variable	The company did not follow this recommendation. In fact, the company does not consider linking payment of directors' fees to attendance at supervisory board meetings in a weighted fashion to be desirable, since the involvement of supervisory board members in the company's supervisory activities is not limited to their participation in formal periodic supervisory board debates. The length of supervisory board meetings, which last an entire day, and the high attendance rates of its members amply confirm that the regular attendance of supervisory board members is ensured without having recourse to a complex mechanism for the allocation of directors' fees. For information purposes, it should be noted that the supervisory board decided to allocate a higher level of compensation to Philippe Capron in respect of his role as chairman of the audit committee.	page 113

Performance-related stock grants (Article 24.3.3 of the Code) 1. Specify the percentage of performance-related stock grants that may be awarded to executive directors depending on each company's situation (size, sector, etc.) 2. Link the acquisition of performance-related stock grants to performance conditions to be met over a period of several years running	1. The performances looked at are not linked to the performance of other companies or a benchmark sector because there are very few reliable comparisons, most companies with operations similar to those of Virbac being either unlisted or divisions of major listed pharmaceutical groups. 2. It is specified that the performance conditions to be met for the acquisition of shares are measured in relation to the consolidated operating profit and the Group's consolidated net debt at the close of the second full financial year following the plan's start date. Therefore, these components consider the Group's performance over more than two financial years, but performance is not evaluated periodically throughout the plan, as specified by the code.	page 114
Severance pay (Article 24.5.1 of the Code) Reference period for assessment of performance criteria	The fulfillment of the termination benefits performance criteria is assessed against the two half-year periods that precede the director's departure, and not a minimum of two years, as stipulated in the Code. However, the amount of benefits is substantially lower than the limit of two years of compensation provided for under the Code and the performance criteria are demanding (operating profit from ordinary activities to revenue ratio higher than or equal to 7%).	page 116
Non-competition payment (article 23.5 of the code) The non-competition payment should not exceed the two-year compensation upper limit (annual fixed + variable compensation). Where severance pay is also paid, the cumulation of the two benefits may not exceed this upper limit	The sum of the executive board chairman's non-competition and severance payments exceeds the two-year fixed and variable compensation upper limit set out in the Code. The non-competition payment was concluded in return for the non-competition commitment by the executive board's chairman, which aims to prevent him from leaving the company to join a competing group. The amount of the non-competition payment was determined in order to take into account, in the light of the chairman's age, the constraint which it may constitute for him.	page 116
Supplementary pension schemes (Article 23.2.6 of the Code) The group of potential beneficiaries must be materially broader than the sole executive directors	The company did not follow this recommendation. Virbac's policy is to only grant supplementary pensions to executive board members for three reasons: firstly, the supplementary pensions granted this way are of a controlled size and subject to the potential beneficiaries meeting several conditions, and secondly, it is preferable to avoid extending the category of beneficiaries due to the growing tax burden of this scheme, and lastly Virbac has established a well-balanced social policy for all employees in terms of welfare, voluntary profit sharing and savings (company savings plan, collective retirement savings plan, employer's contribution, etc.). In addition, the company goes beyond the Afep-Medef Code recommendations as regards the increase in potential rights, since they only represent a limited percentage of the beneficiary's compensation, including the variable portion.	page 115

GOVERNING, MANAGEMENT AND MONITORING BODIES

Supervisory board

It has six members, three of whom are independent (in accordance with the criteria of the Afep-Medef corporate governance code described in the report of the chairwoman of the supervisory board): Philippe Capron, Olivier Bohuon and the company Galix Conseils, represented by Grita Loebsack.

Marie-Hélène Dick
Chairwoman of Virbac's supervisory board.
French.
Date of first appointment: 1998.
Current term ends: 2019.
Aged 53, a doctor of veterinary medicine and holder of an MBA from the HEC business school, Marie-Hélène Dick was appointed chairwoman of Virbac's supervisory board in April 2006.
Other positions held:

- chairwoman and general manager of Okelen, SA (France);
- permanent representative of Okelen, chairing Panmedica, SAS (France);
- chairwoman of the board of directors of Panpharma, SA (France).
- associate manager of the société civile immobilière Ilouet (France);
- officer of the Panpharma Australia Pty Limited company (Australia);
- officer of the Panpharma UK Limited company (United Kingdom);
- co-manager of the société civile immobilière Samakeur MH (France);
- manager of Investec, a non-trading company (France).

Number of shares held as of December 31, 2017: 1,635.

Pierre Madelpuech
A member of Virbac's supervisory board, acting as vice-president of the supervisory board, appointed by decision (cooptation) of the supervisory board of September 5, 2017, as a replacement of the Asergi company, which resigned.
Permanent representative of Asergi, a member of Virbac's supervisory board until September 5, 2017.
French.
Date of first appointment: 1995 (individually) and 2005 (as permanent representative of Asergi).
Current term ends: 2018.
Aged 57, Pierre Madelpuech is an Ensam engineering graduate and holds an MBA from the HEC business school.
Other positions held:

- manager of Asergi, SARL (France);
- director of Panpharma, SA (France);
- director of Okelen, SA (France);
- general manager of Panmedica, SAS (France);
- manager of Arteis Développement, SARL (France);
- general manager of RPG, SAS (France);
- associate manager of the société civile immobilière Igresa (France);
- manager of Art'Pro, SARL (France);
- manager of Crearef, SARL (France);
- manager of Crea Négoce, SARL (France);
- manager of Color'I, SARL (France);
- manager of P2LM (France);
- chairman of Fra Angelico, SASU (France).

Number of shares held as of December 31, 2017: 40.

Jeanine Dick
Member of Virbac's supervisory board, acting as vice-president of the supervisory board until September 5, 2017, the date of her resignation.
French.
Date of first appointment: 1992.
Aged 81, widow of the founder Pierre-Richard Dick, Jeanine Dick was chairwoman of Virbac's supervisory board for a number of years.
Other positions held: none
Number of shares held as of December 31, 2017: 8,020.

Solène Madelpuech:
A member of Virbac's supervisory board, appointed by decision (cooptation) of the supervisory board of September 5, 2017, as a replacement of Jeanine Dick, who resigned.
French.
24 years-old, she graduated with a Bachelor of Business and Management from the Warwick Business School and a Master's in Management from the London Business School.
Other positions held:
- co-manager of the société civile immobilière Samakeur MH (France);
- Member of the supervisory board of Investec, a non-trading company (France).

Number of shares held as of December 31, 2017: 10.

