Our business: animals. Our advantage: people.

VÉTOQUINOL

2006 Financial Report

Vétoquinol *a Sign of Passion*

2006 Financial Report

Contents

1. MANAGEMENT REPORT

1.1. Overview

"Consolidated 2006 figures align with the targets presented at the time of the IPO in November 2006.

Revenue rose 7.6% over the previous year.

Pre-tax operating income increased 10.8% to €25.6m.

And net income grew 27.2% to €15.8m and accounted for 7.5% of consolidated revenues.

Growth is controlled and well balanced.

1.1.1. CONTROLLED GROWTH

Revenues per species show higher growth in companion animals, where sales rose from €90.9m in 2005 to €100.8m in 2006, up 10.8%. Sales targeting livestock grew 4.8% from €105.7m to €110.8m.

These increases align with or surpass market trends with:

- A stronger advance than expected in companion animals business,
- Sustained growth in animal protein demand.

Advances were robust in all three of the strategic domains the group is pursuing:

- anti-infectives
- anti-inflammatories – pain management
- cardiology - nephrology

and are in line with forecast targets.

1.1.2. WELL-BALANCED GROWTH

Business by geographical market continues to be well balanced:

- Advance in Europe : 7.6%
- Advance in North America: 7.2%
- Advance in the Rest of the World: 9.4%.

In 2006, 78% of business was generated outside France.

At constant scope of consolidation all European subsidiaries showed advances. Synergies were again able to achieve growth rates of over 10% in Germany, Austria, Belgium, The Czech Republic and Poland.

In North America, revenues do not include sales by Vet Solutions, business growth is purely organic.

The advance in the "Rest of the world" stem chiefly from sales in Asia.

- **Revenue breakdown by territory (€k):**

	France	Western Europe	Eastern Europe	North America	Rest of the world	Consolidated total
2005	45,245	74,872	19,494	46,249	10,757	196,617
2006	46,461	81,082	22,700	49,579	11,770	211,591
Variation	2.7%	8.3%	16.4%	7.2%	9.4%	7.6%

1.2. Highlights from 2006

1.2.1. PLANT STREAMLINING

The production site in Switzerland was sold to a third party and most of the production done there transferred to other Group sites in France, Poland and Canada.

A new industrial unit in Lure became operational in the course of the year. It allows for:

- The concentration of all Quality functions in a single building,
- The creation of a final packaging workshop, a factor that should shorten timeframes in response to international demand,
- The set-up of an international supply chain hub.

1.2.2. ACQUISITION GROWTH

At end 2006, the Group acquired assets from Vet Solutions, a US laboratory founded in 1996, based in Fort Worth, Texas and generating revenues of USD10m (and higher profitability than at Vétoquinol).

With this operation, Vétoquinol USA shores up its sales force (14 more veterinary reps), which should boost sales tangibly and increase visibility in the American territory.

1.2.3. INITIAL PUBLIC OFFERING

Listing on the Euronext Paris Eurolist - Compartment B, took place on November 17, 2006.

The IPO terms and conditions were as follows:

- Price range between €19.40 and €22.40 per share,
- A greenshoe option,
- Operation planned to raise between €31.9m and €40.0m.

The IPO was well received on the stock market:

- It was over subscribed by a factor of seven,
- The price was set at €21.00 per share.

The 1,972,393 in total shares placed breaks down as follows:

- Disposals by existing shareholders: 1,257,481 shares
- Capital increase: 476,190 shares
- Greenshoe: 157,895 shares
- Capital increase reserved for employees (mutual fund): 80,827 shares

Note that 75% of Vétoquinol S.A. employees subscribed to the capital increase reserved for them.

1.3. Consolidated accounts

Financial statements present consolidated accounts in International Financial Reporting Standards (IFRS). Appended notes on them refer to the accounting standards used and the various information used in each to make up the main balance sheet and profit and loss statement items.

Note that Research and Development spending, which amounted to €13m in 2006, are written under operating charges. Balance sheet intangible assets only include amounts paid for operating license concessions and the commercialisation of molecules, processes or scientific information.

1.3.1. PROFIT AND LOSS ACCOUNT

The advance in revenues over the previous year is 7.6% (6% at constant exchange rates and scope).

The gross margin, which corresponds to the difference between net revenues and purchases used in the business, is up 8.5%. The virtually stable gross margin rate (65% of revenues) stems chiefly from the transfer of operations from the Swiss site to other Group production sites, which ended in September 2006. During this transfer, products continued to be made in Switzerland and were bought from the new subcontractor at a mark-up to the cost of component acquisitions alone.

The increase in external charges is due to the booking of additional Research and Development spending and service contracts related to:

- The implementation of new ERP software,
- The Supply Chain project launch,
- The acquisition in the US,

As well as higher royalty payments for patent operating license concessions.

The increase in allocations for amortizations stems primarily from the initial amortization annuity on:

- The new IT system (the Caribou project),
- Streamlining the Lure production facility.

Operating income rose 31.9% over 2005 to €24.8m.

Sector earnings for 2006

(€m) Per asset base	France	Western Europe (excl. France)	Eastern Europe	North America	Rest of the world	Total consolidated
Revenues	88,905	81,166	27,775	63,683	1,590	263 119
Inter-sector revenues	-28,779	-7,260	-4,053	-11,436	0	-51 528
Total external revenues	60,126	73,906	23,722	52,247	1,590	211,591
Pre-tax operating income	7,649	12,388	3,635	1,882	74	25,628
Other operating income and charges	-97	12	0	-881	189	-777
Operating earnings	7,551	12,400	3,635	1,002	263	24,851

Sector earnings for 2005

(€m) Per asset base	France	Western Europe (excl. France)	Eastern Europe	North America	Rest of the world	Total consolidated
Revenues	80,954	79,931	22,012	50,562	0	233,459
Inter-sector revenues	-23,641	-9,421	-2,450	-1,330	0	-36,842
Total external revenues	57,314	70,510	19,562	49,232	0	196,617
Pre-tax operating income	6,966	11,332	2,382	2,447	0	23,127
Other operating income and charges	-708	-3,119	0	-465	0	-4,292
Operating earnings	6,258	8,213	2,382	1,982	0	18,835

Net financial charges amount to €4.8m, breaking down as:

- Bank loan interest payments (€1m),
- Coupons paid on the convertible bond (€1m),
- A provision for a premium for non-conversion of the convertible bond (€1.6m),
- Net provisions for forex gains and losses (€1m),
- The remainder consists of various financial charges.

Note that provision for the premium for non-conversion of the convertible bond (booked each year) is written as a liability under financial debt. Net income, which came to €15.8m, rose 27.2%.

1.3.2. BALANCE SHEET AND FINANCING

Cash flow (ROC – Corporate tax + allocations for amortization and provisions) comes to €29.9m, up 12.4% over the prior year.

However, WCR rose by €4.1m, chiefly on the acquisition of Vet Solutions assets at end December 2006 and the incorporation of a new subsidiary in Korea into the year's accounts.

Net fixed assets increased by €15.5m due to Goodwill of €7.3m and various intangible assets on Vet Solutions.

On the liability side, the increase in equity – from €86.8m to €111.1m – stems from the exercise of warrants before the IPO, concomitant capital increases and higher net income.

Long and short-term financial debt was reduced by €8.4m.

Excluding the convertible bond issue, net financial debt is negative. The Group thus has the resources to finance further acquisitions as planned.

The net debt over equity (0.19) and net debt over cash flow (0.70) continue to improve.

1.4. Vétoquinol SA company accounts

The first application of the new accounting rules relative to assets (CRC rules n°2002-10 and 2004-06) was made during 2006.

This retrospective change in accounting methods caused fixed asset timelines to be lengthened.

Impact as calculated on net book value is €3,823,171 at January 1, 2005 and was accounted for as equity at January 1, 2006 under exceptional amortization. Later effects on the initial valuation on January 1, 2005 of the impacts of this change of method with respect to amortization schedules were recorded in the income statement for the year ended December 31, 2006.

1.4.1. ACTIVITY - RESULTS

In France, in 2006, net revenues came to €46,460,729, up 2.7% over the previous year.

Export sales rose 18.2% over the previous year to €42,444,482.

Global Vétoquinol SA revenues rose 9.8%.

The proportion of revenues made on export business grew to 47.8% of the total, breaking down as follows:

- **France: 52.2%**
- **International subsidiaries: 32.4%**
- **Exports excluding subsidiaries: 15.4%**

Though subsidiary sales rose 22%, those made by international distributors increased 11%.

Operating earnings, which total €7,761,024, are up slightly over 2005, due to the booking of:

- **Non-recurrent external charges,**
- **Additional, non-recurrent charges on the grant allocated during the capital increase reserved for shareholders at the time of the IPO,**
- **A higher allocation for amortization for the amortization of buildings and facilities relative to the Nénuphar project.**

Net income came to €14,309,827, up sharply (+92.7%) over 2005.

This advance stems from subsidiary dividend payments.

In 2006, Vétoquinol acquired:

- **Its distributor's company in Korea, its first subsidiary in Asia, in the first quarter**
- **And at end December, Vet Solutions assets through its US subsidiary.**

These two acquisitions stand as proof of the Group's determination to strengthen its hand in geographical markets it considers strategic.

1.4.2. SUBSIDIARIES AND INVESTMENTS

Data relative to companies whose accounts are written in currencies other than the euro have been converted at the closing rate for the period where balance sheet elements are concerned and at average rates over the period for the profit and loss statement.

Company	Currencies	Capital in currencies	Equity other than the capital in currencies	Capital in euros	Equity other than the capital in euros	Share of equity interest (in %)
Subsidiaries (over 50%)						
VETOQUINOL N.V. Belgium	Euros	87,000	1,915,213	87,000	1,915,213	99
VETOQUINOL B.V. Netherlands	Euros	45,378	283,033	45,378	283,033	100
VETOQUINOL U.K.	GBP	291,165	3,576,833	433,604	5,326,631	100
VETOQUINOL Spain	Euros	1,830,000	595,927	1,830,000	595,927	100
VETOQUINOL GmbH	Euros	25,565	488,383	25,565	488,383	100
FREFIN HOLDING GmbH	Euros	25,000	15,394,313	25,000	15,394,313	100
VETOQUINOL AG. Switzerland	CHF	500,000	3,269,297	311,158	2,034,537	100
VETOQUINOL BIOWET Poland	ZPN	3,500,000	37,779,093	913,600	9,861,418	100
SEMYUNG VETOQUINOL. Korea	WON	520,000,000	1,012,078,496	424,556	826,315	100
VETOQUINOL North America	CAD	26,979,872	1,764,597	17,656,984	1,154,841	100
Holdings (between 10% and 50%)						
Other holdings						

Company	Book value of gross shares held	Book value of net shares held	Loans and advances granted by the company and not yet repaid	Amount of surety and guarantees given by the company	Earnings (profit or loss) on the most recent year ended	Pre-tax revenues on last year ended	Dividends taken in by the company over the year
Subsidiaries (over 50%)							
VETOQUINOL N.V. Belgium	559,800	559,800			655,365	5,548,531	297,000
VETOQUINOL B.V. Netherlands	69,700	69,700			192,314	2,176,615	
VETOQUINOL U.K.	6,003,500	6,003,500			2,665,296	19,915,885	3,911,060
VETOQUINOL Spain	1,966,000	1,966,000			348,190	9,322,406	325,000
VETOQUINOL GmbH	1,455,726	1,455,726	150,000		1,151,878	1,269,108	
FREFIN HOLDING GmbH	9,025,000	9,025,000	439,359		1,809,468	0	
VETOQUINOL AG. Switzerland	6,732,927	3,400,000	0		1,380,648	10,414,237	6,362,547
VETOQUINOL BIOWET Poland	7,469,278	7,469,278	2,489,272	1,178,633	2,628,022	24,910,437	
SEMYUNG VETOQUINOL. Korea	1,017,827	1,017,827			86,390	1,589,930	
VETOQUINOL North America	22,521,082	22,521,082	2,445,772	3,926,460	223,614	0	
Holdings (between 10% and 50%)							
Other holdings	32,386	1,286					

1.4.3. DEBT

The company's financial debt, excluding the bond issue, was reduced by €6,139,546 to €5,738,587. Net financial debt after deducting available cash is negative.

As a result, excluding the bond issue, which, barring unexpected events is to be converted to shares, the company no longer has any debt.

1.5. Corporate governance

1.5.1. BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The Board of Directors is made up of nine members including one considered independent, Mr. Jacques-François Martin.

This member is considered independent in line with the Afep-Medef corporate governance recommendations.

Full name or title of corporate members	Length of appointment	Position in the company
Mr. Etienne Frechin	<u>1st nomination as a Director</u> Joined the company as of July 2, 1962 Nomination as CEO in 1968 Nomination as Chairman of the Board in 1980 <u>Appointment timeframe</u> At the GSM to be held in 2011 and to rule on the closure of accounts for the year ending 31 December 2010	Chairman and CEO
Mr. Jean-Charles Frechin, Mr. Etienne Frechin's brother	<u>1st nomination</u> At the GSM of December 27, 1971 <u>Appointment timeframe</u> At the GSM to be held in 2007 and to rule on the closure of accounts for the year ending 31 December 2006	Member of the Board of Directors
Mrs Marie-Claude Valentin-Frechin, Mr. Etienne Frechin's sister	<u>1st nomination</u> At the GSM of December 27, 1971 <u>Appointment timeframe</u> At the GSM to be held in 2007 and to rule on the closure of accounts for the year ending 31 December 2006	Member of the Board of Directors

Mr. Matthieu Frechin, Mr. Etienne Frechin's son	**1st nomination** At the GSM of May 22, 2006 as board member At the GSM of August 21, 2006 as Deputy Managing Director **Appointment timeframe** At the GSM to be held in 2012 and to rule on the closure of accounts for the year ending 31 December 2011	Member of the Board of Directors and Deputy Managing Director
Banexi Capital Partenaires represented by Mr. Franck Boget	**1st nomination** At the combined ordinary and extraordinary general meeting of February 27, 2003 **Appointment timeframe** At the GSM to be held in 2009 and to rule on the closure of accounts for the year ending 31 December 2008	Member of the Board of Directors
Mr. Jacques François Martin	**1st nomination** At the board meeting of September 19, 2003 – ratified at the combined ordinary and extraordinary general meeting of December 18, 2003 **Appointment timeframe** At the GSM to be held in 2007 and to rule on the closure of accounts for the year ending 31 December 2006	Member of the Board of Directors
3i represented by Mr. Denis Ribon	**1st nomination** At the GSM of May 22, 2006 **Appointment timeframe** At the GSM to be held in 2012 and to rule on the closure of accounts for the year ending 31 December 2011	Member of the Board of Directors

1.5.2. BENEFITS & COMPENSATIONS OF THE EXECUTIVES

Name	Position	Gross annual compensation	Perks
Mr. Etienne Frechin	Chairman and CEO	Fixed: €186,620 Performance-based bonus: €160,000 Director's fees: €4,600	Company car
Mr. Dominique Henryon	Senior executive VP	Fixed: €225,790 Performance-based bonus: €120,435	Company car
Mr. Bernard Boisramé	Senior executive VP	Fixed: €134,003 Performance-based bonus: €16,033 Head pharmacist bonus: €17,160	Company car Supplemental retirement pension (Art. 83) Profit-sharing
Mr. Matthieu Frechin	Senior executive VP and member of the board of directors	Fixed: €72,481 Performance-based bonus : €17,000 Director's fees: €4,600	Company car Profit-sharing
Mr. Jean-Charles Frechin	Member of the board of directors	Director's fees: €4,600	None
Mrs Marie-Claude Valentin-Frechin	Member of the board of directors	Director's fees: €4,600	None
Mrs Martine Frechin	Member of the board of directors	Director's fees: €4,600	None
Mr. François Frechin	Member of the board of directors	Director's fees: €4,600	None
Banexi Capital Partenaires represented by Mr. Franck Boget	Member of the board of directors	Director's fees: €4,600	None
Mr. J-F. Martin	Member of the board of directors	Director's fees: €4,600	None

1.6. Shareholders and the stock market

1.6.1. SHAREHOLDERS

1.6.1.1. The ownership structure of Vétoquinol SA is as follows:

Ownership structure at 31 Dec. 2006	
	No. of shares
SOPARFIN	6,219,361
Etienne Frechin Family	977,600
Other Frechin Families	1,004,920
3i mutual funds + BANEXI	907,476
Employees + FCPE « *Fonds Commun de Placement* »	80,827
Public	2,088,548
	11,278,732

1.6.1.2. Other securities conferring access to the share capital

1.6.1.2.1. Stock options

At their combined ordinary and extraordinary meeting of 15 June 1999, the shareholders authorized the Board of Directors to grant stock subscription and purchase options to employees of the French and foreign companies making up the Group, in accordance with Article L. 225-177 *et seq.* of the French Commercial Code. At 31 December 2006, there were 1,440 stock subscription options outstanding for acquisition of 14,400 shares.

1.6.1.2.2. Convertible bonds

At their combined ordinary and extraordinary meeting of 27 February 2003, the shareholders approved a bond issue with a principal amount of €19,999,993.50, divided into 117,855 bonds with a face value of €169.70, and convertible into common shares of the Company on the following terms and conditions:

- **Issue in two tranches:**
  - Tranche A: 58,928 bonds
  - Tranche B: 58,927 bonds.
- **Term:**
  - Tranche A: 7 years
  - Tranche B: 8 years.
- **Coupon: 4% the first year, 5% subsequently.**
- **Premium for non-conversion:**

Bondholders who do not opt for conversion within the prescribed time limits stated above shall receive a premium for non-conversion of 6% per annum, calculated so that the convertible bonds generate a compound annual return equal to the annual coupon (i.e. 4% the first year and 5% subsequently) plus an additional 6% payable on redemption, in conformity with Article 1154 of the French Civil Code.

For the convertible bonds affected, the non-conversion premium is payable at each redemption, whether it is early redemption or at maturity.

The Company may not proceed with the early redemption or repurchase of the convertible bonds during the life of the bond unless authorized to do so by the bondholders or in cases in which the bondholders are entitled to demand early repayment.

The redemption price shall be one hundred sixty-nine euros and seventy cents (€169.70) per convertible bond, plus accrued interest and the non-conversion premium.

On 7 August 2006, Soparfin purchased all of the 117,855 convertible bonds issued on 27 February 2003.

Following the 10-for-1 stock split approved by the shareholders at their meeting on 7 July 2006, the conversion ratio is now one convertible bond for 10 Company shares.

1.6.2. STOCK MARKET

1.6.2.1. Calendar of events

The projected financial communication calendar in 2007 is as follows:

15 Feb. 2007:	Revenue figures for FY 2006
23 April 2007:	Results for FY 2006
23 April 2007:	Revenue figures for Q1 2007
4 June 2007:	General Meeting
26 July 2007:	Revenue figures for H1 2007
25 Sept. 2007:	Results for H1 2007
25 Oct. 2007:	Revenue figures for Q3 2007

1.6.2.2. Stock market data

Share price	29 Dec. 2006	31 March 2007
High	€22.85	€22.78
Low	€22.35	€22.57
Average	€22.57	€22.63
Closing	€22.85	€22.58

Reminder:
Issue price on 16 Nov. 2006: €21
Shares outstanding at 31 Dec. 2006: 11,278,732
Shares outstanding at 31 March 2007: 11,278,732

Trading volume	18 Nov. 2006-29 Dec. 2006	1 Jan. 2007-31 March 2007
Average trading volume in a fixing	25,020	9,841

1.6.2.3. Investor relations

1.6.2.3.1. Institutional investors

A first meeting to which the financial analysts were invited was held on 23 April 2007 at the Palais Brongniart in Paris. At the meeting, management confirmed the Group's strategic orientations and presented the consolidated results for 2006.

Other meetings with financial analysts are scheduled for 2007.

1.6.2.3.2. Individual investors

All Company financial information and financial statements (consolidated and corporate) are posted on the website www.vetoquinol.com.

1.7. Country, market and liquidity risks

An exhaustive review of the situation was conducted in November 2006 at the time of the IPO and included in the *Document de Base* filed with the AMF.

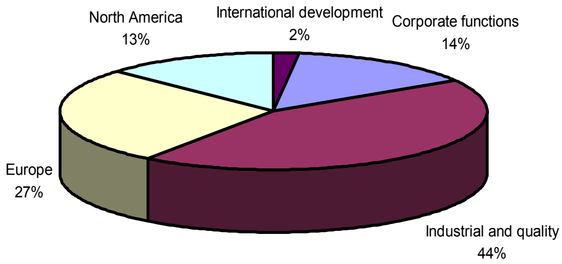
There have been no significant changes since that document was published (still accessible on the website www.vetoquinol.com).

1.8. Human resources

1.8.1. GROUP

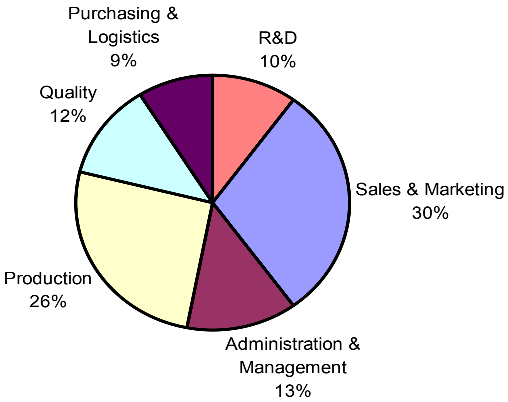
At 31 December 2006, Vétoquinol had a workforce of 1,223 employees.

Breakdown of the workforce in 2006 by Group division



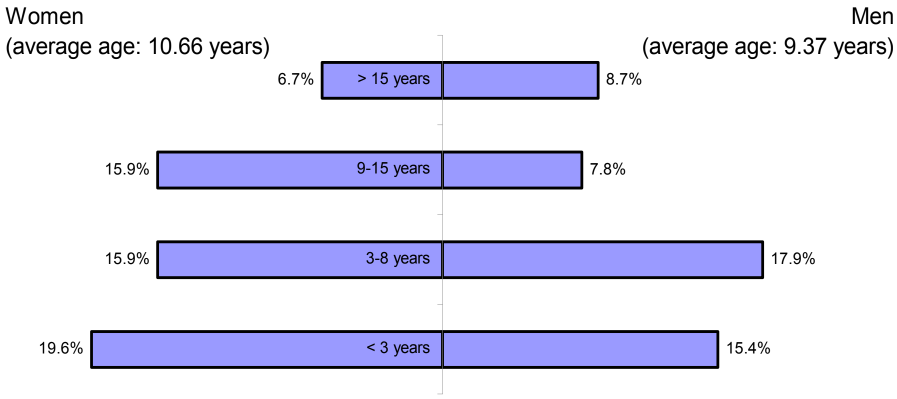
The Group workforce has increased by 7%, with 80 additional employees. Half of this growth is attributable to recent acquisitions.

