

Our business - animals. Our advantage - people.

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VÉTOQUINOL

Activity Report 2006



 Vétoquinol
a Sign of Passion

FROM A GREAT IDEA TO A GREAT COMPANY

**More than 70 years
of Vétoquinol**

1933

- First quinoline-based veterinary product, Vétoquinol, developed at Lure, France by Joseph Frechin, Doctor of Pharmacology.

1962

- Founding of Vétoquinol SA, devoted to animal health.
- Arrival of Étienne Frechin, son of Joseph Frechin, current President.

1980

- Research & Development centre opened.

1987

- Tolfedine®, a product leader in the making, first marketed for treatment of pain and inflammation in companion animals and livestock.

1995

- European launch of Marbocyl®, a highly effective antibiotic developed by Vétoquinol. It remains a market leader in France, Spain, Great Britain, Ireland and Austria and is ranked no.2 in Europe.

1999

- J. Webster in Canada acquired - 40 employees.

2001

- Swiss-based group Chassot and subsidiaries in Europe acquired - 401 employees, 40 million euros of sales.

2002

- Evsco and Tomlyn ranges bought from IGI Inc in the USA.
- Prilium® launched - canine cardiology.

2003

- New premises at Lure double the amount of space for Research & Development.

2004

- Vétoquinol concentrates exclusively on development of curative products.
- China office opened.

2005

- Launch of Clavaseptin®, an anti-infective for dogs and cats - a "super" generic as a result of its palatability.

2006

- Lure manufacturing site modernised and capacity increased.
- Semyung Vet in South Korea and Vet Solutions in the USA acquired.
- Listed on Paris stock market.
- Launch of Marbocyl® S, a single-injection antibiotic, Dolpac®, an antiparasitic and Flexadin a chondroprotective agent.

SUCCESS FRENCH STYLE

Vétoquinol, a family-owned, independent veterinary pharmaceutical company, is exclusively devoted to animal health and equally focussed on companion animals and livestock. Already established in the French market, 78% of the group's consolidated turnover is now generated outside France, a total of some 211.6 million euros in 2006. Since 2000, the group has doubled the number of employees to 1223 in 2006, working in research and development, manufacturing and marketing.

This "small business" in France, ranked 13th in the world, now manufactures and distributes 700 medicinal and dietetic products in almost 100 countries throughout Europe, North America and Asia. It has subsidiaries in 18 countries and a network of 110 third-party distributors.

This expansion is due to the judicious combination of external growth and the development of market leading products, as well as clearly focussing on 3 main therapeutic areas: treatment of infectious diseases, treatment of pain and inflammation and cardiology-nephrology.





Always passionate about animal health, Vétoquinol's growth is seen against the backdrop of an innovative, international company, supported by human values and personal management style.

What are your thoughts on the 2006 financial year?

Étienne Frechin: 2006 was a good year. Our business was steady and we exceeded targets. Our development potential was strengthened with our direct presence in South Korea and consolidation of our position in the United States. Our listing on the stock market has raised our profile and should help us to work with companies and research centres abroad. It will also strengthen our equity capital to make new acquisitions and give extra resources to Research & Development. It will also help increase our visibility in the recruitment market.

In your opinion, where has Vétoquinol's growth potential come from?

EF: Vétoquinol is a family-run, people-oriented business. We have established our company with strong values that are

A GREAT STEP FORWARD

ÉTIENNE FRECHIN, PRESIDENT

part and parcel of our growth, both at home and abroad. Our employees are very attached to the company. In France, they proved this last November when 75% of them bought shares in the FCPE – a company investment fund, set up for salaried staff when we were listed on the stock market.

How do you think the animal health sector will change?

EF: There will probably be a significant change in the market. Firstly, major pharmaceutical groups are considering hiving off their animal health business to concentrate on human treatment. Secondly, companion animals are increasingly being treated in a similar way to people.

What is the role of Research & Development?

EF: Our company's flagship is Research & Development and its remit is to develop curative treatments. Our approach is to fully exploit our main active principles, by capitalising on what we know about them. We believe new high-performance and innovating products are essential for growth.

What are your goals for 2007?

EF: Our objectives are clear. We want to expand our global product coverage and take advantage of any potential economic growth by being commercially more competitive. This is why we now have a direct presence in South Korea and are redoubling our efforts in the United States. In February, we opened a subsidiary in Portugal; others shall soon follow in Scandinavia, China and, subsequently, in Italy. Of course, we will continue to develop new products: we have over twenty promising projects in our portfolio. Finally,

// VÉTOQUINOL'S LONGEVITY IS A RESULT OF ITS GROWTH AND ITS LONG TERM PROFITABILITY"

we will continue to improve our profitability by establishing more modern manufacturing facilities and ever more effective management tools.

In conclusion

EF: We plan to achieve significant growth in 2007 and our listing on the stock market will help us to do this. We are committed to a process of long-term growth to make Vétoquinol one of the world's top ten companies for animal health. I am confident that every manager, every employee and, I hope, every Vétoquinol shareholder will do all they can to achieve this objective.



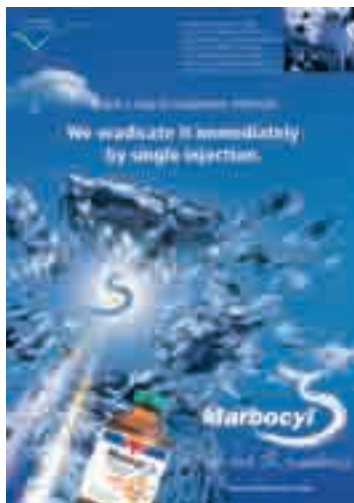
AN EVENTFUL YEAR

APRIL 2006 South Korea

Our distributor in South Korea, Semyung Vet, has become Vétoquinol's 16th commercial subsidiary. This company has been the exclusive distributor of Vétoquinol products for 15 years.

MAI 2006 Expanding product range

Launch of Marbocyl® S, a new addition to the Marbocyl® range for livestock. A single-injection antibiotic for treating respiratory infections in cattle, Marbocyl® S is quick-acting, thus avoiding any risk of contagion. This innovation is the result of a new method of development used by the R&D teams at Vétoquinol.

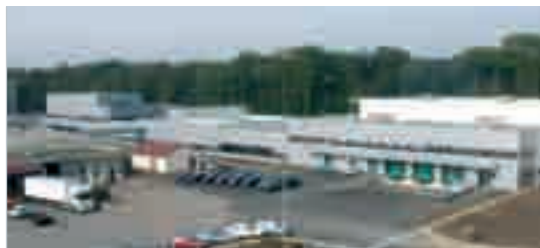


SEPTEMBER 2006 New anthelmintic

Launch of Dolpac®, a new broad spectrum, single-dose anthelmintic for treating the main types of worm affecting

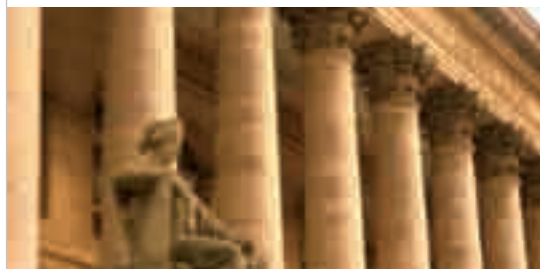


dogs. At the same time, Vétoquinol raises owners' awareness about worming more often. The treatment recommendations emphasize how a dog may contaminate the people around it. This is a way of reducing the number of cases of zoonosis every year caused by companion animals.



