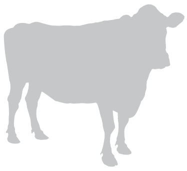
Report 

on internal control procedures

Report of the chairwoman of the supervisory board on the conditions for preparing and organising the work of the supervisory board and on 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 Virbac's executive board.
A draft report was subsequently submitted to the audit committee and its recommendations were taken into account.

In line with the provisions set forth by the act of 3 July 2008, this report was submitted to the supervisory board at its 12 March 2010 meeting and was unanimously approved.

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

Preparation and organisation of the work of the supervisory board

Responsibilities and membership of the supervisory board

The supervisory board is responsible for supervising the management activities of the executive board.
It exercises its supervisory powers by meeting every quarter especially in order to review, in particular, the company's and the Group's performance indicators and the annual and interim financial statements presented to it by the executive board.
It carries out its responsibilities by, where necessary, obtaining information from the statutory auditors. It also reviews in more detail any proposed acquisitions on the basis of analyses drawn up by the executive board.

The supervisory board has six members, three of whom are independent. The criterion used to define independence is wholly in line with Afep-Medef recommendations.
Supervisory board members are appointed by the share-holders' meeting for six year terms. The supervisory board is made up of two women and four men. The chair is a woman.

The offices held by supervisory board members are listed on page 57.

Meetings of the supervisory board

In line with article 15 of the articles of association, board members 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 board members relating to items on the agenda are sent out by courier, as early as possible, prior to the meeting.

Supervisory board meetings are generally held at the head office. The 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. Over the past year, the supervisory board met five times.

All supervisory board members attended all meetings with the exception of Jeanine Dick who was at four out of five meetings and François Guinot who was at three out of five meetings. Supervisory board members also met informally several times during the year for work and discussion sessions.

At the 2009 meetings, the supervisory board notably reviewed the annual and interim financial statements, quarterly sales, the budget, the reports of the executive board on the Group's business activities, results, performance and outlook as well as developments in each of the Group's major functional areas and its strategic outlook and plans and proposed acquisitions.

At its 13 March 2009 meeting, the supervisory board approved its internal bylaws covering its membership, running, responsibilities, the board's reporting procedures as well as the membership, running and responsibilities of the special committees. The supervisory board must do an annual review and a formal assessment must be carried out every three years. The supervisory board will perform its first review in March 2010.

Following Afep-Medef recommendations

The supervisory board resolved to adopt as its reference the corporate governance code for listed companies drawn up and put together by Afep-Medef (www.medef.fr) in December 2008, with a large majority of these recommendations already being followed.

Corporate governance

In order to conform to Afep-Medef recommendations, upon expiry of the current terms of office of supervisory board members (2010), the term of office, currently set at six years, will be reduced. The articles of association will be amended accordingly.

In addition, given the special manner in which it is run, namely on one hand a limited liability company governed by both an executive board and a supervisory board (the responsibilities of directors differing from those of supervisory board members) and on the other hand given the family nature of its shareholder base, the company has elected not to implement the following Afep-Medef recommendation, which requires the company to have a selection or appointment committee: the size of the company and the stability of its management and supervisory bodies mean that there is no need to set up a selection or appointment committee. The supervisory board assumes this responsibility itself.

Compensation

In terms of compensation of members of the executive board, the company follows the vast majority of measures recommended by the Afep-Medef (see letter of 23 December 2008 to the AMF published on the company's website).

At its 22 December 2008 and 13 March 2009 meetings the supervisory board set the terms of payment for severance pay as well as a few items associated with bonus share grants and the supplementary pension scheme.

The ordinary and extraordinary shareholders' meeting of 19 June 2009 approved the performance criteria associated with severance pay. Severance pay is only paid in the event of dismissal, whether associated with a change in strategy or control or otherwise, and is subject to demanding performance criteria: ratio of operating profit to sales over the twelve months prior to the departure of the senior manager equal to or greater than 7%.

