2017 REGISTRATION DOCUMENT

Annual financial report

vetoquinol
ACHIEVE MORE TOGETHER

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REGISTRATION DOCUMENT

Annual Financial Report

2017

Note to recipient of this document: this is the translation of an extract of the Registration Document and Annual Financial Report for the year ended December 31, 2017. The original French document was filed with the AMF (French Financial Markets Authority) on April 23, 2018.

CONTENT

MESSAGE FROM THE CEO

"The good financial results in 2017 reflect the efficiency of Vetoquinol's repositioning strategy launched more than 5 years ago."

Ladies and Gentlemen,
Dear Shareholders,

Vetoquinol posted a good performance in 2017 with the strong growth of financial results, something that reflects the efficiency of Vetoquinol's repositioning strategy launched more than five years ago.

When we were first listed in 2006, 71% of our sales were in Europe and antibiotics accounted for more than 50% of our operating margin. The Vetoquinol Group was characterized primarily as a European operation and as a renowned specialist in the field of antibiotics with its flagship product, Marbocyl®.

Since then, the development of our animal health market has been marked in part by health authorities in numerous countries, particularly in Europe, calling into question the use of antibiotics. It is important to bear in mind that antibiotics are indispensable products in both animal and human medicines. Furthermore, it is in order to guarantee their efficacy in the long term that the authorities seek to reduce their use, to avoid the development of resistant bacterial strains against which medicines would be less effective. I stress that it is the use of antibiotics that is being questioned, and not the antibiotics themselves. Our development was also marked by uneven regional development between Europe and the rest of world. Our operations outside Europe were limited, creating a growth deficit between our company and our competitors.

In order to face up to these two challenges, in 2012 we implemented a strategic shift with the aim of repositioning ourselves within a targeted product range, the Essentials. These products are designed to be sold on the major global markets, thereby accelerating our growth outside Europe, particularly in the United States, the animal health market with the greatest potential.

This repositioning was boosted further with the roll-out of our new strategic plan "In Motion" launched in 2017, the positive effects of which for our company are now evident.

At the end of this first year of our new strategic plan, we are in line with our objectives and there has been a high level of commitment among all employees: the success of our strategic plan is in our hands.

Our strategy remains clear: increased investment in our sales network, in R&D, in improving industrial performance and in the roll-out of our Essentials products in strategic countries.

We have reached an important milestone in our transformation. I have every confidence in the commitment of the management and of all our employees to continue along the path towards growing the Group in 2018 and beyond.

"he success of our strategic plan 'In Motion' is in our hands."

2017 KEY FIGURES

An animal health pure player

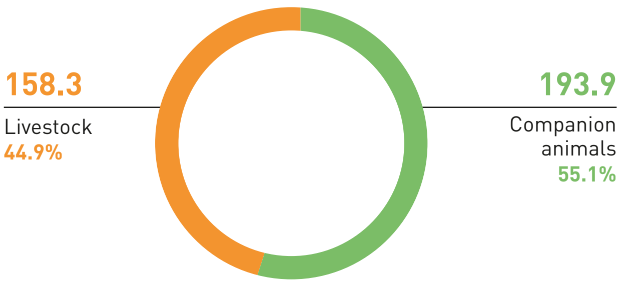
9th global animal health company

€352.2 million revenue

including **€165.4** million from Essentials products **(up 7.6% like-for-like)**

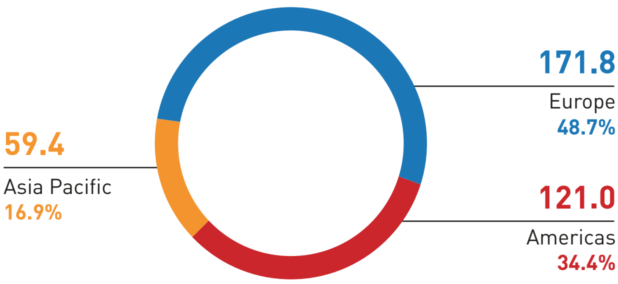
Breakdown of Group sales

per business segment



Breakdown of Group sales

per territory



€46.0 million
EBIT

€34.8 million
net income – Group share

€57.4 million
EBITDA

2,120
employees including **575** veterinary delegates

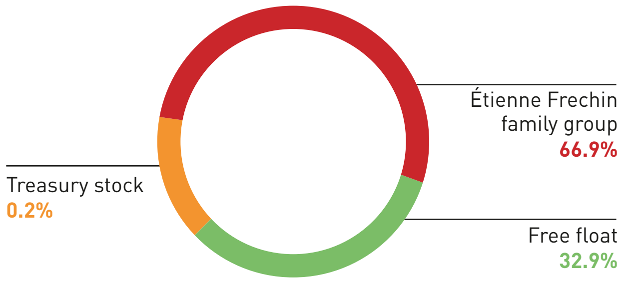
167
R&D technicians

7
production sites

VETOQUINOL ON THE STOCK MARKET

Breakdown of share capital

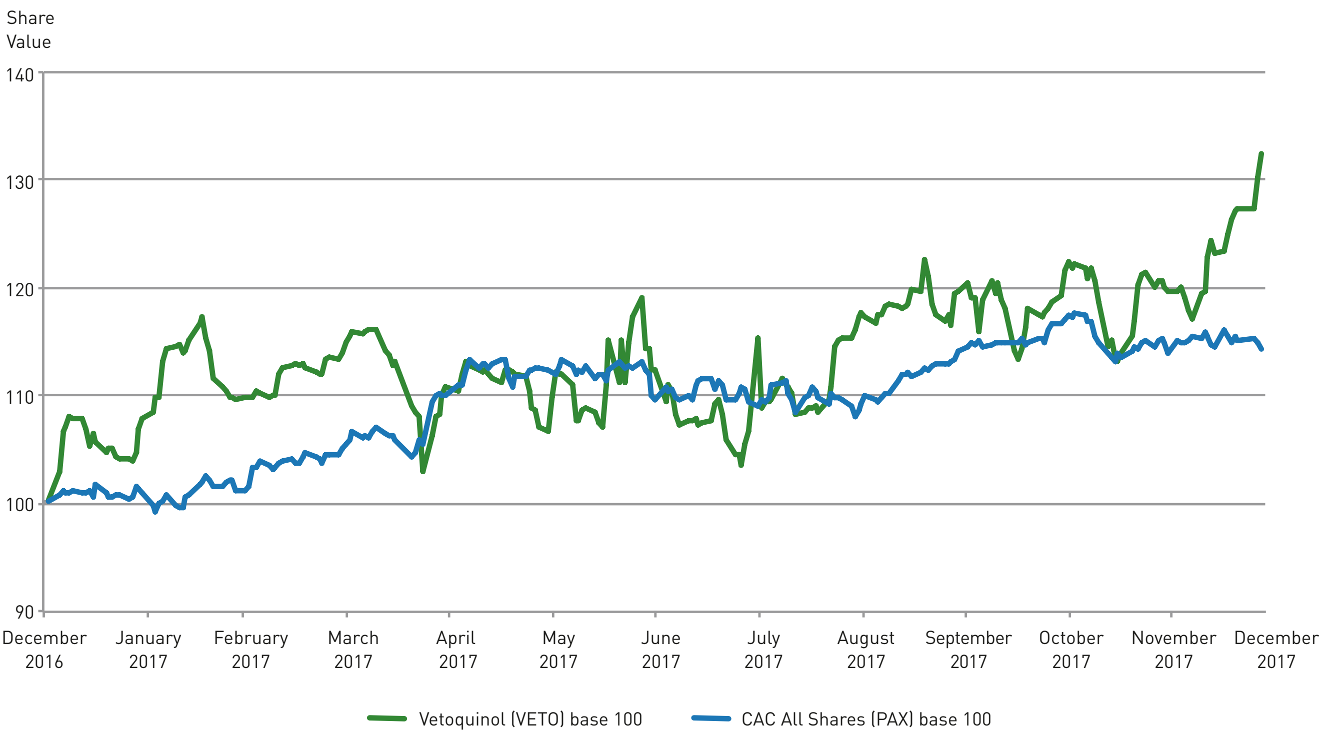
at December 31, 2017



€719 **million**

market capitalization at December 31, 2017

10th year listed on Euronext Paris



VETOQUINOL OPERATES IN THE MAIN COUNTRIES OF THE ANIMAL HEALTH WORLD MARKET

Direct presence in **24** countries

including **18** strategic countries

France	Belgium	Sweden	India
Germany	Netherlands	Switzerland	South Korea
UK	Czech Republic	USA	China
Italy	Austria	Canada	Australia
Spain	Ireland	Mexico	Russia
Poland	Portugal	Brazil	Japan

100 distributors worldwide

2

VETOQUINOL'S SOCIAL RESPONSIBILITY

2.1 CSR strategy

2.1.1 Vetoquinol, a brand recognized for its commitment

The No. 9 global animal health company, Vetoquinol is exclusively dedicated to animal health. A family-owned business, Vetoquinol combines sustainability, development and independence while continuing its human adventure.

Vetoquinol owes its success to the constant attention paid to its customers and its commitment to equity and integrity in its business relations and commercial transactions. Its aim is to create a uniform culture across the Group in order to achieve more together, day after day. All Vetoquinol employees worldwide share the same pride in contributing towards a single goal: improving animal health for the well-being of animals and for the health of men, women and children.

Vetoquinol has always been committed to preserving natural resources, saving energy, and being a pharmaceutical company with a human face. In 2008, the Executive Committee decided to establish an official sustainable development policy equally visible to both employees and external partners.

For the 6th consecutive year, Vetoquinol features in the GAIA-INDEX, the specialist benchmark index for small and mid-cap companies based on environmental, social and governance (ESG) criteria. In 2017, Vetoquinol was awarded 2nd prize in the category of companies with revenue of between €150 and €500 million. Vetoquinol is frequently recognized for its level of transparency and the depth of its commitment to CSR based on four criteria: governance, employment, the environment and external stakeholders, as well as over 120 quantitative criteria. Vetoquinol will pursue its efforts to develop its CSR program and continue to figure among the best companies in its category.

Vetoquinol maintains strong communication with all of its stakeholders in various ways, both informal (conferences, in-house committees, etc.) and formal (IFAH and SIMV meetings), and endeavors to respond promptly to any suggestions or concerns raised. This fruitful dialog results in wide and diversified understanding of changing priorities and thereby advances the Company's CSR strategies in terms of respecting animals, humans and the environment alike.

In 2016, Vetoquinol launched its website dedicated entirely to pet owners: www. myhappypet.fr. In 2017, there was a high volume of traffic to the My Happy Pet page with 78% more followers. The engagement rate is constantly rising and stood at 7.2%.

This website was designed as part of the Group's digital strategy, which encourages the development of websites dedicated to vets and pet owners. The range of advice offered by veterinarians and published on the site provides pet owners with a reliable source of information. Topics cover everyday animal health as well as more specific problems, for which pet owners seek sound advice. This site has been designed to assist pet owners: 75% of owners use the Internet to search for medical information, and for 90% of them vets remain the most reliable source (source: Thesis on Veterinary Medicine – Lyon 1 – 2014.)

Maintaining a close relationship with its customers and its partners remains Vetoquinol's guiding principle on a daily basis; it means that their needs can be met and that they receive support each and every day.

2.1.2 Humans and animals: a lifelong relationship

It's no secret - dog is man's best friend.

The benefits of having a pet for human physical and mental well-being have been known for many years. Throughout human history, the status of animals has evolved; originally domesticated for utilitarian purposes, today animals have become inseparable companions to their human owners. Pets play a vital social role: they are part of the family, sharing everyday home life. Humans care for animals, but the opposite is also true: animals can provide practical assistance, moral support and emotional relief to humans.

2.1.2.1 Animals and children

Pets play a primordial role in childhood development. As children's close companions and confidants, animals can see and hear everything.

The presence of a pet can calm a child's fears, suffering or anxiety.

2.1.2.2 Animals and elderly people living alone

A pet's presence is reassuring, gives structure to the day (walks) and increases social contact. Today, retirement homes welcome companion animals; for many people, pets guarantee quality of life and comfort.

2.1.2.3 Animals and the disabled

Guide dogs and service dogs help disabled people achieve greater independence, giving them constant comfort, warmth and friendship and helping them to find their place in society. Guide dogs provide a certain amount of security for the visually impaired when walking and traveling.

2.1.3 Responsible behavior: Guide to Good Business Practices

Responsible behavior: Guide to Good Business Practices and Anti-Corruption Guide. Vetoquinol ensures that its development complies with the law, ethical principles, individual rights and the principles of fair competition. For this purpose, employees are given a Guide to Good Business Practices and an Anti-Corruption Guide, backed by the legislative framework of the French Sapin II law.

The rules in these Guides explain what Vetoquinol expects of each of its employees, regardless of their hierarchical status, so that all employees worldwide act in compliance with the Vetoquinol code of conduct, not only vis-à-vis the Company's competitors, customers and suppliers, but also in order to protect Vetoquinol's assets and prevent any risk of fraud or corruption. Vetoquinol refuses to work with companies whose employees fail to comply with these agreements and principles. Vetoquinol builds relationships with its customers and suppliers based on honesty and fairness, prerequisites for being a trusted partner; the basis of its slogan "Achieve more together".

Vetoquinol is committed to analyzing the impacts of its business activity in order to maximize the preservation of biodiversity and natural resources whilst minimizing pollution and the consumption of resources. In concrete terms, this means designing the most suitable products for promoting animal health at the same time as preserving the environment. This is precisely the mission of our Science Department.

Vetoquinol is committed to respecting the environment in its choice of suppliers, means of transport, production processes, packaging and distribution channels. These areas are covered by the Industrial and Quality Department.

The Human Resources Department is committed to training employees to be aware of these issues, so that they can then spread these values amongst their partners and thus trigger a virtuous circle.

The HSE Department, bolstered in 2017 with the appointment of an HSE Manager for the entire Group, implements and applies standard indicators to measure progress in combating climate change and in the use of resources. He/she also analyzes the risks of harming the environment generated by everyday operations and major projects in order to propose and implement suitable preventive and protective measures. He/she is notified of projects and decisions that impact or that might impact one of the three dimensions of sustainable development.

Vetoquinol is committed to preventing all forms of discrimination. Vetoquinol provides its employees with fair compensation and a share in its profits, thus fostering cohesion and loyalty. The Company creates conditions to ensure that all employees achieve fulfillment within their respective organizational structures. This forms part of the Human Resources Department's remit.

The safety and health of workers is a constant concern. The Industrial and Quality Department ensures that the most stringent safety standards are applied in all Group entities. Through the development of skills and resources in this area in 2017, Vetoquinol began the implementation of coordinated Group policies with the aim of achieving a level of excellence in the area of safety.

Vetoquinol gets involved in the life of the community by sponsoring local cultural and sporting events and by supporting NGOs whose activity is related to the Company's core business. The Marketing and Communications Department coordinates these initiatives.

Vetoquinol has established a Social Network Charter to foster employee awareness of the responsible behavior they are expected to adopt when using modern communication media.

2.2 Staff information

In the context of its new strategic plan "In Motion", which covers the 2017-2021 period, Vetoquinol has decided to set out its "fundamentals: its mission, its values and its long-term vision. Thanks to contributions from a large number of employees around the world, three new values have been defined: Trust, Dare, Collaborate. Their strength and simplicity contribute towards driving the Group forward".

Through an inclusive process promoting creativity and feedback, employee contributions are very positive and a source of motivation. These values serve as a benchmark that guides the daily work of each employee.

They help to improve coordination between colleagues working in different professional areas and to increase consistency between action taken and decisions made globally. The overhaul of the employee performance review process got underway in 2018 and an international working group will put forward a new system based on guidelines established by managers and employees working at different levels; the result of this work is scheduled to be unveiled during the second half of 2018 for all of the Group's employees.

Vetoquinol's policies and values contribute towards its smooth operation as an international Group. They represent shared "ground rules" that apply to both working practices and general behavior. Everyone has a duty to assimilate and apply them in practice so as to uphold and strengthen the Group's culture and character.

GREAT PLACE TO WORK®

The Group is attentive to and frequently measures employee satisfaction. Following the introduction in 2015 of a new staff barometer in cooperation with the "Great Place to Work" institute (GPTW) at the French entity, in 2017 Vetoquinol introduced the same scheme at nine of its subsidiaries. Vetoquinol is proud of the results achieved: two subsidiaries, Canada and USA, fully validated their "Great Place to Work" certification from the moment they took part.