OCTOBER 2006 NENUphar

Inauguration of the "NENUphar" project. Vétoquinol has invested 15 million euros in its main manufacturing site at Lure in Haute-Saône, France. The three new buildings measuring 7,500 m² are occupied by the departments for quality control, packaging of sterile liquid medicinal products and logistics.



NOVEMBER 2006 Stock market

Vétoquinol shares were listed on 17 November 2006 on the Euronext™ Paris – Compartment B. 1,799,128 shares representing about 16% of the capital were floated on the market. The quoted price was 21 euros at start of trade. 80,827 shares were set aside for salaried staff at Vétoquinol SA (*Fonds Commun de Placement*): 75% of salaried staff subscribed, a sign of their faith in the company.



NOVEMBER 2006
Complete chondroprotective agent

Launch of Flexadin, a dietetic product recommended for dogs and cats suffering from bone and joint disease: *Harpagophytum procumbens* protects cartilage whilst relieving inflammation.



DECEMBER 2006
Vétoquinol / Texas

Acquisition of Vet Solutions, an independent veterinary pharmaceutical company based in Fort Worth, Texas. Founded in 1996, this laboratory specialises in companion animals. Turnover topped 10 million dollars in 2006, making it highly profitable. In acquiring Vet Solutions, a company focussed exclusively on veterinarians, Vétoquinol has established a definite presence in the U.S market and doubled its sales force.



FEBRUARY 2007
Portugal

Founding of a new subsidiary in Portugal. In line with company strategy, Vétoquinol continues to strengthen its position in Europe.



2006 SATISFACTORY PROFITS

Consolidated turnover of **211.6 million euros** in 2006, an increase of **7.6%** // Vétquinol employs **1 223** people worldwide //

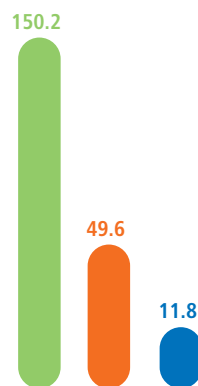
WITH A CONSTANT LIMIT AND EXCHANGE RATE, TURNOVER IS 208.4 MILLION EUROS, AN INCREASE OF 6%

> **CONSOLIDATED TURNOVER TREND**
in millions of euros



Turnover has shown a steady increase for 3 years

> **TURNOVER BY GEOGRAPHIC AREA 2006**
in millions of euros



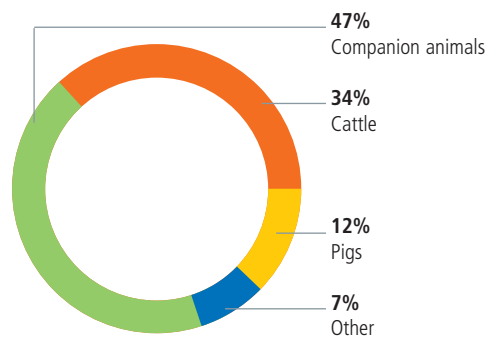
Total 211.6

- Europe
- North America
- Rest of the World

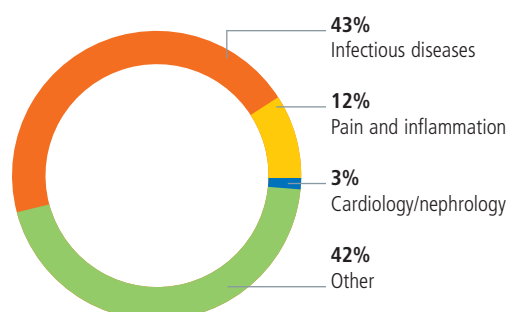
Turnover on the increase in all geographic areas. Progress more than satisfactory in the group's two main areas of operation:

- Europe +8%,
- North America +7%.

> **TURNOVER BY SPECIES 2006**
as %



> **TURNOVER BY THERAPEUTIC CATEGORY 2006**
as %

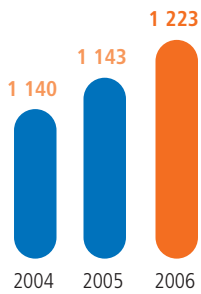




WE ARE PLEASED RESULTS FOR 2006 HAVE EXCEEDED EXPECTATION"

ÉTIENNE FRECHIN
PRESIDENT

> WORKFORCE TREND



Nearly 60% of the group's employees work on sites abroad - 37% in Europe outside France, 19% in North America and 1% in Asia. 10% of the workforce is dedicated to Research & Development. Almost half is made up of manufacturing teams: production (26%), quality (12%), purchasing and logistics (9%), while 30% work in sales and marketing, and 13% in administration and management.

In terms of financial liability, Vétoquinol continues to reduce debt. The increase in fixed assets is mainly due to a policy of external growth and a concomitant improvement in production equipment. Vétoquinol's financial structure remains healthy and solid with a steady improvement in the principal financial ratios over the past three years.

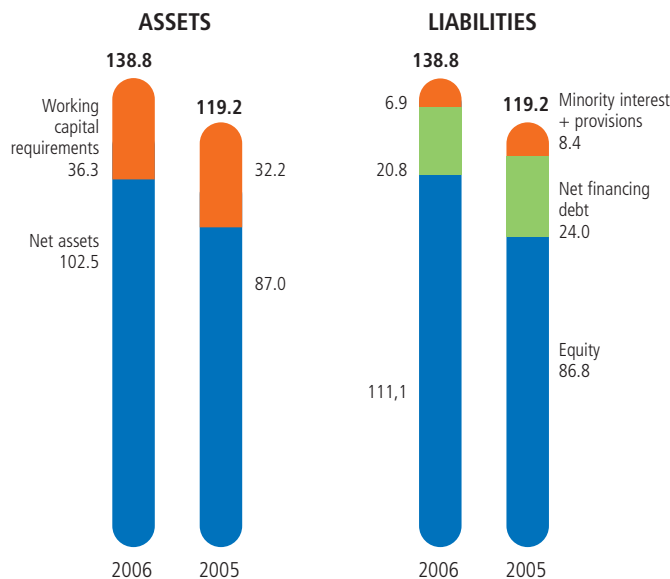
> NOMINAL ACCOUNTS

The strategy of profitable growth can be seen in the nominal accounts. The group's net income has grown by 27.2%, in line with the increase in turnover. This trend is the result of rigorous management aimed at improving the group's profitability in the long term.