Two minor points of divergence remain:

• bonus shares: the bonus shares granted to executive board members are not subject to the purchase of a specific number of shares upon vesting of the shares granted but 35% of the shares acquired by the chairman of the executive board and 25% by other corporate officers may not be transferred whilst they work for the Group. In addition, the supervisory board felt it was more appropriate to link the performance criteria to be satisfied for the granting of bonus shares to the final year prior to the grant and not, as recommended by Afep-Medef, to performance assessed over a number of consecutive years. Moreover, the performances taken into consideration are not linked to the performance of other companies or a benchmark sector as a result of a lack of reliable comparisons, with companies having similar operations to Virbac either being unlisted or divisions of major listed pharmaceutical groups;

• pensions: the supervisory board does not wish to apply the recommendations regarding the supplementary pension scheme. Virbac's policy is to only grant supplementary pensions to executive board members for two reasons: firstly the supplementary pensions thereby granted are of a controlled size and subject to the potential beneficiaries meeting several conditions, and secondly 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 increase in potential rights, since they only represent a limited percentage of the beneficiary's compensation including the variable component.

Special committees

Compensation committee

The membership and responsibilities of the compensation committee are set out on page 13.

The compensation committee, chaired by an independent member of the supervisory board, met twice during 2009, including one meeting with the chairman of the executive board in attendance.

Its meetings mainly dealt with the compensation of the executive board (fixed and variable components) and the granting of bonus shares to executive board members and to certain managerial personnel within the company.

Audit committee

The membership and responsibilities of the audit committee are set out on page 13.

The audit committee, chaired by an independent member of the supervisory board, met twice during 2009 with the chairman of the executive board, the chief financial officer and the statutory auditors in attendance.

During 2009, it examined the 2008 financial statements and the 2009 interim financial statements. It checked the financial information and decided upon the accounting treatment for the year's major transactions. It also noted the efforts made by the executive board to ensure the establishment and effectiveness of the internal control procedures and control risk management. In the first quarter of 2010, the audit committee will meet to confirm the financial information related to the 2009 annual financial statements.

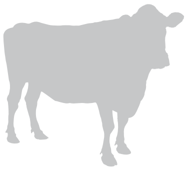
Executive board membership

The executive board has five members. At its meeting of 22 December 2008, the supervisory board reappointed all executive board members:

- **Éric Marée** became chairman of the executive board in December 1999. He directly supervises human resources, communications and IS;
- **Pierre Pagès** supervises international operations, manufacturing and quality assurance;
- **Christian Karst** supervises research and development, R&D quality assurance, marketing and strategic monitoring, licensing and acquisitions;
- **Michel Garaudet** supervises financial and legal activities;
- **Jean-Pierre Dick** is responsible for special projects.

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

In line with act 2006-1770 of 30 December 2006 on the development of profit sharing and employee shareholding, the policies and rules for determining compensation and benefits of all kinds granted to executive board members are set out on page 60.



Special procedures regarding shareholder participation at the 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 returning officers are filled by the two members of the meeting with the highest number of votes and accepting this position.
The meeting's board appoints the secretary, who need not be a shareholder.

The main powers of the ordinary shareholders' meeting consist of the right to approve or reject the statutory financial statements and the consolidated financial statements, to allocate earnings, pay out a dividend, appoint or dismiss supervisory board members and appoint the statutory auditors.
Decisions of the ordinary shareholders' meeting are taken by a majority of the votes of shareholders present or represented.

The extraordinary shareholders' meeting may take decisions such as amending the articles of association, authorising financial transactions that may change the share capital, approving or rejecting mergers or spin-offs, and granting or refusing stock options or bonus shares.
Decisions of the extraordinary shareholders' meeting are taken by two thirds of the votes of shareholders present or represented.

Every shareholder, regardless of the number of shares s/he holds, is entitled to attend the meeting or to be represented by his/her spouse or by another shareholder, or alternatively to vote by post.
Legal entity shareholders participate at meetings through their legal representatives or via 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 post 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 its behalf, on the third 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 authorised banking or financial intermediary, acting as security custodian.
The registration of shares in the bearer share accounts held by the authorised intermediary must be confirmed by a certificate issued by the latter, adjoining 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 at 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 s/he holds or represents 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.

Internal control system

Internal control definition and goals

The Virbac group views internal control as a set of processes established by senior executives, implemented by Group management and employees, designed to provide reasonable assurance as to the achievement of goals relating to the reliability of financial information, the performance and optimisation of operations, compliance with applicable laws and regulations and asset protection.

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

The internal control system in place within the Group is thus designed to:
• ensure that operations and employee conduct are in line with the guidelines laid down for the Group's 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 company's business and financial position.