Since 2016, Vetoquinol's French entity has continued to work on its action plan for improvement. Two Ambassador groups comprising volunteers from all levels of responsibility have met regularly to formulate and implement concrete actions, primarily for improving internal communication and employee recognition. Since the end of 2016, Vetoquinol has conducted innovative leadership training courses, marking a watershed moment in the company's culture and receiving unanimous approval from managers working at various levels within different departments. All managers based in France started their 12-day course, as did all subsidiary and production plant managers as well as Group Executives located outside France, who began their training in 2017.

This staff barometer will continue to be rolled out in 2018 for the employees of other Group subsidiaries and will again be used as a measurement tool for employees in France.

A global adventure

All employee disclosures are consolidated at Group level.

In the sales subsidiaries, growth over the coming years will be driven by a determination to:

- develop key accounts management operations in response to the trend towards business combinations between customers;
- accelerate the marketing of Group products on the strategic markets, in particular the USA, the world's largest market;
- expand our operations in fast-growing, high-potential markets (Brazil, India, China);
- drive operational excellence of the sales force via the progressive roll-out of a network of in-house trainers, a new CRM system, and a network of recognized in-house experts in specific aspects of sales whose job is to promote good practices across the Group.

At production plants, the focus is on developing and promoting a lean manufacturing culture and the use of related tools, together with initiatives to improve quality of life at work. Following a year of preparation and employee involvement, in 2017 the company's main production plant in Magny-Vernois (France) was completely reorganized into autonomous units based on pharmaceutical form or core business line as a means of increasing responsiveness and teamwork.

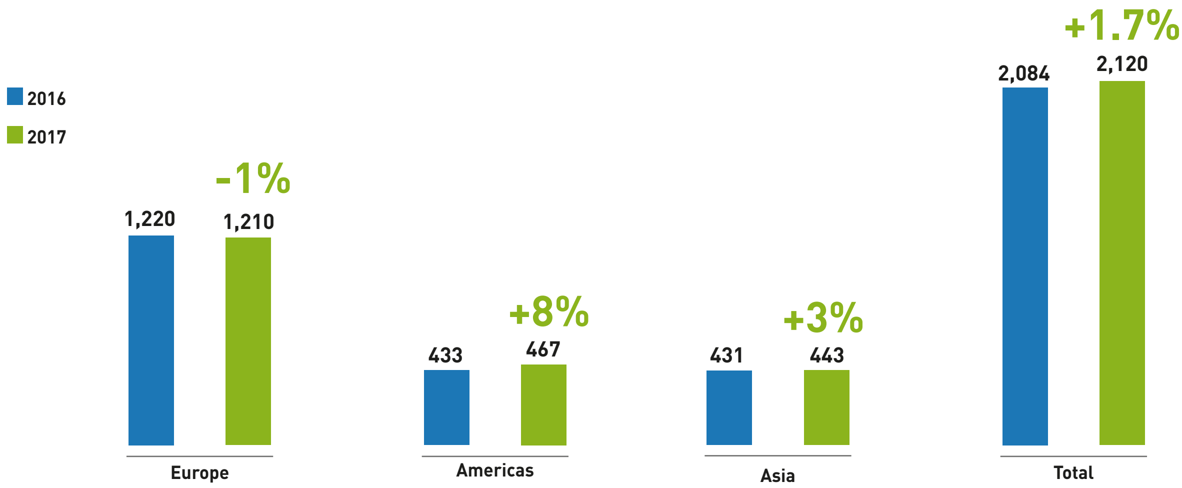
As part of this reorganization, 10 employees were certified "Green Belt" or "Yellow Belt" in 2017.

2.2.1 Headcount at December 31, 2017

2.2.1.1 2017 changes in headcount

As of December 31, 2017, the Group had 2,120 employees compared to 2,084 at the end of 2016. The headcount increased by 1.7% compared to 2.4% in 2016.

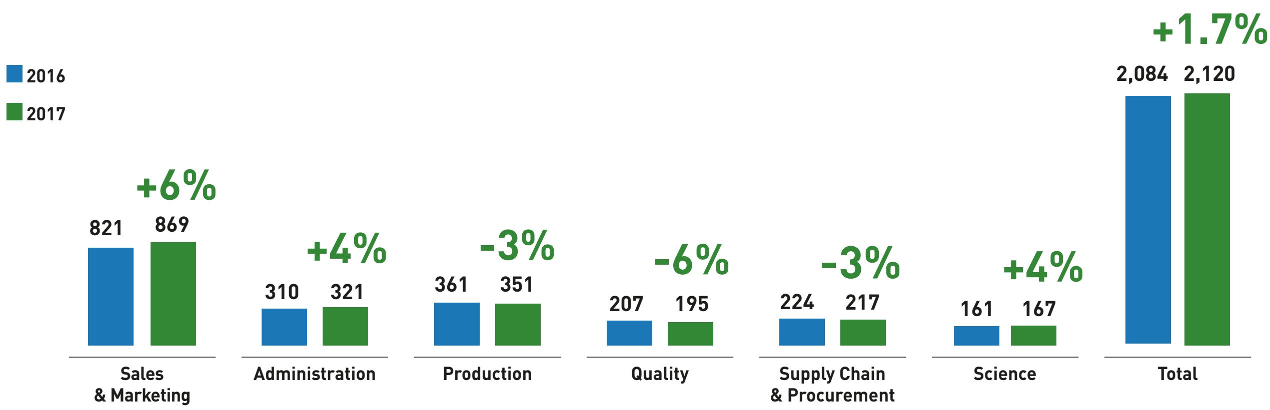
Breakdown of headcount per territory



Changes in headcount measured per region:

- In Europe, the headcount shrunk by 1%, with staffing levels unchanged at the majority of subsidiaries but with a 9% reduction in Poland. This reduction reflects the optimization of distribution warehouses and the recentralization of the Gorzow plant. The employees affected by this consolidation were either redeployed internally in Gorzow or hired directly by our new local distribution service providers.
- In the Americas, the number of employees grew by 8%, particularly as a result of a major increase in the workforce of the US subsidiary, located at Fort Worth, where the sales force was expanded by more than 20% in order to provide greater coverage in the US.
- In Asia, the workforce grew by 3%, mainly due to the expansion of the sales force of the Indian subsidiary.

2.2.1.2 Breakdown of headcount per department



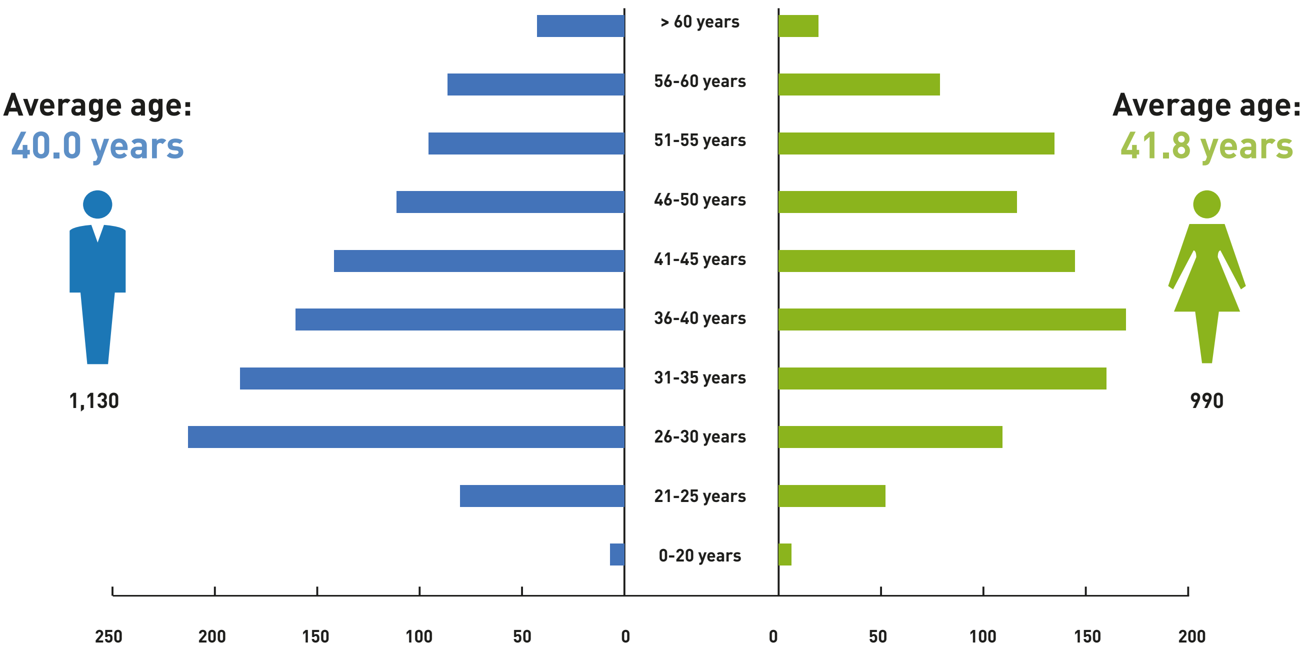
The increase in Sales & Marketing staff is largely due to the larger sales forces in the United States and India.

2.2.1.3 Breakdown of headcount per gender and territory

Headcount	Europe	Americas	Asia	Consolidated
Women	698	262	30	**990**
	58%	*56%*	*7%*	***46.7%***
Men	512	205	413	**1,130**
	42%	*44%*	*93%*	***53.3%***
TOTAL	**1,210**	**467**	**443**	**2,120**
	57%	***22%***	***21%***	***100%***

The Indian sales force grows each year, and is exclusively made up of men due to local working conditions and culture. Like for like excluding India, women continue to outnumber men across the Group, reflecting a satisfactory overall balance.

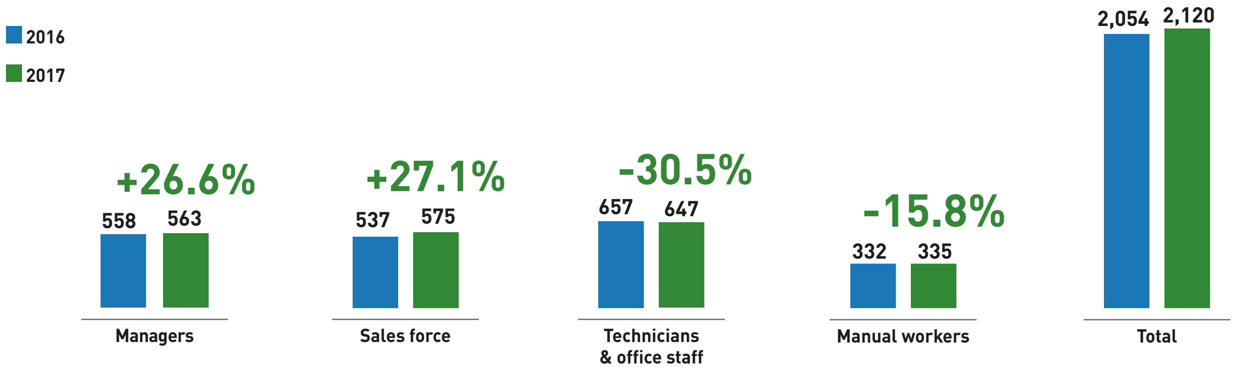
2.2.1.4 Age breakdown per gender



The age breakdown is relatively balanced and has not significantly changed since 2016: 22% of employees are under the age of 30, while 21% are over 50 years old. The average age of Group employees is 40.8.

Average length of service is 8.9 years. NB: the length of service of acquired companies' staff is based on their length of service with their respective companies.

2.2.1.5 Breakdown by professional category



Technicians outnumber each of the other categories given that pharmaceutical production and development activities require a large force of laboratory and administrative technicians. As the pharmaceutical industry requires highly skilled staff, the number of "manual workers" is relatively low. Vetoquinol also outsources some production to subcontractors if the Company does not possess the requisite technological resources.

2.2.2 Hiring and dismissals

Vetoquinol centralizes all staff movements across all companies on a monthly basis, mainly in order to track staff turnover rates. The 2017 Group staff voluntary departure rate was 10.9%, slightly higher than the 2016 rate of 10.5%. This key indicator is monitored by the Human Resources Department.

- Excluding India, the rate drops to 7.6% in 2017 versus 7.3% in 2016.
- In India, the departure rate stabilized at around 25%. This represents a significant improvement compared to 2014, when the figure was 37%, and compared to the rest of the Indian market.

2.2.3 Recruitment, induction and compensation

Vetoquinol pays particular attention to the induction of newly hired staff. Individual induction programs lasting several weeks are prepared for managers joining the Company. To familiarize themselves with business operations in the field, newly hired senior managers visit customers with a company vet and spend a few days with the production departments. Subsidiary department managers typically undergo an orientation course lasting at least one week at the Group's head office They also attend international business conferences organized by each Group department.

A welcome day is regularly planned for all new hires to give them an insight into the Company, the conditions in which it operates, the animal health sector and the Company's departments, products, main processes and values.

The Company reviews its employees' salaries every year, either on its own initiative or in accordance with salary agreements signed with local staff representatives, where applicable.

Following on from the results of the "Great Place to Work" barometer in France, 2017 remuneration is based on internal equality considerations as well as individual performance and comparison with the labor market (external competitiveness).

The Company's attraction as an employer lies in its family values, corporate culture, plans for growth, particularly abroad, ambitions and generous assignment of responsibilities.

In accordance with legislation in its various countries, the Group may offer supplementary insurance schemes to provide employees with optimum coverage of their medical expenses as well as life and disability insurance.

2.2.3.1 Profit sharing

In France, the Company applies an exceptional formula (amendment 2 of June 29, 2007) to calculate the amount of profit sharing, which is equal to 5% of the Company's operating income.

This formula is only applied where the resulting amount is greater than the amount calculated on the basis of the statutory formula.

2.2.3.2 Incentives

In France, an incentive scheme was introduced in the Company in 1987 to enable all employees to benefit from the Company's success and profits.

On Tuesday, June 27, 2017, a new incentive agreement was signed applying to calendar years 2017, 2018 and 2019. The incentive scheme is based not only on Group financial results but also on safety statistics and strategic progress achieved.

A cap rule is applied (the salary generates no incentives in excess of an amount equal to 2.5 times the annual social security ceiling).

If the results achieved are better than expected at the start of the year, it is possible to pay an employer's matching contribution. In 2016, the Group made an additional incentive payment of €250,000.

It is expressly agreed that the sum of the special profit-sharing reserve plus total incentives for a given year shall not exceed 10% of total gross pay in that year.

In addition to any applicable statutory provisions, some Group subsidiaries have set up voluntary incentive schemes to enable their employees to share in the subsidiary's earnings.

2.2.4 Work organization

In each of its subsidiaries, Vetoquinol complies with statutory and contractual requirements regarding working hours. Work time organization varies across the Group depending on local conditions applicable to each subsidiary and operation. Part-time work represents 2.4% for the Group as a whole. Employees switching to part-time employment have generally chosen this arrangement themselves.

Group policy is generally to hire permanent employees. As a result, the proportion of temporary employees is very low.

Type of employment contract	Americas	Asia	Europe	Total
Fixed-term	2.4%	0.2%	8.4%	**5.0%**
Permanent	97.6%	99,8%	91.6%	**95.0%**
TOTAL HEADCOUNT	**100.0%**	**100.0%**	**100.0%**	**100.0%**

2.2.4.1 Absenteeism

Vetoquinol monitors absenteeism in all Group entities. The Company pays close attention to short and frequent absenteeism indicators, as this is generally symptomatic of low staff morale and considerably disrupts the Company's operations.

This data is for internal use only and is not published by the Group, especially as it does not call for particular comment.

The results are analyzed in consultation with executives and human resources managers at the subsidiaries concerned and, where applicable, corrective action plans are formulated and implemented.

2.2.5 Organization of staff dialog

Vetoquinol complies with local legislation regarding staff dialog. Staff representative bodies are set up and operate normally in accordance with applicable statutory provisions.

The Group's French employees elected their representatives in 2013. The new staff representative bodies had a term of office expiring at the end of 2017. In accordance with the new legislation in France the mandates are extended until the end of 2018, at which time the new staff representative body will be put in place.

One trade union (CFDT) is represented in the company.

In Poland, staff dialog takes the form of discussions with staff representatives elected by the employees.

In 2016, a Works Council was created in Germany, and staff dialog at the subsidiary was established with these new staff representatives.