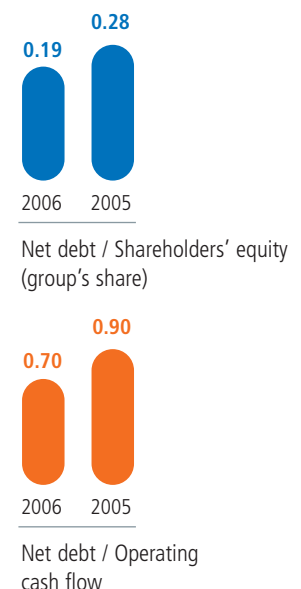
In millions of euros	2006	% turnover	2005	% turnover	% change
Turnover	211.6		196.6		+7.8
Gross profit	137.6	65.0	128.5	65.4	+7.1
External expenses	(45.9)	21.7	(42.4)	21.5	+8.3
Staff costs	(55.4)	26.2	(53.4)	27.2	+4.0
Duties and taxes	(3.6)	1.7	(3.2)	1.7	+12.5
Other income and expenses	1.4	0.7	1.1	0.6	+27.3
Depreciation and provisions	(8.5)	4.0	(7.5)	3.8	+13.3
Current operating profit	25.6	12.1	23.1	11.8	+10.8
Operating profit	24.8	11.7	18.8	9.6	+31.9
Earnings before tax	20.0	9.4	16.5	8.4	+21.2
Group's net income	15.8	7.5	12.4	6.3	+27.2

> GROUP'S FINANCIAL STRUCTURE

in millions of euros



> GROUP'S FINANCIAL RATIOS



VÉTOQUINOL AND THE STOCK MARKET

Vétoquinol shares listed on the Eurolist of Euronext™ Paris – Compartment B on 17 November 2006

A COMMITMENT TO SHARING INFORMATION

Vétoquinol is pursuing its policy of sharing information in a dynamic, transparent way. Our web site, www.vetoquinol.com gives privileged access to the group and its activities. This site has up-to-date information about Vétoquinol in both French and English.

IMPORTANT FACTS ABOUT THE GENERAL MEETING

Any Vétoquinol shareholder, regardless of how many shares he has, can attend and vote at the General Meeting. Each share entitles the holder to vote. For more information about attending the General Meeting either in person or by proxy (postal vote), visit the web site or contact the company directly:

Shareholders' contact

Vétoquinol – Financial and Legal Department

BP 189 Magny-Vernois – F 70204 Lure Cedex

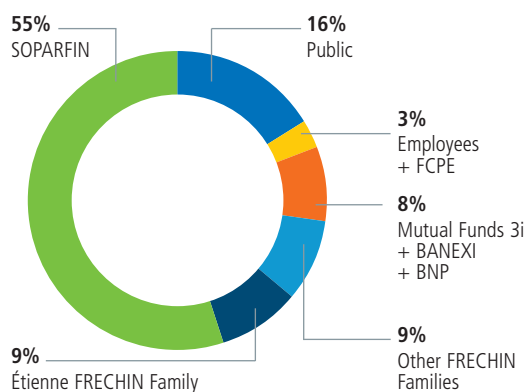
Telephone: 33 (0)3 84 62 59 88

E-mail: relations.investisseurs@vetoquinol.com

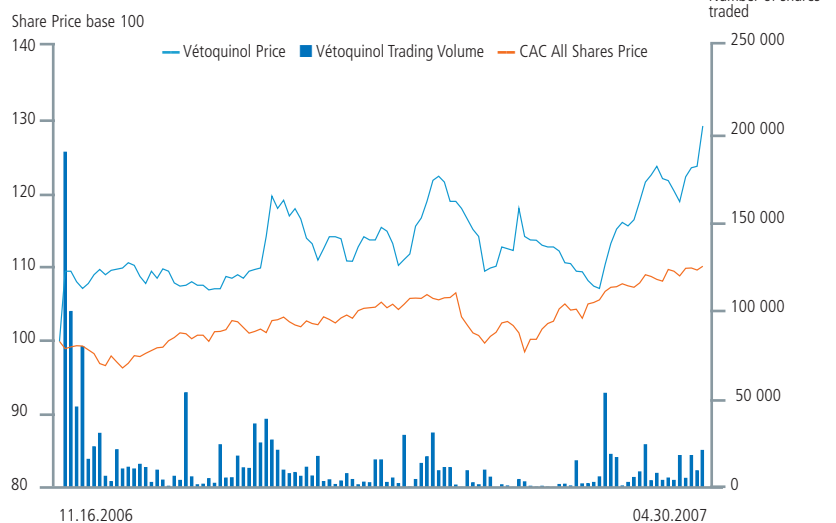
www.vetoquinol.com

Vétoquinol's capital on 31 December 2006 comprised 11,278,732 shares with a nominal value of 2.50 euros, fully paid, registered or bearer, according to preference.

> DISTRIBUTION OF CAPITAL BY SHAREHOLDER CATEGORY as % - 31/12/2006



SHARE PRICE TRENDS



SHARE CODES AND CLASSIFICATION

Eurolist of Euronext™ Paris – Compartment B

ISIN **FR0004186856**

Reuters **VETO.PA**

Bloomberg **VETO.FP**

Share price on 29/12/2006	22.85€
Market capitalisation on 31/12/2006	257,719,026€
Share price on 30/04/2007	27.15€
Market capitalisation on 30/04/2007	306,217,574€

FINANCIAL DATES FOR 2007

- **4 June 2007** - General Shareholder Meeting
- **26 July 2007** - Half-yearly turnover 2007
- **25 September 2007** - Half-yearly results 2007
- **25 October 2007** - Turnover 3rd quarter 2007

CORPORATE GOVERNANCE



The Executive Committee of Vétuquinol

CORPORATE GOVERNANCE

The Managing Director, who is also Chairman of the Board, is responsible for the Company's general management, assisted by the Deputy Managing Directors.

The Board of Directors, headed by its Chairman, sets the direction of the company's business and ensures that it is followed through. The Chairman of the Board organises and supervises the work of the Board and reports on this at the General Meeting. He ensures that the company's bodies work properly and that the administrators are able to fulfil their duties. The Board of Directors comprises nine members, including an independent administrator.

The remit of the Compensation Committee is to examine compensation packages for the Company's directors and, if relevant, for employees in the Group's companies. There are three people on the Compensation Committee.

The function of the Strategic Committee, made up of 14 members, is to formulate recommendations to the Board of Directors with regard to strategy, opportunities and prospects for growth at home and abroad.

The President is **Étienne Frechin. (1)**

The Group Management Committee comprises 13 people:

Dominique Henryon (2)
Deputy Managing Director

Bernard Boisramé
Deputy Managing Director
Research and Development
Pharmacist and Qualified Person