Breakdown of the workforce by function



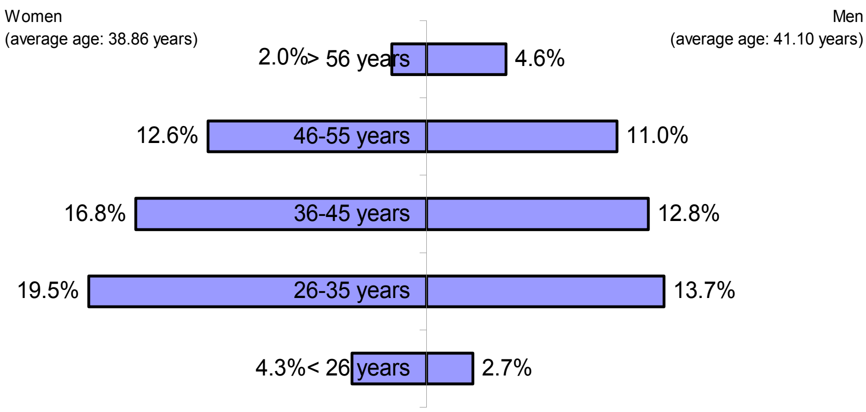
Staff has been increasing in all functions. The sales force in particular has grown by 11.7%, reflecting the Group's firm intention of strengthening its sales work.

Workforce age pyramid in 2006



The average age in the Group is 40.

Length of service pyramid



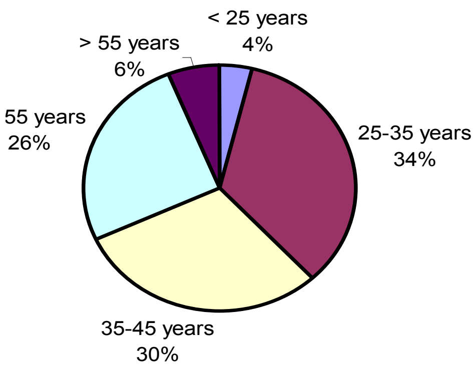
The average length of service in the Group is 10 years.

Ratios	2006	2005
Personnel costs/revenues	26.2%	27.2%
Personnel costs/added value	59.6%	61.5%

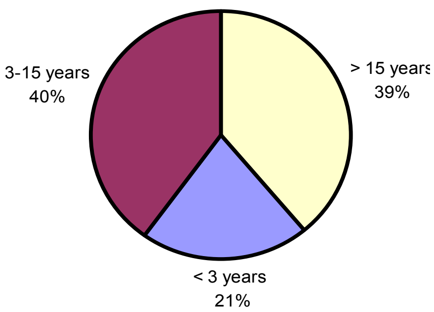
1.8.2. VÉTOQUINOL S.A.

1.8.2.1. Workforce breakdown

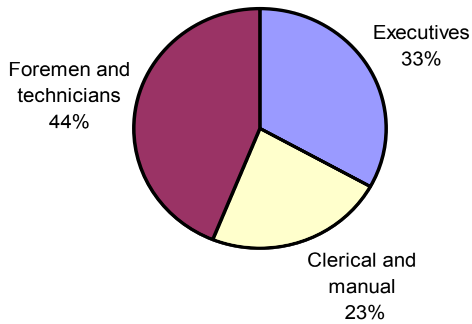
By age



By length of service



By category



1.8.2.2. Compensation and benefits

(€'000)	2006	2005
Annual payroll)	28,076	25,826
Average pay per employee	37.24	34.79
Profit-sharing	168	568
Average profit-sharing per beneficiary	308	1,063
Bonus profit-sharing	1,070	1,014
Average bonus profit-sharing per beneficiary	1,956	1,899
Exceptional bonus	184	
Employer contrib. to employee shareholding plan	402	
Total employee benefits	1,824	1,582

1.9. Environment—Safety

1.9.1. VÉTOQUINOL S.A. AND THE ENVIRONMENT

The figures below refer to production facilities in France.

■ Electricity and natural gas consumption

In MWH	2006*	2005
Gas	11,599	9,387
Electricity	10,026	8,548

** Increase in developed areas in 2006.*

■ Waste

In tons	2006	2005
Ordinary waste	263	254
Special waste	78	99

■ Water consumption

In m^3	2006*	2005
Drinking water	40,562	27,538
Underground water**	74,949	91,956

** Increase in drinking water consumption to the detriment of groundwater, due to drilling facilities work in 2006.*

*** Underground water is used exclusively for cooling, then entirely discharged into the natural environment.*

The new buildings that came on stream in Lure—particularly for finished product warehousing—were affected by a change in public environmental permits *(Arrêté d'Autorisation Préfectoral)* for "classified facilities." The requirements include a fire-fighting water containment system to protect the environment in case of disaster and a storm water basin to limit rainwater runoff into local water systems.

The environment—a relentless concern
Deeply committed to optimizing the way in which it uses natural resources, Vétoquinol commissioned a study on reducing energy consumption at the Lure site in 2006. Vétoquinol sorts waste at the source on all its production sites inside and outside of France, thereby promoting maximum recycling of processed materials.

Water is used in making liquid medication and to clean equipment. In Lure, it is also used to cool production machinery, an operation that allows the water to be discharged in the environment in a non-polluted state. All used water goes through either the company water purification plant at Lure or local community purification plants at other sites.

The Group is particularly concerned with the well-being of people who live near its production sites. If any of them suffers discomfort as a result of Group operations, eliminating the problem is given top priority.

The regulatory environment is systematically monitored at all sites to ensure that Vétoquinol is always in full compliance with local regulations.

Demanding safety and environmental standards at all Group facilities
In order to make uniform progress at all its sites in terms of safety and environmental protection, Vétoquinol has set up an assessment expertise and audit group based at its head office. The aim of the resulting plans of action is to bring more recently integrated units up to par and to foster a shared culture of safety and environmental awareness.

1.9.2. SAFETY FOR VÉTOQUINOL SA COMPANY EMPLOYEES

2006 - A good year for safety
Although its production sites recently experienced major change, with new buildings coming on stream in Lure, 2006 was above all a record year for the decline in the accident rate. The main production site in France totalled 344 days with no accidents involving time off work, as compared with the previous record (242 days)—set 6 years previously. The result was 2 accidents at the Lure site (3 at all French sites combined) totalling 63 days of time off work, yielding an accident frequency rate of 2.93 (7.66 in 2005) and an accident severity rate of 0.093 (0.45 in 2005).

Productive safety investments

Large-scale investment programs for both employee safety and protection of facilities were initiated or completed in 2006:

- Roughly 15% of total expenditures on building extensions in Lure were related to employee safety, the environment and protection of property (€2.2 million), including sprinklers in the new storage building, a fire-hose reel network, 5 additional fire hydrants, fire doors.
- The Tarare site was equipped with a fire detection system, along with an intruder alarm system.
- The Internal Organization Plan (POI) was reviewed and implemented.
- The ATEX (explosive atmospheres) study was carried out, and the resulting plan of action was launched.
- A safety study on the new IT building at the Lure site was carried out, with implementation scheduled for the first half of 2007.
- Investments totalling €35,000 were made to purchase or refurbish machinery in Lure to reduce the risk of accident.
- An additional €35,000 was invested to improve fire safety in Lure, with a first stage to achieve compliance with the R7 insurance rule (stages 2 and 3 planned for 2007 and 2008).

1.10. Fees paid to independent auditors

	2005	2006
France (Company + consolidated financials)	€128,160	€163,000
Elsewhere (Company financials + Audits of consolidation packages)	€246,120	€304,575
Total	€374,280	€503,575

Due to the November 2006 IPO and the audit of the changeover to IFRS, the Group paid €350,000 in additional fees in 2006, divided between PricewaterhouseCoopers and KPMG.

1.11. Major subsequent events

Nil.

Chairman's Report on the functioning of the Board of Directors and internal control procedures

Pursuant to Article L. 225-37 of the French Commercial Code, Mr. Etienne Frechin, the Chairman and Managing Director of the Vétoquinol Group, hereby presents you with his report on "the conditions under which the Board's activities are prepared and organized and the internal control procedures instituted by the company."

This report covers the parent company and all companies included in the consolidated Group.

Conditions under which the Vétoquinol SA Board's activities are prepared and organized

BOARD MEETINGS

During the year ended 31 December 2006, the Board of Directors met eight times April 7, May 22 at 2 p.m., May 22 at 6 p.m., August 21, September 18, November 2, November 16, December 8.
The Board members, Works Council members and Independent Auditors were called to meetings as required. All Board meetings were chaired by Mr. Etienne Frechin. The respective attendance rates at these meetings were 77.7%, 55.55%, 77.78%, 88.8%, 55.5%, 88.8%, 88.8% and 55.5%.

In addition to the items on the agenda, analyses of the trend in company and Group revenue and earnings are consistently presented at each meeting, particularly at:

- the April 9 meeting devoted to approving the 2005 company financial statements;
- the August 21 meeting devoted to approving the 2005 consolidated financial statements of Vétoquinol S.A. under French GAAP and IFRS;
- the September 18 meeting, at which the consolidated financial statements for the first half of 2006 were examined;
- the December 8 meeting, at which the budget for fiscal year 2007 was presented and approved.

COMMITTEES SET UP BY THE BOARD OF DIRECTORS

The Board of Directors has set up a Manager Compensation Committee and a Strategy Committee.

The Manager Compensation Committee

The members of this Committee are Jean-Charles Frechin, François Frechin and Jean-François Martin, all of them Board members.

The mandate of the Compensation Committee includes the following:

- to propose criteria for determining the fixed and variable parts of compensation paid to executives and directors that reflect the yearly assessment of the performance of the Group, its executives and its medium-term strategy as well as current market practice;
- to contribute as needed to setting policy on stock subscription and purchase option plans and free share awards, and to express its opinion to the Board on such plans proposed by Management.

During the year ended 31 December 2006, the Compensation Committee held one meeting.

The Strategy Committee

The members of this Committee are:

- Etienne Frechin, Chairman and Managing Director,
- Matthieu Frechin, Deputy Managing Director,
- Dominique Henryon, Deputy Managing Director,
- as well as the other members of the Group Management Committee, including the Territory Directors.

The Strategy Committee convenes once a year (for a 3 to 5-day session) for the following purposes:

- to define steps to be taken in the coming years,
- to ensure that the Group's strategic course is consistent with market trends,
- to strengthen or alter that course on the basis of the Committee's analysis,
- to update the 3-year strategic plan and establish budget priorities for the upcoming year (R&D, marketing, capex).

The Committee then submits its findings for approval by the Board of Directors.

INTERNAL CONTROL PROCEDURES INSTITUTED

Organization (reminder)

Vétoquinol has adopted a matrix organization that combines two organizational designs:

- Operational (e.g. Production, Sales),
- Functional (support functions such as R&D, Strategy and Customer Relations, Finance and Legal, Human Resources and IT).

Each department is required to abide by "Group Policies" and to ensure that they are implemented, chiefly by performing control work and following established procedures.

Presentation of summary information on internal control procedures instituted in the Group.

Control procedures and the processing of financial and accounting information

Reporting by each Group company to produce a monthly "Scorecard." The Scorecard centralizes and consolidates all accounting and financial data, providing a detailed breakdown of sales figures and margins by species, geographic area, product category or family and strategic fields.

Products are classified on the following basis:

- CLASS 1: all "Group" products, i.e. products marketed in several countries, and/or that potentially or actually make a major contribution to the Group's revenue and/or gross profit, and/or that show high consistency with Vétoquinol's strategic priorities.
- CLASS 2: all "local" products, i.e. products marketed in a limited geographic area and/or that potentially or actually make a limited contribution to the Group's revenue and/or gross profit, and/or that show low or no consistency with Vétoquinol's strategic priorities.
- CLASS 3: products slated for market withdrawal (due to insufficient contribution to revenue or gross profit, duplication, prohibitive cost of updating MA files, etc.) at the recommendation of Territory and Subsidiary Directors.

The relevant monthly and cumulative figures are systematically compared with the figures for the previous year and the budget forecasts.

- For each company, the main balance sheet items, particularly working capital requirements, are tracked on a monthly basis, and any variance in relation to forecasts is analyzed.
- Cash flow and debt are tracked on a monthly basis.
- Output at production facilities is tracked.
- Monthly operating profit for each entity is tracked, with the various expenses broken down by type and by cost centre.

Audits and checks

Every year, three subsidiaries are thoroughly audited by internal teams or outside auditors. In 2006, the year of the IPO, the main subsidiaries were audited at the request of the lead manager. No signs of dysfunction were detected.

The annual financial statements of each Group company are audited and certified by independent auditors working for major networks: PricewaterhouseCoopers, KPMG and Grant Thornton (North America).

The consolidated financial statements are prepared in accordance with IFRS.

Control procedures and the processing of non-financial information

Reporting by each Group company takes the form of reports and analyses, the main ones produced by:

- The Industrial and Product Quality Department, whose monthly reports contain the key production indicators and ratios (e.g. number of production hours, number of batches produced, number of batch rejects).
- The Human Resources Department, which tracks monthly hiring and departures by employee category. HR also oversees all increases in pay and staffing, as well as changes in employee benefits.
- The Information Systems Department, which steers the introduction of a Group-wide ERP system.
- The Strategy and Customer Relations Department, which prepares and organizes all new "Group product" launches, tracking sales performance in relation to targets.
- The Research and Development Department, which develops and tracks all projects in progress. They provide a quarterly status report on each project and the attendant costs.
- Finally, a Pharmacovigilance Department centralizes all information on problems in the field related to the use of drugs and dietetic products marketed by the Group.

Limitations on the power of Directors
The Group was reorganized in 2004 into 3 divisions and four support functions.

Divisions

a. Strategy & Development encompasses:
   - Strategy & Marketing
   - Research & Development
   - Business Development
   - Dietetics & Equine.

b. The Commercial Division encompasses the three territory departments (Europe, America, and International Development), with all sales activity via Group subsidiaries and third-party distributors.

c. The Industrial Division encompasses the following production site activities:
   - Manufacturing
   - Logistics
   - Production site quality.

Support functions

- Finance & Legal
- Human Resources
- Information Systems
- Internal & Institutional Communication.

Four levels of responsibility can be distinguished:

a. The Group President is in charge of most of the subsidiaries.

b. The Group Deputy Managing Director runs the most important subsidiaries.

c. The Strategy and Development Director, a Deputy Managing Director reporting to the Group Deputy Managing Director, supervises the Functional Directors:
   - Research and Development (R&D)
   - Strategy and Customer Relations (DSRC)
   - Business Development (DDA)
   - Dietetics & Equine (DC), in charge of the Group's equine business.

d. The other Functional Directors (Finance, HR, DSI) report to the Group Deputy Managing Director.

The Group Industrial and Quality Director, who reports to the Group Deputy Managing Director, supervises the Operational Directors (e.g. production, logistics) and the Quality Directors in the following units:

- PROLAB (Canada)
- VÉTOQUINOL S.A. (Lure & Tarare)
- BIOWET (Poland).

The Territory Directors, who report to the Group Deputy Managing Director, supervise the following:

- The Country Directors
- The distributors in Asia, Europe, Africa, etc. for the International Development Territory.

Two levels of delegation can be distinguished:

a. "Management Powers"

The powers to commit and to represent the company, while scrupulously abiding by all current legal obligations, including those established by legislation on veterinary medicine, regulatory obligations and statutory obligations, are referred to as "Management Powers." These powers shall be used in compliance with the ethical and moral standards associated with the corporate name of Vétoquinol.

A Group-wide Guide to Good Business Practice has been established.

The rules in the guide reflect the expectations of Vétoquinol with respect to its employees at all levels. The latter are to uphold the law and the company's ethical standards, not only in dealing with competitors, distributors, customers and suppliers, but also to safeguard the assets of Vétoquinol and prevent any risk of fraud and corruption.

The Guide to Good Business Practice was submitted to and approved by the Board of Directors on 13 April 2007.

b. "Financial Powers"

The power to carry out cash transactions (bank accounts, cash holdings), referred to as "Financial Powers."
Disbursement ceilings have been set by subsidiary and by authorized person. For certain disbursement levels, two signatures are required.

A Country Director may delegate all or part of his or her powers (excepting financial powers, which are governed by other regulations), subject to approval by the Territory Director.

The Territory Director and the Group Industrial and Quality Director may not delegate their powers.

A functional director may delegate all or part of his or her powers (excepting financial powers, which are governed by other regulations), subject to prior approval by the Group Deputy Managing Director.

Other procedures

Principles and rules of stock market conduct summarize the obligations of insiders.

All Board members and members of Group companies must scrupulously abide by said principles and rules as well as by the relevant preventive measures, above all so that those persons may trade in the listed securities of Vétoquinol with full security.

The principles and rules of stock market conduct were submitted to and approved by the Board of Directors on 13 April 2007.

INDEPENDENT AUDITORS' REPORT ON THE FUNCTIONING OF THE BOARD OF DIRECTORS AND THE CONTROL OF PROCEDURES INSTITUTED BY VETOQUINOL

(Year ended 31 December 2006)

Independent Auditors' Report prepared pursuant to Article L. 225-235 of the French Commercial Code, on the Report of the Chairman of the Board of Directors of the company Vétoquinol S.A. with respect to internal control procedures used in preparing and processing accounting and financial information

To the shareholders,

As Independent Auditors of the company Vétoquinol S.A. and pursuant to the provisions of Article L. 225-235 of the French Commercial Code, we are submitting to you our report on the report prepared by the Chairman of your company, pursuant to the provisions of Article L. 225-37 of the French Commercial Code for the fiscal year closed on 31 December 2006.

It is the Chairman's responsibility to account, in his report, for the conditions under which the work of the Board of Directors was prepared and organized and the internal control procedures implemented within the company.

It is our responsibility to inform you of the observations that we have on the information presented in the Chairman's report, concerning the internal control procedures related to the preparation and processing of accounting and financial information.

We conducted our audit in accordance with the professional standards applicable in France; those standards require that procedures be used to assess the accuracy of the information given in the Chairman's report, concerning the internal control procedures related to the preparation and processing of accounting and financial information. These procedures consisted, in particular, of the following:

- **becoming familiar with the objectives and the general organization of internal controls, as well as the internal control procedures meant for the preparation and processing of accounting and financial information and presented in the Chairman's report;**
- **becoming familiar with the work underlying the information thus given in the report.**

Based on our work, we have no observation to make regarding the information provided on the internal controls of the company related to the preparation and processing of accounting and financial information, contained in the report of the Chairman of the Board of Directors, prepared pursuant to the provisions of Article L.225-237 of the French Commercial Code.

Paris La Défense and Neuilly-sur-Seine, 24 May 2007
The Independent Auditors

PricewaterhouseCoopers Audit	KPMG Audit Department of KPMG S.A.	
Xavier Aubry *Partner*	Catherine Porta *Partner*	Laurent Hofnung *Partner*

2. CONSOLIDATED FINANCIAL STATEMENTS

Consolidated balance sheet at 31 December 2006

In thousands of euros	Notes	31 Dec. 2006	31 Dec. 2005
ASSETS			
Goodwill	17	26,233	19,932
Other intangible assets	18	29,270	22,083
Property, plant and equipment	19	43,983	40,834
Available-for-sale financial assets	20	4	335
Other non-current financial assets	21	340	406
Deferred tax assets	15	2,642	3,430
Total non-current assets		102,472	87,020
Inventories	23	36,362	34,686
Trade receivables and related accounts	24	47,159	50,733
Current tax receivables	15	2,911	304
Cash and cash equivalents	25	21,719	26,975
Total current assets		108,151	112,698
TOTAL ASSETS		210,623	199,717

In thousands of euros	Notes	31 Dec. 2006	31 Dec. 2005
EQUITY			
Share capital and share premium	26	60,763	44,859
Retained earnings and other reserves		34,537	29,502
Profit for the period		15,824	12,441
Equity attributable to parent company shareholders		111,124	86,802
Minority interests		24	18
Total equity		111,147	86,820
LIABILITIES			
Borrowings and long-term debt	27	30,192	34,830
Deferred tax liabilities	15	2,746	4,521
Provisions for post-employment benefit obligations	28	2,985	2,694
Other non-current provisions	29	698	1,069
Accountable advances from government	30	402	152
Total non-current liabilities		37,023	43,266
Trade payables and related accounts	31	48,764	49,561
Income tax expense	-	1,273	3,829
Short-term borrowings	27	12,298	16,143
Current provisions	29	117	98
Total current liabilities		62,452	69,631
Total liabilities		99,476	112,897
TOTAL EQUITY AND LIABILITIES		210,623	199,717

Consolidated income statement for the year ended 31 December 2006

In thousands of euros	Notes	31 Dec. 2006	31 Dec. 2005
Revenue	6	211,591	196,617
Purchases consumed		(72,910)	(68,756)
Other external purchases and expenses	8	(45,887)	(42,360)
Personnel costs	9	(55,381)	(53,416)
Taxes on income and other similar levies		(3,649)	(3,269)
Depreciation and amortization and impairment losses	18 / 19	(8,404)	(8,096)
Provisions and reversals		(68)	594
Other operating income and expenses	11	336	1,812
Profit from ordinary activities		25,628	23,127
Other income and expenses	12	(777)	(4,292)
Profit from operations		24,851	18,835
Net finance costs	14	(3,489)	(3,495)
Other financial income and expenses	14	(1,336)	1,169
Profit before income taxes		20,027	16,509
Income taxes	15	(4,196)	(4,063)
Consolidated net profit		15,831	12,446
Attributable to parent company shareholders		15,824	12,441
Attributable to minority interests		7	5
Basic earnings per share (in euros)*	16	1.59	1.30
Fully diluted earnings per share (in euros)*	16	1.57	1.27

** 10-for-1 stock split during 2006, reflected in earnings per share for 2005.*

Consolidated cash flow statement for the year ended 31 December 2006

In thousands of euros	Notes	31 Dec. 2006	31 Dec. 2005
Consolidated net profit		15,831	12,446
Adjustments for:			
Depreciation, amortization and provisions		8,186	6,829
Income tax expense		4,196	4,063
Interest expense		3,578	3,647
Provisions for post-employment benefit obligations		99	217
Impairment of available-for-sale financial assets			0
Gains on disposal of assets (net of tax)		465	2,859
Other items with no impact on cash flow		323	2
Share-based payment		339	
Change in working capital requirements		2,692	6,666
Cash flow from operating activities, before tax and interest		35,710	36,729
Income tax paid		(10,378)	(4,522)
Interest paid		(1,976)	(2,193)
Net cash flow from operating activities		23,356	30,014
Purchase of intangible assets		(19,710)	(2,885)
Purchase of property, plant and equipment		(9,971)	(9,171)
Purchase of available-for-sale assets		0	(300)
Purchase of other financial assets		(64)	(67)
Gains on disposal of assets		572	3,308
Loan repayments/other financial income received		115	17
Acquisition of subsidiaries, net of cash acquired		(427)	
Net cash flow from investing activities		(29,486)	(9,098)
Proceeds from share issue		15,904	81
Issuance of debt		450	2,008
Repayment of debt		(7,959)	(8,474)
Payment of cash dividends to parent company shareholders		(5,827)	(1,627)
Payment of cash dividends to minority interests		(3)	(3)
Investment subsidies and accountable advances		250	
Other cash flows related to financing activities			
Net cash flow from financing activities		2,815	(8,015)
Effect of changes in exchange rates		234	(721)
Change in cash and cash equivalents		(3,081)	12,180
Cash and cash equivalents at beginning of period	25	18,285	6,105
Change in cash and cash equivalents		(3,081)	12,180
Cash and cash equivalents at end of period	25	15,204	18,285

Statement of changes in consolidated equity for the year ended 31 December 2006

In thousands of euros	Share capital and share premium (Note 26)	Foreign currency translation reserve	Actuarial gains or losses	FV change in ASF assets	Other reserves	Total reserves	Profit or loss for the period	Equity—parent company shareholders	Minority interests	Total equity
Balance at 31 Dec. 2004	44,778	688	(72)	(457)	16,453	16,612	9,973	71,362	16	71,378
Total gain or loss recognized for the period	0	4,636	(91)	0	0	4,545	12,441	16,987	5	16,992
Appropriation of net profit					9,973	9,973	(9,973)	0		0
Stock options exercised	81					0		81		81
Dividends paid to shareholders					(1,628)	(1,628)		(1,628)		(1,628)
Other						0		0	(3)	(3)
Balance at 31 Dec. 2005	44,859	5,324	(163)	(457)	24,798	29,502	12,441	86,802	18	86,820
Total gain or loss recognized for the period	0	(2,441)	72	457		(1,912)	15,824	13,913	7	13,919
Appropriation of net profit					12,441	12,441	(12,441)	0		0
Stock options exercised	111					0		111		111
Warrants exercised	2,356					0		2,356		2,356
IPO—Capital increase	13,436					0		13,436		13,436
Dividends paid to shareholders					(5,827)	(5,827)		(5,827)		(5,827)
Other					332	332		332	(1)	331
Balance at 31 Dec. 2006	60,763	2,884	(91)	0	31,744	34,537	15,824	111,124	24	111,147

Consolidated statement of recognized income and expense for the year ended 31 December 2006

In thousands of euros	31 Dec. 2006	31 Dec. 2005
Actuarial gains or losses	108	(133)
Change in the fair value of available-for-sale assets	457	
Change in accounting method		
Translation adjustments	(2,441)	4,636
Tax on items recognized directly in equity	(36)	43
Net income recognized directly in equity	(1,912)	4,545
Net profit for the period	15,831	12 446
Total recognized income and expense for the period	13,919	16,992
Attributable to:		
Parent company shareholders	15,824	12,441
Minority interests	7	5

Notes to the consolidated financial statements for the year ended 31 December 2006

1. The company

Vétoquinol is an independent family-owned company, founded in 1933, and wholly dedicated to animal health. Its focus is research and development, production and marketing of veterinary medicine in three main areas: infectious diseases, pain management and cardiology/nephrology.