2.2.5.1 Collective agreements

In France, a company agreement was signed on June 27, 2017, on the new incentive scheme for the 2017-2019 period (see "Incentives").

These agreements supplement those already in force:

- February 9, 2015, company agreement on professional equality for 2015-2017;
- December 18, 2015, agreement on night work for 2016-2020 in order to improve the management of the major investments made in the autonomous injectables production unit;
- November 17, 2016, company agreement on the "Generation" agreement for 2016-2018.

The Princeville plant in Quebec periodically negotiates its "Collective Bargaining Agreement" in accordance with local legislation applicable to union-affiliated sites.

2.2.5.2 Company corporate savings plan

In France, the Company set up a corporate savings plan in 1989. The plan is managed by Société Générale Gestion (S2G), Amundi and CPR Asset Management.

Under the plan, employees have a choice of seven investment funds in which to invest their savings from profit sharing, incentives and voluntary contributions.

2.2.5.3 "Generation" agreement

In France, the company agreement signed on November 17, 2016 for 2016-2018 follows on from an action plan that ended in 2016.

The "Generation" agreement, which is an integral part of measures regarding equality at work, the reduction of arduous work, recruitment policy and in-house job transfers, meets the following objectives:

- promote long-term employment of young people via permanent employment contracts,
- promote recruitment and retention of elderly employees,
- ensure that skills and know-how are passed on.

A progress report is presented to management and staff representatives each year.

The main actions carried out in these different areas include:

- Defining professional entry-level positions, which can be filled by recent graduates or applicants with little experience, so as to create pathways into active professional life.
- Identifying employees to present and promote the Company's professions at universities and schools.
- Implementing the employee "mentor" program in order to support employees under the age of 30 during the initial months of their career at the Company.
- Setting up early-career interviews, intended to take stock of the first two years of professional activity.
- Creating a work/study guide in order to inform employees of the "work/study traineeship" policy, and to set out the respective rights and responsibilities of managers and work/study trainees.
- Identifying areas of activity in which recruitment is under strain and in which work/study traineeships are used as a precursor to recruitment.
- Identifying positions involving lighter duties, in order to prioritize the appointment of employees aged 50 and over who are subject to greater medical restrictions.
- Supporting employees aged 50 and over in their decision to retrain for a new role.
- Allocating at least 7% of the training budget (excluding mandatory training) to employees aged 50 years and over.
- Formalize a standard induction pathway, led by the employee "mentor" for young recruits.
- Define and implement "profession-specific" training measures in the induction assessments of recruits under the age of 26.
- Favor the employment of unqualified or under-qualified young people by giving them access to internships and by organizing company visits and information sessions at local youth centers, in order to showcase professional areas in the Company and in the pharmaceutical industry as a whole.
- Create a welcome booklet dedicated to interns.
- Train Industrial Department managers in the prevention and reduction of arduous work.
- At the request of Industrial Department employees aged 50 and over, organize office software training sessions in order to support occupational retraining.
- In order to promote intergenerational cooperation, organize the transfer of skills by partnering the senior employee with their replacement.
- In order to prepare for retirement, provide general information on retirement.
- Assist employees in their return to work after a prolonged absence.

2.2.5.4 Staff fringe benefits

In France, in accordance with the law, the Works Council manages Vetoquinol SA's staff fringe benefits in compliance with applicable statutory provisions.

A secure website has been set up to provide employees with information on all fringe benefits and cultural activities (e.g. participating in sporting activities, travel, discounts, Christmas trees, miscellaneous events, etc.).

In Poland, companies with more than 20 employees are required to set up a staff fund. The staff fund is governed by specific rules and is managed by a committee on which all parties are represented.

In Canada, a range of activities are organized by employees in support of (i) Centraide, a foundation whose mission is to help break the cycle of poverty and social exclusion as well as provide financing to a local school, and (ii) Aventure KS 500, which supports the families of sick children in the Princeville region.

2.2.6 Health and safety

Health and safety agreements signed with trade unions and staff representatives. (See 2.3.2.2 Health and safety agreements).

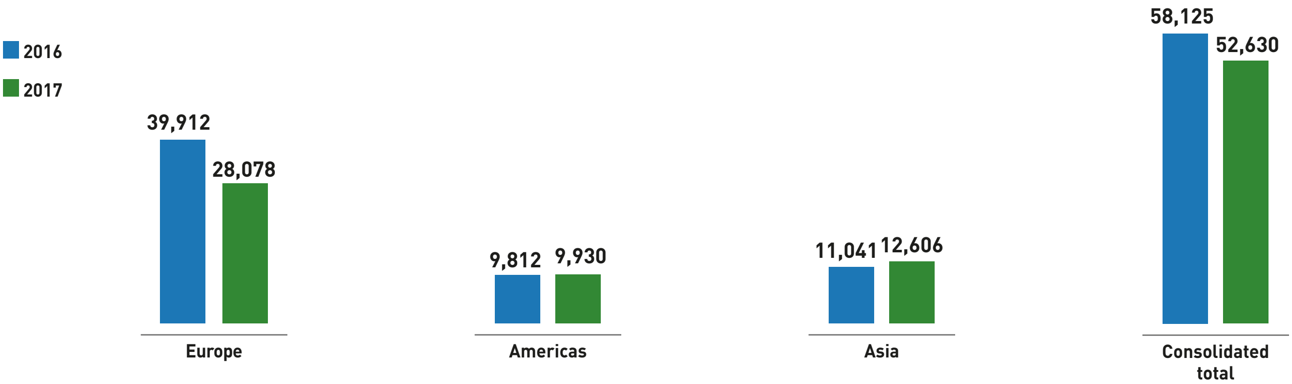
2.2.6.1 Compliance with the ILO fundamental conventions

All Group locations undertake to comply with the International Labour Organization (ILO) declaration relating to basic labor rights and principles including:

- rejection of slavery and forced labor,
- rejection of child labor,
- ban on mental or physical harassment,
- ban on all work-related discrimination (gender equality agreement),
- compliance with laws and industry standards regarding working hours,
- non-discrimination and equal opportunities.

2.2.7 Training

Number of training hours per territory



Vetoquinol implements its training initiatives at Group level. The number of training hours increased significantly between 2016 and 2017, primarily due to France, where the number of hours almost doubled compared to 2016. Over the past two years, Vetoquinol has implemented a major training program for all of its managers in order to support them in meeting the objectives of the new strategy and with the cultural transformation under our "Vetoquinol In motion" plan.

The pharmaceutical environment in which Vetoquinol operates requires the continuous skills improvement of production technicians; Vetoquinol was the first animal health company to introduce "CQPs" (Professional Qualification Certificates) for a number of its employees (13 employees received this training in 2017).

In the other regions, the number of hours remained in line with previous years.

Enhancing the skills of Group employees is one of the priorities of the human resources department, which has imposed a minimum employee training budget on the Group's subsidiaries.

Employees approaching retirement are offered specific training sessions to help them prepare for their retirement.

2.2.8 Non-discrimination and equal opportunities

Vetoquinol practices no discrimination in the hiring, remuneration or promotion of its employees.

The Group's subsidiaries, many of which are located far from major cities, may experience severe difficulties attracting talented people, whose spouses will have difficulty finding jobs in the area. Positions in production and control of pharmaceutical products, which are carried out in a clean and sensitive environment, tend to attract women rather than men.

In France, after having implemented a second action plan in 2013-2014 aimed at consolidating gender equality, a three-year company agreement on equality at work was signed on February 9, 2015 covering the years 2015-2017. This agreement relates to the equal treatment of men and women in terms of access to employment, occupational training, transfer, promotion and equal pay.

The comparative situation report presented to the Works Council each year shows that the procedures applied at the Company do not give rise to inequalities per se. Identifiable inequalities between the status of men and women primarily reflect the sociocultural context (certain roles attract fewer job applications from women, etc.) and the Company's history.

In terms of pay, no inherent inequalities between men and women have been identified for an identical role and for comparable years of service, despite the continuing existence of headcount imbalances due to sociocultural factors. Depending on the business line, there is an under-representation of women in positions that carry greater responsibility. Women currently occupy one third of the 55 most senior positions within the Group. Some isolated wage anomalies resulting from individual careers and indiscriminately affecting men and women are due to be corrected as part of the year's wage policy.

As part of the extension of action plans in this area, the company is committed, under the company agreement signed in 2015, to a proactive approach aimed at restoring the balance in these cases, whilst making allowance for the context.

The ratio of women to men remains relatively stable from one year to the next (see "Age breakdown").

2.2.8.1 Employment of disabled persons

Vetoquinol ensures that it meets its disabled person employment obligations as far as possible by retaining its disabled employees and prioritizing its subcontracting partnership with various ESAT institutions (French centers for promoting the employment of disabled employees).

Vetoquinol SA currently complies with 100% of the disabled employment targets defined by law.

In the Polish subsidiary, which employs three disabled persons, hiring is non-discriminatory with regard to disabled applicants.

Certain degrees of moderate disability may entitle some disabled employees to extra days' leave.

2.3 Health, safety and environmental information

2.3.1 Overall health, safety and environmental policy

The health, safety and environmental policy is established by the Group's QHSE Department (Quality, Health, Safety and Environment), which oversees the implementation of this policy at all Vetoquinol entities and establishments around the world.

The Group HSE policy, reviewed in 2017, is based on 12 basic principles: these principles are in the process of being implemented throughout the Group:

- An HSE representative is appointed for each entity, who reports locally to Management and operationally to the Group HSE Manager. The HSE representative manages local risk prevention schemes and ensures compliance with regulatory requirements and Group standards.
- In addition to the Group HSE policy, each entity is responsible for preparing a local HSE policy focused on its particular conditions and business activities. This must be signed by the Management of the entity and presented to all its staff.
- An HSE risk assessment process is carried out within each entity, covering road hazards in particular. It touches upon all the activities carried out by the employees as well as those carried out by external service providers at a Vetoquinol site. The process incorporates risk assessment with regard to malicious acts.
- A risk reduction plan is formalized upon completion of the risk assessment process. This plan is monitored and updated on a regular basis.
- If a risk cannot be avoided, safeguarding measures at source protecting all employees exposed to the risk should be prioritized with regard to individual protective equipment.
- For new projects/products or new activities, the HSE risk assessment is carried out as soon as possible so that suitable measures can be taken.
- Levels of exposure to physically harmful substances and chemicals are measured for the staff concerned. The results are taken into account in the periodic medical evaluation.
- All members of staff should undergo regular HSE training corresponding to their activities and the risks faced. All new employees receive HSE awareness training when they join the company.
- All accidents and incidents are recorded and assessed within each entity. Any major accident or incident is immediately reported to the Group HSE manager who coordinates the provision of feedback to the other entities.

- Safety indicators are monitored by each entity. Environmental indicators are established for industrial entities: monitoring of waste, effluent discharge, water and energy consumption.
- Each entity establishes an on-site HSE inspection and observation program. This program covers all the activities in which Vetoquinol employees are involved.
- Each entity puts in place the necessary resources to manage emergency HSE situations, such as injury or pollution, as well as a customized crisis management procedure.

2.3.1.1 HSE department structure within the Group

The HSE department of Vetoquinol operates via a network. Each Vetoquinol entity is served by a legal officer and a local HSE representative. The legal officer is empowered by Group management to apply the Group HSE policy and local regulations. Since 2017, Vetoquinol has had a Group HSE manager who is part of the Group QHSE Department.

The network is structured as follows:

- The Group HSE manager prepares the Group HSE policy and oversees its implementation. He/she carries out regular audits, defines standards, centralizes performance indicators, lends his/her expertise and supports the HSE network by promoting experience-sharing.
- The Industrial Directors (for industrial entities) or country Directors (for sales operations) are responsible for implementing Group initiatives and standards within their entities.
- More than 20 local HSE coordinators and representatives manage HSE activities within their industrial entities or sales operations in compliance with local regulations and internal standards and report to the Group HSE manager.

A safety reporting procedure is in place and covers all Group entities. Reporting is done on a monthly basis for the industrial entities and on a quarterly basis for the sales operations. This process is based on the risk pyramid concept, through which the number of accidents and near-misses and provisions of first aid are all accounted for (see 2.3.2.4 Health and safety indicators in the workplace).

2.3.1.2 Development of internal HSE standards

The Group HSE manager has prepared internal HSE guidelines (diagnostic tool) to facilitate the implementation of the Group HSE policy within the different Vetoquinol entities. These guidelines are a collection of managerial and operational best practices in the key areas of HSE management:

- leadership and planning;
- information and staff training;
- communication;
- operational control of HSE risks;
- emergency situations and crisis management;
- treatment of discrepancies and performance indicators;
- HSE inspections and audits.

In accordance with these guidelines, internal standards and methodological guides are currently being put in place. All production sites were audited in 2017. An action plan has been prepared for each entity audited and is monitored quarterly to assess progress. This audit program will continue in 2018 for sales operations.

2.3.1.3 Control of HSE risks at the core of our business

Control of Health and Safety risks and of environmental impact is a Group priority and is part of a continuous improvement initiative.

Employee HSE training is a priority and awareness-raising initiatives are regularly carried out in every sector. All new Group employees receive an HSE induction within several days of their arrival at the company. Given the nature of their work, training in the risks associated with the type of products handled is primordial.

Procedures and operational processes such as those related to wearing individual protective equipment, traffic regulations, waste sorting, or hot work operations are implemented on a local basis. Staff are trained regularly with a view to applying these procedures.

Similarly, all outside companies that carry out operations on the Company's premises are required to comply with the HSE instructions and procedures of the site concerned. Where applicable, a prevention plan is prepared prior to any operation commencing.

In each country, the local HSE coordinator or representative monitors changes in HSE regulations.

A comprehensive risk assessment is carried out at the design stage of every new workstation and thereafter at regular intervals. Collective safety measures are automatically prioritized over individual protective equipment.

Particular attention is paid to employees exposed to the risks of handling carcinogenic, mutagenic and reprotoxic (CMR) substances. The Group also endeavors to reduce such risks.

HSE inspections of premises are organized internally and periodically and any irregularity recorded is subject to corrective action. A preventative maintenance plan covering important health and safety and environmental equipment (firefighting installations, ventilation, lifting devices, etc.) is prepared for each site.

Each site has its own designated safety teams and equipment, and regular training is carried out to deal with emergency situations. On production sites that have an emergency plan, the managers and technicians responsible for putting the plan into action receive periodic internal training in emergency measures.

2.3.2 Health and safety conditions in the workplace

2.3.2.1 Specific action carried out in 2017

At the Magny-Vernois plant (Group head office and the Group's largest site in terms of size and business volume), employee mental health is a prevention focus: a psychosocial risk (PSR) committee has been in place for a number of years. It comprises members of the Health, Safety and Working Conditions Committee (HSWCC), management and the medical department, and meets quarterly or, if a risk arises, upon request. A report on its work is prepared at each HSWCC meeting. Furthermore, in 2016 and 2017, all managers received PSR training.

A road hazard prevention program was launched in 2017 in France and will continue into 2018. This program includes a collective awareness-raising module, by means of monthly videos sent to all employees, a drivers' charter for staff members that use company vehicles, an on-road driving training module/audit and finally an on-line accident reporting tool. Initially rolled out in France, this program is scheduled to be extended to the entire Group within the next 3-4 years.

A major aspect of prevention is behavior. Internal accident registers show that inappropriate or unsafe individual behavior remains a primary cause of accidental injuries. Furthermore, a specific accident prevention program focused on behavior was put together in 2017 and will be rolled out in early 2018 in France. This program will also be extended to the entire Group within the next 3-4 years.

Emergency drills and response exercises have been organized with the local fire and rescue departments at the Magny Vernois site in France and the Gorzow site in Poland.

A number of HSE risk reduction activities have been carried out at the sites following internal HSE audits. A selection of these are as follows:

- in Bertinoro, Italy, the tightening of safety rules, including in particular the wearing of individual protective clothing and equipment,
- in Gorzow, Poland, the improvement of evacuation signage, thermal hazard warnings and the tightening of rules related to the use and storage of flammable liquids,
- in Magny-Vernois, France, the tightening of safety rules related to vehicle circulation and parking at the site,
- in Mairipora, Brazil, the improvement of GHS (Global Harmonized System) labeling in laboratories and the strengthening of respiratory protection during production,
- in Paris, France, the review of site evacuation procedures,
- in Tarare, France, the correction of numerous machine risk and electricity risk situations,
- in Canada, the installation of additional collective protective equipment in order to avoid any falls from heights and the installation of audible signals on moving forklifts.