Philippe Capron
Member of Virbac's supervisory board.
French.
Date of first appointment: 2004.
Current term ends: 2019.
Aged 59 and a graduate of the HEC business school and the Institut d'Etudes Politiques de Paris, Philippe Capron is an alumnus of the ENA and was a finance inspector.
Other positions held in the Veolia Group:
- director of Transdev Group (France);
- director of Veolia Energie International (France);
- delegate director for the founding members of Fondation d'Entreprise Veolia Environnement (corporate foundation) (France);
- chairman of the board of directors of Veolia Environnement Services RE (France);
- Member of the supervisory board of Veolia Eau – Compagnie Générale des Eaux (France);
- director of the Institut Veolia (France);
- director of Veolia Environnement UK Ltd (United Kingdom);
- chairman of the board of directors of Veolia North America Inc (United States);
- deputy CEO of Veolia Environnement (France).
- director of the Econocom Group SA/NV (Belgium).

Number of shares held as of December 31, 2017: 442.

Olivier Bohuon
Member of Virbac's supervisory board.
French.
Date of first appointment: 2011.
Current term ends: 2020.
Aged 57, doctorate in pharmacy and MBA graduate of the HEC business school, Olivier Bohuon is a member of the National Pharmacy Academy and the Academy of Technologies.
Other positions held:
- director of the Smith&Nephew Plc company (United Kingdom);
- director of the company HealthCare Promise Investments partners SA (Luxembourg).
- director of the Shire PLC company (Ireland).

Number of shares held as of December 31, 2017: 45.

Grita Loebsack
Permanent representative of Galix Conseils, she was appointed by decision (cooptation) of the supervisory board of December 20, 2017 following her resignation for personal reasons.
Member of Virbac's supervisory board until December 20, 2017, the date of her resignation.
German.
Date of first appointment: 2014.
Current term ends: 2018
Aged 47, with a London School of Economics degree and an MBA at INSEAD.
Other positions held:
- director of the company Kicks Kosmetikkedjan AB (Sweden) ;

Number of shares held as of December 31, 2017: 0.

Non-voting advisor

The company Xavier Yon Consulting Unipessoal Lda, non-voting advisor, appointed by decision (cooptation) of the supervisory board of December 20, 2017, as a replacement of the company XYC, which resigned.
The company Xavier Yon Consulting Unipessoal Lda is represented by Xavier Yon, 77 years-old, a graduate of the Faculté des Sciences de Paris and the Harvard Business School, formerly president and CEO of Laboratoires Galderma, Yon has been a member of the supervisory board, either personally or as a legal representative of the XYC company, from 2004 until the end of 2013.
Current term ends: 2017.

Policy of staggered terms for supervisory board members

Since 2014, the terms of its members have been staggered in order to comply with the recommendations of the Afep-Medef Code.

Executive board

Éric Marée

Chairman of Virbac's executive board until December 20, 2017, the date he retired.
Aged 65, a graduate of the HEC business school and with an MBA from Cornell University, Eric Marée joined Virbac in October 1999 and has been chairman of the executive board since December of that year.
Other positions held in Virbac subsidiaries until he left the Group on December 20, 2017:

- chairman of Interlab, SAS (France);
- chairman of Virbac Corporation (United States);
- director of Virbac Limited (United Kingdom);

Number of shares held as of December 20, 2017: 9,460.

Sébastien Huron

Chairman of Virbac's executive board since December 20, 2017.
Aged 47, a veterinarian, Sébastien Huron joined the Virbac Group in 2006. He has been a member of the executive board since December 2012.

- manager of the société civile immobilière P.A.T.H (France).

Other terms performed at subsidiaries of Virbac:

- chairman of Bio Véto Test, SAS (France);
- director of Virbac Corporation (United States);
- chairman of Virbac Hellas S.A. (Greece);
- chairman of Animedica SA (Greece);
- director of Virbac Animal Health India Private Limited (India);
- director of Holding Salud Animal SA (Chile);
- director of Bioanimal Corp. S.A. (Chile);
- director of Productos Quimicos Ehlinger S.A. (Chile).

Current term ends: December 2020.
Number of shares held as of December 31, 2017: 945.

Christian Karst

Member of the executive board of Virbac.
Aged 59, a doctor of veterinary medicine, Christian Karst joined Virbac in 1984. He has been a member of the executive board since December 1996 and general manager since September 9, 2013.
Other positions held:

- manager of Karst, a non-trading property investment company (France).

Other terms performed at subsidiaries of Virbac:

- director of Virbac Limited (United Kingdom);
- director of Holding Salud Animal SA (Chile);
- director of Bioanimal Corp. S.A. (Chile);
- director of Productos Quimicos Ehlinger S.A. (Chile);
- director of the Asia Pharma Limited company (Hong Kong).

Current term ends: December 2020.
Number of shares held as of December 31, 2017: 5,825.

Habib Ramdani

Member of the executive board of Virbac.
Aged 42, Habib Ramdani, a graduate of the École Centrale de Paris, was appointed deputy director of Financial Affairs effective February 1, 2016 and subsequently director of financial affairs effective April 1, 2016.
Other positions held:

- director of the Asia Pharma Limited company (Hong Kong);
- director of Interlab, SAS (France) since late December 2017;
- permanent representative of Virbac, director of Virbac Chile Spa (Chile);
- permanent representative of Virbac, director of Virbac Patagonia Limitada (Chile);

Current term ends: December 2020.
Number of shares held as of December 31, 2017: none

Jean-Pierre Dick
Member of the executive board of Virbac.
Aged 52, Jean-Pierre Dick is a doctor of veterinary medicine and holds an MBA from the HEC business school. He has been a member of the executive board since December 1996.
Other positions held:

- chairman of the Virbac corporate foundation (France);
- manager of Absolute Dreamer SARL + (France);
- joint manager of Terre Du Large, a nontrading property investment company.
- co-manager of the société civile immobilière Samakeur JP (France);

Current term ends: December 2020.
Number of shares held as of December 31, 2017: 880.

COMPENSATION OF THE MEMBERS OF THE SUPERVISORY BOARD AND THE NON-VOTING ADVISOR IN RESPECT OF FINANCIAL YEAR 2017

Payment policy for directors' fees to members of the supervisory board

According to the Afep-Medef Code, directors' fees should be distributed taking into account directors' effective participation in the board and in the committees, and should be primarily variable.
The company does not deem it necessary that this recommendation from the Afep-Medef Code be applied. In fact, the company does not consider linking payment of directors' fees to attendance at supervisory board meetings in a weighted fashion to be desirable, since the involvement of supervisory board members in the company's supervisory activities is not limited to their participation in formal periodic supervisory board debates. The length of supervisory board meetings, which last an entire day, and the high attendance rates of its members amply confirm that the regular attendance of supervisory board members is ensured without having recourse to a complex mechanism for the allocation of directors’ fees. For information purposes, it should be noted that the supervisory board decided to allocate a higher level of compensation to Philippe Capron in respect of his role as chairman of the audit committee.
A summary table on pages 108 and 109 lists the provisions of the Afep-Medef Code not adopted by the company and explains the reasons for this.
In accordance with the provisions of the 2016-1691 act of December 9, 2016, the parts of this compensation policy will be the subject of a vote at Virbac's next shareholder's meeting.