A company determined to stay close to its customers through strong presence in over 80 countries, Vétoquinol earns 72% of its revenue outside of France, delivering market leading products, both for the familiar cats and dogs and for cattle and pigs.

With revenue of €211.6 million in 2006 and a workforce of over 1,220 on 5 continents, the Vétoquinol Group currently ranks 13th worldwide, and holds third place in Canada and sixth place in France.

The parent company, Vétoquinol SA, is a French *société anonyme* with its registered office at Magny Vernois, 34 rue du Chêne Saint Anne, 70204 Lure.

The parent company, Vétoquinol SA, is controlled by Soparfin.

The consolidated financial statements of the Vétoquinol Group were approved by the Board of Directors on 13 April 2007. They will be submitted for approval by the shareholders at the next Annual General Meeting, held on 4 June 2007

2. Accounting principles

2.1. General principles and accounting standards

These consolidated financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of those standards published by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as adopted by the European Union on 31 December 2006.

These consolidated financial statements were prepared on a historical cost basis, except for available-for-sale assets, which are stated at fair value with corresponding adjustments to equity, and for financial assets and liabilities stated at fair value with corresponding adjustments to profit and loss (including derivative financial instruments).

In preparing these consolidated financial statements in accordance with IFRS, Group management was required to make a number of basic accounting estimates, the most important of which are described in Note 4.

The main accounting methods used in preparing these consolidated financial statements are set forth below. Unless otherwise indicated, these methods were consistently applied to all the reporting periods presented in the consolidated financial statements.

Standards, interpretations and amendments to previously issued standards that are not yet in force:
At the balance sheet date, the following had been adopted by the European Union but were not yet in force: IFRS 7, IFRIC 8, IFRIC 9 and the revised version of IAS 1. In addition, the following had been issued by the IASB but not yet adopted by the European Union: IFRS 8, IFRIC 10, IFRIC 11 and IFRIC 12. These standards and interpretations were not applied by Vétoquinol and their possible application in the next fiscal year should only affect the way in which the financial statements are presented.

2.2. Consolidation and business combinations

Reporting entity

The consolidated financial statements encompass the accounts of Vétoquinol SA and the accounts of its subsidiaries, in which the Company directly or indirectly holds a majority of voting rights. Together, they form the Vétoquinol Group.

A subsidiary is an entity controlled by the Group. Control may be defined as the power to govern the financial and operational policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when the Group owns more than half of the voting power of an entity, either directly or indirectly through subsidiaries. Potential voting rights derived from instruments that are currently exercisable or convertible are taken into account in assessing control. The financial statements of the Group's subsidiaries have been prepared using the full consolidation method, with minority interests calculated as the portion of the ownership interest not held by the parent company.

A company is included in the consolidated reporting entity as of the date on which the Group acquires effective control of it, and deconsolidated as of the date on which that effective control ceases.
Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is equal to the aggregate of the fair values of the assets given, the liabilities incurred or assumed and the equity instruments issued by the acquirer at the acquisition date, plus any costs directly attributable to the business combination. The identifiable assets acquired, and the identifiable liabilities and contingent liabilities assumed in a business combination are initially recognized at their fair values at the acquisition date, whatever the proportion held by minority interests. The excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognized as goodwill (cf. Note 17). Conversely, if the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, that excess is immediately recognized in the income statement.

The interests of minority shareholders are presented in the consolidated balance sheet as a category of equity separate from the parent company's equity interest. Their share of net consolidated profit is presented separately in the income statement.

All intra-Group balances and transactions, including unrealized gains and losses and dividends, are eliminated on consolidation.

The Group is composed solely of Vétoquinol SA and its subsidiaries. It has no joint ventures or associates.

The Group reporting entity is presented in Note 38, "Group companies."

2.3. Business combinations

Business combinations carried out after 1 January 2004 are accounted for using the purchase method as set forth in IFRS 3. On this basis, the Group recognizes the identifiable assets, liabilities and contingent liabilities of the acquired at their fair values at the date on which it gains effective control of the entity.

The cost of a business combination is equal to the aggregate of the fair values, at the date of exchange, of the assets given, the liabilities incurred or assumed and the equity instruments issued by the acquirer in exchange for control of the entity acquired, plus any costs directly attributable to the business combination. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the Group includes the amount of that adjustment in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

The Group has a period of 12 months as of the acquisition date to finalize accounting for the business combination.

2.4. Foreign currency translation

Functional currency and presentation currency

The items included in the financial statements of each Group entity are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in euros, the Group's presentation currency and functional currency.

Transactions, assets and liabilities

Revenues and expenses denominated in foreign currency are recorded at the functional currency equivalent on the date of transaction. Foreign currency monetary items are translated on the balance sheet at closing exchange rates.

Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction, whereas those measured at fair value are translated using the exchange rates at the date when the value was determined.

Any resulting unrealized exchange gains or losses are recognized in the income statement, except for:

- **unrealized gains or losses recognized directly in equity, whose exchange component is recognized in equity**
- **unrealized gains or losses that result from translation of a net investment in a subsidiary, which are recognized in equity and subsequently in the income statement on disposal of the entity.**

Translation of the financial statements of Group companies

The financial statements of Group companies denominated in functional currencies (excluding currencies of hyperinflationary economies) other than the presentation currency are translated into the presentation currency as follows:

- **Assets and liabilities are translated at the closing for each balance sheet at the date of that balance sheet.**
- **Income and expenses are translated at the average yearly rate or at the exchange rate in force at the date of transaction in the case of significant transactions.**
- **All resulting exchange differences are recognized as a separate component of equity.**

On the disposal of a foreign operation, the cumulative amount of the exchange differences deferred in equity are recognized in the income statement under gains or losses on disposal, except for exchange differences recognized prior to 1 January 2004 and charged against consolidated reserves as part of the changeover of Group accounting to IFRS.

2.5. Revenue recognition

Income from ordinary activities is the fair value of the consideration received or to be received for goods sold and services rendered by the Group as part of its ordinary business.

Revenue arises from the sale of goods to third parties, net of trade discounts and volume rebates granted to final customers, of financial discounts and after elimination of intragroup transactions.

Revenue arising from the sale of goods is recognized when all of the following criteria have been satisfied:

- **The Company has transferred to the buyer the significant risks and rewards of ownership.**
- **The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.**
- **It is probable that the economic benefits associated with the transaction will flow to the Company.**
- **The costs incurred or to be incurred in respect of the transaction can be measured reliably.**

2.6. Segment reporting

The Group's primary and only segment reporting format are geographical segments.

A geographical segment is a distinct component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of Group components operating in other economic environments.

The Group's worldwide organization structure is divided into five regions determined by where Group assets and operations are located:

- France
- Western Europe
- Eastern Europe
- North America
- Rest of the world.

Although the Group also has two business segments, companion animals and production animals, they cannot be deemed to form a secondary reportable segment for the following reasons:

- Nature of the products. Most of the therapeutic segments are common to both companion and production animals (e.g. antibiotics, anti-parasitics).
- Production processes. The same production lines are used for both segments and there is no significant differentiation in terms of sourcing.
- Customer type or category. The only distinction is between the ethical sector (veterinarians) and the OTC market (general public).
- Distribution channels. The main distribution channels depend more heavily on the country than on the business segment. In some cases, the same sales force is used for both business segments.
- Regulatory environment. Exactly the same bodies are responsible for marketing authorization in both segments.

For this reason, the Group will be using a single segment reporting format.

Transfer prices between regions are calculated on an arm's length basis, i.e. at the prices that would be paid for ordinary transactions with third parties.

2.7. Earnings per share

Basic earnings per share are calculated by dividing net profit attributable to parent company shareholders by the weighted average number of shares outstanding during the year.

The calculation of net fully diluted earnings per share includes share equivalents with a potentially dilutive effect but excludes those share equivalents that do not have a potentially dilutive effect.

The figures for fully diluted earnings per share are based on the assumption that maximum dilution will occur. This assumption makes it possible to calculate the maximum difference in relation to basic earnings per share that would be obtained if all dilutive instruments were exercised, without expressing an opinion on the likelihood of dilution.

Net profit is presented net of after-tax interest expense on convertible bonds. The treasury stock method is used to calculate the dilutive effect of stock subscription options.

2.8. Employee benefits

Retirement and other post-employment benefit obligations

Both defined contribution plans and defined benefit plans have been established to meet these obligations.

Defined contribution plans: In accordance with the laws and customs specific to each country, Vétoquinol pays contributions based on compensation to national bodies in charge of retirement and post-employment plans. No actuarial assumptions are required to measure obligations and expenses. Vétoquinol's payments to such plans are expensed as incurred.

Defined benefit plans for post-employment benefits: The amount recognized as a liability is the present value of the defined benefit obligation at the balance sheet date, minus any past service cost not yet recognized. The present value of the obligation is determined by discounting the benefit using the projected unit credit method. Under this method, the benefits are attributed to periods of service under the plan's benefit formula, using a straight-line approach if an employee's service in later years will lead to a materially higher benefit level than in earlier years.

The amount of future employee benefit payments is estimated using actuarial assumptions as to future salary levels, age at retirement and mortality, then discounted to present value by reference to market yields on high quality corporate bonds.

Actuarial gains and losses arising on adjustments due to revised actuarial assumptions and to experience are recognized directly in equity under "Total gain or loss recognized for the period."

Share-based payment

Four stock option plans have been available to employees since June 1999. Vétoquinol is under no obligation to buy back its own shares. There is, however, such an obligation for Soparfin, the parent company that owns Vétoquinol SA.

The fair value of services rendered by employees in exchange for stock option grants is charged against income. The total amount expensed over the vesting period is determined by reference to the fair value of the stock options granted, without taking into account the terms and conditions under which the options were granted, which are not market conditions.

The amounts received when stock options are exercised are credited to the "Share capital" (par value) and "Share premium" accounts, less any directly attributable transaction costs.

2.9. Leases

Operating leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Finance leases

For finance leases entered into by the Group as a lessee, an asset and a liability are recognized that are equal in amount to the fair value of the leased property or, if lower, the present value of the minimum lease payments (at the interest rate implicit in the lease agreement). The corresponding lease payments are divided up between interest expense and reduction of the lease liability. Property, plant and equipment acquired under finance leases is depreciated over the useful life of the assets or, if shorter, over the lease term.

2.10. Intangible assets

Goodwill

Goodwill represents the excess of the cost of acquiring a subsidiary over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

Under IAS 36, goodwill is allocated to cash-generating units for purposes of impairment testing described in Note 2.12. Goodwill is tested annually for impairment and recognized at cost, less any accumulated impairment losses. Impairment losses may not be reversed.

Research & Development costs

Under IAS 38, research costs are expensed as incurred, whereas development costs are capitalized, but only if all six criteria set forth in IAS 38 have been met. Owing to the risks and uncertainties related to regulatory approval and the research and development process, those capitalization criteria are not deemed to have been met until the Group obtains marketing authorization for its drugs.

In contrast, costs related to license and distribution rights for drugs, processes and information of a scientific nature are capitalized as intangible assets. Such sums are typically paid in the starting phase and in the course of a research project, until marketing authorization has been obtained.

Those amounts are amortized over periods ranging from five to twelve years.

Other intangible assets

Intangible assets are stated at historical cost and systematically amortized over their estimated useful lives, except for the Equistro trademark, which has an indefinite useful life.

Amortization periods are consistent across the entire Group:

Category	Method	Period
Licenses and patents	Straight-line	5-10 years
Computer programs	Straight-line	1-5 years
Trademarks	Straight-line	7-10 years
Other	Straight-line	10 years

2.11. Property, plant and equipment

Property, plant and equipment is carried at acquisition cost (initially the purchase price, plus any ancillary expenses and purchase-related costs) or at production cost, less accumulated depreciation. Straight-line depreciation is considered the method with the greatest economic justification. The Group has not opted for revaluation at fair value. Land is not depreciated. The Group uses the following depreciation periods for property, plant and equipment:

Category	Method	Period
Buildings	Straight-line	15-40 years
Facilities	Straight-line	10-20 years
Production equipment	Straight-line	6 $^{2/3}$-10 years
Vehicles	Straight-line	5 years
Office equipment	Straight-line	5 years
R&D equipment	Straight-line	5 years
Furniture	Straight-line	8-10 years
Other	Straight-line	5 years

2.12. Impairment of assets

In accordance with the requirements set forth in IAS 36, assets with indefinite useful lives are not depreciated or amortized; they are tested annually for impairment. Depreciable/amortizable assets are tested for impairment if there are any doubts as to their recoverable amount owing to specific events or circumstances.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

To measure impairment, assets are grouped together in cash-generating units (CGUs), i.e. the smallest identifiable group of assets that generates cash inflows. The CGUs defined for Vétoquinol are countries: the US, Canada, France, the UK, Belgium, Switzerland, the Czech Republic, Austria, Poland, Ireland, Germany, Mexico and the Netherlands.

Non-financial assets (other than goodwill) that have incurred impairment losses are reviewed for possible reversal of those losses at each annual or interim closing. Impairment losses are firstly charged against goodwill. The balance is allocated to the assets of the CGU.

2.13. Available-for-sale financial assets

Available-for-sale financial assets chiefly include non-consolidated equity investments, which are measured at fair value. Changes in fair value are recorded in equity, except for impairment losses deemed irreversible and therefore charged directly against income. Changes in fair value recognized in equity are "recycled" to the income statement when the specific assets are derecognized or disposed of.

2.14. Other financial assets

Other financial assets chiefly include security deposits and guarantees paid. Because they are treated as receivables, they are measured at amortized cost.

2.15. Derivative financial instruments

To hedge its foreign exchange or interest rate exposure, the Group sometimes enters into forward rate agreements and forward exchange contracts. Such derivatives are used only as part of centralized head office cash management for the sole purpose of hedging risk.

The main foreign exchange hedge instruments used are currency options on the British pound expiring in less than one year. To hedge interest rate exposure, the Group uses swaps and caps.

For significant hedging transactions, the Group applies the hedge accounting prescriptions in IAS 39: derivatives are measured at fair value at the balance sheet date, based on the type of hedging relationship:

- **With a cash flow hedge, any change in the fair value of the derivative is recorded in a separate component of equity called "Cash flow hedge reserve" and recycled to the income statement as the risk becomes a reality (the effective portion of resulting gains or losses being recognized in equity and the ineffective portion in the income statement).**
- **With a fair value hedge, any change in the fair value of the derivative is recorded in the income statement, as is any change in the fair value of the hedged item.**

If the transaction is not significant or if the conditions for applying hedge accounting have not been met, any change in the fair value of the derivative is credited to or charged against income for the period.

At each balance sheet date, the fair value of the instruments used is determined by reference to market value. If no market value is available, an independent valuer provides an assessment.

Note 22 below gives quantitative explanations of how these instruments are used.

2.16. Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.

The cost of work in progress and of finished goods in storage includes raw materials, direct labour and a proportion of variable and fixed production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs to sell, as well as the prospects for future consumption.

2.17. Trade receivables and related accounts

Trade and related receivables are initially recognized at the fair value of the cash to be received. Given the Group's market practices, fair value is usually equal to the nominal value of the receivables. Trade receivables are subsequently measured at amortized cost based on effective interest rates, less provisions for impairment recorded after an itemized analysis of the risk of uncollectability.

2.18. Cash and cash equivalents

Cash and cash equivalents include demand deposits, short-term investments and cash equivalents.
Short-term investment securities are measured at fair value.

2.19. Financial liabilities

Financial liabilities chiefly include bank borrowings, bonds and bank overdrafts.

Borrowings are recognized initially at fair value, less any allocatable transaction costs. They are subsequently stated at amortized cost; any difference between cost and redemption value is recognized in the income statement over the term of the borrowings, using the effective interest method.

The fair value of the liability component of a convertible bond is determined by applying a prevailing market interest rate to a similar non-convertible bond. This amount is recognized as a liability at amortized cost until the debt is extinguished either through conversion or maturity of the bond. The residual amount of issue proceeds is allocated to the conversion option and recorded in equity, net of any income tax effects (provided that the option fulfils the definition of equity set forth in IAS 32).

Borrowings with a term of less than one year are classified as current liabilities, except those borrowings for which the Group has an unconditional right to defer repayment for at least 12 months after the balance sheet date. In such cases, the borrowings are classified as non-current liabilities.

In the case of borrowings related to restatements of finance lease obligations, the capital borrowed is equal to the initial value of the assets acquired under finance leases, recorded in property, plant and equipment.

Interest expense is expenses as incurred.

2.20. Deferred taxes

Deferred tax is calculated using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. No deferred tax is recognized if it arises from the initial recognition of an asset or liability in a transaction other than a business combination which, at the time of the transaction, affects neither accounting profit nor taxable profit.

Deferred tax is measured using the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date, and which are expected to apply to the period when the asset is realized or the liability is settled.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the assets can be utilized.

Deferred tax is recognized for temporary differences arising from investments in subsidiaries and associates, unless the timing of the reversal of those temporary differences is controlled by the Group and the reversal is unlikely to occur in the near future.

2.21. Provisions

Provisions are recognized in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and the amount of the obligation can be reliably estimated.

Provisions for restructuring encompass lease termination penalties and severance pay. Future operating losses are not provided for.

When there are a number of similar obligations, the probability that an outflow of resources will be required to settle those obligations is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recorded.

Provisions are discounted to present value when the effect of discounting is material.

2.22. Non-current assets held for sale and discontinued operations

Non-current assets or groups of assets to be disposed of are classified as assets/disposal groups held for sale and measured at the lower of their carrying amount and fair value loss costs to sell if the carrying amount of the single assets or disposal group can be recovered through a sales transaction rather than through further use.

2.23. Government grants

Government grants are recognized when there is reasonable assurance that the Group will meet the conditions attached to their award, and that the grants will be received.

Grants related to assets (investment grants) are recognized as deferred income on the liability side of the balance sheet, then transferred to the income statement on a systematic basis over the useful life of the assets.

Grants related to income are credited to the income statement in the line item “Other operating income” on a systematic basis over the relevant periods so that they match the costs they are meant to offset.

2.24. Dividends

Dividends distributed to Group shareholders are recognized as a liability in the period in which they are approved by the shareholders.

3. Financial risk management

Currency risk

The Group centralises the risk related to the impact that changes in foreign exchange rates may have on its parent company, Vétoquinol SA, by ensuring that its subsidiaries send and receive invoices that are stated in their local working currency.

Accordingly, its subsidiaries are not significantly exposed to the currency risk. Foreign currency movements are centralised at the Vétoquinol SA level, and financial hedging instruments are put in place to offer protection against the risk. The term on these instruments is always less than one year, and at the balance sheet year-end closing date, there are no outstanding hedges. For this reason, the provisions of IAS 39 pertaining to accounting for such instruments are not applicable to the financial statements for the years ended 31 December 2005 and 31 December 2006. Gains and losses on these instruments are credited to or charged against investment income, as the case may be.

Interest-rate risk

The Group's general policy on the interest-rate risk is to globally manage its exposure through the use of interest-rate swaps, interest rate futures contracts and currency swaps. The Group applies the relevant sections of IAS 39 whenever certain conditions of hedge accounting are met. When these conditions are not met, or if the amounts in question are not material, as has been the case in recent years, derivatives are carried on the balance sheet at their fair value, and all changes in fair value are recorded in profit and loss, in accordance with the fair value option under IAS 39.

4. Information on judgments and estimates

Financial statement preparation requires Management to make use of certain estimates and assumptions that may have an impact on the amounts of assets, liabilities, income and expenses that are expressed in the balance sheet and income statement, as well as on the information that appears in the notes on the company's assets and liabilities on the financial statement reporting dates. The estimates and assumptions derived from information that is available on the reporting date pertain in particular to:

- **the amount of provisions for return, for doubtful debts and those related to product claims;**
- **the duration of the life cycle of products;**
- **the amount of provisions for restructuring and tax, environmental and litigation risks;**
- **the measurement of purchase goodwill, intangible assets acquired and their estimated useful life;**
- **the fair value of derivative financial instruments.**

The final amounts may differ from these estimates.

5. Business combinations completed during the financial year

5.1. Business combination - Acquisition of Vet Solutions

General overview

On 29 December 2006, Vétoquinol acquired the assets of Vet Solutions.

Vet Solutions sells – exclusively to vets – a range of some thirty products, with a particular focus on dietetics, dermatological products, feed additives and disinfectants.

Description of the transaction

The total price paid to acquire this business was 23,000 thousand dollars according to the principles of IFRS 3 on business combinations.

This acquisition was paid for in cash only.

In accordance with IFRS 3, the fair values of all identifiable assets and liabilities were calculated prior to the acquisition on the basis of the financial position and net worth of Vet Solutions on 29 December 2006. In light of the nature of this transaction, as additional information becomes available over the next twelve months starting from the date of acquisition, it may be necessary to revise some of the elements governing the allocation of the purchase price of Vet Solutions.

Determination of the value of goodwill for Vet Solutions

In thousands of USD	Fair values at 29/12/2006
Client portfolio	11,089
Other non-current assets	133
Net WCR	2,199
Net assets acquired	13,421
Purchase price	23,000
Goodwill	9,579

At year-end December 2006, purchase goodwill for the subsidiary Vétoquinol USA was an estimated 7,274 thousand euros.

5.2. Business combination - Acquisition of Semyung Vétoquinol

General overview and description of the transaction

On 3 January 2006, Vétoquinol increased its equity ownership of its South Korean distributor Semyung Vet by 39%, for the sum of 350 thousand euros. Since 27 December 2005, the Group had already held a 28% equity interest. As a result of this additional equity purchase, Vétoquinol acquired a controlling interest in its distributor, leading to full consolidation of this subsidiary as of 1 January 2006. In addition, on 30 March 2006, Vétoquinol acquired full capital ownership of the subsidiary for 368 thousand euros. When this transaction was completed, negative goodwill (badwill) of -188 thousand euros was charged against income for the period.