The feedback process was undertaken at Group level during 2017 with some 18 feedback
reports shared across the Group.
The amount of HSE investment made at industrial sites was in the region of €270,000 in 2017.

2.3.2.2 Health and safety agreements

The incentive agreement in France was renewed for the 2017-2019 period. This includes a safety indicator related to the number of lost-time accidents. This indicator is monitored regularly and is shared with the Executive Committee as well as the Board of Directors of the Group.

An agreement on Quality of Life at Work (QVT) is also currently being negotiated for France.

Companies where over half of the employees are exposed to arduous work factors as defined by law have been required under French law to establish an action plan or company agreement aimed at mitigating or eliminating such factors.

Vetoquinol is not bound by this requirement, as less than 50% of its French employees are exposed to arduous work as defined under the legislation. Nevertheless, in accordance with its Health, Safety and Environment (HSE) policy, the Company takes steps to mitigate risk of staff illness and injury.

The Health, Safety and Working Conditions Committee analyzes all employee risks and working conditions. This committee carries out inquiries following industrial accidents or occupational illness and pursues initiatives related to health and safety, working condition improvements, workstation adaptation and staff safety training.

Three types of arduous work have been pinpointed and are being worked on:

- manual work;
- repetitive work;
- night work.

A 5-year company agreement on night work was signed by management and staff representatives on December 18, 2015, applicable from 2016 to 2020 inclusive.

2.3.2.3 Health in action

The health and well-being of employees are key factors in the Group's success. Vetoquinol encourages its employees to adopt a healthy lifestyle and to improve their health via the Manger Bouger ("Eat and exercise") program. Numerous activities have been organized all around the world: a running challenge, participation in the 2015 Paris Marathon, screening for diabetes and hypertension, talks with nutritionists, participation in courses, etc. Different activities have been implemented at the Magny-Vernois site to improve employees' quality of life at work.

On June 18, 2017, a team of runners from the Polish subsidiary took part in the 4th "Nadwarcia ska Dycha" 10km run in Gorzów Wielkopolski. Vetoquinol Poland sponsored the 6 runners who proudly wore the Group colors.

In Canada in 2017, a nurse gave a presentation on yoga to employees at the site of the Canadian subsidiary. A physiotherapy clinic also gave chair massages at the company; these few moments of rest enable staff to return to work focused and relaxed.

2.3.2.4 Indicateurs de santé-sécurité au travail

Pyramide Sécurité Groupe	2017	2016	2015
Number of lost-time accidents	**7**	14	8
Number of accidents without lost time	**14**	10	12
Provisions of first aid	**106**	96	92
Number of near-misses, dangerous situations	**94**	2	Non mesuré
Lost-time accident frequency rate*	**1.9**	**3.9**	**2.3**
Severity rating**	**0.09**	**0.12**	**0.08**

** Frequency rate: Number of accidents resulting in lost time of one day or more within a 12-month period, per million hours worked.*
*** Severity rating: number of working days lost due to an accident per million hours worked.*

In order to have comparative data, the 2016 and 2015 figures were restated at Group level at the end of 2017.

There was a 50% reduction in the number of lost-time accidents at Group level in 2017 compared to 2016. This represents the best year since 2013 in terms of frequency of lost-time accidents.

5 of the Group's 7 production sites went the whole of 2017 without a lost-time accident.

Vetoquinol has set the target of reaching a frequency rate for lost-time accidents of less than 1 by 2021.

The sharp rise in the number of dangerous situations and near-misses reported at all of the Group's production sites is due to the implementation of a formal process for recording these events in 2017. It can be considered a real positive given that the "lower" part of the pyramid is a proactive indicator that enables action to be taken before accidents occur.

The severity rating remains at a very low level, reflecting the lack of severity of the injuries incurred after lost-time accidents.

Two cases of work-related illnesses were recorded in 2017 at the Brazil site for musculo-skeletal problems.

2.3.3 Environmental information

The Group discloses environmental data concerning the following five main production plants:
- Magny-Vernois (France),
- Gorzow (Poland),
- Bertinoro (Italy),
- Princeville (Canada),
- Mairipora (Brazil).

2.3.3.1 Prevention of pollution

Given that it is a pharmaceutical company mainly engaged in formulation, Vetoquinol produces no active chemical ingredients and the only direct atmospheric emissions generated by its production plants are combustion products emanating from the gas boilers. All potential particle emissions generated by the development laboratories are filtered.

There is no soil pollution. All production plants have waterproof floors designed to contain any accidental spillage. Outside storage units are situated inside retention basins.

Regarding water pollution, the Canadian and Polish sites have sewer systems connected to the local municipal wastewater treatment plant. The Italian and Brazilian sites do not produce any wastewater (excluding sanitary wastewater). All the wastewater they generate during production processes is destroyed as waste by a specialist company.

At Magny-Vernois, the effluents generated by production facilities are sent to an on-site biological treatment plant used to eliminate biodegradable pollutants. It is supported by a perozonation facility (combining the treatment of oxygenated and ozone water) in order to eliminate non-biodegradable molecules. The wastewater treatment process at this site is an innovation in the French pharmaceutical industry. It also received an innovation grant from the Rhone Mediterranean Corsica water agency. This investment, made in 2015, is testament to Vetoquinol's foresight given that no current regulation requires the treatment of medical waste in aqueous effluents.

Vetoquinol is committed to dealing rapidly with any disturbance caused to local residents. Whenever a potential disturbance, such as building work or roadworks, is identified in advance, local residents who may be bothered by such operations are given advance warning and steps are taken to minimize the disturbance.

In 2017, Vetoquinol paid no compensation pursuant to any court decision relating to an environmental issue, The Group has not recorded any provisions or guarantees related to environmental contingencies.

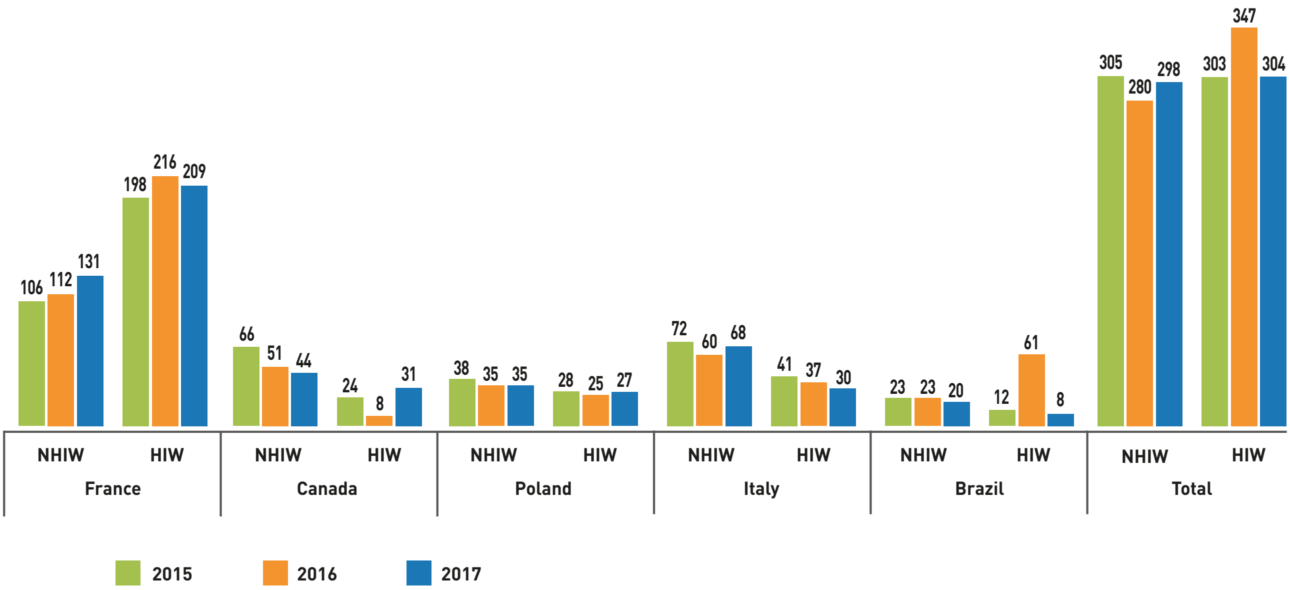
2.3.3.2 Waste management

Solid waste is monitored closely by means of detailed indicators and changes are analyzed in order to prevent anomalies. In accordance with the waste sorting policy, materials such as wood, cardboard, paper, metal and electrical and electronic equipment are sent to recycling companies. Pharmaceutical waste, which cannot be recycled, is incinerated at a certified energy recycling facility.

The best way to deal with waste is to re-use it: Vetoquinol prioritizes this solution, which is already applied to pallets, transport containers, printing paper, etc.

There was a significant reduction in the volume of industrial waste generated by all the Group's industrial sites in 2017.

Hazardous (HIW) and non-hazardous (NHIW) industrial waste per country (in tons)



At the site in Italy (Bertinoro), the washing effluents produced at the plant are transported to an external service provider for decontamination treatment before being released into the natural environment. They are not included in the graphic representing industrial waste generated by the site.

2.3.3.3 Sustainable use of resources: water and energy

Water is a key resource for Vetoquinol's production centers (in medicines taken orally and injected). Laboratory conditions require increasingly efficient and repeatable cleaning processes, which are generally performed using water mixed with detergents followed by successive rinses with water of increasing purity. These operations are generally automated and the control programs are designed and upgraded so as to optimize water consumption. Meters and sub-meters are installed in all locations where control of consumption is important, and readings are analyzed in order to prevent anomalies and establish an area of improvement priority list.

The Magny-Vernois plant has the special feature of using groundwater for the industrial cooling of some facilities (annual consumption of approx. 30,000 m3). This water, which remains clean and is only slightly heated, is drained into the rainwater system. Vetoquinol plans to eventually reduce the use of groundwater via the gradual installation of closed circuit cooling systems.

Drinking water consumption increased in 2017 compared to 2016. This primarily results from the use of drinking water in cooling systems at the Lure site during the construction of a new groundwater pumping well and from a major leak from a water supply line at the Bertinoro (Italy) site following a technical issue.

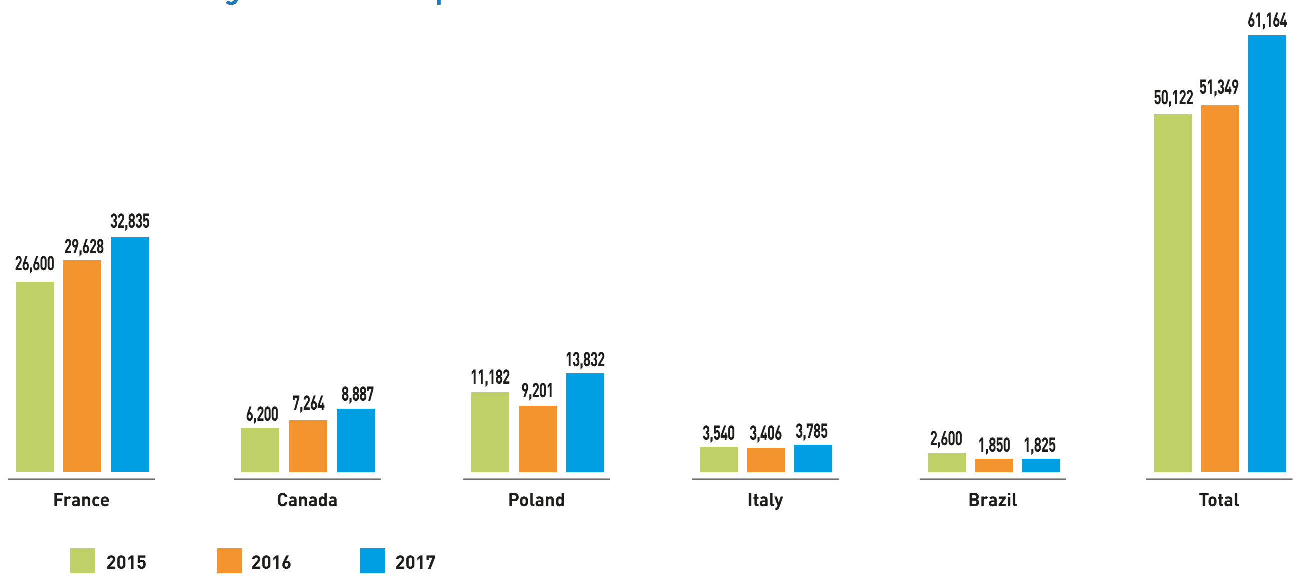
Energy represents another critical issue for production sites. On January 18, 2016, the Magny-Vernois site obtained ISO 50001 certification for its energy management system. The Group has introduced a consumption measurement system and an action plan to reduce energy consumption. The plan spans several years and includes investment in more efficient equipment and metering and regulating systems designed to facilitate consumption management and discrepancy monitoring. It also includes employee awareness campaigns covering daily actions at work and home consumption. In late December 2017, a follow-up audit by AFNOR renewed this certification. Several internal auditors have been trained. These auditors, as well as technical staff, also received training in saving energy.

A benchmark consumption level was set for each energy type (gas and electricity), serving as a basis for comparing energy efficiency. These consumption levels are different from actual consumption. They are calculated according to an approved model on the basis of monthly consumption levels over the past 3 years (2014-2016) and influencing factors (unified degree days, production hours, tonnage, etc.).

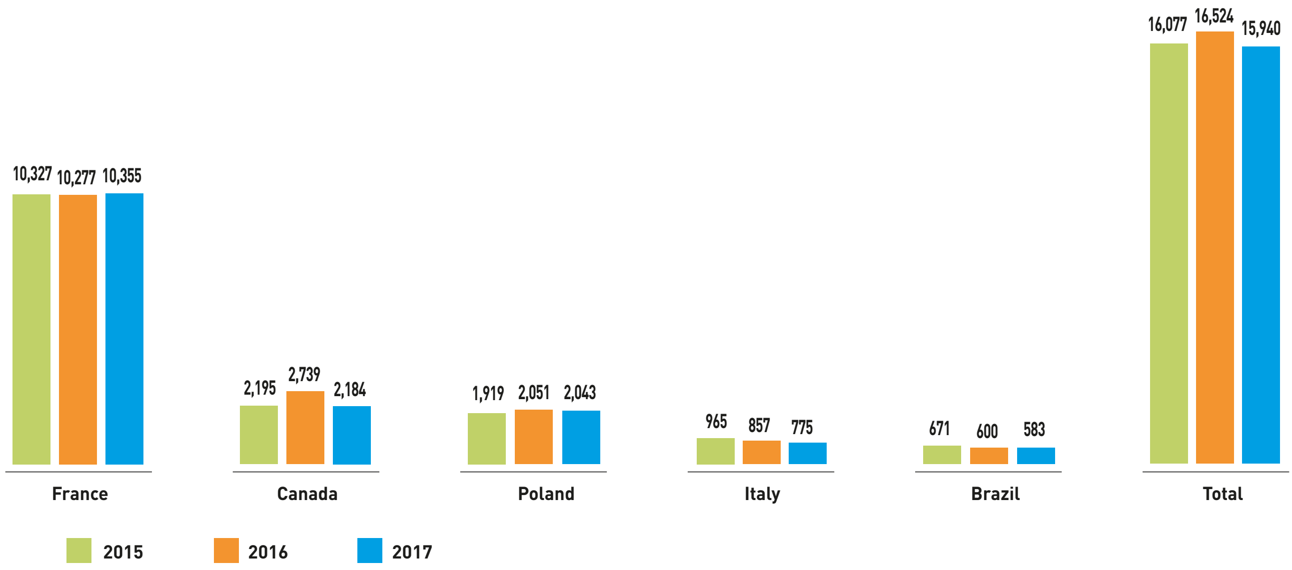
The Magny-Vernois site has set the target of a 6% reduction in the benchmark energy (gas and electricity) consumption level by 2019 compared to 2016. In order to meet this target an action plan is monitored on a quarterly basis. At the end of 2017, the benchmark electricity consumption level had been reduced by 4%. This reduction was made possible primarily by optimizing the operation of the air handling units and by installing LED lighting in various areas around the site. The benchmark gas consumption level remained stable compared to 2016.

With regard to actual consumption levels at Group level, electricity consumption fell by 3% for the Group as a whole. Gas consumption increased by around 4% primarily as a result of less favorable climatic conditions. Against a backdrop of business expansion, energy consumption was largely under control in 2017.