Table of attendance fees and other compensation received by members of the supervisory board and the non-voting advisor

The table below presents the attendance fees and other compensation due to members of the supervisory board according to the Afep-Medef recommendations.

	Amount due in respect of 2017		Amount due in respect of 2016	
in €	Compensation	Directors' fees	Compensation	Directors' fees
Marie-Hélène Dick	95,000	21,000	95,000	21,000
Jeanine Dick	-	4,000	-	12,000
Pierre Madelpuech	-	6,000	-	21,000
Philippe Capron	-	24,000	-	24,000
Olivier Bohuon	-	21,000	-	21,000
Company Asergi	-	6,000	-	-
Grita Loebsack	-	21,000	-	21,000
Solène Madelpuech	-	17,000	-	-
Non-voting advisor, company XYC represented by Xavier Yon	-	21,000	-	21,000
Total	**95,000**	**141,000**	**95,000**	**141,000**

COMPENSATION OF THE MEMBERS OF THE EXECUTIVE BOARD IN RESPECT OF FINANCIAL 2017

Policy on compensation paid to members of the executive board

The supervisory board, through its compensation committee, establishes the policy on compensation paid to members of the executive board, on the basis of the recommendations of the Afep-Medef Code currently in force.

The supervisory board ensures that the compensation is comprehensive, balanced among its various components, consistent and easy to understand.
The supervisory board also ensures that the compensation is aligned with market practices and the interests of shareholders, while taking into account the reality of the tasks performed and the company's corporate interest.

It is pointed out that, in accordance with the provisions of law 2016-1691 of December 9, 2016, all parts of the executive board member compensation policy will be voted on at Virbac's next shareholder's meeting.

Fixed compensation

The fixed compensation of executive board members reflects the responsibilities, experience and assigned tasks. It changes annually. Annual change is slight and in compliance with the consistency principle set out in the Afep-Medef Code.

Variable compensation

Each executive board member has a variable compensation target that is a percentage of his fixed compensation and that is consistent with the company's compensation practices.

The board sets out the criteria for determining the variable compensation of executive board members as well as the targets. It ensures that the criteria and targets are aligned with Virbac's strategic key issues and annual priorities. It gives precedence to quantitative criteria over qualitative criteria which, when they exist, account for a limited portion of the variable compensation. Finally, the supervisory board is careful to ensure that the criteria are easy to understand and simple.

The main financial criteria used by the supervisory board are:

- growth of the Group revenues;
- growth in the Group's operating profit from ordinary activities;
- changes in liquidity indicators (i.e. inventory control).

The amount attributable to each member of the executive board shall be based on the achievement of the objectives of the forthcoming financial year to be defined by the supervisory board meeting which is held each year in March of that year, based on an opinion issued by the compensation committee.

The level of achievement of the objectives for a given financial year shall be determined by a decision of the supervisory board based on the opinion of the compensation committee, and it shall be the subject of a vote in the shareholders' meeting, which will be called upon to decide on the approval of the statements for this same financial year.

Long-term compensation

Since 2006, the executive board, as authorized by the shareholders' meeting, has paid certain Virbac executives and those of its subsidiaries long-term compensation in the form of performance-related stock grants. The goal of these compensation mechanisms is not only to encourage executives to plan their work for the longer term, but also to bring their interests into line with the company's corporate interest and the interest of shareholders.

The supervisory board, by way of resolution, grants the executive board the authority to award bonus performance-related stock grants while setting out the general framework. Thus, the supervisory board limits the total number of performance-related stock grants that may be awarded to employees as well as to members of the executive board.

The executive board, as authorized by the shareholder's meeting, determines who the recipient executives will be and the number of performance-related stock grants to be distributed by ensuring that the award is in proportion to the fixed and variable portion. The executive board ensures that the awards are contingent on the achievement of targets aligned with the company's strategic key issues.

The procedures regarding the retention period for managers are: 35% of the shares vested to the chairman of the executive board and 25% for other corporate officers may not be sold while they work for the Group. This restriction will nonetheless be lifted where the corporate officers have established a Virbac share portfolio representing two years' target annual compensation (target gross salary and bonus), except for the chairman for whom this amount is set at three years' target compensation.

These awards are contingent on the achievement of a performance target. Moreover, the performances looked at are not linked to the performance of other companies or a benchmark sector because there are very few reliable comparisons, most companies with operations similar to those of Virbac being either unlisted or divisions of major listed pharmaceutical groups.

It should be pointed out that the performance conditions to be met for the acquisition of performance-related stock grants are measured against the internal objectives of consolidated operating profit and the Group's consolidated net debt at the close of the second full financial year following the plan's start date. Therefore, these components consider the group's performance over more than two financial years, but performance is not evaluated periodically throughout the plan, as specified by the code.
If the target is met, all of the shares in question are vested. If the target is not met, but the target is at least equal to 95%, half of the shares in question are vested. The other half of the shares are vested on a prorated basis according to the percentage of target met between 95% and 100%. For some plans, if 95% of the target is not met at the end of the second year, but rather at least 80% of the target is met at the end of the third year, half of the projected shares shall be vested.

Exceptions to the Afep-Medef Code recommendations on the performance-related stock grants that were not used by the company are explained in a table on pages 108 and 109 of the report.

Other benefits

In addition to the various compensation items, some executive board members enjoy the benefits described below.

Company vehicle.
Executive board members receive a company vehicle, in accordance with the policy defined by the compensation committee.

Health insurance plan, maternity benefits, pension and retirement:
Executive board members and the chairman of the executive board have the same health insurance, maternity benefits and pension and retirement plans as those provided to the company's executives, under the same contribution and benefit conditions as those defined for the other company executives.

Unemployment insurance plan
The chairman of the executive board is covered by the private GSC (Garantie Sociale des Chefs d'Entreprise [Unemployment Insurance for Corporate Directors]) in accordance with conditions defined by the supervisory board.
The other executive board members have the same unemployment insurance plan as that provided to the company's employees.

Supplementary pension plan of the executive board members
The members of the executive board and the chairman benefit from a supplementary defined benefit pension plan (12.5% of the reference salary and 22% in the event of service with the company exceeding 30 years) whose conditions of allocation are as follows:

- over ten years service in the Group (including nine years as a member of the executive board or 15 years for a benefit of 22% of the reference salary);
- at least 60 years-old;
- finished his/her career in the Group.