Organisation of internal control

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

The Group is organised into four decentralised international areas, each of which is headed by managers familiar with and able to apply the Group's best operational practices, and regional financial controllers responsible for, amongst other things, ensuring that the Group's internal control rules are properly applied. Each area is responsible for its operational activities following discussion and approval of strategic decisions by the executive board: this is where the Group's strategy and development goals are drawn up, subsequently broken down and applied locally.

The coordination of local actions is also carried out by specific departments and central departments reporting to executive board members.

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

Parties involved

The organisation of the supervisory board, its membership and that of the special committees together with their responsibilities help the Group to operate in an efficient and transparent manner.

Role and running of the executive board

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

Éric Marée, chairman of the executive board, is responsible for supervising and coordinating the activities of all executive board members. He performs all the legal functions of a company head and takes responsibility for that.

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 corporate departments:
• Group Human Resources department;
• Group Information Systems department;
• Group Communications department, including financial communications in collaboration with Michel Garaudet.

Pierre Pagès, chief operating officer, supports the chairman with his work and stands in for him upon request, exercising the same powers pursuant to the law. He holds the position of qualified person of Virbac in line with articles L5142-1 *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 thirty countries spread across four areas: Europe, North America, Latin America, Apisa;
• Group Industrial Operations department, responsible, in particular, for drawing up and carrying out the Group's industrial strategy, coordinating the seven manufacturing 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:
• Corporate Products Innovation department, responsible for laying out the Group's R&D strategy, carrying out projects and coordinating research centres spread across the various geographic regions, as well as for marketing and strategic monitoring;
• R&D Quality Assurance department;
• Business Development department, which is responsible for licensing (an activity that mainly consists of acquiring or disposing of rights to active ingredients of finished products or products in development in line with Group strategy) and acquisitions.

Michel Garaudet supervises the following departments:
• Financial Affairs department, which is responsible for the Group's financial policy, treasury management, preparing consolidated financial and accounting information, processes relating to budgetary and financial planning and financial control;
• Legal department, responsible for company law, insurance policies, negotiations, and drafting and managing contracts and lawsuits.

Jean-Pierre Dick has taken responsibility for:
• the presidency of the Fondation d'Entreprise Virbac, a corporate foundation;
• communications and raising Virbac's profile through sponsorship.

Specialised committees assisting the executive board

■ Strategic committee

The strategic committee is chaired by the chairman of the executive board and comprises the following departments, represented as follows:
• executive board members;
• area directors: Europe, North America, Latin America, Apisa;
• Group Human Resources department;
• Group Industrial Operations department;
• Corporate Products Innovation department.

The strategic committee gives its view on the Group's major strategic decisions: strategy by business, function and major project.

■ Executive committee France

The executive committee France is chaired by the chairman of the executive board and comprises the following departments, represented as follows:
• executive board members;
• Group Human Resources department;
• French Industrial Operations department;
• Corporate Products Innovation department;
• Group Communications department;
• Group Information Systems department;
• Europe department;
• Legal department.

The executive committee France is primarily responsible for decision-making, coordination and reporting on all issues affecting the set of French companies and represents a platform from which information can be disseminated to the various departments.

Other parties contributing to good risk management

Building on the corporate culture, the executive board has implemented systems to anticipate and control risks within operating entities as well as action plans to limit the impact thereof.
In 2007, the Group launched two parallel actions designed to improve risk management. The first action, which is preventive in nature, consists of listing and assessing risks across all Group activities and areas. This risk mapping was presented to the audit committee in 2008 and resulted in the drawing up of action plans for each major risk. The second action is designed to update risk management with regard to communications and has resulted in the crisis plan being reviewed and in key players being trained and made aware.
The internal control system is also coordinated by the functional areas specifically and directly involved in these risk detection and management processes with the ongoing aim of being proactive and preventive. The main areas affected are described below.

■ Finance

The Financial Affairs department was reorganised in December 2009 and is now structured around three departments:
• a Financial and Group Accounts Control department which supervises all the functions related to preparing and analysing financial information and to management procedures and internal control: Group financial control, consolidated accounting and accounting for French companies.
This set is made up of:
- the Accounting departments which regularly update the instructions issued to the subsidiaries concerning the reporting of accounting and financial information. These instructions are expanded upon and updated regularly in accordance with developments in IFRS standards (International financial reporting standards) adopted by the European Union and with the interpretation of these standards in Virbac's consolidated accounts.

The need for absolute transparency in all transactions in order to provide the best possible reporting in the financial statements and improved anticipation of potential risks was reaffirmed.