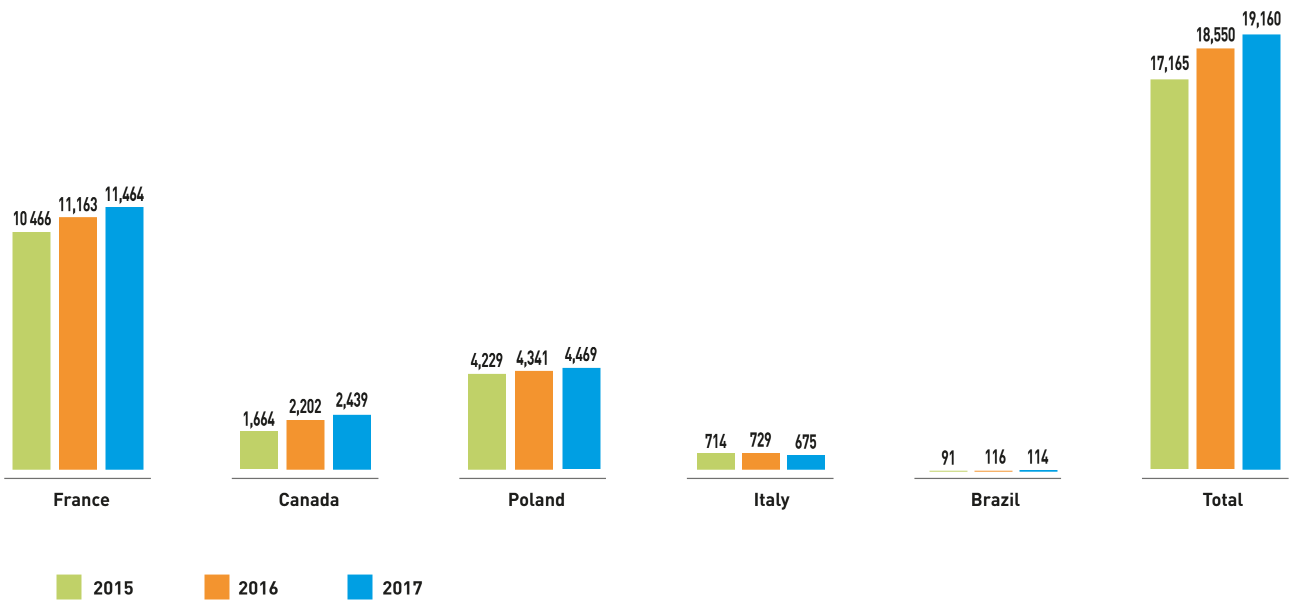
2.3.3.4 Drinking water consumption



2.3.3.5 Electricity consumption



2.3.3.6 Gas consumption



2.3.3.7 Climate change

Given the nature of its business and energy sources, which consist of natural gas for production plants and low GHG emission electricity in France (primarily nuclear) and Canada (mainly hydroelectric), Vetoquinol does not generate a major impact in terms of greenhouse gas emissions in proportion to its value added.

In order to cut its greenhouse gas emissions by 75% by 2050 in line with the "Factor 4" commitment adopted by the French government, Vetoquinol will have to reduce consumption of natural gas and replace it with renewable source energy, as is already the case in Canada.

The ISO 5001 energy management system will also help reduce greenhouse gas emissions at the Magny-Vernois site.

For information, CO2 emissions in France totaled 2,958 tons (source: 2014 GHG disclosure). Vetoquinol aims to produce a greenhouse gas emissions balance sheet for the Group (scopes 1 & 2) by the end of 2019.

2.3.3.8 Protection of biodiversity

The Group's operations do not involve production processes that cause severe harm to rare, non-renewable or natural resources or to biodiversity. Vetoquinol is attentive to its surroundings and is committed to protecting its environment in its daily operations.

All new construction projects include a landscaping study geared towards preserving the ecosystem. At Lure the Company decided to retain an existing lake in order to preserve the diversity of natural living organisms.

2.4 Social information

2.4.1 Territorial, economic and social impact of the Group's business

2.4.1.1 Territorial, economic and social impact of the Group's business

Vetoquinol makes a major contribution to the local community by boosting the local economy and through employment, particularly at and around its industrial sites. Group units are generally located away from large cities and contribute to local and regional employment through their presence and growth.

Every year in France, Vetoquinol contributes towards training around thirty apprentices from all over France. Furthermore, a strong culture of guidance prevails throughout the Group, such that a large number of Group companies regularly organize student internships in order to train future employees.

Vetoquinol plays an active role in the life of local communities through its involvement in and support for a variety of social, environmental and humanitarian initiatives.
Vetoquinol sponsors cultural and sports events and clubs.

2.4.1.2 Initiatives supported by Vetoquinol and its subsidiaries

In France in 2017, Vetoquinol was the main sponsor of the Eurockéennes de Belfort festival for the fifth consecutive year.

Vetoquinol has been associated with the Musique et Mémoire festival for a number of years, an important event in the French baroque scene in the Vosges saônoises region and member of the European Early Music Network. Over the years, the festival has been able to preserve a workshop atmosphere, where music is made on a human level with a special connection between the artists, the festival team and the public.

Vetoquinol also continued its sponsorship of the Ronchamp Chapel, now a UNESCO World Heritage Site, built by architect Le Corbusier some 60 years ago. Vetoquinol is a founding member of the group of sponsors that maintains and supports the development and promotion of this unique site in France.

Vetoquinol's "Walking Girls" took part in a sponsored trek in the Morvan national park to support Oxfam France, an international development organization that rallies public support to fight against poverty. The 4 colleagues based at the Magny-Vernois head office in France, collected €2,920 in donations by participating in this adventure.

In Canada, a range of activities were organized by employees to support different projects:

- Centraide, a foundation whose mission is to help break the cycle of poverty and social exclusion as well as provide financing to a local school. For over 10 years, Vetoquinol Canada has organized a number of schemes to raise money for the Centraide foundation. The 2016 campaign raised $14,173.50;
- Aventure KS 500, a 24-hour footrace that raises money for Fondation Jolyane Desjardins, a charity that supports the families of sick children in the Princeville region:
  A total amount of $28,150 was donated to the foundation, equivalent to a distance of around 6,750 km or slightly further than the journey from Newfoundland to Vancouver!

Eco-responsibility initiatives were also set up:

- In France (energy saving challenge).
- In Canada, for the second year in a row, the members of the Comité Vert (an eco-friendly committee comprising around 20 employees) undertook the clean-up of site surroundings as part of "Earth Day" under the guidance of the Lavaltrie city council.
- Vetoquinol Canada also participated in a beautiful "green" initiative at the time of its annual conference, held in early 2017 at Château Frontenac (Quebec): In return for the water and energy resources and products saved during the teams' stay at this exceptional location, 111 trees will be planted on their behalf.
- In Germany, Vetoquinol raised money to support Vétérinaires sans Frontières with a livestock vaccination program in Africa.

Vetoquinol strives to stay on good terms with the local community and ensures that its locations are properly integrated into their surroundings.
The Group's operations, including its production plants, generate little noise, visual or environmental pollution impacting the local community.

2.4.2 Antibiotics for veterinary use and antibioresistance: commitment to the rational use of antibiotics in animal health

It's not a question of using them less, but rather using them better.

The discovery of antibiotics in the 20th century marked a significant medical milestone. However, the widespread and occasionally excessive use of antibiotics modified the bacterial ecology and contributed to the emergence of bacterial resistance to antibiotics. Vetoquinol has been able to bring to market a single-injection treatment procedure thanks to its scientific expertise in the fields of pharmacology and pharmacodynamics coupled with extensive R&D work. This treatment complies with the latest official requirements concerning the use of antibiotics in animal health, and its single injection procedure (SISAAB* concept) greatly simplifies the administration of the drug.

Vetoquinol is particularly committed to innovative R&D projects to reduce and optimize the use of antibiotics and parasiticides in livestock farming. The aim is to lower the risks for humans and the environmental impact of resistance to parasiticides in livestock farming whilst maintaining their medicinal efficacy and respecting environmental ecosystems.

In 2016, Vetoquinol made a strong commitment to helping veterinarians cope with the new restrictions regarding the prescription of "critical" antibiotics, by organizing scientific and legislative webinars led by experts and providing tools for raising awareness amongst pet owners.

2.4.3 Code of ethics

Vetoquinol is committed to instilling a strong culture of individual responsibility and relationships with its partners based on ethics. From 2018, all Vetoquinol employees must comply with the new Group Code of Ethics; at the time of drafting this Registration Document the Code was being finalized. This Code of Ethics will be based on the strong foundations of our history and on several pillars: respect, integrity, fairness and trust.

The Code of Ethics aims to provide clear guidance when it comes to taking action internally or externally regardless of the difficulties encountered and also to help all employees understand the values upheld by the Group:

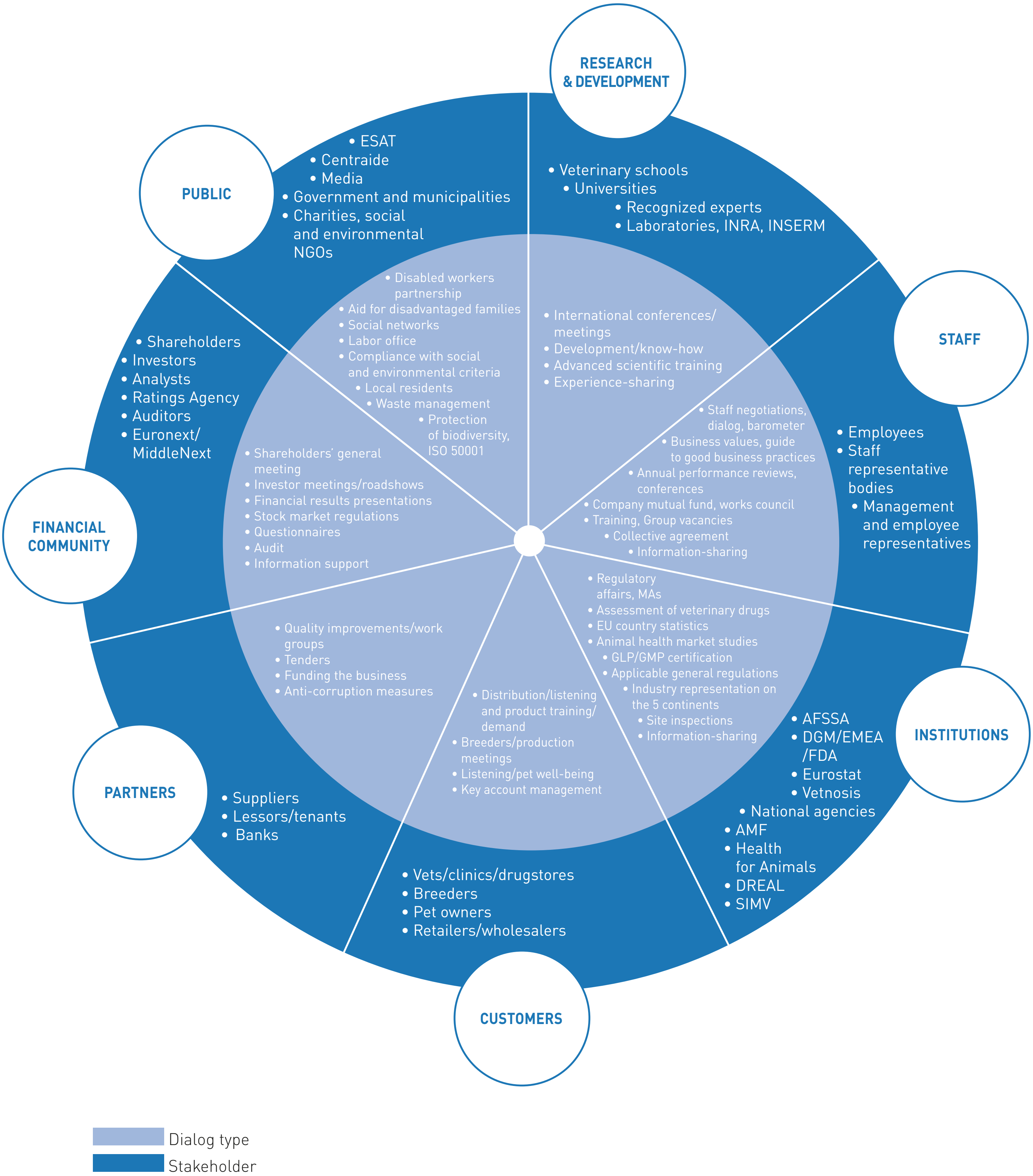
- by being loyal to the company, its employees and its partners;
- by always acting with integrity;
- by fully respecting the law;
- by maintaining objectivity in all situations;
- by embodying the values of Vetoquinol;
- by preserving Vetoquinol's reputation for integrity.

As a matter of principle, Vetoquinol avoids all forms of discrimination, for any reason whatsoever, in the context of labor relations.

** SISAAB: Single Injection Short Acting Antibiotic.*

2.4.4 Relations with stakeholders

The graphic below summarizes the different groups of stakeholders and the dialog pursued with each of them.



2.4.5 Group sustainable development objectives

In line with its common values across the 5 continents, Vetoquinol works towards achieving sustainable development objectives:

	2017 Achievements	2018 Objectives
Look after the company's primary resource: People	Implementation of health and safety monitoring systems at industrial sites Number of lost-time accidents cut by half vs. 2016 PSR (psychosocial risk) training for managers and staff representative organizations (IRP) "Great Place to Work" barometer at 9 subsidiaries and certification requested and obtained for the USA and Canada	Roll-out of the accident prevention behavioral program in France Implementation of health and safety monitoring systems at sales subsidiaries Reduction in the number of lost-time accidents at Group level, targeting fewer than 7 lost-time accidents in 2018 Conclusion of a quality of life at work agreement in France. "Great Place to Work" barometer at all other Group subsidiaries In France, another "Great Place to Work" assessment
Reduce the environmental footprint	Renewal of ISO 5001 certification at the Lure site Significant reduction in volumes of waste vs. 2016	Creation of a carbon balance sheet (scopes 1 & 2) for industrial sites Continuation of the energy consumption reduction scheme at the Lure site (ISO 50001 system) Eco-driving training
Share accountability requirements	3 new values: Trust, Dare, Collaborate Improvement of internal communication and employee recognition (scheme launched in 2016 already has more than ... participants)	Compliance with the new Code of Ethics by all Group employees 12-Day innovative leadership training courses

2.5 Auditor's report on social and environmental information

Year ended December 31, 2017

Dear shareholders,

Further to the request submitted to us by the company Vetoquinol and in our capacity as an independent third-party accredited by COFRAC (French Accreditation Committee) under number 3-1081 (scope defined at www.cofrac.fr), we hereby present to you our report on the consolidated social and environmental information presented in the annual report prepared pursuant to Article L. 225-102-1 of the French Commercial Code in respect of the financial year ended December 31, 2017.

Management responsibility

It is the responsibility of the Board of Directors to draw up a Management Report, comprising the consolidated staff, environmental and social information set out in Article R. 225-105-1 of the French Commercial Code (hereafter referred to as the "Information"), presented in accordance with the guidelines adopted by the Company (the "Guidelines") and available upon request at the head office of the company Vetoquinol.

Independence and quality control

Our independence is defined by regulations, the profession's code of ethics and the provisions of Article L. 822-11 of the French Commercial Code. Furthermore, we have set up a quality control system that includes documented policies and procedures aiming to ensure compliance with ethical rules, professional standards and applicable legislation and regulations.

Duties of the independent third-party

It is our duty, on the basis of our audit, to:

- certify that the requisite information has been included in the Annual Report and that any omissions are explained in accordance with the third paragraph of Article R. 225-105 of the French Commercial Code and Decree no. 2012-557 of April 24, 2012 (certificate of inclusion),
- express a conclusion of moderate assurance that, in all material aspects, the information is presented in a fair manner in accordance with the guidelines adopted (moderate assurance report).

Certificate of inclusion

We conducted our audit in accordance with professional standards applicable in France:

- we compared the Information presented in the Annual Report with the list set out in Article R. 225-105-1 of the French Commercial Code,
- we verified that the Information covered the consolidation scope, i.e. the Company and its subsidiaries as defined by Article L. 233-1 and companies controlled by it as defined by Article L. 233-3 of the French Commercial Code,
- if any consolidated information was omitted, we verified that explanations were provided in accordance with the provisions of Decree no. 2012-557 of April 24, 2012.