The reference period corresponds to the five years prior to the executive board member turning 60.
The supervisory board does not wish to apply one of the recommendations of the Afep-Medef Code regarding the supplementary pension scheme, which recommends that the group of beneficiaries must be materially broader than the sole executive directors. Virbac's policy is to only grant supplementary pensions to executive board members for three reasons:

- firstly, the supplementary pensions granted this way are of a controlled amount and subject to the potential beneficiaries meeting several conditions:
- secondly, expanding the category of beneficiaries is not deemed desirable based on the growing tax weight within this mechanism;
- finally, Virbac has established a well-balanced social policy for all employees in terms of welfare, voluntary profit sharing and savings (company savings plan, collective retirement savings plan, employer contribution, etc.).

In addition, the company goes beyond the Afep-Medef recommendations as regards the amount and the increase in potential rights, since they only represent 12.5% of the benchmark amount for seniority of between 10 and 30 years and are limited to 22% for seniority of more than 30 years.

The supervisory board of December 20, 2017 renewed the positions of all the executive board's members (with the exception of Éric Marée, who claimed his right to retire) for a new period of three years and it appointed Sébastien Huron as the new chairman of the executive board as a replacement to Éric Marée.
In accordance with the law, the supervisory board, in its December 20, 2017 and March 13, 2018 meetings, renewed the commitments made by the company for 2018 related to the supplementary defined benefit pension plan for the members of the executive board and it determined the necessary performance requirements.
The calculation of the annual contribution shall be based on the fixed and variable gross compensation amounts subject to an operating profit from ordinary activities to revenue ratio higher than or equal to 7% for the year in question.

A specific resolution for each member of the executive board will be presented at the next shareholders' meeting in order to renew the commitments relating to the defined benefit pension plan, taken up in their favor by the company for the year 2018.

Forced retirement severance pay
The new chairman of the executive board and the general manager benefit from the commitments made by the company in case of termination of their duties.

The supervisory board in its December 20, 2017 and March 13, 2018 meetings has granted to the new chairman of the executive board and it has renewed to the benefit of the general manager the commitments made by the company in case of termination of their duties (severance pay) as chairman of the executive board or as general manager. The supervisory board also determined the performance conditions required for the payment of the termination benefits.

It stated that:

- the commitments made by the company in the event of termination of office of its directors were adopted by the general shareholders' meeting of June 24, 2015. They correspond to the conditions renewed by the supervisory board at its meeting of March 13, 2015 and approved by the general shareholders' meeting of June 24, 2015, i.e. termination benefits can only be paid if the departure is imposed by the company. They will not be paid in the event of resignation, retirement or gross misconduct by the corporate officers concerned.
- The fulfillment of the termination benefits performance criteria is assessed against the two half-year periods or four half-year periods according to the specific case, that precede the director's departure, and not a minimum of two years, as stipulated in the Code. However, the amount of benefits is substantially lower than the limit of two years of compensation provided for under the Code and the performance criteria are demanding (operating profit from ordinary activities to revenue ratio higher than or equal to 7%).

A specific resolution for each of the beneficiaries will be presented at the next shareholders' meeting, in order to renew the commitments relating to the defined benefit pension plan, taken up in their favor by the company for the year 2018.

Non-competition payments
The supervisory board, based on a suggestion from the compensation committee, has required that the new chairman of the executive board have a non-competition commitment in the event of departure in return for which a non-competition indemnity was set out.

A summary table on pages 109 and 109 lists the provisions of the Afep-Medef Code not adopted by the company and explains the reasons for this.

Draft resolutions relating to the compensation policy submitted to be voted on at Virbac's next shareholder's meeting.

Twentieth resolution:

Remuneration policy for members of the supervisory board: approval of the principles and criteria for determining, distributing and allocating the total compensation and benefits in kind attributable to the members of the supervisory board
Having reviewed the report provided by Article L225-82-2 of the French Commercial Code, the shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, approves the principles and criteria for determining, distributing and allocating the elements comprising the total compensation and benefits in kind and attributable, due to their mandate, to the members of the supervisory board.

Twenty-first resolution:

Remuneration policy for the members of the executive board: approval of the principles and criteria for the determination, distribution and allocation of fixed, variable and exceptional elements comprising total compensation and benefits in kind attributable to members of the executive board
Having reviewed the report provided for in Article L225-82-2 of the French Commercial Code, the shareholders' meeting, in accordance with *quorum* and majority requirements for ordinary shareholders' meetings, approves the principles and criteria for determining, distributing and allocating the fixed, variable and exceptional components comprising the total compensation and benefits in kind and attributable, due to their mandate, to members of the executive board.

These draft resolutions will also be included in the information for voting and draft resolutions, pages 224 to 241 of the annual report.

Compensation paid to members of the executive board

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

Summary of the gross amounts due for 2017

in €	Compensation due in respect of 2017	Value of stock options granted in 2017	Value of stock grants awarded for 2017[1]	Total compensation
Éric Marée	443,560	-	-	**443,560**
Sébastien Huron	310,705	-	-	**310,705**
Christian Karst	332,207	-	-	**332,207**
Habib Ramdani	211,501	-	-	**211,501**
Jean-Pierre Dick	41,840	-	-	**41,840**
Total	**1,339,813**	**-**	**-**	**1,339,813**

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

Summary of the gross amounts due for 2016

in €	Compensation due in respect of 2016	Value of stock options granted in 2016	Value of stock grants awarded for 2016[1]	Total compensation
Éric Marée	480,644	-	-	**480,644**
Sébastien Huron	318,051	-	185,050	**503,101**
Christian Karst	370,111	-	185,050	**555,161**
Michel Garaudet[2]	80,801	-	-	**80,801**
Habib Ramdani[3]	147,716	-	74,020	**221,736**
Jean-Pierre Dick	55,554	-	-	**55,554**
Total	**1,452,877**	**-**	**444,120**	**1,896,997**

[1] Based on the method used for the consolidated accounts.
[2] Until April 30, 2016, the date he retired.
[3] As of June 23, the date he joined the executive board.

Gross compensation Éric Marée

in €	Financial year 2017		Financial year 2016	
	Value due in respect of the period	Value paid out during the period	Value due in respect of the period	Value paid out during the period
Fixed compensation	370,000	370,000	340,472	340,472
Variable compensation	26,964	62,556	62,556	50,000
Extraordinary compensation	-	-	-	-
Directors' fees	45,000	45,000	74,528	74,528
Benefits in kind	1,596	1,596	3,088	3,088
Total	**443,560**	**479,152**	**480,644**	**468,088**

Calculation criteria for the variable portion
For the financial year 2017, the allocation criteria for the variable portion of Éric Marée's compensation were fixed as follows:

- growth of the Group's revenue, representing 40% of the target variable portion;
- growth in the Group's operating profit from ordinary activities before depreciation and research & development costs as well as regulatory and licensing costs, accounting for 30% of the target variable portion;
- generation of cash (30%) of which 10% regards free cash flow, 10% regards the stock, 5% is for complying with the June covenant and 5% for complying with the December 2017 covenant.