- Group Financial Control organised around two themes. One is centred on business (financial and budgetary, sales and marketing, R&D and manufacturing) reporting hierarchically to the Financial Control and Group Accounting department, itself part of the Financial Affairs department. The other is geographic with the presence of a financial controller functionally reporting to the Financial Affairs department in each area.
This organisation allows financial control to be positioned as a key partner for Group managers in strategic and operational decision-making in order to ensure the control of operations and to be a key player in internal control, to measure and analyse business performance, to anticipate short-term events and to act as a conduit and provide warnings with regard to identified risks (operational, financial, etc.).
The budgetary and reporting tools in addition to performance analyses and indicators developed by the Group help overall coordination.
The organisation of the Financial Control and Group Accounting department is in line with a policy of optimisation of our processes for preparing our financial information and for decision analysis, and ensures close synergy between the expertise of the accounting and financial control teams.

• a Treasury and Financing department which takes part in the prevention system through the policy developed of reviewing and optimising the management of interest rate and exchange rate risks. With regard to exposure to exchange rate risks in particular, the guidelines of the Financial Affairs department forbid speculation and only allow the hedging of positions that, whether current or future, are certain.
Since December 2009, this department has also ensured the negotiation and implementation of financing from the parent company, as well as the coordination of financing policy of the subsidiaries.

• a Risk Management department set up in December 2009 to meet the growing complexity of the environment, the multitude of constraints that Virbac must confront and to also account for the ever increasing overall presence of the Group.
The responsibilities of this department are:
- to define and keep updated a mapping of risks that are either existing or potential, in whichever country or for whichever function, to assess their impact and to implement a relevant reporting system;
- to run the risk management process by seeing through appropriate audits successfully, coordinating *ad hoc* working groups and by defining and implementing Virbac "best practices";
- to compare Virbac regularly with the best companies in terms of risk management (benchmarking).

■ Communication

A mechanism for anticipating communication-related risks to handle any crisis situation that could affect the Group's image and undermine its financial standing has been in place for a number of years.
It was reviewed and updated in 2007 with, in particular, sessions covering the awareness and training of the main players within the company.
Against a background of acceleration in the opening up of sources and the worldwide circulation of information, it proved possible again in 2009 to demonstrate the effectiveness of the mechanism based on:
• the sharing of information reporting and risk assessment tools;
• the rapid mobilisation of active resources in the field;
• the application of a methodology drawn up together with professionals and documented via procedures;
• and, beyond corrective measures, the anticipation and implementation of preventive measures.

Insurance

The Group's insurance policy is underpinned by a risk prevention and protection approach. The damage and business interruption insurance programme, as well as the general public liability and product liability insurance programme, cover the whole Group. The Group is also insured against environmental risks and liability linked to employment relationships. The directors' and officers' liability insurance programme protects all the Group's directors and officers.

For all its insurance programmes the Group has recourse to leading insurers and re-insurers. The coverage levels were set on the basis of the Group's risk profile. This centralisation of risks provides a better level of protection for all Group entities despite unequal local resources, whilst making savings.

Property damage is insured based on a new replacement value and business interruption based on the loss of margin for one year.

The following risks are primarily insured:
• property damage and business interruption;
• general public, product and environmental liability;
• transportation of goods or equipment;
• loss or damage caused to customers and third parties;
• motor damage.

In 2009, the Group paid around €1.3 million in insurance premiums for this umbrella coverage.

■ **Health-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 corporate 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, the protection of property and compliance with legal obligations.

The main actions taken in 2009 were in the following areas:

- training of manufacturing supervisory staff with regard to their roles and responsibilities in terms of health and safety at work;
- continued investment in automatic fire extinguisher systems (multi-annual programme);
- creation of a position dedicated specifically to the study of chemical risk: reviews, employee training;
- employee training in the identification, protection and labelling of risks at workstations.

Frameworks

The effectiveness of the internal control system within the Group largely depends on the various policies and operating rules that have been 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 form of guidelines, procedures and best practices in line with Group values.

The Group has, moreover, taken into account the main aspects of the framework published in January 2007 by the AMF on the general principles of internal control.

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, and 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 and all its subsidiaries regarding trading in listed shares in the company and, as the case may be, its subsidiaries. It is designed both to serve as a reminder of the key principles of 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.