On the basis of this audit, we hereby certify that the requisite information is included in the Annual Report.

Reasoned opinion on CSR information

Nature and scope of audit

Our audit was conducted between March 2 and March 13, 2018, over a duration of 7 person-days.

We conducted our audit in accordance with professional standards applicable in France, with ISAE 3000 and with the Order of May 13, 2013, establishing the terms and conditions under which independent third-parties perform their duties.

We conducted seven interviews with the persons responsible for preparing the CSR information, the Managers responsible for gathering the information and, where applicable, the managers of internal audit and risk management procedures, in order to:

- Assess the appropriateness of the guidelines in terms of their relevance, completeness, impartiality, clarity and reliability, taking industry best practices into consideration where applicable.
- Verify the implementation of a collection, compilation, processing and control process within the Group designed to guarantee the completeness and consistency of the CSR Information. We took cognizance of the internal control and risk management procedures relating to the preparation of the CSR Information.

We identified the consolidated information to be tested and determined the nature and scope of the tests, taking into consideration its importance with regard to the social and environmental consequences related to the Group's characteristics, its guidelines in the field of CSR and industry best practices. For the CSR information that we considered to be the most important with regard to the consolidating entity:

- we consulted documentary sources and conducted interviews to corroborate the qualitative information (organization, policies, initiatives, etc.);
- we analyzed the quantitative information and tested the calculation and consolidation of such information by way of sample tests;
- we performed detailed sample tests[1], designed to verify the calculations made and reconcile the data contained in the supporting documentation and we verified their consistency with the other information presented in the Management Report.

We assessed the consistency of the other consolidated CSR information in light of our knowledge of the company.

Lastly, we assessed the appropriateness of the explanations provided for any information omitted partially or completely.

We believe that the sampling methods and sample sizes that we used, exercising our professional judgment, allow us to formulate a limited assurance opinion. A greater degree of assurance would have required more extensive verifications.

Our audit covered more than 50% of the consolidated value of the quantitative indicators relating to the social component and more than 50% of the consolidated value of the quantitative indicators relating to the environmental component.

Because of the use of sampling techniques, as well as other limits inherent in the operation of any information and internal control system, the risk of failing to detect a material misstatement in the CSR information cannot be entirely eliminated.

Conclusion

On the basis of our audit, we did not identify any material misstatements that could call into question the fact that, in all material aspects, the Information is presented in a fair manner in accordance with the guidelines.

Lyon, March 15, 2018

FINEXFI
Isabelle Lhoste
Partner

1 Operational sites selected for the tests: France, Poland, Italy.

4

CONSOLIDATED FINANCIAL STATEMENTS AFR

4.1 Consolidated statement of comprehensive income

€000	Notes	2017	2016
Sales	4.5.8	**352,173**	350,354
Purchases consumed		**(111,627)**	(116,224)
Other purchases and external expenses	4.5.10	**(73,005)**	(72,814)
Staff costs	4.5.11	**(111,035)**	(105,382)
Taxes other than on income		**(4,624)**	(4,840)
Depreciation and impairment of fixed assets	4.5.20/4.5.21	**(12,220)**	(13,512)
Provisions and write-backs		**81**	(946)
Other operating income	4.5.13	**7,220**	6,477
Other operating expenses	4.5.13	**(949)**	(1,039)
EBIT		**46,014**	**42,072**
% of sales		*13.1%*	*12.0%*
Non-recurring operating income and expenses	4.5.14	**(360)**	(2,071)
OPERATING INCOME		**45,654**	**40,002**
% of sales		*13.0%*	*11.4%*
Income from cash and cash equivalents	4.5.16	**414**	1,042
Gross cost of debt	4.5.16	**(369)**	(448)
NET COST OF DEBT	**4.5.16**	**45**	**594**
Other financial income	4.5.16	**2,350**	2,995
Other financial expenses	4.5.16	**(4,731)**	(3,789)
NET FINANCIAL INCOME/(EXPENSE)	**4.5.16**	**(2,337)**	**(200)**
INCOME BEFORE TAX		**43,317**	**39,802**
Income tax expense	4.5.17	**(8,365)**	(11,835)
NET INCOME EXCL. EARNINGS OF ASSOCIATES		**34,952**	**27,967**
Earnings/(loss) of associates		**(114)**	(137)
NET INCOME FOR THE YEAR		**34,838**	**27,830**
Attributable to:			
Parent company shareholders		**34,831**	27,827
Non-controlling (minority) interests		**7**	4
Exchange differences on translation of foreign operations reclassifiable to P/L		**(10,873)**	4,951
Post-tax actuarial gains (losses) not reclassified to P/L		**7**	(467)
Other comprehensive income, net of tax		**-**	-
Total comprehensive income for the year, net of tax		**23,973**	**32,315**
Attributable to:			
Parent company shareholders		**23,966**	32,311
Non-controlling (minority) interests		**7**	4
Basic EPS (€)	4.5.18	**2.94**	2.35
Diluted EPS (€)	4.5.18	**2.96**	2.35
Operating income		**45,654**	**40,002**
Provisions and write-backs recorded under non-recurring operating income and expenses		**(374)**	**1,678**
Provisions and write-backs		**(81)**	946
Depreciation and impairment of fixed assets		**12,220**	13,512
EBITDA		**57,419**	**56,138**
% of sales		***16.3%***	*16.0%*

4.2 Consolidated statement of financial position

€000	Notes	Dec 31, 2017	Dec 31, 2016
ASSETS			
Goodwill	4.5.19	**75,874**	78,689
Other intangible assets	4.5.20	**42,512**	46,541
Property, plant and equipment	4.5.21/4.5.22	**54,624**	52,649
Investments in associates		**790**	313
Other financial assets	4.5.23	**1,335**	847
Deferred tax assets	4.5.17	**9,656**	8,952
Total non-current assets		**184,791**	**187,990**
Inventories	4.5.25	**69,380**	69,426
Trade and other receivables	4.5.26	**68,312**	73,996
Current income tax receivables		**5,725**	2,189
Other current assets	4.5.26	**2,741**	2,274
Cash and cash equivalents	4.5.27	**113,022**	103,296
Total current assets		**259,179**	**251,182**
TOTAL ASSETS		443,970	439,172
SHAREHOLDERS' EQUITY			
Capital stock and additional paid-in capital	4.5.28	**70,831**	70,831
Reserves		**229,999**	217,759
Net income for the year		**34,831**	27,827
Equity attributable to parent company shareholders		**335,662**	**316,416**
Non-controlling (minority) interests		**66**	59
Shareholders' equity		**335,727**	**316,476**
LIABILITIES			
Non-current financial liabilities	4.5.29	**6,630**	15,427
Deferred tax liabilities	4.5.17	**6,954**	10,834
Provisions for employee benefits	4.5.30	**8,085**	7,895
Other provisions	4.5.31	**557**	1,625
Other long-term liabilities		**10**	36
Government loans	4.5.32	**113**	490
Total non-current liabilities		**22,350**	**36,307**
Trade and other payables	4.5.33	**71,975**	72,761
Current income tax liabilities		**3,545**	3,389
Current financial liabilities	4.5.29	**8,800**	8,849
Other provisions	4.5.31	**1,549**	956
Other current liabilities	4.5.33	**24**	36
Government loans (portion due in less than 1 yr)	4.5.32	**0**	399
Total current liabilities		**85,893**	**86,390**
Total liabilities		**108,243**	**122,696**
TOTAL EQUITY AND LIABILITIES		443,970	439,172

4.3 Consolidated statement of cash flows

€000	Notes	Dec 31, 2017	Dec 31, 2016
Consolidated net income		**34,838**	**27,830**
Elimination of non-cash items		**-**	-
Depreciation, amortization and provisions		**12,032**	15,621
Elimination of (earnings)/loss of associates		**114**	137
Income tax expense		**8,365**	11,835
Interest expense		**4**	(491)
Provisions for employee benefits		**72**	85
Impairment of available-for-sale financial assets		**-**	-
Capital gains (losses) on sales, net of tax		**(292)**	(85)
Other non-cash items		**-**	-
Income and expenses from share-based payments		**200**	-
Cash flows from operating activities		**55,333**	**54,933**
Tax paid		**(15,365)**	(9,946)
Change in working capital		**1,258**	(1,781)
Net cash flow from operating activities		**41,225**	**43,205**
Purchase of intangible assets		**(2,623)**	(4,155)
Purchase of PP&E		**(11,082)**	(9,440)
Acquisition of financial assets		**(1,156)**	(458)
Proceeds from sale of assets		**596**	720
Loan repayments / income from other financial assets		**32**	(87)
Net cash flow from (used by) business combinations	4.5.7	**(1,450)**	-
Net cash flow from (used by) investing activities		**(15,683)**	**(13,419)**
Capital increase		**-**	-
Net (purchase)/sale of treasury stock		**-**	(386)
Issuance of debt and other financial liabilities		**-**	27
Repayment of financial liabilities		**(8,671)**	(8,702)
Interest paid		**(410)**	(503)
Interest received		**386**	960
Dividends paid to parent company shareholders	4.5.28.4	**(5,098)**	(4,860)
Dividends paid to non-controlling (minority) interests		**(1)**	(1)
Investment subsidies and government loans		**(776)**	(280)
Other cash flows from financing activities		**-**	-
Net cash flow from (used by) financing activities		**(14,569)**	**(13,745)**
Exchange gains (losses)		**(1,246)**	187
Net change in cash		**9,727**	16,229
Opening net cash and cash equivalents		**103,270**	**87,041**
Change in cash and cash equivalents		**9,727**	16,229
Closing net cash and cash equivalents	**4.5.27**	**112,997**	**103,270**

4.4 Statement of changes in consolidated equity

€000	Capital stock and additional paid-in capital (note 4.5.28)	Translation reserve	Actuarial gains and losses	Other reserves	Total reserves	Net income for the year	Total equity attributable to parent company shareholders	Non-controlling (minority) interests	Total shareholders' equity
December 31, 2015	**70,831**	**1,126**	**(366)**	**193,689**	**194,449**	**24,156**	**289,436**	**57**	**289,492**
Net income for the year	-	-	-	-	-	27,827	27,827	4	27,830
Other comprehensive income, net of tax	-	4,951	(467)	-	4,484	-	4,484	-	4,484
Comprehensive income for the year	**-**	**4,951**	**(467)**	**-**	**4,484**	**27,827**	**32,311**	**4**	**32,315**
Appropriation of earnings	-	-	-	24,156	24,156	(24,156)	-	-	-
Stock options exercised	-	-	-	-	-	-	-	-	-
Bond conversions	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	(386)	(386)	-	(386)	-	(386)
Dividends paid by the consolidating company	-	-	-	(4,860)	(4,860)	-	(4,860)	(1)	(4,861)
Other	-	-	-	(85)	(85)	-	(85)	-	(85)
December 31, 2016	**70,831**	**6,077**	**(832)**	**212,514**	**217,759**	**27,827**	**316,416**	**59**	**316,476**
Net income for the year	-	-	-	-	-	34,831	34,831	7	34,838
Other comprehensive income, net of tax	-	(10,873)	7	-	(10,865)	-	(10,865)	-	(10,865)
Comprehensive income for the year	**-**	**(10,873)**	**7**	**-**	**(10,865)**	**34,831**	**23,966**	**7**	**23,973**
Appropriation of earnings	-	-	-	27,827	27,827	(27,827)	-	-	-
Stock options exercised	-	-	-	200	200	-	200	-	200
Bond conversions	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	92	92	-	92	-	92
Dividends paid by the consolidating company	-	-	-	(5,098)	(5,098)	-	(5,098)	(1)	(5,098)
Other	-	-	-	85	85	-	85	-	85
December 31, 2017	**70,831**	**(4,796)**	**(825)**	**235,620**	**229,999**	**34,831**	**335,662**	**66**	**335,727**

4.5 Notes to the consolidated financial statements

4.5.1 Overview

Vetoquinol is a leading global player in the animal health sector serving both the livestock (cattle and pigs) and pet (dogs and cats) markets. As an independent pure player, Vetoquinol designs, develops and sells veterinary drugs and non-medicinal products in Europe, the Americas and the Asia Pacific region.

Since its foundation in 1933, Vetoquinol has pursued a strategy combining innovation with geographical diversification. The Group's hybrid growth is driven by the reinforcement of its product portfolio coupled with acquisitions in high potential growth markets. Vetoquinol employs 2,120 people.

Vetoquinol has been listed on NYSE Euronext Paris since 2006 (symbol: VETO).

The parent company, Vetoquinol SA, is a French public limited company (société anonyme) with head office in Magny-Vernois, 34 rue du Chêne-Sainte-Anne, 70204 Lure Cedex, France.

Vetoquinol SA, the Group parent company, is controlled by Soparfin.

The Vetoquinol Group consolidated financial statements were approved by the Board of Directors on March 14, 2018. They will be submitted for shareholder approval at the next Ordinary General Meeting, due to be held on May 29, 2018.

4.5.2 Key events

Vetoquinol Group acquired Austrian-based VetCom-Pharma on March 22, 2017. This acquisition enables Vetoquinol to expand its reproduction range of products for cattle and pigs, initially in Europe, and to reinforce its Essentials product range in the field of reproduction. No staff or industrial facilities were taken over as part of this transaction, which was financed with cash.

4.5.3. Accounting principles

4.5.3.1 General accounting principles and standards

The 2017 consolidated financial statements of Vetoquinol were prepared in accordance with the framework published by the IASB and with IFRS adopted by the European Union as of December 31, 2017.

The IFRS adopted by the European Union as of December 31, 2017 may be consulted in the section on IAS/IFRS standards and interpretations on the following website:

https://www.efrag.org/Endorsement

The financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets, which are measured at fair value and for which adjustments are recognized in other comprehensive income, and financial assets and liabilities, which are measured at fair value and for which adjustments are recognized in profit or loss (including derivatives).

Preparation of IFRS financial statements requires the use of certain accounting estimates, the most important of which are described in Note 4.5.6.

The principal accounting methods and policies applied in the preparation of the consolidated financial statements are presented below.

These policies are identical to those used by the Group as of December 31, 2017, with the exception of the standards, interpretations and amendments adopted by the European Union and applicable for accounting periods beginning on or after January 1, 2017:

- Amendments to IAS 7 – Disclosure initiative
- Amendments to IAS 12 – Recognition of deferred tax assets for unrealized losses
- Annual improvements to IFRS (2014-2016)

The Group has elected not to apply in advance standards, interpretations and amendments adopted by the European Union and applicable from January 1, 2018 and for subsequent accounting periods, namely:

- IFRS 15 – Revenue from contracts with customers
- Clarification of IFRS 15 – Revenue from contracts with customers
- IFRS 9 – Financial instruments
- Amendments to IFRS 4 – Application of IFRS 9 and IFRS 4
- IAS 40 – Transfers of investment property
- Annual improvements to IFRS (2014-2016)
- IFRIC 22 – Foreign currency transactions and advance consideration
- IFRS 16 – Leases
- IFRIC 23 – Uncertainty over income tax treatments.

The Group has begun to analyze the potential impact of first-time application of these new standards.

With regard to IFRS 15, following the preparation and documentation of work on this standard, the analyses carried out will result in an increase of around 1.3% in Group revenue with a corresponding increase in external expenses and decrease in non-recurring income. There will be no impact on Group EBIT.

With regard to IFRS 16, in 2017 the Group acquired a tool to measure and assess the impact of this standard. This project will continue until the end of 2018. The Group is in the process of identifying and reviewing contracts in order to gather the required information to be ready for the application of this new standard.

4.5.3.2 Consolidation and business combinations

4.5.3.2.1 Consolidation scope

The subsidiaries comprise all entities over which the Group exercises control. The Group exercises control where it:

- has power over the entity;
- is exposed, or has the right, to variable returns as a result of its association with the entity;
- has the capacity to exercise its power in such a way as to influence the amount of the returns it receives.

The subsidiaries over which the Group directly or indirectly exercises exclusive control, de jure or de facto, are fully consolidated. Such control is deemed to exist when the Group holds more than half of the voting rights, either directly or indirectly via its subsidiaries. Potential voting rights are taken into consideration when assessing the control exercised over another entity by the Group when such rights are derived from instruments exercisable or convertible at the time of the assessment. Non-controlling interests are calculated as the percentage of the equity interest not held by the parent company.