Alain Chaptal
Group Director
Industrial and Quality

Christophe Chossat de Montburon (4)
Group Director
Finance and Legal

Pierre-Yves Colin
Group Director
Information systems

Alain Cosnier
Group Director
Dietetics and Equine

Thierry Détrée (5)
Group Director – Europe

Matthieu Frechin (3)
Deputy Managing Director
Strategy and Development

Hans Hollegien
Group Director
Strategy and Customer Relations

Isabelle Proust-Cabrera
Group Director
Human Resources

Tom Robitaille
Group Director
North America

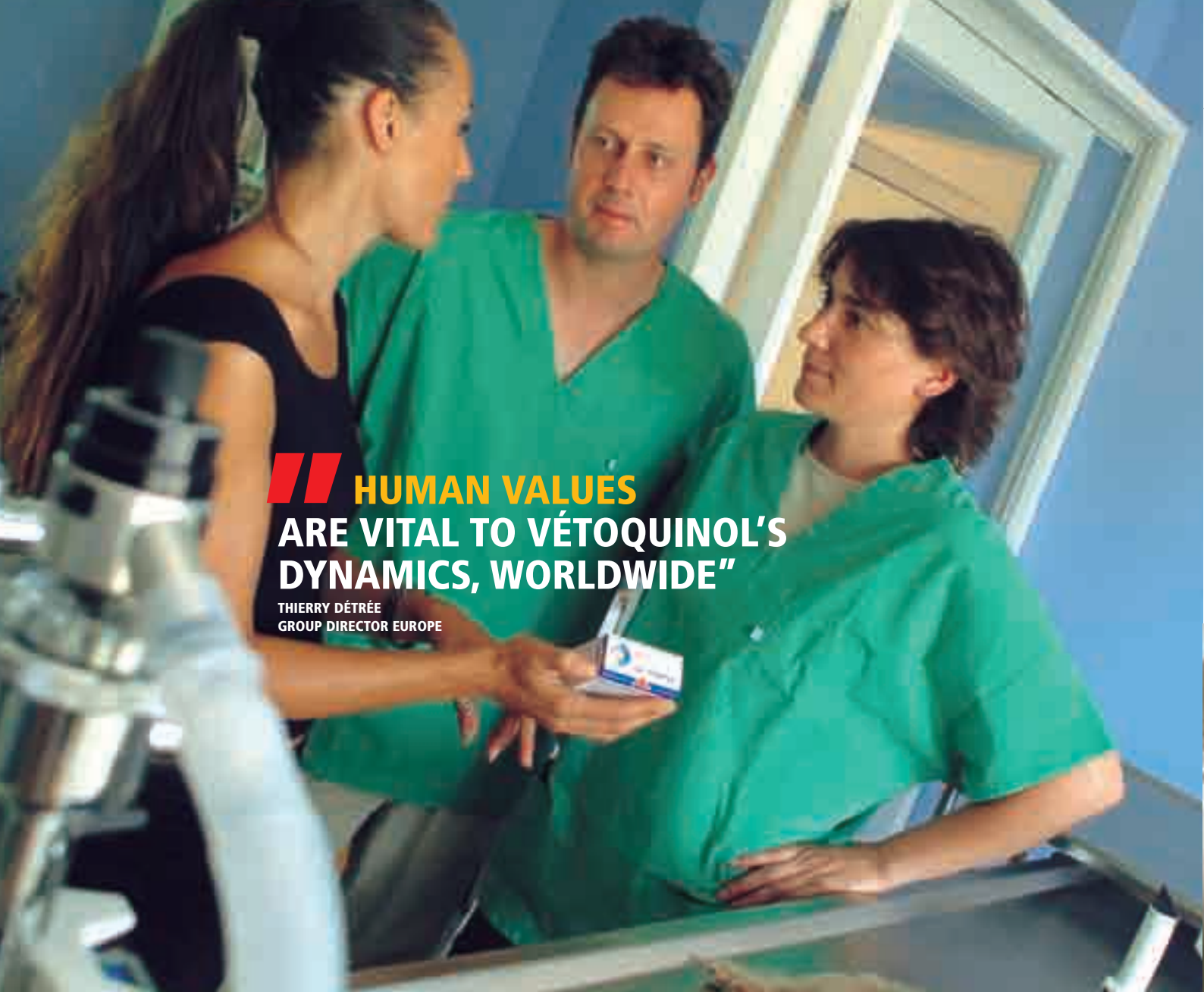
Christian Schirvel
Group Director
Business Development

Dan Tasli
Group Director
International Development

“ BEING LISTED ON THE STOCK MARKET HAS GIVEN VÉTOQUINOL THE MEANS TO FINANCE ITS PLANNED GROWTH ”

CHRISTOPHE CHOSSAT DE MONTBURON
GROUP DIRECTOR FINANCE AND LEGAL





**/// HUMAN VALUES
ARE VITAL TO VÉTOQUINOL'S
DYNAMICS, WORLDWIDE"**

THIERRY DÉTRÉE
GROUP DIRECTOR EUROPE

PEOPLE-ORIENTED STRATEGY

A COMPANY DEDICATED TO VETERINARIANS

Since the veterinarian is **pivotal** to animal health, Vétoquinol's goal is to provide real solutions.



with the practices and culture of each market country. In order to stay in touch with our customers and thus meet their requirements more effectively, Vétoquinol conducts satisfaction surveys of veterinarians every year in its main markets. Since 2003, 2600 practitioners have been surveyed as part of the "Voice of the Customer" programme.

ANIMAL HEALTH, FROM THEORY TO PRACTICE FOR VETERINARIANS

Vétoquinol has founded Vétoquinol Academia, a combination of training, information and aids for veterinarians in their daily work. Under this name, Vétoquinol organises scientific meetings and training programmes that are recognised throughout the world and supported by acknowledged experts in their field.

To build further on our commitment to veterinarians, for the past two years Vétoquinol has been a supporter of the Agronomes et Vétérinaires Sans Frontières (AVSF) campaign. In 2006, the group financed the book "Histoires sans faim" in support of the association's projects. AVSF is involved in sixty projects in twenty countries in Africa, Latin America and Asia where the population is directly dependent on agriculture and animal breeding for their livelihood.



www.avsf.org

Vétoquinol's vocation is animal health which means helping veterinarians in their day-to-day work. In concrete terms, Vétoquinol is developing original, safe, effective drugs and products for veterinarians with practical galenic formulations: products which represent real progress.

Our close links with veterinarians are evident from the personal, lasting relations maintained by the 210 sales representatives in the group's subsidiaries. The sales networks and channels of product distribution are organised to fit in

VÉTOQUINOL ACADEMIA

HIGH-QUALITY INTERNATIONAL SYMPOSIA...

- **2002 – Prague.** Prilium® launch. First international symposium on cardiology in companion animals, attended by 130 experts from 16 countries.

- **2004 - Naples.** When obtaining the mastitis indication for Marbocyl®. The first European summit on mastitis, attended by experts and practitioners from all over Europe.

- **2005 - Madrid.** Symposium on the treatment of *Actinobacillus pleuropneumoniae* - a bacterium which causes respiratory diseases in pigs.

- **2006 - Paris.** Symposium on "innovations in antibiotic treatment for companion animals".

... AND NUMEROUS NATIONAL SEMINARS.





OUR VALUES ARE DEMANDING. THEY HELP US TO WORK BETTER TOGETHER. THEY HAVE BEEN AND CONTINUE TO BE THE SOURCE OF OUR ENTHUSIASM AND MOTIVATION, SO THAT THE GROUP CAN CONTINUE TO PROGRESS"

ISABELLE PROUST-CABRERA
GROUP DIRECTOR HUMAN RESOURCES



PEOPLE AND VALUES, FOUNDATION OF THE FUTURE

Its values are **the group's backbone.
They help everyone work together
on common ground.**

On a day-to-day basis, Vétquinol relies on strong values which help to motivate and energise the group: audacity, authenticity, commitment, team spirit, open-mindedness and performance. These are essential values for a group which has its sights set on becoming a global market leader.

These values play a fundamental role. They are reference points that guide each person's actions as they do their daily job, making our work and decisions more consistent.

1. AUDACITY

Daring, innovating, putting forward alternative solutions, advancing with determination and pragmatism. At Vétquinol, a sense of risk combines courage and realism.

2. AUTHENTICITY

Growing but staying true to oneself: we are a group where the human aspect counts. Authenticity means simplicity, frankness and quality of relationships, both within the company and with our customers, our partners and our suppliers.

3. COMMITMENT

Putting all the group's energy and resources into promoting its vocation, by taking responsibility and using all the group's skills.

4. TEAM SPIRIT

Sharing success and overcoming obstacles together. The success of Vétquinol products is the outcome of a complex blend of various specialist skills - veterinarians, pharmacists, scientists, technicians as well as sales, administrative and logistical staff.