For the financial year 2017, the maximum potential variable portion of Éric Marée’s compensation represents, as a percentage of his fixed compensation (including directors’ fees paid by Group subsidiaries): 51.98%.

For the 2017 financial year, Éric Marée should be paid the following variable compensation: €26,964, representing 6.50% of his fixed compensation (including directors’ fees paid by Group subsidiaries):
The payment of the variable compensation is subject to the approval by the next ordinary shareholders’ meeting of the compensation elements in compliance with the provisions of Article L225-100, of the French commercial code.

Gross compensation Sébastien Huron

in €	Financial year 2017		Financial year 2016	
	Value due in respect of the period	Value paid out during the period	Value due in respect of the period	Value paid out during the period
Fixed compensation	265,000	265,000	245,000	245,000
Variable compensation	18,125	46,575	46,575	50,000
Extraordinary compensation	-	-	-	-
Directors' fees	25,000	25,000	25,000	25,000
Benefits in kind	2,580	2,580	1,476	1,476
Total	**310,705**	**339,155**	**318,051**	**321,476**

Calculation criteria for the variable portion
For the financial year 2017, the allocation criteria for the variable portion of Sébastien Huron's compensation was fixed as follows:

- growth of the Group's revenue, representing 40% of the target variable portion;
- growth in the Group's operating profit from ordinary activities before depreciation and research & development costs as well as regulatory and licensing costs, accounting for 30% of the target variable portion;
- generation of cash (30%) of which 10% regards free cash flow, 10% regards the stock, 5% is for complying with the June covenant and 5% for complying with the December 2017 covenant.

For the financial year 2017, the maximum potential variable portion of Sébastien Huron’s compensation represents, as a percentage of his fixed compensation (including directors’ fees paid by Group subsidiaries): 50.00%

For the 2017 financial year, Sébastien Huron should be paid the following variable compensation: €18,125, representing 6.25% of his fixed compensation (including directors’ fees paid by Group subsidiaries):
The payment of the variable compensation is subject to the approval by the next ordinary shareholders’ meeting of the compensation elements in compliance with the provisions of Article L225-100, of the French commercial code.

Unemployment insurance plan
The chairman of the executive board is covered by the private GSC (Garantie Sociale des Chefs d'Entreprise [Unemployment Insurance for Corporate Directors]) plan, which is based on the 70-for-one-year formula, in accordance with this organization's general conditions, and whose contributions will be entirely paid by the company, but will be claimed as a benefit in kind for the chairman of the executive board. The amount of the annual contributions over time shall not exceed €15,000.

Supplementary pension plan
Sébastien Huron, the new chairman of the executive board, continued to benefit, under the same conditions as those prevailing in previous years, from the supplementary defined benefit pension plan (Article 39) of the executive board members, whose contributions will continue to be paid by the company.
However, in order to meet the new requirements of the Macron Law of August 6, 2015, the amount of the annual contribution the company must pay due to the rights acquired by the new chairman of the executive board for a given financial year will be subject to compliance with the following provisions:

- contribution capped at 3% of the amount of his gross fixed and variable gross compensation due for said financial year;
- payment of the contribution subject to compliance with the following condition: operating profit from ordinary activities/revenue excluding taxes greater than or equal to 7% in the year in question;

- the determination of the achievement of this objective and the impact on the contribution under this supplementary insurance scheme of the members of the executive board will be carried out by the supervisory board, and it will be submitted to shareholders for approval at the shareholders' meeting called to approve the financial statements for the financial year in question.

Forced retirement severance pay

Sébastien Huron, the new chairman of the executive board, will, in the event of a non-voluntary departure from his duties as chairman of the executive board, benefit from a severance pay whose amount will be determined according to the following objectives:

- to the extent where the Group's operating profit from ordinary activities to net revenue ratio would be higher than or equal to 7% on average for the two last fiscal semesters closed (for example: for a departure in August in year N: the period taken into account to calculate the ratio is from July 1st of year N-1 to June 30 of year N), the pay due will be equal to €700,000;
- to the extent where the Group's operating profit from ordinary activities to net revenue ratio would be lower than 7% on average for the two last fiscal semesters closed but higher than or equal to 4% on average for the last four fiscal semesters closed (for example: for a departure in May in year N: the period taken into account to calculate the ratio is from January 1st of year N-2 to December 31 of year N-1), the pay due will be equal to €550,000;
- to the extent where the Group's operating profit from ordinary activities to net revenue ratio would be lower than 4% on average for the last four fiscal semesters closed (for example: for a departure in May in year N: the period taken into account to calculate the ratio is from January 1st of year N-2 to December 31 of year N-1), no pay will be due.

In addition, the conditions for payment or non-payment of this severance pay are as follows:

- the severance pay may only be paid in the event of a forced departure, initiated by the company, including in the context of a non-renewal of the term of office at its end date, or of a renewal of the term of office under conditions that are less favorable than those applicable before the renewal (with regard to his fixed compensation and the percentage of his target variable compensation and his severance pay in case of forced departure) causing a departure from the company;
- it will not be owed in the event of resignation, full pension retirement, retirement once the age limit for being a chairman of the executive board is reached or in the event of dismissal for gross negligence. It will also not be due in the event of a change regarding the office of the new chairman of the executive board, following a change in the mode of governance of the company with the setting up of a non-executive chairman and an executive general manager, if Sébastien Huron is appointed executive general manager without any change to the compensation conditions and other conditions applicable prior to the change of the mode of governance.

Non-competition payments

The chairman of the executive board shall not work directly or indirectly for or exercise any corporate office mandate or otherwise exercise any activity in any group or company directly or indirectly engaging in research, development, manufacture and/or marketing of animal health products, in countries where Virbac has a subsidiary or stake.

This non-competition obligation shall apply until the end of a period of eighteen months after the effective cessation of his corporate mandate within the company and will result in a non-competition payment.

The company's supervisory board reserves the right to refrain from imposing on the new chairman of the executive board compliance with this non-competition clause upon termination of his corporate mandate, but this waiver may not take place or be exercised by the supervisory board before the sixtieth birthday of the chairman of the executive board and notice shall be given by registered letter with acknowledgment of receipt or through any other written means to the chairman of the executive board within a maximum period of three months from the announcement of this resignation in the event of resignation initiated by him, or immediately in the other cases, at the time of the effective termination of the mandate. In the event of renunciation of the non-competition clause under these provisions, no compensation shall be payable. In all other cases, the compensation will be due throughout the eighteen-month period.