Joint ventures and companies over which the Group exercises considerable influence are recognized using the equity method. The results of these entities are presented separately in our consolidated income statement, on a specific line, before net income.

A company is included in the consolidation scope from the date on which the Group acquires control thereof, and is deconsolidated as of the date on which the Group ceases to exercise control over it.

Acquisitions of subsidiaries are recognized using the acquisition method. The cost of an acquisition is equal to the total fair value of the assets obtained, liabilities incurred or assumed and equity instruments issued by the buyer as of the acquisition date. The identifiable assets acquired and the identifiable and contingent liabilities assumed in a business combination are initially measured at fair value as of the acquisition date, irrespective of the amount of minority interests. The excess of the acquisition cost over the Group's interest in the fair value of the recorded assets, liabilities and contingent liabilities is recognized as goodwill (Note 4.5.19). Conversely, if the share of assets, liabilities and contingent liabilities at fair value exceeds the acquisition cost, the excess is posted immediately to income.

The non-controlling shareholders' interests are shown on the balance sheet within a specific category of other comprehensive income. The amount of their share of consolidated net income is presented separately in the income statement.

All inter-company balances and transactions, including gains and losses, as well as dividends, are eliminated on consolidation.

The Group is composed of Vetoquinol SA and its subsidiaries. It has one joint venture, Vetoquinol Japan, which is recognized using the equity method.Group companies are presented under Note 4.5.44 "Group companies".

4.5.3.3 Business combinations

With regard to business combinations carried out on or after January 1, 2004, in compliance with IFRS 1, the Group has applied the so-called acquisition method as set forth in IFRS 3. The Group has applied IFRS 3 revised since January 1, 2010.

Acquisition expenses, other than those arising from the issuance of debt or equity securities, incurred as a result of a business combination, are expensed as they are incurred.

Within a period of one year from the date of acquisition:

- changes in fair value due to facts and circumstances that existed as of the acquisition date result in adjustments to the cost of the business combination;
- changes in fair value that are explicitly linked to events occurring after the acquisition date are posted to income;
- following this period, any adjustment to the price of the business combination is recognized in income.

The Group has a period of 12 months from the acquisition date within which to finalize the accounting of the business combination in question.

4.5.3.4 Foreign currency translation

4.5.3.4.1 Functional currency and reporting 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 Company's reporting currency..

4.5.3.4.2 Transactions, assets and liabilities

Among the Group companies, transactions in foreign currency are translated into the functional currency at the prevailing exchange rate at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate.

Non-monetary items measured at historical cost are translated using the prevailing exchange rate as of the date of the transaction, whilst those measured at fair value are translated using the prevailing rate on the date when the fair value is determined.

Exchange gains and losses resulting from these transactions are recognized in income, except for:

- those related to gains or losses recognized directly in other comprehensive income, which are recorded in equity, and
- those arising from the translation of net investments in subsidiaries, which are recorded in other comprehensive income, then taken to income when the investment is sold.

4.5.3.4.3 Translation of Group company financial statements

Group company financial statements denominated in functional currencies (excluding hyperinflationary economies) other than the reporting currency are translated into the reporting currency as follows:

- assets and liabilities are translated at the closing rate as of the relevant balance sheet date;
- income statement items are translated at the annual average exchange rate or, in the case of material transactions, at the exchange rate applicable as of the date of the transaction;
- all resulting exchange differences are recorded as a separate item in other comprehensive income.

4.5.3.5 Revenue recognition

Income from ordinary operations corresponds to the fair value of the consideration received or receivable for goods sold and services rendered in the normal course of the Group's business.

Revenue arises from the sale of goods to third parties, net of trade discounts and volume rebates granted to final customers, as well as cash discounts, and after elimination of inter-company transactions.

Revenue arising from the sale of goods is recognized when all of the following conditions have been fulfilled:

- the company has transferred to the buyer the material risks and benefits inherent to ownership of the goods;
- the company retains neither continuing managerial involvement as usually associated with ownership, nor effective control over the goods sold;
- the income amount from the economic activities associated with the transaction will flow to the Company;
- costs incurred or to be incurred in respect of the transaction may be reliably measured.

4.5.3.6 Segment reporting – IFRS 8

Pursuant to IFRS 8, segment information is reported on the basis of internal management data communicated to the Group's Executive Committee, the Group's chief operational decision-maker. Operating segments are monitored individually through internal reporting.

The Group's operating segments are geographical segments.

A geographical segment is a group of assets and operations engaged in providing products or services within a particular economic environment and which is exposed to risks and returns that are different from the risks and returns of other economic environments in which the Group operates.

The Group's worldwide organizational structure is divided into three regions (territories) defined by the location of the Group's assets and operations:

- Europe;
- the Americas;
- Asia Pacific, distributors and rest of world.

Although the Group also has two marketing segments, the companion animal (pet) and livestock segments, they cannot be deemed to form a separate reportable operating segment, for the following reasons:

- product type: most therapeutic segments are common to pets and livestock (antibiotics, parasiticides, etc.);
- production processes: the production lines are common to both segments and there is no significant differentiation in terms of sources of supply;
- type or category of customers: a distinction is made between the veterinarian sector and the OTC mass market;
- distribution: the main distribution channels depend more on the legislation of the country than on the marketing segment. Sales forces can, in some cases, be common to both marketing segments;
- nature of regulatory environment: the regulatory bodies responsible for marketing authorization are the same for both segments.

For this reason, the Group will only report on its geographical segments.

Transfer prices between regions are the prices that would have been fixed under arm's length conditions, as in the case of a third-party transaction.

4.5.3.7 Earnings per share

Basic earnings per share is calculated by dividing Group share of net income by the weighted average number of shares outstanding during the period, adjusted for the number of shares held as treasury shares.

The calculation of diluted earnings per share takes into account share equivalents having a potentially dilutive effect and excludes share equivalents having no potentially dilutive effect.

4.5.3.8 Employee benefits

4.5.3.8.1 Liabilities for pensions and other long-term employee benefits

The schemes put in place to provide for these benefits are either defined contribution plans or defined benefit plans.

Defined contribution plans: in accordance with the laws and customs specific to each country, Vetoquinol pays contributions based on employee salaries to national bodies in charge of pension and health insurance plans. There is no actuarial liability in this respect. Vetoquinol's payments to such plans are recognized as expenses in the period in which they are incurred.

Defined benefit plans for post-employment benefits: the amount recognized as a liability on the balance sheet is the present value of the defined benefit plan obligation at the balance sheet date.

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 interest rates on long-term blue chip corporate bonds.

Actuarial gains and losses on pensions and post-employment benefits arising from adjustments due to revised actuarial assumptions and experience are recognized in other comprehensive income, net of deferred taxes, in the period in which they occur.

4.5.3.8.2 Share-based payments

None.

4.5.3.9 Leases

4.5.3.9.1 Operating leases

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

4.5.3.9.2 Finance leases

For material finance leases entered into by the Group as a lessee, an asset and a liability are recognized at the leased asset's fair value or, if lower, at the present value of the minimum lease payments (at the interest rate implicit in the lease). The payments are divided 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.

4.5.3.10 Intangible assets

4.5.3.10.1 Goodwill

Goodwill is valued at cost less accumulated impairment losses. See Note 4.5.3.3. for the initial valuation of goodwill.

Under IAS 36, goodwill is allocated to cash-generating units for purposes of impairment testing as described in Note 4.5.3.12. Goodwill is subject to impairment testing at least once a year – and more frequently if there are any indicators of impairment – and is carried at cost less any accumulated impairment losses. Impairment losses are irreversible.

4.5.3.10.2 R&D expenses

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

Payments made to separately acquire research and development work are recognized as other intangible assets when they meet the definition of an intangible asset, i.e. a controlled resource with probable future economic benefits to Vetoquinol that is identifiable, either being separable or arising from contractual or other legal rights. In application of paragraph 25 of IAS 38, the first recognition criterion related to the probability of the intangible asset generating future economic benefits is presumed to be met when research and development work is acquired separately. Accordingly, amounts paid to third parties in the form of an upfront payment or milestone payments for proprietary drugs that have not yet received market authorization are recognized on the asset side of the balance sheet. As soon as market authorization has been granted, these rights are amortized on a straight line basis over the duration of their useful lives.

Payments related to research and development agreements on access to technology or databases as well as payments related to generic in-licensing are also capitalized. They are amortized over the useful life of the intangible asset.

Subcontracting agreements and expenditure under research and development service contracts or payments related to ongoing research and development collaborations, regardless of the outcome, are recognized as expenses throughout the period during which the services are received.

4.5.3.10.3 Other intangible assets

Intangible assets are stated at cost and systematically amortized over their useful lives, with the exception of some trademarks (Equistro®, etc.) which have an indefinite useful life; an impairment test is conducted at least once a year to determine whether the assets should be written down.

The same amortization periods are used throughout the Group:

Categories	Method	Period
Licenses and patents	Straight	5 to 15 years
Software	Straight	3 to 5 years
Trademarks	Straight line	7 to 10 years
Products and/or Mas	Straight line	10 to 15 years
Other inc. customer relations	Straight line	10 years

4.5.3.11 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 the method considered to be most economically justifiable. 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:

Categories	Method	Period
Buildings	Straight line	15 to 40 years
Improvements	Straight line	10 to 20 years
Production equipment	Straight line	6 to 10 years
Vehicles	Straight line	5 years
Office equipment	Straight line	5 years
R&D equipment	Straight line	5 years
Furniture & furnishings	Straight line	8 to 10 years
Other PP&E	Straight line	5 years

4.5.3.12 Impairment of assets

In accordance with the requirements set forth in IAS 36, the Group assesses whether there is any indication that an asset may have suffered an impairment loss. If any such indication exists, the Group estimates the recoverable value of the asset. In addition, the Group performs annual impairment tests on intangible assets with an indefinite useful life and intangible assets not yet ready to be put into service, by comparing the carrying amount to the recoverable amount.

An impairment loss equal to the excess of the carrying amount over the asset's recoverable value is recognized. The recoverable amount of an asset represents the higher of its fair value less costs to sell and its value in use.

For the purposes of assessing impairment, assets are grouped together in cash-generating units (CGU), which represent the lowest level that generates independent cash flows. The CGUs defined for Vetoquinol Group are the following legal entities: USA, Canada, France, UK, Belgium, Switzerland, Czech Republic, Austria, Poland, Ireland, Germany, Italy, India, Scandinavia, Asia and Australia.

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

4.5.3.13 Financial assets available for sale

Assets available for sale are measured at fair value (market value).

4.5.3.14 Other financial assets

Other financial assets mainly consist of deposits and guarantees paid. Because they are treated as receivables, they are measured at cost less repayments and impairment. Other financial assets are not material in relation to the Group.

4.5.3.15 Derivatives

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

The main currency hedges used are the purchase of forward contracts expiring in less than one year. To hedge interest rates, the Group primarily uses swaps.

For hedging transactions, the Group applies hedge accounting as prescribed under IAS 39, i.e. derivatives are measured at fair value as of the balance sheet date based on how the hedge is classified:

- with a cash flow hedge, any change in the fair value of the derivative is recorded in a separate equity account called "Cash flow hedge reserve" that is transferred to the income statement as the risk crystallizes (in respect of the effective portion of the hedge; while the ineffective portion is recognized 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.

At each balance sheet date, the fair value of the instruments used is determined by reference to market value.

Note 4.5.4.1 below provides quantified details on the use of these instruments.

4.5.3.16 Inventories

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

The cost of work in progress and finished goods held in inventories includes raw materials, direct labor and an appropriate portion of variable and fixed production costs, the latter being allocated on the basis of standard operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business less costs of completion and costs to sell, and also the prospects for future consumption given the expiry dates of products.

4.5.3.17 Trade receivables

Trade receivables are recognized at the fair value of the cash to be received. Given the Group's business practices, fair value is usually equal to the nominal value of the receivables. Trade receivables are subsequently stated less impairment recorded after an itemized analysis of the risk of bad debts.

If no itemized analysis is carried out, the Group applies a systematic procedure for allocating provisions: receivables aged over 180 days and less than 360 days are 50% covered by provisions; over 360 days they are 100% covered.

4.5.3.18 Cash and cash equivalents

Cash includes bank accounts, investments and cash equivalents, and is measured at fair value.

These investments are short-term investments and/or liquid investments readily convertible to known amounts of cash and not subject to risks of changes in value (guaranteed capital).

4.5.3.19 Financial liabilities

Financial liabilities mainly include borrowings from credit institutions and bank overdrafts.

Borrowings are recognized at cost less repayments, net of any transaction costs incurred.

Borrowings with a term of less than one year are classified as current liabilities, with the exception of 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 corresponding to finance lease restatements, the capital borrowed is equal to the initial value of the assets acquired under finance leases, which are recorded under property, plant and equipment.

Interest expenses are expensed as incurred.

4.5.3.20 Deferred taxes

Deferred taxes are recognized on temporary differences between the tax values of assets and liabilities and their book values in the consolidated financial statements. No deferred tax is accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that affects neither accounting profit nor taxable income at the transaction date. No deferred tax liability is recognized on initial recognition of goodwill.

Deferred tax is determined using tax rates (and tax regulations) that have been adopted or substantially adopted as of the balance sheet date, and that are expected to apply when the related deferred tax asset is realized or the deferred tax liability settled.

Deferred tax assets are recognized only to the extent that it is probable that future taxable income, against which the temporary differences can be applied, will be earned.

4.5.3.21 Provisions

Provisions are recognized when the Group has a legal or constructive liability as a result of a past event, when it is probable that an outflow of resources representing economic benefits will be required to settle this liability, and when the liability can be reliably estimated.

Provisions for restructuring cover lease termination penalties and employee severance. No provision is recognized for future operating losses.

4.5.3.22 Non-current assets held for sale

None.

4.5.3.23 Government grants

Government grants are recognized when there is reasonable assurance that the Group will fulfill the conditions attached to the grant and that the grant will be received.

Material grants related to assets (investment grants) are recognized as deferred income under liabilities, then systematically transferred to the income statement over the useful life of the assets.

Grants classified as "operating grants" are credited to the income statement under "Other operating income" on a scheduled basis over the relevant periods so that they match the costs they are intended to offset.

4.5.3.24 Dividend distribution

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

4.5.4 Financial risk management

4.5.4.1 Currency risk management

The Group focuses foreign exchange risk on the subsidiaries with production facilities and, as far as possible, on the parent company, Vetoquinol SA, by having its sales subsidiaries send and receive invoices that are denominated in their respective functional currencies.

Accordingly, the distribution subsidiaries are not exposed to exchange rate risk. Foreign currency movements are centralized at the level of Vetoquinol SA and hedging instruments may be put in place. These instruments usually have a term of less than one year. At the balance sheet date, there were no material hedging instruments outstanding. For this reason, IAS 39 rules pertaining to such instruments were not found to apply to 2017 or the prior year. If Vetoquinol earns gains or incurs losses on these instruments, such gains or losses are recognized under net financial income/(expense).

The Group buys USD (around $10 million a year) for sales operations. However, it does hold USD cash reserves, which it keeps for future use. Other currencies are sold mainly on the spot market.

As described above, the currency risk related to subsidiaries' operations largely involves only a presentation risk in the consolidated income statement.

On the basis of the 2017 financial statements, solely with regard to the foreign subsidiaries, a 10% increase in the value of the euro compared to all other foreign currencies would have resulted in an €18.4 million decrease in consolidated sales (2016: €18.1 million) and a €2.2 million decrease in consolidated operating income (2016: €2.0 million).

Conversely, a 10% reduction in the value of the euro compared to other currencies would have resulted in a €22.5 million increase in sales (2016: €22.1 million) and a €2.7 million increase in consolidated operating income (2016: €2.4 million).

On account of its sales in foreign currencies, the Company is exposed to currency risk between the invoice date and the date payment is received and the sale of currency on the market.

Currency gains or losses and the potential net result of hedging transactions are recognized under net financial income/(expense). Most of these transactions are entered into and closed during the year, over very short periods, and therefore there are no outstanding items recorded in the closing balance sheet.