5. OPEN-MINDEDNESS

Being curious, keeping in touch with the market, welcoming diversity without prejudice.

By being open, we can develop ideas, improve working methods and compare ourselves with the best.

6. PERFORMANCE

Achieving controlled, profitable growth whilst delivering what the customer wants.



**WE'RE CONVINCED THERE IS
A CLOSE LINK BETWEEN
WHAT WE STAND FOR
AND HOW WE PERFORM"**

ISABELLE PROUST-CABRERA
GROUP DIRECTOR HUMAN RESOURCES



CONTROLLED, PROFITABLE GROWTH



The strength of a company the size of Vétoquinol lies as much in its capacity to roll out a relevant product range over a wide geographic area as to manufacture and sell products at market costs.

A pioneer with an eye on the long term, Vétoquinol still wants to satisfy the needs of increasingly demanding veterinarians and animal owners. The aim of this proactive approach is to fight new diseases and conquer new markets. Ever since it came into being, Vétoquinol has pursued a policy of sustained expansion. The group prefers working in partnership with trade and industry rather than simply increasing turnover. Growth has been achieved in a regular,

targeted way at a pace which matches its financial resources and its ability to absorb acquisitions. The group has extended its international network, consolidated certain therapeutic categories and recouped its research costs, while spreading the risk. Vétoquinol has displayed real expertise in acquiring and incorporating companies, particularly with the successful acquisition of the Swiss-based Chassot group which was almost half its own size.

VÉTOQUINOL'S 3 POINT STRATEGY

1. REGULAR PRODUCT DEVELOPMENT, COMBINING 3 ELEMENTS

- Capitalising on existing products. In fact, Vétoquinol is making the most of the existing range, by expanding the sales regions and developing new indications or targeting new species.
- Developing innovative products which are the result of its own research. Vétoquinol estimates that well-defined projects in several fields will contribute to approximately 10% of the group's turnover in the next 5 years.
- Adding to and changing the product range with distribution-in products.

company is still poorly represented, Portugal, where the company is beginning to gain ground with the opening of a subsidiary in February 2007, and Scandinavia.

3. IN ORDER TO BE MORE PROFITABLE, THE GROUP IS DEVELOPING OR INITIATING NUMEROUS PROJECTS FOR CONTINUAL IMPROVEMENT

- Centralising stocked purchases at group level in order to reduce manufacturing costs.
- Setting up a shared information system (ERP – Enterprise Resource Planning) at all the group's companies in order to reduce stocks and improve the real indicators that will help to steer the company.

"WE HAVE A PROVEN ABILITY FOR ORGANIC GROWTH. BUT IT'S CLEAR THAT WE NEED TO BALANCE THIS WITH EXTERNAL GROWTH, ONE OF OUR ASSETS."

*Dominique Henryon
Deputy Managing Director*



"THE REAL INVOLVEMENT OF THE FAMILY'S MANAGERS IN THE CORPORATE STRATEGY IS A GUARANTEE OF A LONG-TERM VIEW OF BUSINESS. THEIR PRIORITY IS RIGOROUS, PERSONAL MANAGEMENT TO ACHIEVE CONTROLLED, PROFITABLE GROWTH."

*Matthieu Frechin,
Deputy Managing Director
Strategy and Development*

2. GEOGRAPHIC AMBITION

- Increasing its presence in the United States, the leading world market. The first step towards achieving this objective was made when the shares of Vet Solutions were bought in December 2006 and a network of 28 representatives specifically for veterinarians was set up in the USA. Vétoquinol was already familiar with the North American market as it has a subsidiary there and facilities in Canada.
- Establishing a presence in China. Another major opportunity for Vétoquinol as there is a huge market here for livestock and companion animals. The objective is to purchase a local laboratory then gradually establish the name of Vétoquinol, using the basic range to meet immediate needs.
- Consolidating its presence in Europe. Three markets are of particular interest to Vétoquinol. These are Italy, where the

- Optimising the logistics chain at every stage to give customers the right quality and quantity of product, on time. All at a retail price which is right for the market, and always with the group's profitability in mind. This process ensures that distribution flow, which will become more complex as the group takes on an international dimension, is regulated and enables the subsidiaries to focus on their sales objectives.
- Stepping up training for the sales networks
- Optimising the innovation process, with the analysis of new "product project" processes.





ONLY ONE VOCATION
ANIMAL HEALTH

Vétoquinol has decided to be an all-rounder. It is involved in R&D, manufacturing and marketing of medicinal products and dietetics.

13th pharmaceutical company in the world and **3rd** dedicated to animal health // **No.1** in Poland // **No.3** in Canada // **No.6** in France // **No.2** in anti-infectives for companion animals in Europe // **No.4** in injectable anti-infectives for livestock in Europe // **9%** of market share in injectable antimicrobials in Western Europe // **5%** of the relevant market share

Source: Wood Mackenzie, CEESA Vétoquinol – 2006



THE ANIMAL HEALTH MARKET

The animal health market is a fragmented, growing market and becoming increasingly specialised, like the human health market.

1. A FRAGMENTED MARKET

ANIMAL SPECIES:
2 SECTORS, 2 DYNAMICS

Animal species are traditionally divided between livestock (cattle, pigs, poultry and sheep) and companion animals (cats, dogs, horses, exotics).

These two sectors have different dynamics. The “livestock” sector which represents 60% of the international market is a high-volume market guided by economic concerns that has to meet the growing demand in protein requirements in developing countries.

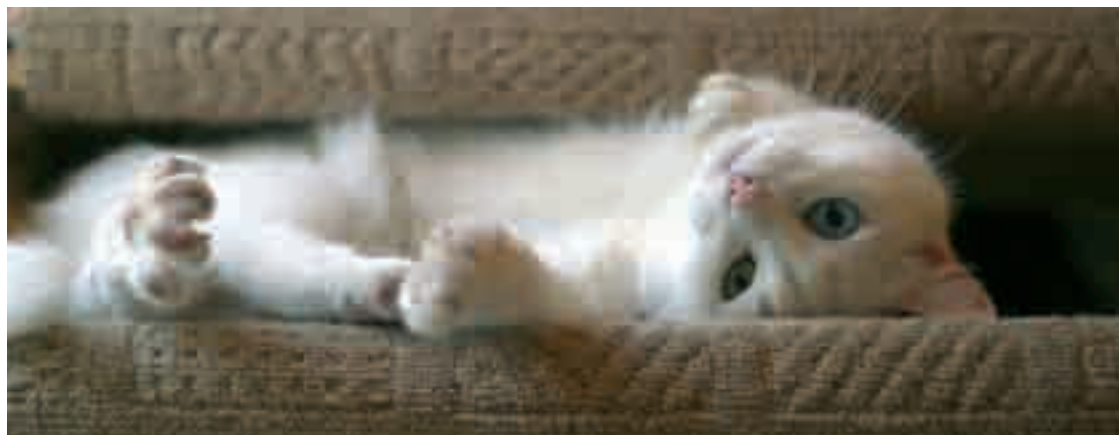
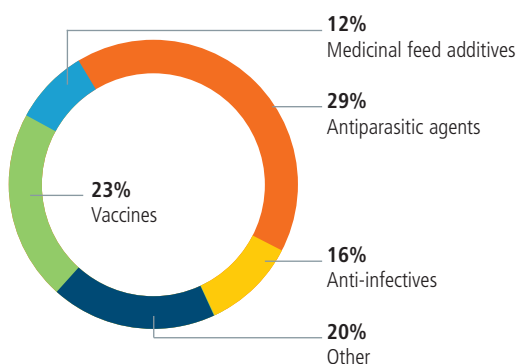
The “companion animals” sector, with 40% of the international market, is characterised by strong growth and greater added value. It is guided by owners’ feelings and is at the same time linked to changes in their purchasing power.