Determination of badwill for Semyung Vétoquinol

In thousands of euros	
Acquisition of South Korean equities on 27 December 2005	300
Acquisition of South Korean equities on 03 January 2006	350
Acquisition of South Korean equities on 30 March 2006	368
Total value of South Korean securities	**1,018**
Net worth of the South Korean subsidiary	1,206
Badwill	**-188**

6. Segment information (primary segmentation – geographic sectors)

For financial years 2005 and 2006, all revenues were generated by the sale of veterinary products.

Sector result for financial year 2006

In thousands of euros Analyzed by location of assets	France	Western Europe (excluding France)	Eastern Europe	North America	Rest of the World	Consolidated total
Revenues	88,905	81,166	27,775	63,683	1,590	263,119
Revenues from related party transactions	-28,779	-7,260	-4,053	-11,436	0	-51,528
Total external revenues	60,126	73,906	23,722	52,247	1,590	211,591
Pre-tax operating income	7,649	12,388	3,635	1,882	74	25,628
Other operating income and charges	-97	12	0	-881	189	-777
Operating income	7,551	12,400	3,635	1,002	263	24,851
Net finance costs						-4,825
Profit before income taxes						20,027
Income taxes						-4,196
Net profit						15,831

For the purposes of compliance with the disclosure requirements of IAS 14, the Vétoquinol group has opted for an analysis by the location of its assets. In addition, sales are analysed and presented by location and market (geographic region):

In thousands of euros Analyzed by location of assets	France	Western Europe (excluding France)	Eastern Europe	North America	Rest of the World	Consolidated total
Revenues	48,317	113,179	26,538	62,656	12,430	263,119
Revenues from related party transactions	-1,856	-32,097	-3,838	-13,076	-661	-51,528
Total external revenues	46,461	81,082	22,700	49,579	11,770	211,591

Result by sector in financial year 2005

In thousands of euros Analysed by location of assets	France	Western Europe (outside France)	Eastern Europe	North America	Rest of the World	Consolidated total
Revenues	80,954	79,931	22,012	50,562	0	233,459
Revenues from related party transactions	-23,641	-9,421	-2,450	-1,330	0	-36,842
Total external revenues	57,314	70,510	19,562	49,232	0	196,617
Pre-tax operating income	6,966	11,332	2,382	2,447	0	23,127
Other operating income and charges	-708	-3,119	0	-465	0	-4,292
Operating income	6,258	8,213	2,382	1,982	0	18,835
Net finance costs						-2,326
Profit before income taxes						16,509
Income taxes						-4,063
Net profit						12,446

For the purposes of compliance with the disclosure requirements of IAS 14, the Vétoquinol group has opted for an analysis by the location of its assets. In addition, sales are analysed and presented by location and market (geographic region):

In thousands of euros Analyzed by location of assets	France	Western Europe (outside France)	Eastern Europe	North America	Rest of the World	Consolidated total
Revenues	46,789	103,514	22,552	49,847	10,757	233,459
Inter-sector revenues	-1,544	-28,641	-3,058	-3,598	0	-36,842
Total external revenues	45,245	74,872	19,494	46,249	10,757	196,617

Other sector items with no material impact on cash flow included in the income statement

In thousands of euros	France	Western Europe (outside France)	Eastern Europe	North America	Rest of the World	Consolidated total
31/12/2006						
Depreciation and amortization	-4,875	-658	-968	-1,886	-17	-8,404
Allowances and reversals	-356	226	92	37	-66	-68
31/12/2005						
Depreciation and amortization	-4,064	-1,369	-779	-1,884	0	-8,096
Allowances and reversals	622	76	-192	89	0	594

No impairment in value was recorded directly to shareholders' equity in either 2005 or 2006.

Assets, liabilities and sector investments

In thousands of euros	France	Western Europe (outside France)	Eastern Europe	North America	Rest of the World	Consolidated total
31/12/2006						
Assets	126,174	24,496	14,612	44,746	595	210,623
Liabilities	34,228	16,599	8,414	39,874	362	99,476
Assets acquired	8,065	440	2,502	17,278	125	28,410
31/12/2005						
Assets	129,091	26,739	9,974	33,913	0	199,717
Liabilities	62,374	17,369	6,719	26,435	0	112,897
Assets acquired	11,246	494	1,878	676	0	14,294

The acquisition of business assets in North America during 2006 includes the acquisition of goodwill on Vet Solutions valued at 7,274 thousand euros.

7. R&D expenditures

Research and development costs incurred and expensed in 2006 came to a total of 13,010 thousand euros (equal to 6.1% of revenue, compared to 11,874 thousand euros or 6.0% of revenue in 2005).

8. Other purchases and external expenses

In thousands of euros	31/12/06	31/12/05
General sub-contracting	1,142	1,094
Lease rental fees	3,883	3,643
Maintenance	2,503	2,903
Insurance	1,052	1,140
Surveys and research	1,050	1,060
Temporary outside personnel	1,042	813
Fees and commissions paid to intermediaries	9,374	6,826
Advertising, publications, public relations	8,626	8,131
Transport of goods and group transportation of personnel	5,682	5,399
Business travel and entertainment	4,944	4,614
Postal and telecommunication	1,372	1,378
Fees related to grants patents, licenses, trademarks, etc.	3,565	2,947
Other outside services	1,252	2,074
Miscellaneous	400	339
Total	45,887	42,360

9. Personnel costs

In thousands of euros	31/12/06	31/12/05
Wages	39,659	39,952
Social charges*	14,885	13,012
Termination bonuses and awards	440	252
Employee benefits – cost of services rendered (note 28)	396	193
Long-term employee benefits – actuarial adjustments recorded in the income statement	0	6
Total employee benefits	55,381	53,416

** The cost of defined contribution pension plans is included in total social charges.*

10. Share-based payment

The Board of Directors granted options to purchase shares to the employees under price and exercise terms and conditions that are specific to each grant. Four stock option plans have been granted to date.

	Plan 1	Plan 2	Plan 3	Plan 4
Date plan was opened	15-06-99	29-03-00	01-03-01	19-09-03
Exercise price	25.47	25.47	30.95	49.30
Expiration dates	15-12-04	29-09-05	31-08-06	18-03-09
Options remaining to be exercised at 31/12/2006	-	-	-	1,440

Under each of these plans, the grant conditions are tied to the past performance of the beneficiaries. As the standard allows, the Group has opted not to apply IFRS 2 for plans paid in shares and granted before 7 November 2002 (Plans 1, 2 and 3). As for plan 4, the application of IFRS 2 would have no material impact on the financial statements.

■ The number of options issued has evolved as shown in the table below:

	2006		2005	
	Exercise price	Number of options	Exercise price	Number of options
On 1 January	48.22	3,836	40.46	6,714
Granted	-		-	-
Cancelled	-	50	-	-
Expired	N/A		N/A	235
Exercised	47.45	2,346	30.56	2,643
On 31 December	49.30	1,440	48.22	3,836

The weighted average exercise price of stock options exercised in 2006 was €47.45 (2005: €30.56). The 2,346 options exercised in 2006 (2005: 2,643) gave rise to the issue of 23,460 shares, each with a par value of €2.5 (2005: 2,643 shares with a par value of €25).

Prior to the initial public offering, the liquidity of shares issued in connection with stock option plans was ensured by Soparfin at an agreed-upon price, the calculation of which was reviewed by the statutory auditors each year. This price was €89.77 at year-end 2005, for one share with a part value of €25.

11. Other operating income and charges

In thousands of euros	31/12/06	31/12/05
Operating subsidies	24	22
Investment subsidies transferred to profit for the year	28	28
Expense transfers	0	187
Net proceeds from the sale of assets	-11	260
Other income	1,107	1,383
Other charges	-813	-68
Total	336	1,812

■ **Other income is composed of:**

In thousands of euros	31-12-06	31-12-05
Rental fees	50	
Port fees reinvoiced to clients	242	150
Indemnities	64	
Sale of marketing authorizations	60	260
Claim reimbursement	30	
Other	661	973
Total	1,107	1,383

12. Other operating income and costs

In thousands of euros	31-12-06	31-12-05
Net disposal costs (Belp site)		-177
Capital loss on disposal of long-term assets (Belp site)		-3,119
Balance, Eiger project	310	
Discount following capital increase reserved for employees	-339	
Cost of compliance with Prolab standards	-452	
Indemnities for breach of contract	-599	-465
Transfer of Equistro	-109	
Product liability	-59	
Change in project accounting method	-323	
Badwill (South Korea)	188	
Adjustment to tax provisions	605	-531
Total	-777	-4,292

13. Leases

13.1. Finance leases - Lessee

The Group's only finance leases pertain to the leasing of buildings.

The related leases contain clauses that call for adjustments to rent payable calculated on the basis of changes in the French cost of construction index.

Tangible assets that pertain to finance leases are itemized in note 13, and the corresponding financing debt is discussed in note 27.

■ **Commitments related to finance leases that cannot be terminated**

In thousands of euros	31-12-06	31-12-05
Less than 1 year	122	133
1-5 years	467	499
More than 5 years	115	205
Minimum payments	704	837
Future financing charges	-95	-141
Less than 1 year	117	124
1-5 years	408	423
More than 5 years	84	149
Present value of minimum payments	609	696

13.2. Operating leases - Lessees

The operating leases to which Vétoquinol is party pertain exclusively to the leasing of buildings, cars and computer equipment.

Leases that contain index-linked rental adjustment clauses are mainly present in building leases (where rent is pegged to the French cost of construction index).

■ **Commitments related to operating leases that cannot be terminated**

In thousands of euros	31-12-06	31-12-05
Less than 1 year	3,171	2,662
1-5 years	5,540	4,241
More than 5 years	2,817	1,803
Total minimum payments	11,527	8,706
Total minimum income from sub-leasing to be paid in future periods	-	-

■ **Expenses on operating leases recognized during the period**

In thousands of euros	31-12-06	31-12-05
Minimum payments recognized	3,883	3,643
Conditional rents recognized		
Sub-lease income recognized	0	0

14. Financing charges - net

In thousands of euros	31-12-06	31-12-05
Interest income generated by cash and near cash	105	7
Income from the sale of near cash items	100	24
Income generated by cash and near cash	205	31
Interest expense on bond	-1,000	-1,000
Premium for non-conversion	-1,614	-1,454
Interest expense on other borrowings and overdrafts	-1,053	-1,043
Interest expense on finance leases	-27	-28
Gross financing charges	-3,694	-3,526
Net financing charges	-3,489	-3,495
Other financial income	256	248
Other financial charges	-513	-23
Finance charge on employee benefits	-99	-99
Translation gains	854	1,951
Translation losses	-1,834	-909
Other financial income and expenses	-1,336	1,169

15. Income taxes

The tax rate used to calculate deferred taxes for French companies is 34.43% for financial year 2006 (2005: 34.43%).

■ Analysis of the income tax expense:

In thousands of euros	31-12-06	31-12-05
Current tax expense	-5,171	-6,508
Deferred tax income related to timing differences	975	2,445
Total	-4,196	-4,063

■ Reconciliation of theoretical tax and legal tax rate in France and effective tax rate is provided below:

In thousands of euros	31-12-06	31-12-05
Profit for the period	15,831	12,446
Neutralisation of badwill on South Korean acquisition	188	0
Tax expense	-4,196	-4,063
Pre-tax profit of consolidated companies	19,838	16,509
Theoretical tax at the rate of 34.43% (2005: 34.43%)	6,830	5,684
Non-deductible expenses and non-taxable profit	-544	52
Impact of change in tax rate	72	139
Allocation of prior losses	95	-289
Tax rate difference on foreign affiliates	-1,275	-725
Effect of reduced rate	0	0
Tax credit	-1,380	-686
Theoretical tax expense on fees related to IPO	619	
Miscellaneous	-221	-113
Effective tax	4,196	4,063
Effective tax rate	21.15%	24.61%

- **Changes during the period in deferred tax assets are itemised in the table below:**

In thousands of euros	31-12-06	31-12-05
Opening balance	3,430	1,965
Recognized in the income statement	553	1,398
Recorded as shareholders' equity	-36	43
Reclassification	-1,293	
Currency translation adjustments	-12	24
Closing balance	2,642	3,430

- **Changes during the period in deferred tax liabilities are itemised in the table below:**

In thousands of euros	31-12-06	31-12-05
Opening balance	4,521	5,460
Recognized in the income statement	-423	-1,009
Impact of change in rate	0	-38
Recorded as shareholders' equity	0	0
Reclassification	-1,293	
Currency translation adjustments	-60	109
Closing balance	2,746	4,521

Pursuant to IAS 12 and under certain circumstances, a business may offset its deferred tax assets and liabilities. This was done in the table above via the reclassification line item.

- **Net deferred taxes are itemised in the table below:**

In thousands of euros	31-déc-06	31-déc-05
Premium for non-conversion of convertible bonds	1,852	1,296
Trademarks	-2,338	-2,338
Parts-based approach (net)	-1,087	-1,186
Other temporary differences (net)	101	-330
Internal margin on inventory items	1,155	1,115
Internal capital gain on long-term asset disposals	-28	-28
Restatement of finance lease	-37	-33
Employee benefits	853	783
Tax loss carry forwards	632	595
Regulated provisions	-803	-731
Other (net)	-404	-234
Total	-104	-1,091
o/w: Deferred tax assets	2,642	3,430
Deferred tax liabilities	-2,746	-4,521

Non-capitalized tax loss carryforwards correspond to non-capitalized deferred tax assets in the amount of €862K at year-end December 2006 (€1 402K at year-end December 2005).

16. Earnings per share

Basic earnings per share

Basic earnings per share (EPS) are calculated by dividing net profit attributable to ordinary shareholders (net profit, Group share) by the weighted average number of ordinary shares outstanding over the period.

	31-12-06	31-12-05
Net profit attributable to ordinary shareholders (thousands of euros)	15,824	12,441
Weighted average number of ordinary shares*	9,945,504	9,574,740
Basic EPS (in €/share)	1.59	1.30

** The 10-for-1 stock split is reflected in EPS for 2005.*

Diluted earnings per share

Diluted earnings per share are calculated by adjusting the net profit attributable to ordinary shareholders and the weighted average number of shares outstanding during the exercise for the impact of all ordinary shares that have a potentially dilutive effect. Potentially dilutive instruments include, in particular, stock options, stock warrants, bonds convertible into shares and all other stock-based awards. Without taking a position on the probability of such dilution, determining the maximal degree of dilution reveals the maximal impact on earnings per share that would result if all potentially dilutive instruments were exercised.

In 2003, the parent company Vétoquinol SA issued a bond convertible into shares (principal amount of €20,000K) entitling bearers to a 4% coupon the first year and a 5% coupon annually thereafter, plus a 6% premium for non conversion. This financial instrument has a dilutive effect on earnings per share. A total of 117,855 bonds were issued, potentially convertible into 1,178,550 new shares. In addition, to obtain the diluted EPS, net income is adjusted for the interest expense net of tax relative to convertible bonds.

In addition, when Vétoquinol SA raised its capital on 27 February 2003, the company issued 117,855 ABSA (shares with stock warrants attached). For 5 such warrants, shareholders may obtain 40 shares each with a par value of €2.5. If we apply the Treasury Stock Method, this represented 259,330 potential shares at the end of 2005. By 15 September 2006, all stock warrants had been exercised.

	31-12-06	31-12-05
Net profit attributable to ordinary shareholders (thousands of euros)	15,824	12,441
Interest expense savings net of taxes (tax rate = 34.43%) on the convertible bond issue	1,714	1,609
Profit used to calculate diluted profit (thousands of euros)	17,538	14,050
Weighted average number of ordinary shares*	9,945,504	9,574,740
Dilutive effect of stock options*	14,400	30,380
Dilutive effect of stock warrants	0	259,330
Dilutive effect of convertible bonds	1,178,550	1,178,550
Number of shares used to calculate diluted profit	11,138,454	11,043,000
Net diluted profit per share (in €/share)	1.57	1.27

** The 10-for-1 stock split and the capital increase post IPO are taken into account.*

17. Goodwill

In thousands of euros	31-12-06	31-12-05
On 1 January		
Gross value	19,932	18,262
Aggregate impairment		
Net value at opening of period	19,932	18,262
Acquisition through business combination	7,274	0
Impairment losses recognized in the income statement	0	0
Forex gain or loss, net	-973	1,669
On 31 December		
Gross value	26,233	19,932
Aggregate impairment		
Net value at close of period	26,233	19,932

Impairment tests

In accordance with the requirements of IAS 36, an impairment test for goodwill was conducted on each Cash Generating Unit (CGU) with goodwill amortization.

The CGUs defined for the Vétoquinol Group are these countries: the USA, Canada, France, the UK, Belgium, Switzerland, the Czech Republic, Austria, Poland, Ireland, Germany, Mexico and the Netherlands.

The allocation of goodwill amortization to various CGUs is itemized in the table below:

In thousands of euros	31-12-06	31-12-05
Vétoquinol Biowet Poland	2,488	2,469
Chassot GmbH Germany	1,705	1,705
Chassot UK	524	513
Vetco Ireland	421	421
Vétoquinol Switzerland	701	725
Vétoquinol Austria	772	772
Vétoquinol Czech Republic	875	829
Vétoquinol USA	11,592	4,820
Vétoquinol Belgium	500	500
Vétoquinol SA France	2,051	2,051
Vétoquinol Canada	4,605	5,127
Total	26,233	19,932

The differences in value between the two years is exclusively attributable to forex gains or losses on goodwill amortization stated in foreign currencies, with the exception of Vétoquinol USA, where the acquisition of the assets de Vet Solutions generated additional goodwill of €7,274K.

The recoverable value of intangible fixed assets tested is the value in use (i.e., the present value of the cash flows expected to be realized from the asset). Using this method, the recoverable value of the assets is the present value of the future cash flows expected from the continuous use of the asset and its disposal at the end of this period of use, less working capital requirements (WCR) and the value of other existing assets on the date the test is established. This valuation includes, in particular, a terminal value derived by discounting to infinity a cash flow deemed to be normative at the end of the forecasting period.

Cash flow forecasts were established over a period of 5 years, on the basis of budget projections for the following period, drawn up by Management using the assumptions indicated below:

- **Revenue growth rate of 3% to 8%, depending on the country**
- **Growth rate to infinity of 1.5% to 3%, depending on the country**
- **Discount rate of 10.2% before tax on 31 December 2006 (9.6% on 31 December 2005).**

On the basis of these tests, no impairment was recorded in 2005 or in 2006 for goodwill amortization, tangible fixed assets or intangible assets.

With respect to the North American region, which includes the CGUs Vétoquinol USA and Vétoquinol Canada, and which accounts for most of the Group's goodwill, depreciation testing was done using the discounted cash flow method using a discount rate of 10.2% and a growth rate to infinity of 3%.

18. Intangible fixed assets

In thousands of euros	Grants, patents and licenses	Computer programs	Trademarks	Other	Total
On 1 January 2005					
Gross book value	8,425	6,427	9,544	4,910	29,307
Accrued amortization	-3,945	-3,034	-681	-1,316	-8,976
Net value	4,480	3,393	8,863	3,595	20,330
Acquisitions	1,373	1,610	0	1	2,983
Change in method of consolidation	0	0	0	0	0
Disposals	0	-15	0	0	-15
Reclassifications	0	0	0	0	0
Impairment recognized in income statement					0
Impairment reversed in income statement					0
D&A allowances	-774	-935	0	-568	-2,278
Forex gains and losses, net	218	290	0	554	1,061
Other movements					0
On 31 December 2005					
Gross book value	10,324	8,326	9,544	5,659	33,853
Accrued amortization	-5,028	-3,984	-681	-2,078	-11,770
Net value	5,296	4,342	8,863	3,581	22,083
Acquisitions	1,241	966	0	421	2,627
Acquisitions by way of business combination				8,420	8,420
Change in method of consolidation	0	0	0	0	0
Disposals	0	0	0	-2	-2
Reclassifications	-4	1	0	-1	-4
Impairment recognized in income statement					0
Impairment reversed in income statement					0
D&A allowances	-739	-1,240	0	-532	-2,511
Forex gains and losses, net	-128	-126	0	-767	-1,021
Other movements	-323	0	0	0	-323
On 31 December 2006					
Gross book value	10,893	9,022	8,863	14,106	42,884
Accrued amortization	-5,548	-5,082	0	-2,985	-13,615
Net value	5,344	3,941	8,863	11,122	29,270

Intangible fixed assets include the Equistro trademark for 8,863 thousand euros, which is an intangible fixed asset with an indeterminate value in use and, as such, not amortized.

The Other column at year-end 2006 is primarily composed of amounts of Vet Solutions client lists, for a total of 8,420 thousand euros, and of IGI for an amount of 2,695 thousand euros.

19. Plant, property and equipment (tangible fixed assets)

In thousands of euros	Land	Buildings	Technical facilities	Other property, plant and equipment	Property, plant and equipment in progress, advances and down payments	Total
At 1 January 2005						
Gross book value	2,727	44,567	32,093	11,626	2,333	93,346
Aggregate amortization	-516	-23,195	-20,834	-8,420	0	-52,965
Net value	2,211	21,372	11,259	3,206	2,333	40,381
Increases	150	1,432	1,833	1,320	6,574	11,309
Change in method of consolidation	0	0	0	0	0	0
Assets classified as held for sale or included in an abandoned group held for sale and other removals						
Acquisitions by way of business combinations						0
Disposals	-56	-3,107	-89	-42	0	-3,294
Impairment loss charged against income						0
Impairment loss reversed and recognized as income						0
Amortization expense	-33	-1,977	-2,576	-1,230	0	-5,816
Net foreign exchange adjustments	55	557	327	169	11	1,119
Reclassifications	-864	-2,002	244	1	-244	-2,865
At 31 December 2005						
Gross book value	2,012	38,533	33,941	12,456	8,674	95,616
Aggregate amortization	-549	-22,258	-22,943	-9,032	0	-54,782
Net value	1,463	16,275	10,998	3,424	8,674	40,834
Increases	50	4,093	1,857	820	2,971	9,791
Acquisitions by way of business combinations		97	180	21	0	298
Change in method of consolidation	0	0	0	0	0	0
Assets classified as held for sale or included in an abandoned group held for sale and other removals						
Disposals	0	-79	-418	-83	0	-581
Impairment loss charged against income						0
Impairment loss reversed and recognized as income						0
Amortization expense	-35	-2,473	-2,162	-1,223	0	-5,894
Net foreign exchange adjustments	-19	-219	-146	-62	-27	-473
Reclassifications	0	9,132	751	147	-10,027	4
At 31 December 2006						
Gross book value	1,979	51,185	30,836	10,654	1,591	96,244
Aggregate amortization	-521	-24,355	-19,775	-7,611	0	-52,262
Net value	1,459	26,830	11,060	3,043	1,591	43,983

Finance leases

Plant, property and equipment include the following items, held under finance leases:

In thousands of euros	31 December 2006	31 December 2005
Land		
Gross value	101	101
Net book value	101	101
Buildings		
Gross value	10,027	10,027
Aggregate amortization	-9,100	-8,979
Net book value	927	1,049
Total		
Gross value	10,128	10,128
Aggregate amortization	-9,100	-8,979
Net book value	1,028	1,150

The amount committed for the acquisition of plant, property and equipment is indicated in note 34.3.