In consideration of the non-competition obligation, Sébastien Huron, will receive each month, during the entire competition ban period, a payment in an amount equal to 80% of his gross fixed monthly compensation received for the company's last financial year-end (including directors' fees and any other compensation related to his functions with the Virbac group). This payment will be limited, for this 18-month period, to a maximum gross amount of €500,000.

Gross compensation Christian Karst

in €	Financial year 2017		Financial year 2016	
	Value due in respect of the period	Value paid out during the period	Value due in respect of the period	Value paid out during the period
Fixed compensation	265,000	265,000	265,000	265,000
Variable compensation	19,375	57,200	57,200	50,000
Extraordinary compensation	-	-	-	-
Directors' fees	45,000	45,000	45,000	45,000
Benefits in kind	2,832	2,832	2,911	2,911
Total	**332,207**	**370,032**	**370,111**	**362,911**

Calculation criteria for the variable portion

For the financial year 2017, the allocation criteria for the variable portion of the compensation of Christian Karst were fixed as follows:

- growth of the Group's revenue, representing 40% of the target variable portion;
- growth in the Group's operating profit from ordinary activities before depreciation and research & development costs as well as regulatory and licensing costs, accounting for 30% of the target variable portion;
- generation of cash (30%) of which 10% regards free cash flow, 10% regards the stock, 5% is for complying with the June covenant and 5% for complying with the December 2017 covenant.

For the financial year 2017, the maximum potential variable portion of Christian Karst's compensation represents, as a percentage of his fixed compensation (including directors' fees paid by Group subsidiaries): 50.00%.

For the financial year 2017, Christian Karst should be paid the following variable compensation: €19,375, representing 6.25% of his fixed compensation (including directors' fees paid by Group subsidiaries):
The payment of the variable compensation is subject to the approval by the next ordinary shareholders' meeting of the compensation elements in compliance with the provisions of Article L225-100, of the French commercial code.

Supplementary pension plan

Christian Karst continued to benefit, under the same conditions as those prevailing in previous years, from the supplementary defined benefit pension plan (Article 39) of the executive board members, whose contributions will continue to be paid by the company.
However, in order to meet the new requirements of the Macron Law of August 6, 2015, the amount of the annual contribution the company must pay due to the rights acquired by the new chairman of the executive board for a given financial year will be subject to compliance with the following provisions:

- contribution capped at 3% of the amount of his fixed and variable gross compensation due for said financial year;
- payment of the contribution subject to compliance with the following condition: operating profit from ordinary activities/revenue excluding taxes greater than or equal to 7% in the year in question;
- the determination of the achievement of this objective and the impact on the contribution under this supplementary insurance scheme of the members of the executive board will be carried out by the supervisory board, and it will be submitted to shareholders for approval at the shareholders' meeting called to approve the financial statements for the financial year in question.

Forced retirement severance pay

Christian Karst, general manager, will, in the event of a non-voluntary departure from his general manager duties, benefit from a severance pay totaling €326,000.

The fulfillment of the termination benefits performance criteria is assessed against the two half-year periods that precede the director's departure, and not a minimum of two years, as stipulated in the Code. However, the amount of benefits is substantially lower than the limit of two years of compensation provided for under the Code.
The performance conditions are demanding: operating profit from ordinary activities to revenue ratio higher than or equal to 7% on average for the two last fiscal semesters closed preceding the departure of the officer.

Gross compensation Habib Ramdani

in €	Financial year 2017		Financial year 2016	
	Value due in respect of the period	Value paid out during the period	Value due in respect of the period	Value paid out during the period
Fixed compensation	203,000	203,000	109,016	109,016
Variable compensation	7,613	38,700	38,700	-
Extraordinary compensation	-	-	-	-
Directors' fees	-	-	-	-
Benefits in kind	888	888	-	-
Total	**211,501**	**242,588**	**147,716**	**109,016**

[1] As of June 23, the date he joined the executive board.

Calculation criteria for the variable portion
For the financial year 2017, the allocation criteria for the variable portion of the compensation of Habib Ramdani were fixed as follows:

- growth of the Group's revenue, representing 40% of the target variable portion;
- growth in the Group's operating profit from ordinary activities before depreciation and research & development costs as well as regulatory and licensing costs, accounting for 30% of the target variable portion;
- generation of cash (30%) of which 10% regards free cash flow, 10% regards the stock, 5% is for complying with the June covenant and 5% for complying with the December 2017 covenant.

In respect of the financial year 2017, the maximum potential variable portion of Habib Ramdani's compensation accounted for, as a percentage of his respective fixed compensation: 30.00%.

For the financial year 2017, Habib Ramdani should be paid the following variable compensation: €7,613, accounting for 3.75% of his fixed compensation.
The payment of the variable compensation is subject to the approval by the next ordinary shareholders' meeting of the compensation elements in compliance with the provisions of Article L225-100 of the French commercial code.

Supplementary pension plan
Habib Ramdani will continue to benefit, under the same conditions as those prevailing in previous years, from the supplementary defined benefit pension plan (Article 39) of the executive board members, whose contributions will continue to be paid by the company.
However, in order to meet the new requirements of the Macron Law of August 6, 2015, the amount of the annual contribution the company must pay due to the rights acquired by the new chairman of the executive board for a given financial year will be subject to compliance with the following provisions:

- contribution capped at 3% of the amount of his fixed and variable gross compensation due for said financial year;
- payment of the contribution subject to compliance with the following condition: operating profit from ordinary activities/revenue excluding taxes greater than or equal to 7% in the year in question;
- the determination of the achievement of this objective and the impact on the contribution under this supplementary insurance scheme of the members of the executive board will be carried out by the supervisory board, and it will be submitted to shareholders for approval at the shareholders' meeting called to approve the financial statements for the financial year in question.

Gross compensation Jean-Pierre Dick

in €	Financial year 2017		Financial year 2016	
	Value due in respect of the period	Value paid out during the period	Value due in respect of the period	Value paid out during the period
Fixed compensation	41,000	41,000	41,000	41,000
Variable compensation	-	13,773	13,773	-
Extraordinary compensation	-	-	-	-
Directors' fees	-	-	-	-
Benefits in kind	840	840	781	781
Total	**41,840**	**55,613**	**55,554**	**41,781**

Calculation criteria for the variable portion
For the financial year 2017, the allocation criteria for the variable portion of the compensation of Jean-Pierre Dick board were fixed as follows:
- growth of the Group's revenue, representing 15% of the potential variable portion;
- growth in the Group's operating profit from ordinary activities before depreciation and research & development costs as well as regulatory and licensing costs, representing 15%;
- the brand's reputation rate representing 35%;
- complying with the customer relations program, representing 35%.