TWO LINES OF TREATMENT: PREVENTIVE AND CURATIVE

Preventive treatment covers vaccines, medicinal feed additives and some antiparasitic agents. It applies mainly to bulk treatments.

Curative treatment includes anti-infectives, other antiparasitic agents, anti-inflammatories and therapeutic categories in cardiology, nephrology, rehydration, hygiene etc. It is geared more towards treatment of individual animals.

MARKET BY THERAPEUTIC CATEGORY





AN INTERNATIONAL MARKET WORTH 16 BILLION DOLLARS: 6 MARKETS, 2 AREAS

Six markets (North America, Western Europe, Asia-Pacific, South America, Eastern Europe and the Rest of the World) are divided between two main areas of the animal health market:

- The first area comprises North America and Western Europe, i.e. 2/3 of the developed, mature international market. It is characterised by strong growth, particularly in the “companion animals” sector.
- The second area is Asia-Pacific, South America and Eastern Europe. These make up the developing markets, characterised by the growing need for animal protein and the emerging companion animals market.

The Rest of the World totals less than 3% of the world animal health market i.e. 0.4 billion dollars.

If we compare Vétotoquinol’s turnover with the size of the world market, including only the therapeutic fields and areas where the group has chosen to operate, its relevant market share is about 5%.

2. A GROWING MARKET

As a yearly average from 2007 to 2011, volume growth is expected to reach 1.8%, which is a 4 to 5% increase in value (source: Wood Mackenzie 2007).

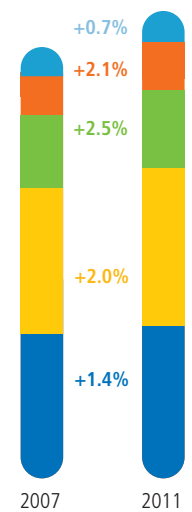
3. A MARKET OF PROFESSIONALS

Animal health is closely linked to the protection of human health, so it is governed by manufacturing, scientific and environmental legislation and regulations which are more and more rigorous and complex. This market is subject to constantly changing legislation.

Fifteen international groups, the largest of whom are pharmaceutical companies operating in both human and animal health, hold 80% of the world market. The remaining 20% are owned by a myriad of local players who are looking to make alliances now or in future, in view of increasingly heavy investments.

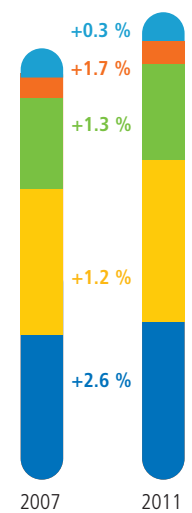
The animal health market is becoming more and more specialised. This trend will reinforce the role of veterinarians who are pivotal in the prescription process.

MARKET BY GEOGRAPHIC AREA



- Rest of the World
- Latin America
- Asia-Pacific
- North America
- Europe

MARKET BY SPECIES



- Sheep
- Poultry
- Pigs
- Cattle
- Companion animals

Source: Wood Mackenzie – 2007





BALANCE BETWEEN SPECIES AND PRODUCT DYNAMISM

Vétoquinol is constantly trying to strike a balance between livestock and companion animals by concentrating on its strengths.

Vétoquinol bases its choice on 2 principles: of the species which Vétoquinol knows best, it has opted for species with the most potential, striking a balance between companion animals and livestock.

The advantage of this reasoning is that it avoids the risks which cyclically affect the livestock sector.

COMPANION ANIMALS DOGS, CATS, EXOTICS

Emotions play a crucial role in this sector. Owners want treatments which are effective, quick and easy to administer for their companion animals. The animal's well-being and the quality of its relationship with humans must be taken into account. There is considerable potential in this rapidly growing market in terms of products and geographic areas.

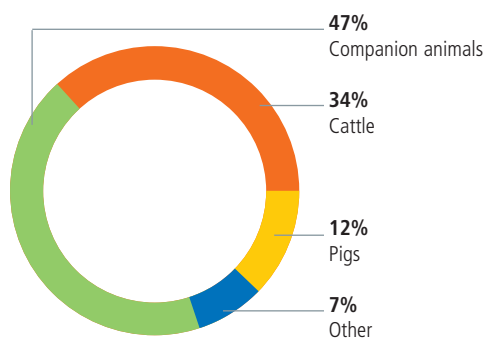
LIVESTOCK CATTLE, PIGS

In order to satisfy the demands of economics, which are of prime importance in this sector, Vétoquinol is constantly innovating and providing more effective treatments with both animal and consumer in mind. By targeting two species in particular, cattle and pigs, Vétoquinol is able to minimise any fluctuations in their respective markets whilst continuing to produce the bulk quantities it needs for investment.

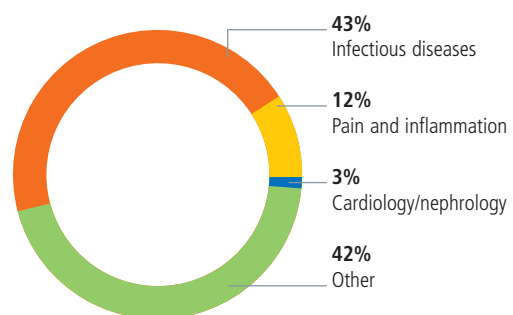
PRODUCT DYNAMISM

Vétoquinol confirms its strategy of concentrating on its strengths: treatment of infectious diseases, management of pain and inflammation, cardiology/nephrology. The major brands have experienced strong growth: +18% in 2006.

TURNOVER BY SPECIES 2006



TURNOVER BY THERAPEUTIC CATEGORY 2006





**A KEY PLAYER
THROUGHOUT
THE WORLD**

LEADING PRODUCTS



With Marbocyl[®], Aurizon[®], Tolfedine[®], Prilium[®] and Clavaseptin[®], Vétoquinol has developed **leading products which stand out through their innovation and practicality.**

TREATMENT OF INFECTIOUS DISEASES: THE GROUP'S STRONG POINT

Marbocyl[®], launched in 1995, is Vétoquinol's most popular antibiotic and has a good market position. It is market leader in France, Spain, Great Britain, Ireland, Austria and second overall in Europe. The Marbocyl[®] livestock range recorded very strong growth between 2005 and 2006.

Vétoquinol is capitalising on its expertise in this field by developing different families of antibiotics, with protocols adapted for different species. This approach combines effective treatments and respect for the environment and the consumer.

Aurizon[®], launched in 2001, is the market leader in Europe. This product is prescribed for bacterial and fungal otitis externa in dogs.

TREATMENT OF PAIN AND INFLAMMATION

Alleviating an animal's pain is an ethical challenge which is very much in demand in our society nowadays where the animal's well-being is more and more important. Vétoquinol is well represented in this sector with Tolfedine[®] for dogs and cats (non-steroidal anti-inflammatory – NSAID) and Tolfine[®] for livestock. Thanks to Tolfedine[®], indicated in the treatment of inflammatory or painful locomotor infections in dogs and cats, Vétoquinol is no. 2 or no. 3 in most European countries.