20. Financial assets held and available for sale

In thousands of euros	Biovet Canada	Semyung Vet	I.E.N	Other	Total
1 January 2005	-	-	23	12	35
Acquisitions		300			300
Impact of exchange rate changes					0
31 December 2005	0	300	23	12	335
Acquisitions		718			718
Reclassification as equity investments		-1,018			-1,018
Provision for impairment of equity investments			-23	-8	-31
Impact of exchange rate changes					0
31 December 2006	0	0	0	4	4

On 24 December 2005, the Group acquired an equity interest in its South Korean distributor Semyung Vet for €300K. At year-end 2005, the underlying securities were not consolidated because the percentage of ownership in the company was only 27.7% (the acquisition of the remaining interest being subject to certain conditions).

In early January 2006, €350K was paid to acquire an additional 39% of the equity. The remaining shares were acquired at the end of March 2006 for around €360K. In the financial statements for 2006, this equity investment is fully consolidated.

21. Other financial assets

In thousands of euros	Loans	Deposits and guarantees	Other	Total
31/12/2004	7	44	296	346
Acquisitions	0	28	39	67
Disposals	-3	-11	-2	-16
Impact of exchange rate changes	0	2	7	9
31/12/2005	4	63	339	406
Acquisitions	0	4	94	98
Disposals	-1	0	-163	-164
Impact of exchange rate changes	0	0	1	1
31/12/2006	3	67	270	340

All items classified as "other financial assets" are non-current.

22. Derivative financial instruments

22.1. Derivative financial instruments

As indicated in note 2.15, the Group from time to time uses derivative financial instruments, for the sole purpose of reducing the Group's exposure to the currency or interest rate risk.

At year-end 2006, the fair value of foreign currency derivatives was less than €6K, for a notional principal amount of €1.0M. The longest maturity on the options is June 2007.

At year-end 2006, the fair value of interest rate derivatives was less than €10K, for a notional principal amount of floating rate debt of less than €1.4M. Interest rate swaps mature in 2007, and the cap was terminated in November 2005.

22.2. Derivatives for hedging

Given that the expected consequences of hedging operations carried out during the year ended are minor, the Group decided not to apply currency hedging procedures. The change in the fair value of derivatives used for this purpose was recognized in the income statement.

23. Inventories

- **Inventory itemized by type**

In thousands of euros	31 December 2006			31 December 2005		
	Gross value	Depreciation	Net value	Gross value	Depreciation	Net value
Raw materials, commodities and supplies	10,175	-833	9,342	10,068	-565	9,503
Other supplies	0	0	0	380	0	380
Work in process	1,842	-60	1,782	1,075	-8	1,067
Semi-finished and finished goods	19,495	-671	18,824	19,779	-577	19,202
Merchandise	6,620	-207	6,413	4,639	-106	4,533
Total	38,132	-1,771	36,362	35,941	-1,256	34,686

Change in depreciation

In thousands of euros	31 December 2005	Allowances	Reversals	Currency translation adjustment	31 December 2006
Raw materials, commodities and supplies	565	800	-534	1	833
Work in process	8	60	-8	0	60
Semi-finished and finished goods	577	612	-498	-20	671
Merchandise	106	117	-1	-15	207
Total	1,256	1,589	-1,040	-34	1,771

24. Client and other receivables

In thousands of euros	31 December 2006	31 December 2005
Trade receivables	43,221	49,171
Impairment of trade receivables	-1,776	-2,126
Net trade receivables	41,445	47,045
Payments made in advance	445	218
Prepaid expenses	1,248	1,197
Government receivables	1,869	1,069
Other operating receivables	1,824	1,315
Miscellaneous receivables	339	150
Provisions	-12	-261
Other debtors	5,714	3,688
Total trade receivables and other debtors	47,159	50,733

All net trade receivables mature in less than one year.

25. Cash and near cash

In thousands of euros	31 December 2006	31 December 2005
Marketable securities	961	5,490
Cash and cash assets	20,757	21,485
Total cash and near cash assets	21,719	26,975

The total cash balance indicated in the cash flow table indicates:

In thousands of euros	31 December 2006	31 December 2005
Total cash and near cash assets	21,719	26,975
Bank overdrafts (note 27)	-6,515	-8,690
Total	15,204	18,285

26. Share capital and additional paid-in capital

In thousands of euros	Number of shares	Ordinary shares	A & B preferred shares	Additional paid-in capital	Total
31 December 2004	957,109	20,982	2,946	20,850	44,778
Stock option plan - options exercised	2,643	66		15	81
At 31 December 2005	959,752	21,048	2,946	20,865	44,859
10-for-1 stock split	9,597,520				
Stock option plan - options exercised	23,460	59		53	111
Exercise of BSA stock warrants	942,840	2,357		0	2,357
Expiry of A&B preferred shares post-IPO		2,946	-2,946		0
IPO - capital increase	476,190	1,190		8,810	10,000
IPO - full exercise of greenshoe option	157,895	395		2,921	3,316
Capital increase reserved for employees	80,827	202		1,156	1,358
IPO costs net of taxes				-1,238	-1,238
At 31 December 2006	11,278,732	28,197	0	32,566	60,763

Share capital was €28,196,830 on 31 December 2006, divided into 11,278,732 shares, each with a par value of €2.5. On 31 December 2005, share capital was composed of 959,752 shares, each with a par value of €25.

In an extraordinary resolution presented on 16 May 2003, the shareholders approved the creation of three types of shares: 58,928 A shares and 58,927 B shares, with the remaining shares classified as O shares.

The following special advantages were granted to holders of A and B shares: each A share and each B share were entitled for each financial year and for the first time in the financial year beginning on 1 January 2003 (dividend distributed in 2004) to a non-cumulative preferential dividend taken from distributable earnings equal to €1.697 (for shares with a par value of €25).

The special rights attached to A and B became null and void or expired if one or both of the following events occurred:

- admission of shares for trading in a regulated market
- joint disposal by their holders of all A and B shares.

At a special meeting of the shareholders held on 7 July 2006, it was decided that as of this same date, double voting rights would be granted to all fully paid-up shares for which proof of registration in the name of one and the same shareholder for at least two years could be provided.

At the same special meeting on 7 July 2006, the shareholders decided to divide by 10 the par value of each share composing the share capital, bringing par value from €25 to €2.50, and to correlatively multiply by 10 the number of shares composing the share capital. The number of new shares created on this occasion came to 8,637,768. The total number of shares composing the share capital after this 10-for-1 stock split was 9,597,520 shares.

On 15 September 2006, under the terms of an agreement entered into between the shareholders and the company on 3 August 2006, the parent company Soparfin bought back 58,928 “BSA” warrants from the following shareholders: 3i solutions, BNP Paribas Développement and Middle Market Funds II. All of these warrants were exercised by 15 September 2006. At this time, 942,840 shares with a par value of €2.5 were created.

The issue of 23,460 new shares was noted following the exercise of options (2005: 2,643 shares with a par value of €25/share, the equivalent of 26,430 shares, with a par value of €2.5 each). A total of 1,440 unexercised options remained at year-end 2006, which, if exercised would result in the issue of 14,400 shares.

At an ordinary and extraordinary meeting held on 9 October 2006, the shareholders delegated authority to the Board of Directors in a number of areas, namely:

- **the authority to decide to increase capital with preferential subscription rights waived and by taking the company public**
- **the authority to increase the number of shares to be issued in the event that new shares were issued with preferential subscription rights waived and by taking the company public in an IPO carried out by virtue of another delegation of authority**
- **the authority to decide to increase capital in an issue reserved exclusively for employees who are members of an employer-sponsored savings plan.**

These delegations were granted under the suspensive and non-retroactive condition that the Company's stock be admitted for trade and an initial public offering on the Eurolist by Euronext Paris market. Following the realization of this suspensive condition, the Board of Directors made use of the delegations of authority indicated above.

In preparation for the Company's pending IPO, the Board of Directors met on 2 November 2006 and made the following decisions in principle:

- **To increase capital for a principal amount of €1,635,070, through the creation and issue of 654,028 new shares, each with a par value of €2.50, representing approximately 6.20% of the share capital and 3.27% of the voting rights before the capital increase, for a price in the range of €19.40 to €22.40.**
- **To carry out a capital increase reserved for employees who are members of an employer-sponsored savings plan only, via an FPCE mutual fund called "ACTIONS VETOQUINOL," for a principal amount of €312,500 via the creation and issue of 125,000 new shares, each with a par value of €2.50, representing approximately 1.18% of the share capital and 0.62% of the voting rights before the capital increase, for a subscription price equal to 80% of the IPO issue price.**
- **To grant ODDO et Cie a greenshoe option, giving it the option of acquiring or having acquired, at any time until 15 December 2006, up to but no more than 157,895 new shares, to be issued via a share capital increase in application of the delegation of authority mentioned above, for the purpose of covering any over-allotments.**

At its meeting on 16 November 2006, the Board of Directors accordingly decided to increase share capital with preferential subscription rights waived and by taking the company public, for a total principal amount of €1,190,475 (raising total share capital from €26,409,550 to €27,600,025 by issuing 476,190 new shares, each with a par value of €2.50 and priced at €21 per share.

At a meeting on 16 November 2006, the Board of Directors granted ODDO et Cie a greenshoe option, giving it the option of acquiring or having acquired, at any time until 15 December 2006, up to but no more than 157,895 new shares, to be issued via a share capital increase in application of the delegation of authority mentioned above, for the purpose of covering any over-allotments.

At its meeting on 16 November 2006, the Board of Directors accordingly decided to increase share capital by issuing shares exclusively to the mutual fund (FCPE) "SHARES VETOQUINOL," on behalf of holders of units in said fund, for a total principal amount of €312,500, through the issue of 125,000 new shares, each with a par value of €2.50, and priced globally at €16.80, including additional paid-in capital of €14.30. Acting in accordance with applicable law, the Board of Directors also delegated authority to the Chairman and CEO of the Company to take all measures and accomplish formalities that might be required to carry out this capital increase, to duly note its definitive completion and to amend articles 6 and 7 of the Company's bylaws accordingly.

In light of the Company's successful IPO and the steady rise in its stock price since it was first floated, ODDO et Cie informed Vétoquinol that it had decided to fully exercise its greenshoe option.

At its meeting on 8 December 2006, the Board of Directors accordingly decided, pursuant to the relevant provisions of Article L.225-135-1 of the French Commercial Code, to carry out a capital increase with preferential subscription rights waived and by taking the Company public, for an additional amount of €394,737.50, raising share capital from €27,600,025 to €27,994,762.50 through the issuance of an additional 157,895 new shares, each with a par value of €2.50, priced at €21 per share.

On 26 December 2006, the Chairman and CEO duly noted the definitive completion of the share capital increase reserved for the FCPE mutual fund "SHARES VETOQUINOL" that was decided on at the Board's meeting held on 16 November 2006, in the amount of the shares subscribed and for a principal amount of €202,067.50. As a result of this increase, the Company's share capital was raised from €27,994,762.50 to €28,196,830, via the issuance of 80,827 new shares, each with a par value of €2.50.

Dividend distribution

At their annual meeting on 22 May 2006, the shareholders decided on the distribution of a dividend in respect of financial year 2005 for a global amount of €1,823,528.80 (€1.90/share, compared with a global amount of €1,627,085.30 and a dividend per share of €1.70 in respect of 2004).

At an extraordinary meeting held on 8 September 2006, the shareholders decided to pay out an exceptional dividend of €0.417 per share. The payout took place on 15 September 2006, and the total amount paid in the form of a dividend was €4,002,983.16.

Treasury shares/liquidity agreement

At their ordinary and extraordinary meeting held on 9 October 2006, the shareholders passed the third resolution, which authorizes the Board of Directors to carry out a programme involving the buyback of the Company's own shares, in accordance with the terms and conditions of Articles L.225-209 and following of the French Commercial Code, European Regulation no. 2273/2003 dated 22 December 2003, and the General Regulations of the AMF (*Autorité des Marchés Financiers*).

The number of shares that the Company has the option of acquiring in the course of the aforementioned share buyback programme is limited to 10% of the shares comprising the share capital of the Company on 8 December 2006, the date of the Board's decision, after completion of the capital increase carried out in application of the relevant provisions of Article L.225-135-1 of the French Commercial Code, i.e. up to but no more than 1 119 790 shares.

The maximum unit purchase price for the shares is 180% of the price at which Vétoquinol shares were initially listed on the Eurolist by Euronext Paris market (i.e. €37.80).

The share buyback programme was authorized for a period of eighteen months, starting from the date of the ordinary and extraordinary meeting of the shareholders that delivered this authorization, which means that it will run through 9 April 2008.

One of the aims of the buyback programme is to stimulate the secondary market or the liquidity of the Company's shares by ODDO Corporate Finance, within the framework of a liquidity agreement that is compliant with the set of guidelines for such agreements that is recognized by the AMF.

As of 19 December 2006 and through 31 December 2007, and renewable thereafter automatically for successive periods of 12 months, Vétoquinol entrusted the implementation of a liquidity agreement in conformity with the AFEI's guidelines, which were approved by the AMF in a decision issued on 22 March 2005, to ODDO Corporate Finance.

Accordingly, the following resources were allocated to a liquidity account: €200,000.

At year-end 2006, Vétoquinol did not hold any of its own shares, as the actual start of the agreement was set for early January 2007.

27. Financing debt

■ The table below presents current and non-current financing debt by type:

In thousands of euros	31 December 2006	31 December 2005
Convertible bond	25,378	23,764
Borrowing and miscellaneous financing debt	4,299	10,468
Borrowing related to finance leases (note 13)	515	598
Total financing debt - non-current	30,192	34,830
Borrowing and miscellaneous financing debt	5,686	7,333
Borrowing related to finance leases (note 13)	97	120
Bank overdrafts	6,515	8,690
Total financing debt - current	12,298	16,143
Total financing debt	42,490	50,973

■ The table below itemizes financing debt by maturity/due date:

In thousands of euros	Total	< 1 year	1-5 years	> 5 years
At 31 December 2005				
Convertible bond	23,764	0		23,764
Borrowing and miscellaneous financing debt	17,801	7,333	10,468	0
Borrowing related to finance leases	718	120	598	0
Bank overdrafts	8,690	8,690	0	0
Total financing debt	50,973	16,143	11,066	23,764
At 31 December 2006				
Convertible bond	25,378		25,378	
Borrowing and miscellaneous financing debt	9,985	5,686	4,299	0
Borrowing related to finance leases	612	97	409	106
Bank overdrafts	6,515	6,515	0	0
Total financing debt	42,490	12,298	30,086	106

Characteristics of the convertible bond

At their combined ordinary and extraordinary meeting of 27 February 2003, the shareholders approved a bond issue with a principal amount of €19,999,993.50, divided into 117,855 bonds with a face value of €169.70, and convertible into ordinary shares of the Company on the following terms and conditions:

- Issue in two tranches, currently held by Soparfin:
  - tranche A: 58,928 bonds
  - tranche B: 58,927 bonds.
- Term of the bond:
  - tranche A: 7 years
  - tranche B: 8 years.
- Coupon: 4% per annum the first year, 5% per annum thereafter
- Non-conversion premium.

Bondholders who did not opt for conversion within the prescribed time limits stated above shall receive a non-conversion premium of 6% per annum, calculated so that the convertible bonds generate a compound annual return equal to the annual coupon (i.e. 4% the first year and 5% thereafter) plus an additional 6% payable on redemption, in conformity with Article 1154 of the French Civil Code.

The redemption price shall be one hundred sixty-nine euros and seventy cents (€169.70) per convertible bond, plus accrued interest and the non-conversion premium.

Following the 10-for-1 stock split approved by the shareholders at their meeting on 7 July 2006, the conversion ratio is now one convertible bond for 10 Company shares.

- **Breakdowns by major currencies and by rate are provided in the following table:**

In thousands of euros	31/12/2006	31/12/2005
Fixed rate	0	0
Floating rate	3,927	6,558
CAD	3,927	6,558
Fixed-rate bond	25,378	23,764
Fixed and floating rate swaps	3,777	7,107
Floating rate	2,893	4,854
EUR	32,048	35,725
Fixed rate	29,155	30,871
Floating rate	6,820	11,412
Total (all currencies)	35,975	42,283
Bank overdrafts	6,515	8,690
Total	42,490	50,973

Collateral given as guarantee

A pledge of mortgage assets was given to the lessor on the property lease being financed.

Of the loans still outstanding at year-end 31 December 2006, the Group has agreed to pledge mortgage assets held as collateral, upon first request of the bank, to guarantee all outstanding sums. At year-end 2006, the outstanding balance was €1,800K, from an initial commitment of €6,202K and a remaining balance due of €4,077 at year-end 2005.

Lines of credit

At year-end 2006, the Group's open lines of bank credit showed a counter-value of €24,860K (€25,966K at year-end 2005), stated in various currencies. These lines of credit were drawn down by €6,515K at year-end 2006 (€8,690K at year-end 2005).

28. Provisions for employee benefits

In thousands of euros	Note	31/12/2006	31/12/2005
Provision for end of career awards	28.1	2,527	2,344
Provision for long-service medals	28.2	289	267
Provision for time savings account	-	169	83
Total		2,985	2,694

The current portion of these provisions is deemed to be non material. As such, it is presented under non-current liabilities.

28.1. Retirement gratuities

A system of retirement gratuities has been set up for company employees in France, Poland and Austria. In France, employees receive End of Career awards under the national collective bargaining agreement for employees involved in the manufacturing and sale of pharmaceutical, para-pharmaceutical and veterinary products.

- **Changes in liabilities are listed below:**

In thousands of euros	31 December 2006	31 December 2005
Net book value on 1 January	2,344	2,026
Expenses charged against income	360	235
Actuarial adjustments based on revised assumptions and recorded as equity	-97	133
Paid contributions	-82	-60
Currency translation adjustments	2	10
New liabilities due to the acquisition of new businesses		
Net book value on 31 December	2,527	2,344

Amounts recognized in the income statement for the period are listed below:

In thousands of euros	31 December 2006	31 December 2005
Cost of services rendered during the period	271	147
Financing cost	89	88
Cost of past services		
Total	360	235

The principal actuarial assumptions are listed below:

	31 December 2006	31 December 2005
Discount rate	[4.60% - 5.10%]	[4.01% - 5%]
Revaluation rate for wages	[2.5% - 5%]	[2.5% - 5%]
Social charges	45%	45%
Rate of turnover		Depends on age cohort

28.2. Long-service medals

In France, employees are eligible for long-service medals as defined in Decree no. 2000-1015 published in the official gazette (*Journal Officiel*) on 19 October 2000, as set forth in a company agreement or as part of standard practice. In addition, Vétoquinol also has its own long-service medal programme, which entitles company personnel to bonus awards based on their length of service.

Changes in liabilities are listed below:

In thousands of euros	31 December 2006	31 December 2005
Net book value on 1 January	267	251
Expenses charged against income	50	37
Actuarial adjustments based on revised assumptions and recorded as equity	-12	
Paid contributions	-16	-20
Currency translation adjustments		0
New liabilities due to the acquisition of new businesses		
Net book value on 31 December	289	267

Amounts recognized in income statement for the period are listed below:

In thousands of euros	31 December 2006	31 December 2005
Cost of services rendered during the period	40	20
Financing cost	10	11
Actuarial adjustments		6
Total	50	37

The principal actuarial assumptions are listed below:

	31 December 2006	31 December 2005
Discount rate	4.60%	4.01%
Revaluation rate for service medals and bonuses	0.6% to 0.9%	0.6% to 0.9%
Social charges	45%	45%
Rate of turnover		Depends on age cohort

28.3. Other employee benefits

The Group also provisions for other employee benefits. Through 31 December 2006, these provisions were entirely dedicated to the employee time savings account.

In thousands of euros	31 December 2006	31 December 2005
Net book value on 1 January	85	57
Expenses recognized in the income statement*	84	28
Net book value on 31 December	169	85

** Of these liabilities, expenses recognized in the income statement are entirely made up of the cost of services rendered.*

28.4. Retirement

Defined benefits plan
The Group has no pension plans that offer defined benefits.

Defined contribution plan
The expenses related to defined contribution plans offered by the Group are indicated in note 9.

29. Other provisions

In thousands of euros	Provision for litigation	Other provisions	Total
At 31 December 2005	498	671	1 169
Additional provisions and increases	172	129	300
Amounts used	-109	-530	-640
Amounts not used and released	0	-13	-13
Foreign exchange adjustments	0	0	0
At 31 December 2006	560	256	815

Of which:	31 December 2006	31 December 2005
Current	117	98
Non-current	698	1,071
Total	815	1,169

Provisions for litigation concern provisions for disputed matters and grievances relating to business or employment.

For the year ended 31 December 2005, other provisions mainly include a €531K tax provision. In fact, an improvement in the situation of a subsidiary in Germany led the Group to reverse the provision set up previously for tax purposes. This provision was used and consequently reversed in 2006.

For the year ended 31 December 2006, other provisions totalling €256 thousand were established, in part to cover the transfer of Equistro's business for a total amount of €194 thousand.

30. Government subsidies

The Vétoquinol group has received conditional advances from the government. At 31 December 2006, these advances included those received from ANVAR for €402K. At 31 December 2005, this line item included a repayable advance of €152K. During financial year 2006, we received a repayable advance of €250K.

In addition, the Vétoquinol group receives investment and operating subsidies. They are recognized as prepaid income and carried forward as income each year (see notes 3 and 11).

31. Suppliers and other payables

In thousands of euros	31 December 2006	31 December 2005
Supplier payables	20,732	22,771
Payables to fixed asset suppliers	1,747	3,135
Social and tax liabilities	15,622	14,955
Miscellaneous operating payables	10,355	8,339
Deferred income	309	337
Other miscellaneous liabilities	-2	24
Payables to related parties		
Total	48,764	49,561

All supplier payables fall due in less than one year.

32. Dividends per share

Dividends paid in 2006 totalled €1,823,528.80 (2005: €1,627,085.30), i.e. €1.9/share (2005: €1.7/share).

At an extraordinary meeting held on 8 September 2006, the shareholders decided to approve the payout of an exceptional dividend of €0.417 per share, which was paid on 15 September 2006. The global amount of the dividend paid was €4,002,983.16.

A dividend totalling €2,594,108.36, i.e. €0.23/share will be submitted to a vote of the shareholders at their annual meeting on 4 June 2007. These dividends are not included in these financial statements.

33. Workforce

Workforce in 2006 by job area and geographic region	France	Western Europe (ex-France)	Eastern Europe	North America	Rest of the world	Total consolidated
Sales & Marketing	101	112	55	92	6	366
Administration & Management	72	29	26	27	3	157
Production	153		120	48		321
Quality	63	1	48	28	1	141
Purchases & Logistics	37	10	34	30	1	112
Research & Development	94	11	9	12		126
Total workforce, 2006	520	163	292	237	11	1,223
Total workforce, 2005	508	164	271	200	0	1,143

34. Off-balance sheet commitments

34.1. Commitments given

In thousands of euros	31/12/06	31/12/05
Guarantees and deposits	103	40
Mortgages and collateral	18,161	22,292
Total	18,265	22,332

In Canada, the advances (described in note 34.2) are guaranteed by a second lien in the amount of CAD25,000 thousand at year-end 2006, which translates into €16,361 thousand euros at the year-end closing exchange rate for 2006 (2005: CAD25,000 thousand, or €18,215 thousand at the year-end closing rate for 2005), on all receivables, inventories and intellectual property in the possessions of Vétoquinol Canada and its parent, Vétoquinol SA.