Delegations of powers
The Group's organisational choices are based on empowerment and operational efficiency, while having regard to economic, labour and regulatory environments affecting the business.
The Legal department is responsible for the regular monitoring and updating of authorisations and signing authority within the Group and its areas.
Similarly, authority relating to health, safety and the environment has been formalised and is regularly updated in order to improve employee safety on site and prevent Group environmental accidents.

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, implemented within its structures 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 control points with regard to the material nature and likelihood of inherent risks.
These practices, published and distributed within all Group subsidiaries are expanded upon and applied to all corporate processes as they are drawn up.

Processes involved in 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 proper assessment of the financial position and effective management of the Group's business activities. 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 on the basis of 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 setting up a certain number of policies and systems to ensure the completeness and quality of the information, including the selection of an integrated international auditor network for most of its subsidiaries.
This setup 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 high-level overview.

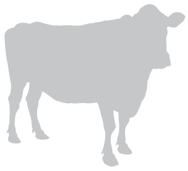
Management of risks relating to accounting and financial information
A system was put in place connecting the financial departments of subsidiaries and the Financial Affairs department. It is designed to identify the risks relating to the quality of the accounting and financial information. This department pays particular attention to the prevention of such risks and their control.

The procedures and best practices published by the Financial Affairs department make it possible to reduce the risk of error or fraud. They supplement the ordinary control and verification procedures. Occasional audits may be carried out independently of the traditional processes, in the event of an imminent or proven risk.

The interim and annual financial statements are subject, prior to their presentation to the audit committee, executive board and supervisory board, to a second control level and an inspection by the Financial Affairs department. When preparing these financial statements, the instructions given and the controls carried out are designed to guarantee a standard and standardised process for formalising statements and complementary analyses.

■ Monitoring of off-balance sheet commitments
Off-balance sheet commitments come primarily from guarantees given by the company. The provision of securities, deposits and guarantees are subject to the following controls:
• in the case of the parent company, special authorisations from the supervisory board whenever such guarantees exceed the permanent authorisation given to the executive board;
• in the case of the subsidiaries, material off-balance sheet commitments must be approved in advance by the parent company.

■ Accounting and consolidation
The production of information is achieved via the consolidation process supervised by a dedicated unit within the Financial Affairs department and underpinned by accounting principles applicable to all subsidiaries and ensuring methodological consistency.



A single chart of accounts on 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 in compliance with local regulations. Upon transition to IFRS, these procedures were reviewed, requiring a high level of transparency for operational managers to better assess the accounting and financial treatment of transactions.

■ Financial control

The Financial Control department is primarily responsible for measuring corporate performance, but must also offer real support to the businesses and regions by providing them with the appropriate analytical tools and methods. In this regard, it is a veritable conduit between the Group's operational and financial departments.

The Financial Control department also coordinates the consolidation and monthly budget tracking process on the basis of information provided by the various Group departments and subsidiaries. It assesses the quality of the information received from accounting reconciliations and checks the consistency of the data.

For the preparation of 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 policies and definitions of the financial statement line items and is designed to ensure that the same rules are applied across all Group subsidiaries.

A commitment monitoring tool allowing full automation of the process was installed in early 2008. The installation of this new tool has also made it possible to redefine the expense commitment process and the level of operational control of the various departments.

■ Treasury management

All treasury operational guidelines and procedures were reviewed and their conversion into best practices applicable across the Group completed and sent out to all Group subsidiaries. A process for establishing an annual treasury plan was also implemented across the Group, making it possible to control and consolidate the forecasting of cash movements of subsidiaries, a sign of the accuracy of sales and expenditure forecasts and the customer collection policy.

A policy of pooling excess cash and financing requirements in the eurozone means that the Group's net positions can be reduced and the management of its deposits or financings optimised. Outside Europe, a policy of cash pooling was also implemented during 2008 in order to limit counterparty risks.

The Group makes a portion of its purchases in foreign currencies, in particular in dollars. Where possible, foreign subsidiaries are invoiced in their currencies in order to centralise exchange rate risk at the parent company. The Group's policy is to reduce its exposure to fluctuations and not to be engaged in speculation. It accordingly uses various instruments available on the market and generally employs foreign exchange forwards or options.

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

In early 2009 the Group Information Systems (DSI) teams were reorganised at head office by incorporating international skills centres apportioned by region.

These local teams allow us to deploy our Group information solutions but also to be a benchmark and leader for certain Group projects. The DSI is continuing the project developments and solution deployments planned in the strategy drawn up at the end of 2003.