CARDIOLOGY AND NEPHROLOGY TREATMENTS

Cardiac and renal insufficiency are the most common chronic diseases affecting elderly dogs and cats. Vétoquinol has developed some innovative treatments in this fast-growing sector. In 2002, the group launched Prilium[®], a product for dogs with cardiac insufficiency, with an innovative galenic formulation (the only one to be marketed in a liquid form). As it is available in most European countries, Australia and New Zealand, there has been strong growth: +25% in 2006.

The group stands out in the market due to its wide range of products such as Clavaseptin[®], Epakitin[®], Propalin[®] and Zentonil[®].

**VÉTOQUINOL HAS
DECIDED TO CONCENTRATE
ON THREE STRONG AREAS
WHERE ITS EXPERTISE WILL
MAKE A DIFFERENCE"**

**HANS HOLLEGIEN
GROUP DIRECTOR, STRATEGY AND CUSTOMER RELATIONS**



EFFECTIVE, PRAGMATIC RESEARCH & DEVELOPMENT

Vétoquinol Research & Development is based around 4 axes: innovative substances, adapted galenic formulations, changes to existing products and dietetics.



**“ VÉTOQUINOL IS
CONCENTRATING ON
THE DEVELOPMENT OF
CURATIVE PRODUCTS ”**

ÉTIENNE FRECHIN
PRESIDENT



The process of developing a new product, which is long, costly, arbitrary and strictly regulated, requires considerable funds. Vétoquinol R&D employs about one hundred researchers in a specialist centre in Lure, France. With their expertise, a budget amounting to 7% of turnover, as well as strict management, world-class products can be developed.

There are about twenty projects in the R&D portfolio, mainly involving innovative galenic formulations and substances which have not yet been used in animal health.

- In the area of anti-infectives, the group is trying to improve the life cycle of marbofloxacin (an oral or injectable anti-infective). The aim is to obtain a single treatment for two important diseases affecting pigs.
- In the area of pain and inflammation, one project consists of treating chronic and acute pain in companion animals. This product is scheduled for launch in 2010. In the field of surgery, a treatment for companion animals should be available from 2008.
- In the area of cardiology and nephrology, the group is working on a support for renal function in companion animals which is due to be marketed in 2007. A product for treating cardiac insufficiency in dogs is due to be launched in 2011.

The group's researchers explore all possibilities leading from the active principle to the animal, making the treatment as effective, acceptable and easy to administer as possible. They regularly demonstrate innovative skills and focus on short and reactive development processes.

STEPPING UP RESEARCH TO STAY TOP IN INNOVATION

In 2002, Vétoquinol spent 5 million euros modernising its strategically important research centre in Lure. This complex includes a unit for manufacturing batches used in clinical trials. It complies with EU recommendations on Good Laboratory Practice and Good Manufacturing Practice. It has all the necessary equipment to enable the R&D teams to express their creativity on behalf of the customer, while respecting people and the environment.

VÉTOQUINOL'S RELEVANCE IN RELATION TO MEDICINAL PRODUCTS

- Pharmacovigilance or drug safety monitoring is now obligatory. Even before this became compulsory by law, Vétoquinol was pioneering this type of scheme back in 1989. This enabled the group to note, on a case-by-case basis, instances of ineffectiveness or side effects in its products whose reliability has been proven for over 15 years.
 - Epidemiological surveillance involves monitoring the sensitivity of bacteria to antibiotics. This is why products need to be both long-lasting and effective. Monitoring the drugs which make up a good part of turnover, such as marbofloxacin, is vital for Vétoquinol's development.
- Since 1994, Vétoquinol has been collecting pathogenic strains in the field in 8 European countries, with the assistance of 32 veterinarians and as many laboratories. It then tests their sensitivity to its own and rival products. Currently, no other laboratory has such a good independent stock of bacteria.

// VÉTOQUINOL EXPLORES A SUBSTANCE'S FULL POTENTIAL, CAPITALISING ON EVERYTHING IT KNOWS ABOUT AN ACTIVE PRINCIPLE"

BERNARD BOISRAMÉ
DEPUTY MANAGING DIRECTOR, RESEARCH & DEVELOPMENT



AN INTERNATIONAL GROUP

Founded in the heart of the European drug market and close to Switzerland and Germany, **Vétoquinol was quickly established overseas.**

There are two economic reasons for setting up overseas:

- to obtain a return on expensive products, particularly in terms of research, over a wider area,
- to gain access to the most buoyant markets in terms of the group's sectors - companion animals such as dogs and cats versus livestock such as cattle and pigs.

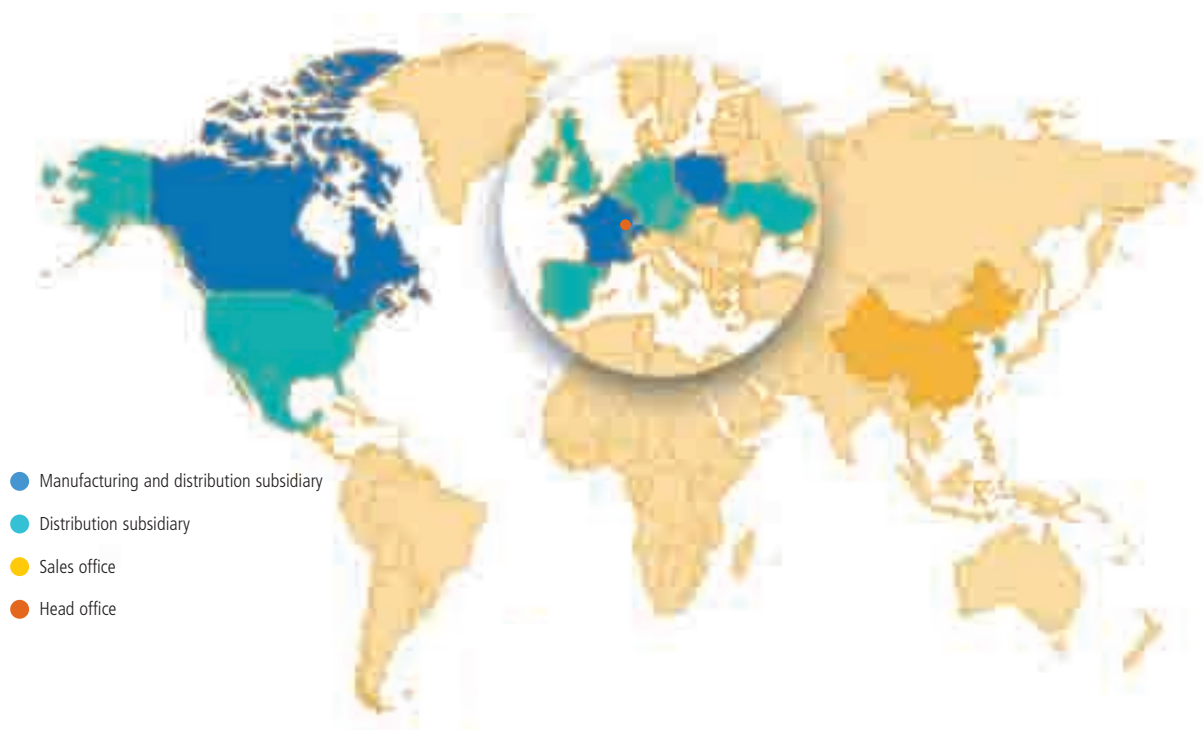
Geographically, the group covers the major world markets, and is well-established in more mature markets and also in fast-growing areas: Western Europe, North America and Asia.