34.2. Commitments received

In thousands of euros	31/12/06	31/12/05
Guarantees and deposits	5,689	7,305
Liability guarantees	8,831	
Total	14,520	7,305

Soparfin also provided a guarantee for Vétoquinol SA on €910 thousand in loans contracted during 2006 (2005: €2,616 thousand).

Société Générale provided the guarantee for instalment payments outstanding on finance leases, which totalled €122 thousand at year-end 2006 (compared with €120 thousand at year-end 2005).

In connection with the sale of the manufacturing business based in Switzerland, the bank UBS provided a guarantee for CHF863 thousand (€555 thousand euros at the closing rate at year-end 2005).

In Canada, the Group obtained authorized bank advances for a maximum of CAD15,000 thousand (€9,817 thousand at the closing rate at year-end 2006), on a consolidated basis, which may be used in the form of bank loans with interest set at the lending institution's preferential rate plus 0.375%, or in the form of a banker's acceptance, with interest at a floating benchmark rate determined by the lending institution plus 1.75%. On this line of credit, a total of CAD8,000 thousand had been drawn down on 31 December 2006, i.e. €5,236 thousand euros (2005: CAD9 447 thousand or €6,883 thousand at year-end closing rates in 2005).

In connection with the agreement to purchase the US assets of Vet Solutions, the sellers of Vet Solutions Management, Vet Solutions Inc, D. Schildgen, S. Dowling, M. Drew and K. Koch granted the usual liability guarantee on the assets sold to Vétoquinol USA. This guarantee is for 2 years as of 29 December 2006 (except for the environmental, employment and tax aspects) and may not be called if the callable amount under this guarantee is less than USD200 thousand. The amount granted as compensation under this guarantee may not exceed 50% of the acquisition price, i.e. USD11,500 thousand (€8,732 thousand at year-end closing rates in 2006).

In connection with the acquisition of the equity security interest in the South Korean company Semyung Vet, the former shareholders granted Vétoquinol a liability guarantee counter-guaranteed by a first demand bank guarantee for €35 thousand, for Mr. Joe (bank guarantee expires on 14 January 2008), and for KRW79,000 thousand for the group of shareholders (bank guarantee expires on 30 March 2008), i.e. €64 thousand at year-end closing rates in 2006.

34.3. Commitments related to investments in long-term fixed assets

Investments contracted at the closing date but not recognized in the financial statements are the following:

In thousands of euros	31/12/06	31/12/05
Intangible assets	26	750
Property, plant and equipment	1,868	1,593
Total	1,895	2,343

34.4. Commitments related to operating leases

Commitments related to operating leases are disclosed in note 13.

35. Possible assets and liabilities

Vétoquinol is a party to a commercial dispute related to the breach of a distribution agreement. This possible liability has not been provisioned because the potential obligation is not substantial and cannot be assessed with a sufficient degree of reliability.

Vétoquinol has been sued for the alleged breach of a distribution understanding pertaining to certain of its products, with the plaintiff seeking damages of €410 thousand. Management is not in a position to evaluate the outcome of this legal dispute and accordingly deems that the amount that could possible by payable is indeterminable. As a result, no provision has been established or booked.

Vétoquinol is a party to a commercial dispute (as a plaintiff) related to the breach of a distribution agreement. The initial claim was for €968 thousand. On 8 February, the trade court with jurisdiction in the matter awarded Vétoquinol €232 thousand, denying Vétoquinol's request for client compensation of €690 thousand. However, the court ordered Vétoquinol to cover commercial delegate salaries totalling €43 thousand. It is likely that this decision will be appealed.

36. Information pertaining to related parties

36.1. Compensation paid to key executive officers

In euros	31/12/06	31/12/05
Short-term benefits	922,239	712,036
Post-employment benefits		
Total	922,239	712,036

The key executive officers of the Vétoquinol Group are Etienne Frechin (Chairman and CEO), Dominique Henryon (COO), Bernard Boisramé (SEVP and qualified person) and Matthieu Frechin (SEVP, head of strategy and development).

36.2. Transactions with related parties

On 7 August 2006, Soparfin (the parent company of Vétoquinol SA) bought from the shareholders 3i solutions, BNP Paribas Développement and Middle Markets Funds II the 117,855 bonds convertible into shares issued by Vétoquinol SA.

On 15 September 2006, under the terms of an agreement entered into between the shareholders of the company on 3 August 2006, Soparfin repurchased 58,928 BSA warrants from the shareholders 3i solutions, BNP Paribas Développement and Middle Markets Funds II. All BSA warrants had been exercised by 15 September 2006.

37. Significant events since year-end 2006

None.

38. Group companies

Company	Headquarters	% ownership 2006	% ownership 2005
Vétoquinol S.A.	Magny-vernois B.P. 189 - LURE CEDEX - FRANCE	100%	100%
Vétoquinol GmbH	Parkstrasse 10 - 88212 RAVENSBURG - DEUTSCHLAND	100%	100%
Vétoquinol N.-A. Inc	200 Chemin Georges - LAVALTRIE - Quebec 50K 1H0 - CANADA	100%	100%
Vétoquinol Prolab	700 Rue St Henri - PRINCEVILLE G6L4X1 - CANADA	100%	100%
Vétoquinol Canada Ltee	200 Chemin Georges - LAVALTRIE - Quebec 50K 1H0 - CANADA	100%	100%
Vétoquinol de Mexico S.A. de C.V	Lopez Cotilla 744 - Col. Del Valle MEXICO, 03100, D.F. – Mexico	100%	100%
Vétoquinol USA Inc.	101 Lincoln Drive - Buena - New Jersey NJ08310 - 0687 – USA	100%	100%
Vétoquinol Spain	Parque Empresarial SAN FERNANDO Edificio Italia - 28830 SAN FERNANDO DE HENARES - SPAIN	100%	100%
Vétoquinol UK	Wedwood Road - BICESTER- OXFORDSHIRE 0X6 7UL - UK	100%	100%
Vétoquinol Ireland	UNIT 7 BORANMORE BUSINESS PARK Co.GALWAY IRELAND	100%	100%
Vétoquinol NV (Belgium)	Kontichsesteenweg 42 - 263 AARTSELAAR - BELGIUM	99%	99%
Vétoquinol BV (Holland)	Kontichsesteenweg 42 - 263 AARTSELAAR - BELGIUM	100%	100%
Frefin GmbH	Parkstrasse 10 - 88212 RAVENSBURG - DEUTSCHLAND	100%	100%
Vétoquinol Biowet Poland	UL. Kosynierow Gdnyskich 13/14 - 66-400 GORZOW WKLP – POLAND	100%	100%
Vétoquinol Biowet Ukraine	U I Rogaliewa 18 - DNIEPROPIETROVSK - UKRAINIA	95%	95%
Equistro Pharma	An der Alten Ziegelei 18 - 48157 MUNSTER – DEUTSCHLAND	100%	100%
Chassot UK	Cougar Lane Naul Co DUBLIN – IRELAND	100%	100,00%
VETCO Ireland	Cougar Lane Naul Co DUBLIN - IRELAND	100%	100%
Vétoquinol AG Switzerland	Aemmenmattstrasse 2 - 3123 BELP BERN – SWITZERLAND	100%	100%
Vétoquinol Czech Republic	Zamenicka 411 - 28802 NYMBURK - CZECH REPUBLIC	100%	100%
Vétoquinol Austria	Zehetnergasse 24 - A 11-40 WIEN - AUSTRIA	100%	100%
Semyung Vétoquinol South Korea	909-3, Whajung-dong Dukyang-Ku - KOYANG-CITY KYUNGKI-DO – SOUTH KOREA	100%	0%

Independent Auditors' report on the consolidated financial statements

(Year ended 31 December 2006)

To the Shareholders,

In compliance with the assignment entrusted to us by the shareholders, we have audited the accompanying consolidated financial statements of Vétoquinol S.A. for the year ended December 31, 2006.

The consolidated financial statements are the responsibility of the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1. Opinion on the consolidated financial statements

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

In our opinion, the consolidated financial statements for fiscal year 2006 give a true and fair view of the assets, liabilities, financial position and results of the consolidated group of persons and entities in accordance with the IFRS guidelines adopted by the European Union and applicable to its member states.

2. Justification for our assessments

In application of the provisions of Article L.823-9 of the French Commercial Code pertaining to the justification for our assessments, we draw your attention to the following items:

- **The carrying values of purchase goodwill and assets whose useful lives are not defined are tested at each closing for recoverability, and also assesses where such exists an index for the impairment of long-term assets, using the methods described in note 2.12 of the consolidated financial statements. We have examined the procedures for carrying out this test for impairment as well as the cash flow projections and assumptions used, and have verified that notes 2.12, 17 and 18 provide appropriate information.**
- **Note 2.8 sets forth the procedures for estimating the employer's retirement obligations and other related commitments. These commitments were evaluated by outside actuaries. Our work consisted of examining the data used, reviewing the calculations that were made and verifying that 2.8 and 28 to the consolidated financial statements provide appropriate information.**

The assessments were made in the context of our audit of the consolidated financial statements, taken as a whole, and therefore contributed to the formation of our opinion expressed in the first part of this report.

3. Specific verification

We have also verified, in accordance with standard accounting practices in France, the information given in the Board's annual report on management and operations. We have no matters to report with regard to its fair presentation and conformity with the consolidated financial statements.

Done in Paris La Défense and Neuilly-sur-Seine, 24 May 2007
The Independent Auditors

PricewaterhouseCoopers Audit	KPMG Audit A Division of KPMG S.A.	
Xavier Aubry *Partner*	Catherine Porta *Partner*	Laurent Hofnung *Partner*

3. ANNUAL FINANCIAL STATEMENTS OF VÉTOQUINOL S.A.

3.1. Accounting principles and methods

These annual financial statements have been prepared in accordance with French generally accepted accounting standards, based on the conservatism principle and the following assumptions:

- going concern
- consistency principle
- matching concept

They are additionally based on the general rules for preparing and presenting annual financial statements set forth in the French chart of accounts (P.C.G. 1999).

The historical cost principle has been applied throughout. The main methods used are as follows.

Intangible assets and property, plant and equipment

Property, plant and equipment are carried at cost (purchase price plus related costs). Depreciation and amortization expense is calculated using the straight-line or the diminishing balance method, with the straight-line method used to allocate the cost or valuation of each asset to its residual value over its estimated useful life as follows:

	Period
Goodwill (value of the business)	10 years
Patents and licences	5-8 years
Computer software	1-5 years
Buildings—structural work	25 years
Buildings—roofing/insulation/finish work	15 years
Buildings—heating and electricity	10 years
Office and R&D equipment	5 years
Production equipment	5-10 years
Furniture, fixtures and equipment	10 years

Research and Development costs

Research and Development costs are not capitalized, but rather expensed as incurred.

Equity and other long-term investments

Equity and other long-term investments are stated at cost, excluding any ancillary expenses. A provision for impairment is recognized if the recoverable amount is less than cost.

Inventories

Raw materials and packaging items are stated at cost, determined using the weighted average cost method. The cost of finished goods includes materials, direct labour, a proportion of variable and fixed production overheads and depreciation of production equipment. A provision for depreciation is recognized for items that do not turn over rapidly and for items whose sell-by date is too close to their probable date of sale.

Trade receivables and related accounts

Trade receivables are stated at their nominal value. Provisions for impairment are recognized to reflect the risk of uncollectability.

Transactions in foreign currency

Revenues and expenses denominated in foreign currency are translated using the exchange rate on the date of the transaction. Foreign currency liabilities, receivables and cash items are translated on the balance sheet at closing exchange rates.
Any difference arising on translation of liabilities and receivables at closing exchange rates is recorded in the balance sheet under “Translation differences”. A provision for financial risk is recognized to cover any unrealized exchange losses.
Any differences arising on current accounts in foreign currency (CHF, GBP, USD, CAD) are recorded under exchange gains or losses.

Short-term investments

Short-term investments are carried at cost. If their recoverable amount is less than cost, a provision for impairment equal to the difference is recognized.

Financial instruments

To hedge its foreign exchange or interest rate exposure, Vétoquinol S.A. sometimes enters into forward rate agreements and forward exchange contracts. Such derivatives are used for the sole purpose of hedging risk.

The main foreign exchange hedge instruments used are currency options on the British pound expiring in less than one year. To hedge interest rate exposure, Vétoquinol S.A. uses swaps and a cap. At each balance sheet date, the fair value of these instruments is determined on the basis of their market value.

At 31 December 2006, the fair value of the foreign exchange hedge instruments used was less than

€6,000, on a notional principal amount of €1 million. The longest-dated option contract expires in June 2007.

At 31 December 2006, the fair value of the interest rate hedge instruments used was less than €10,000, on floating rate debt with a notional principal amount of less than €1.4 million. The interest rate swaps expire in 2007, and the cap expired in November 2005.

Retirement benefit obligations
The Company has no retirement benefit obligations. Its only comparable commitments pertain to severance pay as stipulated in the industry-wide collective bargaining agreement.

Costs related to departures during the period are expensed as incurred. Future obligations are recognized in off-balance sheet commitments and calculated on an individual basis in accordance with the recommendations set forth by the IASB (International Accounting Standards Board) in IAS19. They are discounted to present value using the projected unit credit method, which attributes benefits to prior periods of service.

Change in accounting methods
The effect on the Company's assets of applying the new rules for accounting for assets (CRC rules 2002-10 and 2004-06) was analyzed during 2006. This retrospective change in accounting methods has lengthened the useful lives of the Company's assets. The estimated impact on net carrying amounts totalled €3,823,171 at 1 January 2005, and was recognized in equity at 1 January 2006 as tax-accelerated depreciation. The impact of this change in depreciation and amortization periods subsequent to initial measurement at 1 January 2005 was recorded in the income statement for the year ended 31 December 2006.

Accrued expenses and deferred income
All expenses incurred by the Company at the balance sheet date are recognized as liabilities.

Consolidation
Vétoquinol S.A. is fully consolidated by the Soparfin SCA Groupe headquartered in Paris at 42 rue de Paradis 75010.
Vétoquinol S.A. is also the parent company of the Vétoquinol sub-set of consolidated entities, listed on the stock market.

3.2. Profit for the year

Amount (€)	Dec. 2006	Dec. 2005
Total assets	163,300,037	148,971,987
Total income	110,333,739	92,967,109
Total expenses	96,023,912	85,540,101
Profit for the year	14,309,827	7,427,008

3.3. Subsequent events

Capital transactions and IPO
On 16 November 2006, Vétoquinol S.A. was listed on Compartment B of the Euronext stock market. This led to a large number of capital transactions (cf. Note 3.7.11 on share capital ownership).

Buyout of the shares of Vétoquinol AG
During 2006, Vétoquinol S.A. bought out 100% of the shares of the Swiss company Vétoquinol AG, previously held by its subsidiary FREFIN GmbH.

Acquisition of Semyung Vet
On 3 January 2006, Vétoquinol S.A. paid €350,000 to raise its stake in its South Korean distributor, Semyung Vet, by 39%. Because the Company already held 28% of the shares since 27 December 2005, the result of this subsequent purchase was to give Vétoquinol S.A. a controlling interest in its distributor. On 30 March 2006, Vétoquinol S.A. paid an additional €368,000 to acquire 100% ownership of the South Korean company.

Acquisition of the assets of Vet Solutions
On 29 December 2006, the Company's U.S. subsidiary acquired the assets of Vet Solutions. Vétoquinol S.A. loaned Vétoquinol USA €17.5 million to finance the acquisition.

3.4. Balance sheet

Assets

In euros	GROSS 2006	D&A 2006	NET 2006	NET 2005
Subscribed, uncalled capital				
Start-up costs				
Research and development costs				
Licences, patents and similar rights	10,188,689	5,191,563	4,997,125	4,862,686
Goodwill	1,606,279	804,972	801,307	958,352
Other intangible assets	0	0	0	
Advances and down-payments on intangible assets	235,424	0	235,424	941,199
Land	1,188,399	383,373	805,026	789,900
Buildings	32,202,203	11,829,071	20,373,132	8,293,516
Facilities and equipment	23,360,016	15,833,368	7,526,649	5,246,664
Other property, plant and equipment	4,110,550	2,998,219	1,112,332	1,112,467
Work in progress	834,743	0	834,743	8,327,234
Advances and down-payments	361,206	0	361,206	116,991
Investments in equity affiliates	0	0	0	
Other equity investments	56,853,226	3,364,027	53,489,200	54,165,498
Loans and advances to subsidiaries and affiliates	22,988,162	0	22,988,162	11,440,978
Other investments	0	0	0	
Loans	2,999	0	2,999	3,694
Other non-current financial assets	66,742	0	66,742	65,396
TOTAL NON-CURRENT ASSETS	153,998,638	40,404,593	113,594,047	96,324,575
Raw materials	5,090,002	744,995	4,345,007	4,049,058
Goods in progress	1,659,395	32,827	1,626,568	857,139
Services in progress	0	0	0	
Intermediate and finished goods	5,961,935	133,343	5,828,592	6,355,186
Consumables	1,183,795	31,825	1,151,970	
Advances and down-payments	358,381	0	358,381	
Trade receivables and related accounts	23,823,894	736,332	23,087,562	24,123,338
Other current assets	5,328,664	0	5,328,664	1,029,500
Subscribed, called-up, but not fully paid capital	0	0	0	
Short-term investments	0	0	0	5,088,340
Cash and cash equivalents	7,031,393	0	7,031,393	10,410,639
Prepaid expenses	319,756	0	319,756	547,372
	0	0	0	
TOTAL CURRENT ASSETS	50,757,215	1,679,322	49,077,893	52,460,573
Deferred charges				
Bond redemption premiums				
Translation difference	628,091	0	628,091	186,839
TOTAL ASSETS	205,383,951	42,083,914	163,300,037	148,971,987

Equity and liabilities

In euros	2006	2005
Capital (company or individual)	28,196,830	23,993,800
Share premium	32,565,734	20,864,813
Asset revaluation reserve	0	
Legal reserve	2,228,323	1,856,973
Reserves required by Art. of Association or by contract	0	
Regulated reserves	0	0
Other reserves	20,431,006	19,434,156
Retained earnings	926,135	694,006
Profit or loss for the year	14,309,827	7,427,008
Investment grants	0	
Regulated provisions	5,594,676	2,122,094
EQUITY	104,252,531	76,392,850
Proceeds from issuance of redeemable shares	0	
Accountable advances from government	402,449	152,449
OTHER EQUITY	402,449	152,449
Provisions for risk	1,187,885	1,221,953
Provisions for charges	427,274	865,351
PROVISIONS	1,615,159	2,087,304
Convertible bonds	19,999,993	19,999,993
Other bonds		
Bank borrowings and long-term debt	nk	11,856,407
Other borrowings and long-term debt	21,726	21,726
Advances and down-payments received on outstanding orders		
Trade payables and related accounts	11,031,371	10,541,373
Income tax and taxes other than on income	9,675,267	9,709,675
Payables to non-current asset suppliers and related accounts	1,477,507	2,845,123
Other liabilities	8,880,007	14,740,162
Deferred income		
TOTAL LIABILITIES	56,802,732	69,714,459
Translation difference	227,165	624,925
TOTAL EQUITY AND LIABILITIES	163,300,037	148,971,987

3.5. Statement of changes in equity

Total in thousands of euros and in euros per shares		2006	2005
Accounting profit	€'000	14,310	7,427
	€	1.27	7.74
Changes in equity	€'000	15,374	(1,237)
	€		
Proposed dividend*	€'000	2,594	1,824
	€	0.23	1.90

** 10-for-1 stock split.*

(in thousands of euros)		2006
A		
	A1. Equity at 31 Dec. of the year n - 1 before appropriation	68,966
	A2. Share of net profit appropriated to equity by the AGM	7,427
A3	Equity at 1 Jan. 2006	76,393
B	Contributions with retroactive effect at 1 Jan. 2006	
	B1. Changes in share capital	
	B2. Changes in other items	
C	Equity at 1 Jan. 2006 after retroactive contributions (A + B)	76,393
D	Movements during the period:	
	D1. Changes in share capital	4,203
	D2. Changes in share premium, reserves and retained earnings	11,701
	D3. Dividend paid out of 2005 earnings	(1,824)
	D4. Bonus dividend	(4,003)
	D5. Profit for the period	14,310
	D6. Changes in "provisions" related to equity	
	D7. Revaluations taken to equity	
	D8. Changes in regulated provisions and equipment subsidies	(350)
	D9. Changes in regulated provisions resulting from a change of method	3,823
	D10. Other movements	
E	Equity at 31 Dec. 2006, prior to AGM (C ± D)	104,253
F	TOTAL MOVEMENTS IN EQUITY DURING THE PERIOD (E - C)	27,860
G	of which: changes due to changes in structure during the period	15,904
H	MOVEMENTS IN EQUITY DURING THE PERIOD BEFORE CHANGES IN STRUCTURE (F - G)	11,956

3.6. Income statement

In euros	2006	2005
Merchandise sales	5,637,805	0
Sales of goods produced	83,267,406	80,954,444
Sales of services	0	0
Net revenue	88,905,211	80,954,444
Inventories of good produced	318,579	(1,458,045)
Production for own use	0	0
Operating subsidies	24,429	22,097
Reversals of D&A and provisions	852,922	727,929
Other operating income	3,589,473	3,824,119
Total operating income	93,690,614	84,070,543
Purchases of consumables	3,511,826	3,834,823
Changes in inventories	(1,183,795)	0
Purchases of raw materials and other supplies	17,539,599	16,273,499
Changes in inventories (raw materials and other supplies)	(507,441)	(679,240)
Other purchases and external charges	25,847,148	21,262,097
Income taxes, taxes other than on income and related expenses	2,888,503	2,613,028
Wages and salaries	18,955,967	17,359,332
Social security contributions	10,707,340	9,490,559
D&A and provisions for non-current assets	5,020,855	3,955,942
Provisions for current assets	1,262,193	830,368
Provisions for risk and charges	92,463	63,006
Other expenses	1,794,933	1,822,637
Total operating expenses	85,929,590	76,826,049
Profit from operations	7,761,024	7,244,494
Profit attributed or loss transferred	0	0
Loss incurred or profit transferred	0	0
Income from equity investments	10,895,606	1,899,749
Income from other investments and receivables on non-current assets	0	0
Other interest and related income	528,891	698,881
Reversals of provisions and expense transfers	457,347	152,679
Foreign exchange gains	469,595	732,603
Gains on disposal of short-term investments	82,081	24,340
Total financial income	12,433,520	3,508,252
Amortization and provisions for financial assets	3,797,656	0
Interest and related expense	1,313,510	1,526,026
Foreign exchange losses	483,889	195,574
Net losses on disposal of short-term investments	0	0
Total financial expense	5,595,055	1,721,600
Net financial income	6,838,466	1,786,652
Profit before income taxes	14,599,490	9,031,146
Non-recurring income from management activity	1,693,986	36,924
Non-recurring income from capital transactions	134,811	171,683
Reversals of provisions and expense transfers	2,380,808	3,587,251
Total non-recurring income	4,209,605	3,795,857
Non-recurring expenses related to management activity	2,044,451	1,122,018
Non-recurring expenses related to capital transactions	611,609	55,529
Non-recurring D&A and provisions	867,929	1,394,002
Total non-recurring expenses	3,523,989	2,571,549
Net non-recurring income	685,616	1,224,309
Employee profit-sharing	168,336	567,640
Income taxes	806,943	2,260,807
Total income	110,333,739	92,967,109
Total expenses	96,023,912	85,540,101
NET PROFIT	14,309,827	7,427,008