In respect of the financial year 2017, the maximum potential variable portion of Jean-Pierre Dick's compensation accounted for, as a percentage of his respective fixed compensation: 42.68%.

For the financial year 2017, Jean-Pierre Dick shall not be paid any variable compensation:

Supplementary pension plan
Jean-Pierre Dick will continue to benefit, under the same conditions as those prevailing in previous years, from the supplementary defined benefit pension plan (Article 39) of the executive board members, whose contributions will continue to be paid by the company.
However, in order to meet the new requirements of the Macron Law of August 6, 2015, the amount of the annual contribution the company must pay due to the rights acquired by the new chairman of the executive board for a given financial year will be subject to compliance with the following provisions:
- contribution capped at 3% of the amount of his fixed and variable gross compensation due for said financial year;
- payment of the contribution subject to compliance with the following condition: operating profit from ordinary activities/revenue excluding taxes greater than or equal to 7% in the year in question;
- the determination of the achievement of this objective and the impact on the contribution under this supplementary insurance scheme of the members of the executive board will be carried out by the supervisory board, and it will be submitted to shareholders for approval at the shareholders' meeting called to approve the financial statements for the financial year in question.

Gross compensation Michel Garaudet

	Financial year 2017		Financial year 2016	
in €	Value due in respect of the period	Value paid out during the period	Value due in respect of the period	Value paid out during the period
Fixed compensation	-	-	65,016	65,016
Variable compensation	-	-	-	50,000
Extraordinary compensation	-	-	-	-
Directors' fees	-	-	14,952	14,952
Benefits in kind	-	-	833	833
Total	**-**	**-**	**80,801**	**130,801**

[1] Until April 30, 2016, the date he retired.

Michel Garaudet also collected in 2016 a retirement benefit that amounted to €60,125.

Shares subscription or purchase options

The company has no shares subscription or purchase options plan.

Performance-related stock grants

Allocated performance-related stock grants
Due to the non-achievement of objectives, the 2012 performance-related stock grants plan, which initially matured in 2014, and for which the supervisory board had decided to extend the deadline to December 31, 2016, was not allocated.
During 2017, with the executive board having estimated that the December 31, 2018 objectives relating to the 2016 performance-related stock grants plan would not be attainable, it leveraged certain regulatory provisions so as to extend by one year the duration of the plan, consequently postponing the performance indicator to be attained on December 31, 2019. With this new outlook, and keeping in mind the financial forecasts, the Group estimates the actual expense to be 50% of the original amount.

It should be noted that:

- throughout the financial years 2013, 2014 and 2015, no performance-related stock grants were allocated;
- throughout the financial years 2014, 2015, 2016 and 2017, no performance-related stock grants were allocated under the 2011 and 2012 plans

Performance-related stock grants plan awarded to executive board members

The table below, based on a five-year history (2013 to 2017), presents the only plan in effect as of December 31, 2017: 2016 plan granted as of September 15, 2016.

	Number of stock options granted	Value of stock grants[1]	Acquisition date	Availability date[2]
Sébastien Huron	1,000	€185,050	2019	2021
Christian Karst	1,000	€185,050	2019	2021
Habib Ramdani	400	€74,020	2019	2021
Total	**2,400**	**€444,120**		

[1] Based on the method used for the consolidated accounts
[2] Except for a portion, refer to the paragraph "performance-related stock grants awarded."

The June 24, 2016 shareholders' meeting adopted a resolution to extend for a new thirty-eight month period the possibility of allocating company performance-related stock grants, in compliance with the provisions of article L225-197-1 *et seq.*, of the French commercial code.
This resolution allows for performance-related stock grants to be awarded to managers or comparable employees, or certain categories thereof, as well as to the corporate officers referred to in article L225-197-1 of the French Commercial Code, both for Virbac and the companies that are either directly or indirectly associated with it according to Article L225-197-2 of the French Commercial Code.
The total number of performance-related stock grants awarded may not represent over 1.0% of Virbac's capital. It is also pointed out that the number of performance-related stock grants awarded to the members of the executive board, during the term of the authorization, may not exceed 0.5% of the capital as of the day of the award. The allocation is made with no dilution, the company purchasing the number of required shares on the market.
Similar to the prior authorization, the bonus performance-related stock grants will only be definitive at the end of a vesting period of at least two years, with the shares thus held also having to be retained for at least two years from the end of the vesting period. The executive board will determine the identity of the beneficiaries as well as the terms and grant criteria for the shares that will be linked to the improvement in the Group's performance levels.

The executive board members have undertaken not to resort to hedging transactions for their risk of performance-related stock grants, until the end of the share lock-in period set by the supervisory board.

The chairman and executive board members have also agreed to retain 35% of the performance-related stock grants for the chairman of the executive board and 25% of the performance-related stock grants awarded for the other executive board members, as long as they are carrying out activity within the Group. This restriction will nonetheless be lifted where the corporate officers have established a Virbac share portfolio representing two years' target annual compensation (target gross salary and bonus), except for the chairman for whom this amount is set at three years' target annual compensation.

It will be proposed to the next shareholders' meeting of June 20, 2018 to adopt a resolution to renew the authorization for a further period of three years, under the same conditions. For more details, see pages 224 to 241.

Multi-year variable compensation

Members of the executive board receive no multi-annual variable compensation.

Corporate managing officers	Employment contract	Supplementary pension plan if conditions fulfilled	Compensation or other benefits due or likely to be due following the term or due to change in function	Compensation due to a non-competition clause
Éric Marée				
Position : chairman of the executive board[1] Term start date : December 2014 Term end date : December 2017	No	Yes	Yes[3]	Yes[3]
Sébastien Huron				
Position : chairman of the executive board[2] Term start date : December 2014 Term end date : December 2020	No	Yes	Yes	Yes
Christian Karst				
Position : member of the executive board and general manager Term start date : December 2014 Term end date : December 2020	Yes	Yes	Yes	No
Habib Ramdani				
Position : member of the executive board Term start date : June 2016 Term end date : December 2020	Yes	Yes	No	No
Jean-Pierre Dick				
Position : member of the executive board Term start date : December 2014 Term end date : December 2020	Suspended	Yes	No	No

[1] Éric Marée's term of office as executive board chairman ended on December 20, 2017.
[2] Sébastien Huron's term of office as executive board chairman started on December 20, 2017.
[3] Clauses that were not activated at Éric Marée's departure.

TRADING IN COMPANY SHARES

Pursuant to the provisions of Articles L621-18-2 of the French monetary and financial code and 223-26 of the general regulations of the *AMF*, we hereby present a summary of the transactions carried out during the past financial year by managers and related parties in respect of which the Group was notified.

By managers and related parties

No movements were declared in 2017.

By members of the supervisory board and related parties

No movements were declared in 2017.