To this end ERP Movex has been implemented in Group subsidiaries and in particular in 2009 a new version incorporating lean manufacturing and Group cost prices was developed and implemented (Mexico and Italy).

In addition the CRM (Customer relationship management) project that began in 2007 was completed in the French and English subsidiaries. A new version was developed and will be deployed from early 2010 in five countries.

The Group electronic document management solution has been deployed in North America.
Numerous subsidiaries have been fitted with videoconferencing systems in order to facilitate exchanges and to reduce time and costs spent on business trips.
The infrastructure has developed with greater server virtualisation and mutualisation and increased security and reliability.

Purchasing

Following on from the initiative undertaken by Virbac several years back, the process covers more and more activities and types of goods and services purchased.
The organisation put in place in 2008 relies on three specialist departments:
- a BOM (Bill of material) purchasing department;
- an NIP (Non inventory products) purchasing department;
- a TP (Third party) purchasing department.

This organisation, which is responsible for optimising costs, securing supply lines and monitoring purchases, has expanded to an international level in order to ensure better coordination of Group purchasing policy.
Head office and the industrial subsidiaries rely on shared reporting as well as 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, stock shortage, etc.).
A purchasing committee meets quarterly with three members of the executive board present allowing results achieved and major trends to be discussed. In 2009, the main results achieved were as follows:
- around 50% of the amount of purchases was covered by an invitation to tender, a consultation or a negotiation;
- all purchasers from the industrial subsidiaries contributed to purchasing cost improvements;
- the streamlining of numerous operating processes.

Human resource management

The Virbac group's human resources strategy is defined by clear ambitious objectives:
- remaining in touch with and sensitive to the needs of operational teams, employees and managers, in order to provide them with the best possible support with their daily challenges;
- increasing efficiency, motivation and development of both employees and teams with a personalised approach for each department taking individual ambitions into account;
- training managers and making them drivers of change, and particularly making them "champions" of development for their team members;
- encouraging geographic and functional mobility in order to strengthen Group cohesion and people development, as well as Group culture and values worldwide;
- developing a style that encourages dialogue, initiative and empowerment in order to promote innovation and efficiency.

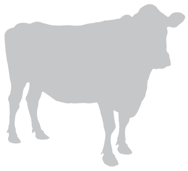
Legal

The Legal department assists the Group's operational departments and Group's entities with the negotiation, implementation and the management of contractual commitments. It provides them with all necessary advice and recommendations with regard to the main aspects of business law. It takes an active role in mergers and acquisitions. It is directly responsible for the analysis and the strategy to be adopted in lawsuits.

All contracts falling outside Virbac's normal operations are reviewed and signed by a member of the executive board. In the other Group entities, contracts are signed by the area director or by delegation by a subsidiary manager.

The Legal department is directly responsible for company law issues at all French companies; it supervises the proper legal observance of foreign entities.

It manages the worldwide portfolio of trademarks and domain names and assists operational departments with the selection and registration of trademarks for new projects.



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 communicated (annual management meeting in France, meetings held by area directors, etc.).

Regarding domain specific strategies (R&D, manufacturing), segment strategies (biology, dermatology, etc.) and regional strategies, they are reviewed and refocused by the strategic committee. The decentralised annual three-year planning process, framed by goals laid down by the executive board, involves all regions and major subsidiaries.

Licensing activities, carried on in line with the strategy laid down by the Group and largely consisting of the acquisition or disposal of rights to active ingredients and products (finished or in development), are extensive. A database accessible to all areas provides for a dynamic exchange of information and improved responsiveness on ongoing projects. A large team is put in place to coordinate and carry out projects.

The rules governing reporting and action have been clarified and formalised as a set of best practices; the systematic approval of the executive board making it possible to monitor this activity and, for larger projects, formal approval by the supervisory board is required.

The Group also has an active acquisition policy and planned acquisitions are systematically managed by an *ad hoc* unit consisting of at least one member of the executive board plus the Financial Affairs department and the Legal department. The approval loop for planned acquisitions is the same as for licensing activities.