Firmly established in Europe, the group has opened up the North American market - ranked 3rd in Canada and, more recently, the Asian market - China in 2005 and South Korea in 2006. In most countries, the sales networks are responsible for different species and deal with specific market features in each market.

VÉTOQUINOL'S INTERNATIONAL SUCCESS RELIES ON THE GROUP'S VALUES

The main method of international expansion is by acquisition. Making the most of its partners' expertise - an important selection criterion for Vétoquinol - the group's policy is to retain existing teams. Vétoquinol grants them autonomy and permits use of whatever is needed in order to satisfy the particular economic and cultural characteristics of their individual market. Vétoquinol positions its workforce as closely as possible to its customers, both geographically and professionally.

Vétoquinol will continue to expand internationally through further acquisitions, favouring collaboration with trade and industry and stepping up our presence in areas of high-consumption, particularly in Asia.





“ VÉTOQUINOL IS RECEPTIVE TO PARTNERS WHO ARE RESOURCEFUL, WHETHER THEY BE EXISTING PRODUCTS, DEVELOPMENTS OR BUSINESS PARTNERSHIPS, IN ORDER TO CONSOLIDATE ITS AREAS OF STRENGTH AND STEP UP ITS INTERNATIONAL DEVELOPMENT.”

CHRISTIAN SCHIRVEL - GROUP DIRECTOR BUSINESS DEVELOPMENT

110 distributors in **80** countries // Subsidiaries in **18** countries // **4** manufacturing sites: **2** in France, **1** in Poland and **1** in Canada // **78%** of turnover outside France // **58%** of workforce abroad //



CONTACTS

AUSTRIA

Vétoquinol Österreich GmbH

Zehetnergasse 24
A-1140 Wien
Tel. +43 14 16 39 10
Fax +43 14 16 39 10-15
Email: office@vetoquinol.at
www.vetoquinol.at

BELGIUM

Vétoquinol N.V.

Kontichsesteenweg 42
2630 Aartselaar
Tel. +32 3 877 44 34
Fax +32 3 877 44 38
Email: info@vetoquinol-benelux.be
www.vetoquinol.be

CANADA

Vétoquinol N.-A. Inc.

2000 chemin Georges - Lavaltrie,
Québec, J5T 3S5
Tel. +1 450 586 22 52
Fax +1 450 586 46 49
Email: info@vetoquinol.ca
www.vetoquinol.ca

CZECH REPUBLIC

Vétoquinol s.r.o.

Zámecnická 411
288 02 Nymburk
Tel. +420 325 51 38 22
Fax +420 325 51 33 65
Email: vetoquinol@vetoquinol.cz
www.vetoquinol.cz

FRANCE

• Vétoquinol S.A.

Magny-Vernois BP 189
70204 Lure cedex
Tel. +33 3 84 62 55 55
Fax +33 3 84 6 55 56
Email: vetoquinol@vetoquinol.com
www.vetoquinol.com

• Vétoquinol

31, rue des Jeuneurs
75002 Paris
Tel. +33 1 55 33 50 25
Fax +33 1 47 70 42 05
Email: comm.france@vetoquinol.com
www.vetoquinol.fr

• Vétoquinol

Z.I. du Cantubas
Avenue J. Kessel
B.P. 128 - 69172 Tarare cedex
Tel. +33 4 74 05 37 50
Fax +33 4 74 05 37 59

GERMANY

Vétoquinol GmbH

Chassot GmbH
Parkstrasse 10
88212 Ravensburg
Tel. +49 751 35 953 00
Fax +49 751 35 953 99
Email: info@vetoquinol.de
www.vetoquinol.de

IRELAND

Vétoquinol Ireland Ltd.

Vétoquinol House
Great Slade
Buckingham Industrial Park
Buckingham - MK18 1PA
Tel. +44 1280 814 500
Fax +44 1280 825 460
Email: office@vetoquinol.ie
www.vetoquinol.ie

MEXICO

Vétoquinol de México S.A.

de C.V. Manuel López Cotilla
744 Col. Del Valle
México DF 03100
Tel. +52 55 55 36 80 90
Toll free number: 01 800 909 0400
Fax +52 55 56 69 25 24
Email:
sclientes@vetoquinolmexico.com.mx
www.vetoquinolmexico.com.mx

NETHERLANDS

Vétoquinol B.V.

Postbus 3191
5203 DD's-Hertogenbosch
Tel. +31 10 498 00 79
Fax: +31 800 024 96 94
Email: info@vetoquinol-benelux.be
www.vetoquinol.com

PEOPLE'S REPUBLIC OF CHINA

Vétoquinol Shanghai Representative Office

Room C 1607, Floor 16,
Block C - No. 85, Lou Shan Guan
Road Oriental International Plaza
Chang Ning District
Shanghai 200336
Tel. +86-21-52570660
Fax +86-21-62703001

POLAND

Vétoquinol Biowet Sp. z o.o.

ul. Kosynierów
Gdy-skich 13-14 66-400
Gorzów Wlkp.
Tel. +48 95 728 55 00
Fax +48 95 735 90 43
Email: info@biowet.com.pl
www.vetoquinol.pl

PORTUGAL

Vétoquinol Unipessoal LDA

Rua Consiglieri Pedroso,
nº 123 - Edifício H
Queluz de Baixo
2730-056 BARCARENA
Tel. +351 21 434 0300
Fax +351 21 434 0309
Email: vetoquinol@vetoquinol.pt

REPUBLIC OF KOREA

Semyung Vétoquinol

909-3, Whajung-dong Dukyang-ku
Koyang-city Kyungki-do
Tel. +82 31 967 8853
Fax +82 31 968 4943
Email: webmaster@vetoquinolkorea.com

SPAIN

Vétoquinol Especialidades Veterinarias, S.A.

Parque Empresarial San Fernando -
Edificio Italia 28 830 San Fernando
de Henares - Madrid
Tel. +34 91 678 42 80
Fax +34 91 676 41 71
Email: vev.sa@vetoquinol.es
www.vetoquinol.es

SWITZERLAND

Vétoquinol AG

Business Building
Worblentalstrasse 32
3063 Ittigen
Tel. +41 31 818 56 56
Fax +41 31 818 56 50
Email: info@vetoquinol.ch
www.vetoquinol.ch

UNITED KINGDOM

Vétoquinol UK Ltd.

Vétoquinol House
Great Slade
Buckingham Industrial Park
Buckingham - MK18 1PA
Tel. +44 1280 814 500
Fax +44 1280 825 460
Email: office@vetoquinol.co.uk
www.vetoquinol.co.uk

UNITED STATES

Vétoquinol USA Inc.

101 Lincoln Avenue, Buena, NJ
08310-0687
Tel. +1 856 697 5115
Toll free number: 1-800-267-5707
Fax +1 856 697 7288
Email: info@vetoquinolusa.com
www.vetoquinolusa.com

UKRAINE

Biowet Ukraine Pharmaceutical Company Ltd

U.I Rogaliewa 18
4900 Dniepropietrowsk
Tel. +380 562 46 31 01
Fax +380 562 46 21 95
Email: olga_biowet@ukr.net



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a Sign of Passion

www.vetoquinol.com