SHARE CAPITAL STRUCTURE

As of December 31, 2017

	Shares	Voting rights	Capital	Voting rights
Dick family group	4,200,966	8,401,127	49.67%	65.81%
Company savings plan	68,337	136,674	0.81%	1.07%
Public	4,151,436	4,227,241	49.08%	33.12%
Treasury shares	37,261	-	0.44%	-
Total	**8,458,000**	**12,765,042**	**100.00%**	**100.00%**

As of December 31, 2016

	Shares	Voting rights	Capital	Voting rights
Dick family group	4,200,966	8,401,127	49.67%	65.75%
Company savings plan	73,333	146,666	0.87%	1.15%
Public	4,154,733	4,229,275	49.12%	33.10%
Treasury shares	28,968	-	0.34%	-
Total	**8,458,000**	**12,777,068**	**100.00%**	**100.00%**

Delegation granted by the shareholders' meeting concerning capital increases

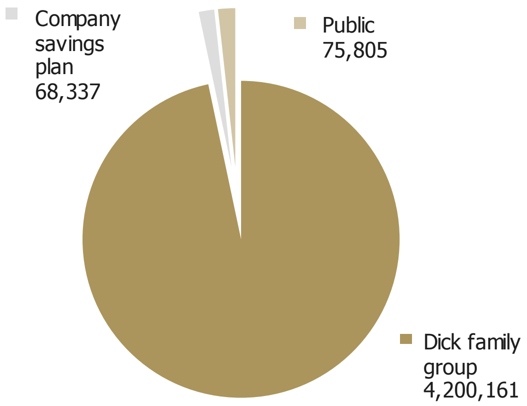
There is no delegation of authority granted by the shareholders' meeting in the area of capital increases; the company did not experience any capital increase.

Information likely to have an impact in the event of a public offering

Pursuant to Article L225-100-3 of the French commercial code, it should be noted that certain shares have special control rights.

Treasury shares (37,261) carry no voting rights.

A double voting right is granted to all shareholders holding their registered shares for at least two years. The following shares carry double voting rights:



Thresholds crossed

As of November 15, 2017, the Ameriprise Financial Group had 125,426 shares, or 1.483% of the total number of shares and 0.980% of voting rights.

STOCK MARKET DATA

in €	2013	2014	2015	2016	2017
Highest share price	189.80	184.10	257.95	223.80	177.30
Lowest share price	136.20	139.90	153.60	127.00	102.10
Average share price	156.97	166.44	205.43	162.29	141.43
Closing share price	155.30	174.30	219.80	167.20	123.50

Shareholder structure and stock market performance

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

This information is relayed by means of financial announcements published in the French media, press releases published on financial websites and the AMF website, and publication of Group quarterly revenue figures and half year financial results as required by law.

Employee holdings in share capital

Pursuant to Article L225-102 of the French Commercial Code, the employees of the company and companies associated with them owned 68,337 Virbac shares, representing a share capital of 0.81%, which were held through an employee savings plan and registered performance-related stock grants as of December 31, 2017.

Relations with individual investors

The virbac.com website has a financial information section that is regularly updated.

It allows Group financial information to be obtained and downloaded: press releases, annual and half year financial statements and annual reports. Internet users may also email questions pertaining to Group financial matters to finances@virbac.com.
Since 2007, in accordance with the obligations of the transparency directive and the general regulation of the AMF, the Investors tab contains of all the information required by the directive.

Relations with institutional investors

Leaders are heavily involved in communicating with the investors and analysts they meet over the course of the year, primarily in the Paris and London markets.
Analyst meetings and conference calls are arranged to coincide with the publication of results, acquisitions or other major events for the Group.
The Financial Affairs department is available to answer any questions investors and analysts may have regarding the Group's strategy, products, published results or major events.

OBSERVATIONS OF THE SUPERVISORY BOARD

The executive board presented the financial statements and management report for the financial year ending December 31, 2017 to the supervisory board which duly acquainted itself therewith.

The Group's consolidated revenue of €861.9 million decreased by 1.1% compared to 2016, 0.5% at equivalent rates and scope.

The adjusted operating profit from ordinary activities (restated to reflect the impact of the depreciation of intangible assets resulting from acquisition transactions) decreased by 3.0% compared to the previous fiscal year, dropping from €82.9 million at the end of 2016 to €80.3 million as of December 31, 2017. The negative contribution of the United States to the Group's operating profit as well as the increase in research and development costs for the year explain the majority of this change.

The Group's net result was a loss of €2.6 million in 2017, compared to a profit of €34.6 million in the previous year, a decrease at real rates of €37.2 million, mainly related to the impairment of the deferred tax asset regarding the US reportable tax losses from fiscal years 2015 to 2017 (€21.4 million). This impairment is explained, in application of the IAS12 standard, in particular by the existence of a history of recent and unused fiscal losses. The decrease in net profit is also explained to a lesser extent by the impairment of the assets associated with the leishmaniosis vaccine, for an amount of €5 million, following the arrival of a new player.

The Group's net debt as of December 31, 2017 decreased to €460.0 million, i.e. 105.4% of the equity attributable to the parent company's owners.

The share price, closing at €123.50 at the end of 2017, went down 26.1% compared with January 1, 2017.

At the shareholders’ meeting a proposal will be made not to distribute a dividend for the financial year 2017. The willingness to re-balance the financial situation by reducing debt accounts for the absence of a dividend payment for 2017.

The supervisory board currently consists of six members, three of which are independent, and 50% of members are women. Solène Madelpuech, belonging to the third generation of the majority shareholder family, was co-opted in place of Jeanine Dick, the founder's widow, who resigned.
The supervisory board meeting on December 20, 2017 appointed Sébastien Huron, 47, as chairman of the executive board, replacing Éric Marée who claimed his retirement rights. The supervisory board would like to warmly thank Éric Marée for his role as chairman of the executive board for 18 years and his contribution to the development, growth and reputation of the Virbac group despite the difficulties encountered during his last term of office. During these 18 years, he profoundly transformed the company which went on to become a French, European and global player, capable of "shaping the future of animal health and welfare." Through his training as a veterinarian, his excellent knowledge of the challenges of the global animal health market, his energy, his leadership qualities and his perfect operational knowledge of Virbac for eleven years, including four at the executive board, Sébastien Huron has all the assets needed to meet future challenges, namely to return as quickly as possible to former levels of profitability and to continue the development of the Group for the long term. Additionally, the supervisory board renewed, for a period of three years, the other members of the executive board, namely Christian Karst, Habib Ramdani and Jean-Pierre Dick.

The supervisory board would like to thank the members of the executive board, the management teams and all Virbac's employees throughout the world for the work they have accomplished in a difficult context, as well as the shareholders for their loyalty to the Group.