3.7. Notes to the annual financial statements of Vétoquinol S.A.

3.7.1. NON-CURRENT ASSETS

	Carrying amount at 1 Jan. 2006	Revaluations in 2006	Investments in 2006
Start-up costs, R&D costs			
Other intangible assets	11,544,324		1,191,843
Total intangible assets	11,544,324	0	1,191,843
Land	1,202,061		50,135
Buildings on own property	8,341,879		11,657,244
Buildings on other property	0		0
General facilities and building fixtures	11,917,844		665,683
Technical facilities, production equipment and machinery	22,492,482		1,847,231
General facilities, fixtures and equipment	2,179,103		28,171
Vehicles	70,267		11,800
Office and computer equipment, furniture	3,099,735		244,196
Reusable and other packaging	0		0
Assets in progress	8,327,234		834,743
Advances and down-payments	116,991		361,206
Total property, plant and equipment	57,747,596	0	15,700,409
Investments in equity affiliates	0		0
Other equity investments	54,630,468		9,695,512
Receivables from equity investments	11,440,978		23,574,180
Other investments	0		0
Loans and other non-current financial assets	69,090		651
Total financial assets	66,140,536	0	33,270,343
TOTAL ASSETS	135,432,456	0	50,162,595

	Transfers in 2006	Disposals in 2006	Carrying amount at 31 Dec. 2006
Start-up costs, R&D costs			
Other intangible assets	0	705,775	12,030,391
Total intangible assets	0	705,775	12,030,391
Land	0	63,796	1,188,399
Buildings on own property	0	198,440	19,800,683
Buildings on other property	0	0	0
General facilities and building fixtures	0	182,007	12,401,520
Technical facilities, production equipment and machinery	0	979,697	23,360,016
General facilities, fixtures and equipment	0	1,505,802	701,472
Vehicles	0	15,500	66,567
Office and computer equipment, furniture	0	1,419	3,342,511
Reusable and other packaging	0	0	0
Assets in progress	8,327,234		834,743
Advances and down-payments	116,991		361,206
Total property, plant and equipment	8,444,225	2,946,661	62,057,119
Investments in equity affiliates	0	0	0
Other equity investments	0	7,472,754	56,853,226
Receivables from equity investments	0	12,026,996	22,988,162
Other investments	0	0	0
Loans and other non-current financial assets	0	0	69,741
Total financial assets	0	19,499,750	79,911,128
TOTAL ASSETS	8,444,225	23,152,186	153,998,638

3.7.2. DEPRECIATION AND AMORTIZATION

Movements during the period	Accumulated D&A at 1 Jan. 2006	Increases	Decreases	Accumulated D&A at 31 Dec. 2006
Start-up and R&D costs				
Other intangible assets	4,782,087	1,214,448		5,996,535
Total intangible assets	4,782,087	1,214,448	0	5,996,535
Land	412,161	35,009	63,796	383,373
Buildings on own property	4,078,163	953,887	718,290	4,313,760
Buildings on other property				
General facilities and building fixtures	7,888,044	852,391	1,225,123	7,515,311
Technical facilities, production equipment and machinery	17,245,818	1,640,253	3,052,704	15,833,368
General facilities, fixtures and equipment	2,018,209	43,325	1,553,301	508,232
Vehicles	43,885	10,363	8,408	45,839
Office and computer equipment, furniture	2,174,544	271,179	1,576	2,444,147
Reusable and other packaging				
Total property, plant and equipment	33,860,823	3,806,406	6,623,198	31,044,031
TOTAL ASSETS	38,642,910	5,020,854	6,623,198	37,040,566

3.7.3. FINANCE LEASES

LEASED ASSETS	Executory costs	Depreciation expense for the year	Accumulated depreciation	Balance at 31 Dec. 2006
Land	101,367			101,367
Buildings	2,767,570	120,719	1,839,471	928,099
Technical facilities, equipment and machinery				
Other property, plant and equipment				
Assets in progress				
Total	2,868,937	120,719	1,839,471	1,029,466

LEASE LIABILITIES	Lease payments during the year	Accumulated lease payments	Lease payments due < 1 year	Lease payments due 1-5 years	Lease payments due > 5 years	Total lease payments due	Residual value
Land							
Buildings	133,322	2,534,482	122,202	467,288	114,688	704,178	1
Technical facilities, equipment and machinery							
Other property, plant and equipment							
Assets in progress							
Total	133,322	2,534,482	122,202	467,288	114,688	704,178	1

Comments:
Finance leases in 2006:

- 1 “ex biotechnologie” building on the Lure site (lease expiration in June 2006)
- 1 building + land (No. 1) on the Tarare site
- 1 building + land (No. 2) on the Tarare site

3.7.4. GOODWILL

Goodwill is amortized over a 10-year period. At 31 December 2006, the carrying amount of goodwill was €1,606,000. This item chiefly includes IPA goodwill, arising on the acquisition of IPA from the CHASSOT Group in 2002 for €1,570,000. At 31 December 2006, the carrying amount of IPA goodwill was €801,000.

3.7.5. RELATED PARTIES AND AFFILIATES

	Amounts involving related parties	Amounts involving equity affiliates
Financial assets		
Advances and down-payments on non-current assets		
Equity investments	56,820,840	32,386
Receivables from equity investments	22,988,168	
Loans		
Receivables		
Advances and down-payments on orders		
Trade receivables and related accounts	9,318,794	
Other receivables		
Subscribed, called-up, but not fully paid capital		
Liabilities		
Convertible bonds	19,999,993	
Other bonds		
Bank borrowings and long-term debt		
Other borrowings and long-term debt		
Advances and down-payments received on outstanding orders		
Trade payables and related accounts	932,437	
Other liabilities		
Financial income and expense		
Income from equity investments	10,895,606	
Other financial income	313,512	
Financial expense	890,362	

3.7.6. LIST OF SUBSIDIARIES AND AFFILIATES

Assets and liabilities of companies whose financial statements are prepared in foreign currency are translated into euros at the closing exchange rate on the balance sheet date. Income and expenses are translated into euros at the average rate for the period.

Companies		Capital in foreign currency	Equity other than capital in foreign currency	Capital in euros	Equity other than capital in euros	% of capital owned
Subsidiaries (over 50%)						
VETOQUINOL N.V. Belgium	Euros	87,000	1,915,213	87,000	1,915,213	99
VETOQUINOL B.V. Netherlands	Euros	45,378	283,033	45,378	283,033	100
VETOQUINOL U.K.	GBP	291,165	3,576,833	433,604	5,326,631	100
VETOQUINOL Spain	Euros	1,830,000	595 927	1,830,000	595,927	100
VETOQUINOL Gmbh	Euros	25,565	488,383	25,565	488,383	100
FREFIN HOLDING Gmbh	Euros	25,000	15,394,313	25,000	15,394,313	100
VETOQUINOL AG. Switzerland	CHF	500,000	3,269,297	311,158	2,034,537	100
VETOQUINOL BIOWET Poland	ZPN	3,500,000	37,779,093	913,600	9,861,418	100
SEMYUNG VETOQUINOL S. Korea	WON	520,000,000	1,012,078,496	424,556	826,315	100
VETOQUINOL NORTH AMERICA	CAD	26,979,872	1,764,597	17,656,984	1,154,841	100
Equity affiliates (10-50%)						
Other equity investments						Not significant

Companies	Gross carrying amount of shares held	Net carrying amount of shares held	Outstanding loans and advances granted by the Company	Sureties and guarantees granted by the Company	Profit or loss for the year	Revenue (excl tax) for the year	Dividends received during the year
Subsidiaries (over 50%)							
VETOQUINOL N.V. Belgium	559,800	559,800			655,365	5,548,531	297,000
VETOQUINOL B.V. Neth.	69,700	69,700			192,314	2,176,615	
VETOQUINOL U.K.	6,003,500	6,003,500			2,665,296	19,915,885	3,911,060
VETOQUINOL Spain	1,966,000	1,966,000			348,190	9,322,406	325,000
VETOQUINOL Gmbh	1,455,726	1,455,726	150,000		1,151,878	1,269,108	
FREFIN HOLDING Gmbh	9,025,000	9,025,000	439,359		1,809,468	0	
VETOQUINOL A.G. Switz.	6,732,927	3,400,000	0		1,380,648	10,414,237	6,362,547
VETOQUINOL BIOWET Poland	7,469,278	7,469,278	2,489,272	1,178,633	2,628,022	24,910,437	
SEMYUNG VETOQUINOL S. Korea	1,017,827	1,017,827			86,390	1,589,930	
VETOQUINOL NORTH AMERICA	22,521,082	22,521,082	2,445,772	3,926,460	223,614	0	
Equity affiliates (10-50%)							
Other equity investments	32,386	1,286					

3.7.7. RECEIVABLES AND LIABILITIES

RECEIVABLES	Carrying amount	< 1 year	> 1 year
Receivables from equity investments	22,988,174	807,510	22,180,664
Loans (1) (2)	2,999	1,067	1,932
Other financial assets	66,742		66,742
Provisions for doubtful accounts	736,332		736,332
Other trade receivables	23,087,562	23,087,562	
Stock loan receivables			
Employee-related receivables	2,013	2,013	
Social security and related receivables			
Income tax receivables	2,650,364	2,650,364	
Value added tax receivables	1,013,253	1,013,253	
Receivables on other taxes, levies and similar duties			
Other			
Group and associates (2)			
Trade and related receivables	2,021,415	2,021,415	
Prepaid expenses	319 756	319,756	
TOTAL	52,888,610	29,902,940	22,985,670
(1) Loan amounts granted during the year	0		
(1) Repayments received during the year	695		
(2) Loans and advances granted to associates (individuals)	0		

LIABILITIES	Carrying amount	< 1 year	1-5 years	> 5 years
Convertible bonds (1)	19,999,993	0	19,999,993	
Other convertible securities(1)				
Bank borrowings and debt due in up to 1 year	1,700,594	1,700,594		
Bank borrowings and debt due in over 1 year	4,016,267	2,216,267	1,800,000	
Other borrowings and financial liabilities (1) (2)	21,726	21,726		
Trade and related payables	11,031,371	11,031,371		
Employee-related liabilities	4,783,803	4,783,803		
Social security and related liabilities	3,253,069	3,253,069		
Income tax expense				
Value added tax	832,240	832,240		
Guaranteed bonds				
Other taxes, levies and similar duties	806,155	806,155		
Payables to non-current asset suppliers and related accounts	1,477,507	1,477,507		
Group and associates (2)				
Other liabilities	8,880,007	8,880,007		
Stock loan liabilities				
Deferred income				
TOTAL	56,802,732	35,002,739	21,799,993	0
(1) Subscribed during the year				
(1) Repaid during the year	5,301,692			
(2) Borrowings and debt to associates				

3.7.8. CONVERTIBLE BOND

On 28 February 2003, the Company issued a convertible bond with a principal amount totalling €19,999,993. The bond paid a 4% coupon the first year, and a 5% coupon as of 1 March 2004. This financial instrument has a dilutive effect on earnings per share.

The Company has distributed a total of 117,855 bonds that can potentially be converted into 1,178,550 company shares.

On 7 August 2006, Soparfin (the parent company of Vétoquinol S.A.) repurchased all of the 117,855 convertible bonds from 3i solutions, BNP Paribas Développement and Middle Market Funds II shareholders.

3.7.9. PREPAID EXPENSES AND DEFERRED INCOME

TYPE OF EXPENSE	2006	2005
Operating expenses:		
PURCHASES	0	123,705
FINANCE LEASES	0	6,352
PROPERTY RENTAL	66,403	65,986
INSURANCE	0	34,026
OTHER EXPENSES	253,353	317,303
TOTAL OPERATING EXPENSES	319,756	547,372
Financial expenses:		
TOTAL FINANCIAL EXPENSES	0	0
Non-recurring expenses:		
TOTAL NON-RECURRING EXPENSES	0	0
Total prepaid expenses	319,756	547,372

TYPE OF INCOME	2006	2005
Operating income:		
TOTAL OPERATING INCOME	0	0
Financial income:		
TOTAL FINANCIAL INCOME	0	0
Non-recurring income:		
TOTAL NON-RECURRING INCOME	0	0
Total deferred income	0	0

3.7.10. TRANSLATION DIFFERENCES

ITEMS INVOLVED	LOSS Gross amount	LOSS Offset by foreign exchange hedge	LOSS Write-down	LOSS Net amount	GAIN Amount
Down-payments on asset purchases					
Loans					
Other long-term receivables	335,322		335,322	0	195,322
Trade receivables	292,244		292,244	0	3,392
Other receivables					
Financial liabilities					
Operating liabilities	416		416	0	28,451
Payables to non-current asset suppliers					
Total	627,982		627,982	0	227,165

3.7.11. BREAKDOWN OF SHARE CAPITAL

Events	No. of shares	Par value	Share capital
At 31 Dec. 2005	959,752	25.00	23,993,800
10-for-1 stock split	8,637,768	-	23,993,800
Share capital after 10-for-1 stock split	9,597,520	2.50	23,993,800
Options exercised	23,460	2.50	58,650
Warrants exercised	942,840	2.50	2,357,100
IPO—capital increase	476,190	2.50	1,190,475
IPO—over-allotment option exercised in full	157,895	2.50	394,738
Capital increase for the benefit of employees	80,827	2.50	202,068
At 31 Dec. 2006	11,278,732	2.50	28,196,830

At 31 December 2006, the share capital of Vétoquinol S.A. totalled €28,196,830, composed of 11,278,732 shares with a par value of €2.50. At 31 December 2005, the share capital was composed of 959,752 shares with a par value of €25 per share.

At their extraordinary general meeting of 7 July 2006, the shareholders resolved to grant double voting rights with immediate effect to all fully paid-up shares for which it can be proven that they were registered in the name of the same shareholder for at least two years.

At their extraordinary general meeting of 7 July 2006, the shareholders also resolved to divide the par value of all shares that make up the share capital by 10, thereby reducing the par value from €25 to €2.50, and correspondingly to multiply by 10 the number of shares that make up the share capital. 8,637,768 new shares were created as a result of this stock split. A total of 9,597,520 shares make up the share capital following this stock split.

Pursuant to the agreement signed by the Company's shareholders on 3 August 2006, Soparfin repurchased 58,928 equity warrants from the shareholders of 3i solutions, BNP Paribas Développement and Middle Market Funds II on 15 September 2006. All outstanding equity warrants were exercised on 15 September 2006. As a result, 942,840 shares with a par value of €2.50 were created.

A capital increase of 23,460 new shares was duly noted following the exercise of stock options (in 2005, 2,643 shares with a par value of €25, the equivalent of 26,430 shares with a par value of €2.50). At 31 December 2006, there were 1,440 options outstanding with potential subscription rights to 14,400 shares.

At their combined ordinary and extraordinary general meeting of 9 October 2006, the shareholders granted the Board of Directors several authorizations:

- **The authorization to carry out a capital increase entailing the waiver of pre-emptive subscription rights through a public issue.**
- **The authorization to increase the number of shares to be issued in the event of a public issue entailing the waiver of pre-emptive subscription rights carried out pursuant to another authorization.**
- **The authorization to carry out a capital increase for the sole benefit of employees participating in a PEE (company savings plan).**

These authorizations were granted on the non-retroactive condition precedent that the Company's shares were admitted for stock market trading and that the Company's shares were listed on Eurolist by Euronext Paris. Once this condition precedent had been fulfilled, the Board of Directors made use of the above-mentioned authorizations.

In preparation for the initial public offering of the Company's shares, the Board of Directors agreed in principle on 2 November 2006 to the following:

- **To carry out a capital increase with a par value of €1,635,070 by creating and issuing 654,028 new shares with a par value of €2.50 per share, representing approximately 6.20% of the share capital and 3.27% of the voting rights prior to the capital increase, at a price of between €19.40 and €22.40.**
- **To carry out a capital increase with a par value of €312,500 for the sole benefit of employees participating in the PEE via an FPCE mutual fund named "ACTIONS VETOQUINOL" by creating and issuing 125,000 new shares with a par value of €2.50 per share, representing approximately 1.18% of the share capital and 0.62% of the voting rights prior to the capital increase, at a subscription price equal to 80% of the issue price.**

- **To grant ODDO et Cie an over-allotment option entitling ODDO et Cie, at any time until 15 December 2006, to acquire or dispose of up to 157,895 new shares to be issued in connection with a capital increase pursuant to the above-mentioned authorization, in the event of over-subscription.**

At its meeting on 16 November 2006, the Board of Directors consequently voted to carry out a capital increase entailing the waiver of pre-emptive subscription rights through a public issue with a total par value of €1,190,475. The share capital thereby increased from €26,409,550 to €27,600,025 through the issue of 476,190 new shares with a par value of €2.50 at a price of €21 per share.

At its meeting on 16 November 2006, the Board of Directors also granted ODDO et Cie an over-allotment option entitling ODDO et Cie, at any time until 15 December 2006, to acquire or dispose of up to 157,895 new shares to be issued in connection with a capital increase pursuant to the above-mentioned authorization, in the event of over-subscription.

At its meeting on 16 November 2006, the Board of Directors resolved to carry out a capital increase with a total par value of €312,500 for the sole benefit of unit-holders in the FCPE mutual fund "ACTIONS VETOQUINOL" by issuing 125,000 new shares with a par value of €2.50 at a price totalling €16.80, including an issue premium of €14.30. The Board of Directors further delegated its authority, pursuant to applicable law, to the Chairman and Chief Executive Officer of the Company to perform all formalities and generally do whatever is necessary to carry out said capital increase, to place on record the effective completion of said capital increase and to amend accordingly Articles 6 and 7 of the Company's Articles of Association.

In light of the Company's success and the continual rise in its share price since stock market trading of Vétoquinol shares began, ODDO et Cie has informed the Company of its decision to make full use of its over-allotment option.

At its meeting on 8 December 2006, the Board of Directors consequently resolved, in accordance with Article L.225-135-1 of the French Commercial Code, to carry out a capital increase entailing the waiver of pre-emptive subscription rights through an additional public issue with a par value of €394,737.50. The share capital thereby increased from €27,600,025 to €27,994,762.50 through the issue of 157,895 additional new shares with a par value of €2.50 per share, at a price of €21 per share.

On 26 December 2006, the Chairman and Chief Executive Officer of the Company placed on record the effective completion of the capital increase for the sole benefit of unit-holders in the FCPE "ACTIONS VETOQUINOL" agreed upon at the Board meeting of 16 November 2006. Based on the number of shares subscribed for, 80,827 new shares with a par value of €2.50 per share and a total par value of €202,067.50 were issued, thereby increasing the share capital from €27,994,762.50 to €28,196,830.

Dividend distribution

At their annual general meeting of 22 May 2006, the shareholders resolved to distribute dividends in respect of fiscal year 2005 totalling €1,823,528.80, i.e. €1.90 per share (in 2005, €1,627,085.30, i.e. €1.70 per share, were distributed in respect of fiscal year 2004).

At their extraordinary general meeting of 8 September 2006, the shareholders resolved to distribute a bonus dividend of €0.417 per share, which was paid on 15 September 2006. The total amount of the distribution was €4,002,983.16.

Treasury shares/Liquidity contract

In the third resolution approved at their combined ordinary and extraordinary general meeting of 9 October 2006, the shareholders authorized the Board of Directors to implement a programme to buy back Company shares, in accordance with Articles L.225-209 *et seq.* of the French Commercial Code, European Regulation 2273/2003 of 22 December 2003 and the General Regulations of the *Autorité des Marchés Financiers* (the stock market regulatory authority).

The number of shares that the Company is authorized to purchase under this share buyback programme may not exceed 10% of the shares making up the Company's share capital at 8 December 2006, the date of the Board's decision, after completion of the capital increase carried out pursuant to Article L.225-135-1 of the French Commercial Code, i.e. a maximum of 1,119,790 shares.

The unit share price may not exceed 180% of the initial offering price for Vétoquinol shares on the Eurolist by Euronext Paris stock market, i.e. €37.80.

The share buyback programme shall be valid for a period of eighteen months from the date of the combined ordinary and extraordinary general meeting that granted this authorization, i.e. until 9 April 2008.

One of the objectives of the share buyback programme is to enable ODDO Corporate Finance to stimulate trading and maintain a liquid market for the Company's shares under a liquidity contract that complies with the code of business conduct advocated by the *Autorité des Marchés Financiers*.

Vétoquinol has signed a liquidity contract with ODDO Corporate Finance valid from 19 December 2006 until 31 December 2007, and thenceforth subject to tacit renewal for successive 12-month periods. This liquidity contract complies with the code of business conduct of the AFEI approved by the *Autorité des Marchés Financiers* on 22 March 2005.

To implement this contract, a total of €200,000 was transferred to the liquidity account.

At 31 December 2006, Vétoquinol S.A. held none of its own shares, since the liquidity contract only went into effect in early January 2007.

3.7.12. PROVISIONS

Nature of provisions	Amount, start of 2006	Allowances during the period	Reversals during the period	Amount, end of 2006
Provisions for reconstitution of deposits (mines, oil)				
Provisions for investment				
Provisions for price increases	285,756	13,945	44,234	255,467
Amortization for tax purposes	1,836,339	4,505,366*	1,002,496	5,339,209
Including exceptional 30% increases				
Provisions for taxes on operations abroad (pre 1.1.92)				
Provisions for taxes on operations abroad (after 1.1.92)				
Provisions for start-up loans				
Other regulated provisions				
TOTAL REGULATED PROVISIONS	2,122,095	4,519,311	1,046,730	5,594,676
Provisions for litigation	397,184	171,794	9,184	559,794
Provisions for guarantees given to clients				
Provisions for losses on futures markets				
Provisions for fines and penalties				
Provisions for forex losses	186,839	441,252		628,091
Provisions for pensions and similar obligations				
Provisions for taxes	530,540		530,540	
Provisions for renewal of long-term investments				
Provisions for major repairs				
Provisions for social charges and taxes on vacation pay to be paid				
Other provisions for contingencies and losses	972,741	92,463	637,930	427,274
TOTAL PROVISIONS FOR CONTINGENCIES AND LOSSES	2,087,304	705,509	1,177,654	1,615,159
Provisions for amortization of intangible assets				
Provisions for depreciation of tangible assets				
Provisions for impairment of equity method investee securities				
Provisions for impairment of equity investments	464,969	3,356,404	457,347	3,364,026
Provisions for amortization of other long-term financial investments				
Provisions for depreciation of inventories and work in progress	623,929	942,990	623,929	942,990
Provisions for depreciation of trade receivables	543,765	319,203	126,636	736,332
Other provisions for depreciation and amortization	260,688		260,688	
TOTAL PROVISIONS FOR DEPRECIATION AND AMORTIZATION	1,893,351	4,618,597	1,468,600	5,043,348
GRAND TOTAL	6,102,750	9,843,417	3,692,984	12,253,183
Including operating allowances and reversals		1,354,656	852,922	
Including financial allowances and reversals		3,797,656	457,347	
Including exceptional allowances and reversals*		4,691,105	2,382,715	
Investments accounted for by equity method: impairment at closing		0	0	

** o/w application of change in method on amortizations for €3,823,176*

3.7.13. ITEMIZED PROVISIONS

Type	At 31/12/2005	Allowances	Reversals	At 31/12/2006
Provisions for forex losses	186,839	441,252		628,091
Risk related to claims on subsidiaries	637,930		637,930	-
Labour disputes	397,184	171,794	9,184	559,794
Total provisions for litigation	1,221,953	613,046	647,114	1,187,885
Charges on temporary employment contracts	83,323	25,394	-	108,717
Indemnities on fixed-term employment contracts	28,718	19,704	-	48,422
Provision for tax	530,540		530,540	-
Service medal bonuses	222,770	47,365	-	270,135
Total other provisions	865,351	92,463	530,540	427,274

3.7.14. POSSIBLE LIABILITY

Vétoquinol is party to a commercial dispute related to the breach of a distribution contract. This possible liability has not been provisioned because the likelihood of obligation is deemed low and the assessment of the potential cost is not sufficiently reliable.