■ Research and development

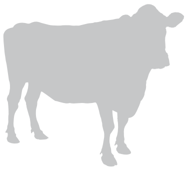
Virbac's research and development activities are partly decentralised across the Group's operating areas. The goal is to develop product innovation and to ensure the development of projects that meet specific needs in terms of breeding and pathologies against a background of local regulatory constraints.
The Corporate Products Innovation department encourages discussion and synergies between the regional R&D centres. The work done on the basis of specific methodology provides traceable study data thanks to exhaustive documentation submitted to quality audits.
All Group R&D projects are monitored by dedicated tools making it possible to assess their progress as well as technical and commercial prospects. These tools make it possible to monitor project strategy as well as to ensure responsive decision-making in the event of major changes in parameters.

These development and registration activities are carried out under appropriate regulatory frameworks: Best laboratory practices (BLP), Best clinical practices (BCP), Best manufacturing practices (BMP) in line with the required national standards.

■ Manufacturing

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

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



Manufacturing operations are also aided by an ERP system chosen by the Group and progressively rolled out in Group subsidiaries with a standard and homogeneous *modus operandi*.

The Group Industrial Operations department also undertook a project to streamline and optimise manufacturing processes in order to further standardise preventive maintenance on manufacturing machinery and improve productivity through shorter switchover times.

■ Sales and marketing

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

Sales and marketing initiatives are based on the Group's strategic goals set at area level and subsequently at subsidiary level, the latter enjoying 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 management, the areas and the subsidiaries. This monitoring is strengthened by the presence of a financial controller dedicated to each area: s/he reports hierarchically to the area director and functionally to the chief financial officer.

In Europe, sales and marketing efficiency has increased thanks to the gradual introduction of CRM tools that enable a real competitive advantage to be developed through enhanced customer knowledge and hence appropriate solutions more in line with their requirements.
Sales and marketing dynamics have also been strengthened with the optimisation of internal marketing procedures designed to shorten time to market.
All these measures make it possible to improve the areas' sales and marketing performance.

Items likely to have an impact in the event of a public offer

Pursuant to article L225-100-3 of the French commercial code, the items likely to have an impact in the event of a public offer are set out in the management report on page 66.

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 have helped significantly and new avenues for improvement are identified and followed each year. Setting up the Risk Management department in December 2009 reinforces this system and should allow overall coordination to be improved.

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

These progressive changes, in line with the changes to the regulatory framework, are driven by Virbac's executive board with an eye to retaining flexibility, proactivity, responsiveness and a sense of responsibility deemed key to the strength and success of the Group.

Auditor's report on the Virbac supervisory board chairwoman's report, prepared in accordance with article L225-235 of the French commercial code.

Financial year ended 31 December 2009

Dear shareholders,

In our capacity as auditors for Virbac and in accordance with the provisions of article L225-235 of the French commercial code, we present you with our report on the report prepared by the chairwoman of your company in accordance with provisions of article L225-68 of the French commercial code for the year ended 31 December 2009.

It is the responsibility of the chairwoman to prepare and to submit for approval from the supervisory board a report confirming the internal control and risk management procedures implemented within the company providing the other information required by article L225-68, notably concerning corporate governance matters.

It is our responsibility to:

- communicate to you our observations on the information contained in the chairwoman's report concerning the internal control procedures relating to the development and treatment of accounting and financial information, and
- testify that the report includes the other information required by article L225-68 of the French commercial code, specifying that it is not our responsibility to verify the accuracy of this additional information.

We have conducted our work in accordance with professional auditing standards applicable in France.

Information concerning internal control procedures relating to the development and treatment of accounting and financial information

Professional auditing standards require the implementation of due diligence procedures to assess the accuracy of information concerning internal control procedures relating to the development and treatment of the accounting and financial information contained in the chairwoman's report. In particular, these due diligence procedures consist of:

- having knowledge of the internal control procedures relating to the development and treatment of the accounting and financial information underlying the information presented in the chairwoman's report and existing documentation;
- having knowledge of the work involved in the preparation of this information and existing documentation;
- determining if any serious internal control deficiencies relating to the development and treatment of the accounting and financial information that we have identified within the framework of our mission is appropriately disclosed in the chairwoman's report.

On the basis of this work, we have no comment on the information concerning the company's internal control procedures relating to the development and treatment of the accounting and financial information contained in the chairwoman of the supervisory board's report, prepared in accordance with the provisions of article L225-68 of the French commercial code.

Other information

We confirm that the report from the chairwoman of the supervisory board includes the other information required by article L225-68 of the French commercial code.

Nice and Marseille, 26 March 2010
Statutory auditors

Novances–David & Associés
Jean-Pierre Giraud

Deloitte & Associés
Vincent Gros