3.7.15. REVENUE BREAKDOWN

Source of revenue	FRANCE 2006	EXPORT 2006	TOTAL 2006	FRANCE 2005	EXPORT 2005	TOTAL 2005
Sale of merchandise	3,832,757	1,805,048	5,637,805			
Sale of goods	42,627,972	40,639,434	83,267,406	45,056,187	35,868,424	80,924,611
TOTAL	46,460,729	42,444,482	88,905,211	45,056,187	35,868,424	80,924,611

Change in 2006 revenue

Revenue increased by 3.12% within France and by 18% for exports versus the previous year. This significant change is attributable to the strength of our subsidiaries, which are driving VSA's related party sales, and the satisfactory performance of our distributors.

3.7.16. NON-RECURRING EXPENSES

Type/€ value	At 31/12/2006	At 31/12/2005
Awards for breach of contract	-	20,000
Industrial restructuring costs	595,446	981,989
Product liability	648,909	-
Damage awards	52,500	88,000
Corporate tax payable post tax audit	492,869	-
Balance of Biovet Canada payable	185,565	
Miscellaneous	69,162	32,029
Non-recurring expenses on management transactions	2,044,451	1,122,018
Net book value of assets sold	611,609	55,529
Non-recurring expenses on capital transactions	611,609	55,529
Amortization for tax purposes	682,190	449,415
Provision for price increases	13,945	35,086
Risk – Germany	-	317,961
Tax on tax audit	-	530,540
Labour dispute	171,794	61,000
Non-recurring allowances for depreciation and amortization	867,929	1,394,002
TOTAL NON-RECURRING EXPENSES	3,523,989	2,571,549

3.7.17. NON-RECURRING INCOME

Type / € value	At 31/12/2006	At 31/12/2005
Industrial restructuring costs	1,104,468	-
Product liability	589,518	-
Miscellaneous	-	36,924
Non-recurring income on management transactions	1,693,986	36,924
Price of assets sold	134,811	171,683
Non-recurring income on capital transactions	134,811	171,683
Amortization for tax purposes	1,000,589	332,076
Reversal of provision for price increases	44,234	14,485
Reversal of provision for risk in Germany	637,930	941,407
Reversal of provision for disputed tax audit	428,183	-
Reversal of provision for foreign operations	-	1,455,726
Reversal of provision for labour dispute	9,184	38,556
Royalties Biovet Canada	260,688	-
Group industrial restructuring	-	805,000
Non-recurring reversals of depreciation and amortization allowances	2,380,808	3,587,250
TOTAL NON-RECURRING INCOME	4,209,605	3,795,857

3.7.18. ANALYSIS OF CORPORATE INCOME TAX

€ values	2006 Pre-tax profit	2006 Tax due	2006 Net profit	2005 Pre-tax profit	2005 Tax due	2005 Net income
Current profit	14,599,490	2,442,579	12,156,911	9,031,146	2,769,566	6,261,580
Non-recurring profit (short term)	1,553,545	237,280	1,316,265	2,618,311	702,539	1,915,772
Non-recurring profit (long term)	-867,929	-298,857	-569,072	-1,394,002	-486,971	-907,031
Employee profit-sharing	-168,336	-195,457	27,121	-567,640	-37,944	-529,696
Tax		-1,378,602	1,378,602		-686,383	686,383
TOTAL	15,116,770	806,943	14,309,827	9,687,815	2,260,807	7,427,008

3.7.19. CHANGE IN DEFERRED TAXES AND TAX LIABILITIES

Type	Start of period ASSETS	Start of period LIABILITIES	Change in ASSETS	Change in LIABILITIES	End of period ASSETS	End of period LIABILITIES
Confirmed or possible differences						
1- Regulated provisions						
To be added back subsequently						
- provision for price increase		98,386	15,230	4,801		87,957
- provision for foreign operations						
To be added back possibly						
- provision for price fluctuation						
Freed-up contingent on use						
- provision for investment						
Amortization for tax purposes						
- allowance to /reversal of amortization for tax purposes		632,252		1,206,038		1,838,290
2 - Investment subsidies						
3 - Temporarily non-deductible expenses						
To be deducted the following year						
- paid vacation (former benefit plan)	767,186		53,173		820,359	
- employee profit-sharing	195,438			137,480	57,958	
- other	264,392			131,420	132,972	
To be deducted subsequently						
- provision for retirement						
- other						
4 - Temporarily non-taxable income						
- net short-term capital gains						
- merger capital gains						
- deferred long-term capital gains						
5 - Expenses deducted						
(or income subject to levy) for tax purposes and not yet recognized						
TOTAL	1,227,016	730,638	68,403	1,479,739	1,011,289	1,926,247
Items to allocate						
Tax loss carry-forwards						
Deferred amortization						
Long-term capital losses						
Other						
TOTAL						
Items that could eventually be taxable						
Capital gains on non-amortizable assets						
Special reserve for long-term capital gains						
Special reserve for construction profits						
Other						
TOTAL						

3.7.20. COMMITMENTS TO FINANCE

COMMITMENTS GIVEN	TOTAL	Management	Subsidiaries	Equity investments	Related parties and affiliates	Other
Endorsements						
Guarantees - Vétoquinol N.A.	3,926,460		3,926,460			
Miscellaneous	103,342					103,342
Guarantees - Vétoquinol Poland	1,178,571		1,178,571			
Other – Retirement obligation	2,043,107					2,043,107
Finance lease	704,178					704,178
Miscellaneous	2,314,373					2,314,373
Total	10,270,031	0	5,105,031	0	0	5,165,000

COMMITMENTS RECEIVED	TOTAL	Management	Subsidiaries	Equity investments	Related parties and affiliates	Other
Endorsements						
Guarantees - SCA Soparfin (loans)	910,302				910,302	
Guarantees - SG (Finance lease)	121,910					121,910
Other – Finance lease	704,178					704,178
Total	1,736,390	0	0	0	910,302	826,088

Comments: An additional commitment was granted, in the form of a mortgage used to secure miscellaneous loans for a total amount of €1 800 000.

3.7.21. WORKFORCE

WORKFORCE	Average staffing level 2006	Average staffing level 2005	Staff made available in 2006	Staff made available in 2005	Total 2006	Total 2005
Managers	169	168	0	0	169	168
Supervisors	23	23	0	0	23	23
Employees and technicians	228	222	0	6	228	222
Semi-skilled labour	89	86	30	18	119	110
Total	509	499	30	24	539	523

Individual Right to Training (DIF)

Le Droit Individuel à la Formation (Individual Right to Training), instituted by Act no. 2004-391 of 4 March 2004 on continuing training and development for adults and labour-management dialogue, was enacted to enable all employees with at least one year of service to accumulate the right to 20 hours of training per year over a maximum of 6 years, to be used at the employee's option but with the consent of the employer.

The number of DIF hours acquired in year 2006 was 1,493 days, while 452 days of training were used over the same period. At the 31/12/2006 reporting date, 3,632 DIF training days remained available for use.

Compensation paid to members of corporate governance boards

The total amount of directors' fees and compensation paid in 2006 was €958,722.

Independent auditors' report on the annual financial statements

(Year ended 31 December 2006)

To the Shareholders:

In compliance with the assignment entrusted to us by the shareholders, we hereby submit our report on the year ended December 31, 2006, including:

- the results of the audit we performed on the annual financial statements of Vétoquinol S.A., as appended to this report
- the evidence supporting our assessment
- the specific audits and disclosures required by law.

The consolidated financial statements are the responsibility of the Board of Directors. Our role is to express an opinion on these financial statements based on our audits.

1. Opinion on the annual financial statements

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

In our opinion, the consolidated financial statements for 2006 provide a true and fair view of the assets, liabilities, financial position, operations and results of the company in accordance with generally accepted accounting practices in France.

Without calling the opinion expressed in the forgoing paragraph into question, and pursuant to the relevant sections of Article L.232-6 of the French Commercial Code, we would nonetheless like to draw to your attention the change in accounting method that was made during the financial year under review, as described in note 1 to the financial statements. It pertains to the first application of two CRC regulations: CRC no. 2002-10 on the depreciation and amortization of assets, and CRC no. 2004-06 on the definition, recognition and measurement of assets.

2. Evidence supporting audit assessments

Pursuant to the relevant provisions of Article L.823-9 of the French Commercial Code on the evidence supporting our assessments, we would like to draw your attention to the following matters:

Accounting change

In connection with our assessment of the accounting rules and policies used by your company, we took steps to assess the rationale behind the change in accounting method mentioned above and the presentation that was made of it.

Accounting estimates

As indicated in the paragraph on equity investments and other long-term investments (note 1), the company may deem it necessary to make provisions for the impairment of the value of its equity investments. On the basis of information that is currently available, our assessment of the provision is based on an analysis of the processes the company has put in place to identify and assess the risks to which it may be exposed.

Accordingly, we made our assessments within the context of the annual financial statement audit that we perform, which covers all such investments taken as a whole, and which therefore contributed to the formation of the opinion we expressed in the first part of this report.

3. Specific verifications and disclosures

In addition, we have carried out specific verifications required by law, in accordance with the professional standards applicable in France.

We have no particular remarks to make on the following matters:

- **The fairness and conformity of the annual financial statements with respect to disclosures contained in the report submitted by the board of directors, as well as in documents addressed to shareholders on the company's financial condition and the annual financial statements;**
- **The accuracy of information contained in the aforementioned report on compensation and benefits paid to directors and officers of the company, as well as any commitments granted to them in connection with their acceptance of, resignation from or change in any position or subsequent to it.**

As required by law, we have verified the various disclosures made with respect to the identity of the owners of the company's capital and communicated to you in the management report.

Done in Paris La Défense and Neuilly-sur-Seine, 24 May 2007
The Independent Auditors

PricewaterhouseCoopers Audit

KPMG Audit
A Division of KPMG S.A.

Xavier Aubry
Partner

Catherine Porta
Partner

Laurent Hofnung
Partner

Independent auditors' report on regulated agreements and commitments

(Year ended 31 December 2006)

To the Shareholders,

In our capacity as Independent Auditors of your company, we hereby submit our report on regulated agreements and commitments.

1. Agreements and commitments authorized during the year ended

In accordance with Article L.225-40 of the French Commercial Code, we were informed of the agreements and commitments that were subject to the prior approval of your Board of Directors.

It does not fall within the scope of our assignment to ascertain the potential existence of other agreements and commitments but rather, on the basis of the information that was supplied to us, to inform you, the shareholders, of the relevant features of those agreements of which we were informed. It is not our responsibility to express an opinion on the utility or merits of such agreements. Pursuant to Article R.225-31 of the French Commercial Code, you are asked to form an opinion on the relevance of such agreements for the purpose of approving them.

We performed our work in accordance with the professional standards applicable in France: those standards require that we plan and perform the review to obtain reasonable assurance about whether the evidence supporting the information in our possession is consistent with that information.

- **Your company granted its subsidiary Vétoquinol North America a loan on 31 August 2006, which amounted to CAD1,000,000 on 31 December 2006 (with a euro exchange value of €654,407 based on prevailing exchange rates on 31 December 2006). Interest for 2006, calculated at a rate of 5.00%, came to €10,952.66.**

- **Your company granted its subsidiary Vétoquinol North America a loan on 30 September 2006, which amounted to CAD1,000,000 on 31 December 2006 (with a euro exchange value of €654,407 based on prevailing exchange rates on 31 December 2006). Interest for 2006, calculated at a rate of 5.00%, came to €8,214.50.**

- **Your company granted its subsidiary Vétoquinol USA a loan on 22 December 2006, which amounted to USD23,000,000 on 31 December 2006 (with a euro exchange value of €17,463,932 based on prevailing exchange rates on 31 December 2006). Interest of 5.85% will be applied as of 2007.**

The director in question is Mr. Etienne Frechin, Chairman of Vetoquinol SA and Chairman of both Vetoquinol North Canada and Vetoquinol USA, for these three new agreements.

2. Agreements and commitments approved during prior financial years that remained in force during the year ended

In addition, pursuant to the Commercial Code we were also informed that following agreements and commitments, approved during prior financial years, remained in force during the year ended.

- **Your company signed a loan agreement with its subsidiary Vétoquinol AG, in the amount of CHF10,000,000 on 31 December 2005 (with a euro exchange value of €6,430,460 based on prevailing exchange rates on 31 December 2005). This loan was fully repaid in 2006. Interest of €57,362 was paid on this loan in 2006.**

- **Your company granted an advance to its subsidiary Vetoquinol North America, in the amount of CAD847,945 on 31 December 2006 (with a euro exchange value of €554,902 on 31 December 2006). Interest for 2006, calculated on the basis of a rate of 5.65%, came to €33,277.**

- **Your company granted its subsidiary Vetoquinol North America an advance in the amount of CAD889,194 on 31 December 2006 (with a euro exchange value of €581,895 based on prevailing exchange rates on 31 December 2006). Interest for 2006, calculated on the basis of a rate of 5.65%, came to €34,896.**

- **Your company granted its subsidiary Vétoquinol Gmbh an interest-free advance that totalled €150,000 on 31 December 2006, after the repayment of €1,150,000 during 2006.**

- **Your company granted its subsidiary Frefin Holding an advance that totalled €6,303,119 on 31 December 2005, after the conversion of a portion of the advance into Frefin Holding securities for €13,763,476, and following repayments made in 2002, 2003, 2004 and 2005 for €2,461,859, €1,464,284, €671,214 and €3,141,026, respectively. Interest, calculated at the rate of 4.5%, came to €112,286 in financial year 2006. This advance was fully repaid in 2006.**

- **Your company granted its subsidiary Biowet an advance that totalled CHF4,000,000 on 31 December 2006 (with a euro exchange value of €2,489,265 based on prevailing exchange rates on 31 December 2006). Interest for 2006, calculated at a rate of 4.50% came to €113,887.**

- **Your company provided a guarantee to back a loan taken out by its subsidiary Vétoquinol North America, for which CAD6,000,000 was outstanding on 31 December 2006.**

- **Your company received a guarantee from the parent company SCA SOPARFIN to back a loan whose outstanding was €910,302 on 31 December 2006.**

Done in Paris La Défense and Neuilly-sur-Seine, 24 May 2007
The Independent Auditors

PricewaterhouseCoopers Audit	KPMG Audit A Division of KPMG S.A.	
Xavier Aubry *Partner*	Catherine Porta *Partner*	Laurent Hofnung *Partner*

4. ORDINARY RESOLUTIONS SUBMITTED TO THE SHAREHOLDERS AT THE ANNUAL MEETING HELD ON JUNE 4, 2007

First resolution

(Approval of financial statements for 2006)

The shareholders, having fulfilled the quorum and majority requirements pertaining to ordinary meetings of shareholders, and having read the reports submitted by the Board of Directors and by the Independent Auditors on the annual financial statements for the year ended 31 December 2006, hereby approve the financial statements i.e. the balance sheet, the profit and loss account and the appendix, as well as the operations reflected in them and summarized in the aforementioned reports.

Accordingly, the shareholders discharge all directors for their management during the year ended 31 December 2006.

Second resolution

(Approval of consolidated financial statements for 2006)

The shareholders, having fulfilled the quorum and majority requirements pertaining to ordinary meetings of shareholders, and having read the reports submitted by the Board of Directors and by the Independent Auditors on the annual consolidated financial statements for the year ended 31 December 2006, hereby approve said financial statements, as well as the operations reflected in them and summarized in the aforementioned reports.

Third resolution

(Appropriation of earnings)

The shareholders, having fulfilled the quorum and majority requirements pertaining to ordinary meetings of shareholders, hereby approve the proposed allocation of earnings made by the Board of Directors and accordingly resolve to appropriate the year's profit of €14,309,827.01, to which is added retained earnings of €926,135.09, as follows:

Legal reserve (5%)	715,491.35 €
Dividend payment of €0.23 per share	2,594,108.36 €
Optional reserve	11,000,000.00 €
Retained earnings, the remainder	926,362.39 €
TOTAL	15,235,962.10 €

Accordingly, each share of the Company that is entitled to the payment of a dividend shall receive a net dividend of €0.23:

- The holders of such shares are entitled to the abatement provided for in Article 158-3 of the French General Tax Code and under the terms and conditions applicable to income for 2007 provided they are natural persons who are subject to income tax in France.
- Shareholders who are not natural persons subject to income tax in France are not entitled to this abatement.

The shareholders resolve that, in the event that on this date the company holds treasury shares, the dividend distributable in respect of such shares shall be appropriated to retained earnings rather than paid in the form of a dividend.

At the latest, the payment of dividends shall be made within two months as from the date of this annual meeting.

In accordance with the law, the shareholders hereby duly note:

- that dividends distributed in respect of the three preceding financial years were as follows:

YEAR ENDED	NET DIVIDEND
31 December 2003	€1.70
31 December 2004	€1.70
31 December 2005	€190

- that an exceptional dividend payment of €0.417(*) per share, taken from other reserves, was paid out in financial year 2006.

Fourth resolution

(Regulated agreements)

The shareholders, having fulfilled the quorum and majority requirements pertaining to ordinary meetings of shareholders, having duly noted the terms of the Independent Auditors' Special Report on the agreements referred to in Article L. 225-38 of the French Commercial Code, hereby approve the aforementioned report and the new agreements presented therein and entered into in the course of the year ended.

Fifth resolution

(Determination of directors' fees)

The shareholders, having fulfilled the quorum and majority requirements pertaining to ordinary meetings of shareholders, hereby determine that the global annual amount of directors' fees allotted to the board of directors shall be €46,800.

This decision applies to the year under way and all years thereafter until such time as the shareholders shall decide otherwise.

(*) *10-for-1 stock split on July 7, 2006*

Sixth resolution

(Re-election of some members of the board)

The shareholders hereby resolve to re-elect the following members of the board of directors:

- Ms. Marie-Claude Valentin
- Mr. Jean-Charles Frechin
- Mr. Jacques-François Martin

They are re-elected for a term of six years, until the close of the annual meeting of the shareholders called in 2013 to approve the financial statements for the year ending on 31 December 2012.

Seventh resolution

(Authorization granted to the board of directors to set up a share buyback programme to repurchase the Company's stock)

The shareholders, having fulfilled the quorum and majority requirements pertaining to ordinary meetings of shareholders, and having read the report submitted by the Board of Directors, hereby authorize the Board, which in turn may opt to sub-delegate this power in accordance with applicable law, to trade in shares of the Company in the stock market or otherwise, in compliance with the relevant regulations and legislation in force, particularly the relevant sections of Article L. 225-209 and following of the French Commercial Code, Commission Regulation (EC) No. 2273/2003 of 22 December 2003, and the General Regulations of the AMF (*Autorité des Marchés Financiers*), in accordance with the terms and conditions set forth below:

1. Pursuant to the legislation and regulations mentioned in the preceding paragraph, the transactions completed by management under this authorization may be undertaken for any purpose that is or that comes to be allowable by law and regulations in force, in particular pursuant to the following objectives:
   a. To stimulate trading in or the liquidity of the Company's shares in the secondary market or within the framework of a liquidity agreement entered into with an independent investment services provider, in compliance with a set of guidelines that has been approved by the AMF;
   b. To carry out any stock option plan offered by the Company within the framework of the relevant provisions of Articles L. 225-177 and following of the French Commercial Code;

c. To freely allot shares of stock to employees, directors and officers of the Company in accordance with the relevant provisions of Articles L. 225-197-1 and following of the French Commercial Code;
d. To freely allot shares of stock to employees, directors and officers of the Company under the latter's employee profit-sharing programme or in connection with any employer-sponsored employee savings plan set up in accordance with applicable legislation, in particular as stipulated in Articles L. 443-1 and following of the French Labour Code;
e. To purchase shares of stock and hold them for subsequent tender as exchange or consideration in connection with external growth transactions;
f. To remit shares against the exercise of rights attached to issued securities that offer access to the Company's equity capital;
g. To cancel all or some of the shares that have been repurchased in this manner, within the limits set by law.

2. The acquisition, sale or transfer of these shares of stock may be carried out at any time (including during public offering periods) once or several times and by all appropriate means, either through public stock market transactions or private contracts (including the acquisition or sale of bundled shares and without limiting the portion of the repurchase programme that may be carried out in this manner), including the use of options or other financial futures, pursuant to applicable regulations in force and in accordance with the procedures set forth by the AMF.
3. The maximum purchase price per share is set at 200% of the price at which the shares were offered to the public when they were initially listed on Eurolist by Euronext Paris (16 November 2006), i.e. €21 per share. In the event of a change in the par value of the share, a capitalization of reserves, an allocation of additional paid-in capital, an allotment of free shares, a splitting or bundling of shares, a capital reduction or write-down, a distribution of reserves or other assets, or any other transaction that affects the Company's share capital, both the number of shares and the price indications provided above shall be adjusted to take into account its impact on the value of the share.
4. Notwithstanding the forgoing, in the event that the options offered under the fourth paragraph of Article L. 225-209 of the French Commercial Code are made use of, the rules regarding the selling price shall be set in accordance with legal provisions in force.
5. The purchase of shares of the Company shall involve a number of shares such that (i) the number of shares the Company purchases over the duration of the buyback programme does not exceed 10% of the shares that comprise the Company's equity capital, adjusted if need be to take into account any subsequent transactions that affect it, and (ii) the number of its own shares that the Company holds at any time whatsoever does not exceed 10% of the shares comprising the Company's equity capital.
6. This authorization shall be granted for a maximum period of eighteen months, starting from the date of this meeting.
7. The shareholders hereby grant the Board of Directors broad powers to carry out this resolution, including the power to sub-delegate this authorization in accordance with the laws in force; to place stock orders, enter into all relevant agreements, in particular concerning share account and record-keeping; to draw up all documents, in particular those containing required disclosures; to accomplish all formalities and file all documents with the AMF and any other organization; and, in general, to do whatever is required to carry out the intent of this resolution.

The Board of Directors shall inform the Company's works council that this resolution has been ratified. It shall also report to the shareholders at their annual meeting on any transactions it has made by virtue of this resolution.

This authorization renders null and void the unused portion of any prior authorization of the same type and, in particular, the one ratified by the shareholders under the third resolution at an ordinary and extraordinary meeting of the shareholders held on 9 October 2006.

Eighth resolution

(Formalities)

The Shareholders hereby grant full authority to the bearer of an original, a copy or an excerpt of these minutes for the purpose of filing all requirements required by law.

VETOQUINOL
A French corporation with registered capital stock of €28,196,830
French Trade and Company Registration Number: 676 250 111 RCS Lure

Registered head office:
34 rue du Chêne Sainte Anne – 70200 Magny Vernois
Phone: 33 (0)3 84 62 55 55
Fax: 33 (0)3 84 62 55 56
Web site: www.vetoquinol.com

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