Analysis of the Group's exposure to currency risk (IFRS 7) based on notional amounts is as follows:

€000	EUR	USD	CAD	GBP	INR	PLN	BRL	AUD	CHF	Other	Total currencies
Dec 31, 2017											
Trade receivables	29,617	8,944	5,774	4,899	3,514	1,716	1,514	861	493	2,924	**60,255**
Impairment of trade receivables	**(1,877)**	**(35)**	**(2)**	**-**	**(325)**	**(454)**	**(29)**	**(190)**	**(67)**	**(93)**	**(3,072)**
Net trade receivables	**27,740**	**8,908**	**5,772**	**4,899**	**3,189**	**1,262**	**1,485**	**671**	**426**	**2,830**	**57,183**
Prepayments	533	121	207	-	8	7	12	-	-	73	**960**
Prepaid expenses	465	303	1,037	119	57	135	8	1	5	196	**2,326**
Receivables from government agencies	6,370	-	255	-	490	29	760	6	2	290	**8,202**
Other operating receivables	1,178	104	-	34	-	21	143	-	1	-	**1,482**
Miscellaneous receivables	587	-	11	-	75	149	13	-	53	11	**899**
Provisions	-	-	-	-	-	-	-	-	-	-	**-**
Total other receivables	**9,133**	**528**	**1,510**	**153**	**630**	**342**	**935**	**7**	**61**	**570**	**13,869**
Trade and other payables	44,604	7,601	8,047	2,928	3,664	2,570	864	331	318	1,072	**71,999**
Net trade and other payables	**44,604**	**7,601**	**8,047**	**2,928**	**3,664**	**2,570**	**864**	**331**	**318**	**1,072**	**71,999**
Total gross balance sheet exposure	**(7,732)**	**1,835**	**(764)**	**2,125**	**155**	**(966)**	**1,556**	**347**	**169**	**2,328**	**(947)**

€000	EUR	USD	CAD	GBP	INR	PLN	BRL	AUD	CHF	Other	Total currencies
Dec 31, 2016											
Trade receivables	31,557	10,654	5,883	6,130	4,444	1,399	2,177	598	510	3,222	**66,574**
Impairment of trade receivables	**(1,291)**	**(34)**	**(2)**	**(13)**	**(343)**	**(399)**	**(30)**	**(182)**	**(48)**	**(66)**	**(2,408)**
Net trade receivables	**30,266**	**10,619**	**5,881**	**6,117**	**4,101**	**1,000**	**2,147**	**417**	**462**	**3,156**	**64,166**
Prepayments	246	474	36	-	22	6	55	18	-	20	**877**
Prepaid expenses	352	16	1,051	101	69	143	5	1	7	193	**1,938**
Receivables from government agencies	5,938	-	-	-	86	85	882	24	-	716	**7,733**
Other operating receivables	322	57	17	-	-	21	103	-	-	-	**522**
Miscellaneous receivables	685	-	12	-	75	151	6	-	101	5	**1,035**
Provisions	-	-	-	-	-	-	-	-	-	-	**-**
Total other receivables	**7,543**	**547**	**1,116**	**101**	**253**	**408**	**1,052**	**43**	**108**	**934**	**12,105**
Trade and other payables	43,543	7,643	9,291	3,755	2,947	2,268	1,130	454	343	1,422	**72,797**
Net trade and other payables	**43,543**	**7,643**	**9,291**	**3,755**	**2,947**	**2,268**	**1,130**	**454**	**343**	**1,422**	**72,797**
Total gross balance sheet exposure	**(5,734)**	**3,524**	**(2,294)**	**2,463**	**1,406**	**(860)**	**2,068**	**6**	**227**	**2,668**	**3,473**

4.5.4.2 Interest rate risk management

The Group's general policy on interest rate risk is to globally manage its exposure through swaps. Pursuant to the provisions of IAS 39, whenever the conditions for hedge accounting are met, the Group applies the relevant procedures. When these conditions are not met, or if the amounts concerned 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 posted to income, in accordance with the provisions of IAS 39.

Normally, the Group's exposure to interest rate risk is not material and primarily concerns two balance sheet accounts: financial liabilities and cash.

As of December 31, 2017, 99.6% of the Group's financial liabilities (including bank overdrafts) bore interest at a fixed rate (2016: 99.7%). Floating rate commitments amounted to €0.1 million as of December 31, 2017 (2016: €0.1 million). The latest loans taken out for €41 million to finance the Bioniche acquisition were swapped in 2014.

The Group's investments consist of fixed-rate term deposits with major banks.

On the basis of the 2017 financial statements, a 100 basis point increase in interest rates would have increased earnings by €739,000 (2016: €676,000 increase in earnings).

4.5.4.3 Liquidity risk management

The Group's cash – excluding bank overdrafts – stood at €113.0 million as of December 31, 2017 (2016: €103.3 million). Cash equivalents comprise fixed-rate term deposits with major retail banks amounting to €38.9 million (2016: €35.7 million).

2017 Group free cash flow before net cost of debt and tax amounted to €55.3 million, compared to €54.9 million in the previous year.

In April 2014, Vetoquinol contracted two €20.5 million medium-term loans with two banks to finance the Bioniche acquisition.

One loan is subject to a financial covenant, which is binding on Vetoquinol. During 2016 and 2017, the Group met the financial covenant requirement in respect of this loan: consolidated net debt/consolidated equity (gearing) less than 1.

The other loan is subject to a number of financial covenants binding on Vetoquinol. During 2016 and 2017, the Group met these financial covenant obligations, which are as follows: consolidated net debt/consolidated equity less than 1 and maintenance of Soparfin's majority of voting rights at Vetoquinol's shareholders' general meetings.

In light of its financial position at December 31, 2017, the Group considers that it is not exposed to liquidity risk. As of December 31, 2017, the Group's cash was largely sufficient to meet its financial liabilities due in less than one year. Net cash amounted to €97.5 million as of December 31, 2017, compared to €78.1 million as of December 31, 2016.

Each Group subsidiary is responsible for collecting its own trade receivables and cash. The Group Finance Department provides ongoing reporting of the cash flow of subsidiaries, in order to establish the Group's net cash positions as precisely as possible and maintain the Group's ability to meet its financial commitments.

4.5.4.4 Credit risk management

Credit risk is the risk of the Group incurring a financial loss in the event that a customer or counterparty to a financial instrument fails to comply with its contractual obligations. The only credit risk to which the Group is exposed is the risk arising from its trade receivables. In fact, with regard to investments, the Group limits its exposure to credit risk by investing only in secure, liquid instruments. Given the characteristics of the term deposits used, management does not expect any banking counterparty default.

The Group's exposure to credit risk is mainly influenced by the individual features of its customers. The Group currently sells its products in more than one hundred countries throughout the world via subsidiaries in 23 countries and a network of 100 distributors.

In some geographical regions, the occurrence of a concentration of wholesalers and/or central purchasing agencies could result in a revision of the Group's margins following renegotiation of these contracts. However, this risk appears to be limited, as the Group is sufficiently large and diversified geographically and by product to be able to withstand such pressure. By way of illustration, the Group's largest wholesale distributor accounted for 5.1% of consolidated sales in 2017 (2016: 5.7%).

Any customers who do not meet the Group's solvency requirements may only enter into transactions on the condition that they settle their orders in advance.

Sales of goods are subject to a retention of title clause that provides the Group with some security in the event of default. The Group does not require any specific security with regard to trade and other receivables. The carrying value of the Group's financial assets represents its maximum exposure to credit risk; as of December 31, 2017, this amounted to €65.8 million (2016: €70.2 million).

4.5.5 Capital management

The Group's policy is to maintain a strong capital base in order to maintain the confidence of investors, creditors and the market and to support the future growth of its business. Assisted by Corporate Management, the Board of Directors monitors the number and diversity of the Group's shareholders, return on equity and the amount of dividends paid to holders of common stock.

Occasionally, the Group purchases its own shares on the market. The timing of these purchases depends on prevailing market prices. These shares are primarily used in connection with stock option and bonus share programs. Decisions to buy and sell are made by the Chairman and/or the CEO on a case by case basis. The Group has no defined share buyback program. Apart from these occasional practices, the Group has a liquidity contract (see Note 4.5.28). The Group did not change its capital management policy during the course of the year.

4.5.6 Information on judgments and estimates

Management must exercise judgment and make estimates and assumptions that could affect the value of assets, liabilities, income and expenses and disclosures of the Company's contingent assets and liabilities when preparing the financial statements. Estimates made and underlying assumptions adopted are based on past experience and other factors deemed reasonable in light of current circumstances and forecasts. As a result, actual values may differ from estimated values.

Estimates and assumptions made on the basis of information available at the balance sheet date primarily relate to:
- trade receivable bad debt and year-end rebate provisions;
- the length of product life cycles;
- the amount of provisions for restructuring and for environmental and litigation risks;
- valuation of goodwill, intangible assets and property, plant and equipment acquired as well as their estimated useful life;
- pension commitments.

4.5.7 Business combinations

4.5.7.1 Business combinations in 2017

On March 22, Vetoquinol took over the products of Austria-based VetCom-Pharma GmbH, enabling it to expand its reproduction range of products for cattle and pigs, initially in Europe. No staff or industrial facilities were taken over as part of this transaction, which was financed with cash.

In view of the nature of the transaction, additional information may be obtained as the allocation of the purchase price is finalized during a 12-month period following the acquisition date. This may lead us to revise certain items in the allocation of the VetCom purchase price. As of December 31, 2017, the purchase price allocation was ongoing; excluding easily-identifiable assets and liabilities (property, plant and equipment, inventories, receivables and liabilities) the entire premium on acquisition is posted to goodwill.

€000	TOTAL
Acquisition of the products of VetCom in March 2017*	**1,800**
Total value of assets	**242**
Value of products identified to date	**0**
GOODWILL AT DEC 31, 2017	**1,558**

(*) A €0.35 million purchase price supplement will be paid over 12 to 24 months, resulting in an outflow of €1.56 million for 2017.

4.5.7.2 Reconciliation of purchase price with cash outflow as per the cash flow statement

€000	TOTAL
Acquisition cost of the products of VetCom	**1,800**
Purchase price supplement not yet paid	**350**
AMOUNT SHOWN IN CASH FLOW STATEMENT AT DEC 31, 2017	**1,450**

4.5.8 Operating segments – IFRS 8

All 2017 and 2016 revenues came from sales of veterinary products.

4.5.8.1 2017 operating segment results

€000 **By asset location**	**Europe**	**Americas**	**Asia/Pacific (rest of world)**	**Consolidated total**
Sales	269,389	141,268	33,581	**444,238**
Inter-segment sales	(73,492)	(18,536)	(36)	**(92,064)**
Total external sales	**195,897**	**122732**	**33,545**	**352,173**
EBIT	**29,222**	**12,994**	**3,798**	**46,014**
Non-recurring operating income and expenses	(101)	(181)	(78)	**(360)**
EBIT	**29,121**	**12,813**	**3,720**	**45,654**
Net financial income/(expense)				**(2,337)**
Income before tax				**43,317**
Income tax				**(8,365)**
Income after tax				**34,952**
Earnings/(loss) of associates				**(114)**
CONSOLIDATED NET INCOME				**34,838**

The Group also tracks sales by destination region or end market (per region).

€000 **Per region**	**Europe**	**Americas**	**Asia/Pacific (rest of world)**	**Consolidated total**
Sales	230,160	148,250	65,828	**444,238**
Inter-segment sales	(58,333)	(27,301)	(6,430)	**(92,064)**
TOTAL EXTERNAL SALES	**171,827**	**120,949**	**59,397**	**352,173**

4.5.8.2 2016 operating segment results

€000 **By asset locations**	**Europe**	**Americas**	**Asia/Pacific (rest of world)**	**Consolidated total**
Sales	266,158	135,498	30,444	**432,101**
Inter-segment sales	(65,835)	(15,874)	(37)	**(81,747)**
Total external sales	**200,323**	**119,624**	**30,407**	**350,354**
EBIT	**28,642**	**11,374**	**2,057**	**42,072**
Non-recurring operating income and expenses	(453)	(920)	(698)	**(2,071)**
Operating income	**28,188**	**10,454**	**1,359**	**40,002**
Net financial income/(expense)	-	-	-	**(200)**
Income before tax	**-**	**-**	**-**	**39,802**
Income tax	-	-	-	**(11,835)**
Income after tax	**-**	**-**	**-**	**27,967**
Earnings/(loss) of associates	-	-	-	**(137)**
CONSOLIDATED NET INCOME	**-**	**-**	**-**	**27,830**

The Group also tracks sales by destination region or end market (per region).

€000 **Per region**	**Europe**	**Americas**	**Asia/Pacific (rest of world)**	**Consolidated total**
Sales	231,819	139,911	60,371	**432,101**
Inter-segment sales	(54,328)	(22,490)	(5,019)	**(81,747)**
TOTAL EXTERNAL SALES	**177,581**	**117,421**	**55,352**	**350,354**

4.5.8.3 Other segment non-cash items included in the income statement

€000	Europe	Americas	Asia/Pacific (rest of world)	Consolidated total
December 31, 2017				
Depreciation and amortization	(7,932)	(3,732)	(556)	**(12,220)**
Provisions and write-backs	(60)	90	51	**81**
Goodwill impairment	-	-	-	**-**
Expenses on grants of bonus shares	(260)	-	-	**(260)**
December 31, 2016				
Depreciation and amortization	(8,002)	(4,788)	(722)	**(13,512)**
Provisions and write-backs	(420)	(214)	(312)	**(946)**
Goodwill impairment	-	-	-	**-**
Expenses on grants of bonus shares	-	-	-	**-**

No impairment was posted directly to other comprehensive income in 2016 or 2017.

4.5.8.4 Segment assets, liabilities and investments

The segment assets and liabilities presented here include deferred taxes.

€000	Europe	Americas	Asia/Pacific (rest of world)	Consolidated total
December 31, 2017				
Assets	282,056	119,448	42,467	**443,970**
Liabilities	46,450	59,088	2,705	**108,243**
Acquisition of assets	12,955	860	220	**14,036**
Acquisition of assets – IFRS 3 – Business combinations	238	-	-	**238**
December 31, 2016				
Assets	267,869	127,217	44,086	**439,172**
Liabilities	49,562	69,026	4,108	**122,696**
Acquisition of assets	10,000	3,654	114	**13,768**
Acquisition of assets from business combinations	-	-	-	**-**

4.5.9 R&D costs

R&D costs incurred and expensed in 2017 amounted to €25.5 million, or 7.2% of sales (2016: €24.2 million, or 6.9% of sales).

4.5.10 Other purchases and external expenses

€000	**2017**	**2016**
General subcontracting	**3,390**	3,010
Lease and rental payments	**6,421**	6,524
Maintenance	**4,284**	3,745
Insurance	**1,092**	1,288
Analyses and research	**2,651**	1,404
Third-party staff	**1,502**	1,359
Fees and commissions paid to intermediaries	**15,495**	18,391
Advertising, publications, public relations	**12,756**	12,229
Freight and collective transportation of staff	**7,318**	7,294
Business travel and entertainment	**11,730**	11,581
Postage and telecommunications	**1,879**	1,999
Royalties on concessions, patents, licenses, trademarks, etc.	**1,582**	1,356
Other external services	**2,274**	2,004
Miscellaneous	**634**	629
TOTAL	**73,005**	**72,814**

4.5.11 Staff costs

€000	**2017**	**2016**
Wages and salaries	**81,656**	77,904
Social security charges (*)	**27,172**	25,401
Severance pay	**1,299**	1,251
Employee benefits (Note 4.5.30)	**611**	798
Employee long-term benefits – actuarial gains and losses recognized in the income statement	**36**	29
Expenses on grants of stock options	**-**	-
Expenses on grants of bonus shares	**260**	-
TOTAL EMPLOYEE BENEFITS	**111,035**	**105,382**

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

4.5.12 Share-based payments – bonus shares

At December 31, 2016, there were no stock options or bonus share plans. During 2017, a new bonus share plan was implemented; the impact of applying IFRS 2 amounted to €260,000 over the year. The value of bonus shares is usually determined on the basis of the share price on their date of issue, less the present value of dividends foregone during the vesting period (Black-Scholes valuation model).

4.5.13 Other operating income and expenses

€000	2017	2016
Operating grants	**10**	7
Investment grants transferred to income for the year	**11**	25
Gains on asset sales	**596**	103
Research tax credit (Crédit d'Impôt Recherche - CIR)	**4,137**	3,865
Other income	**2,465**	2,476
OTHER OPERATING INCOME	**7,220**	**6,477**
Book values of assets sold	**(295)**	(152)
Other expenses	**(653)**	(887)
OTHER OPERATING EXPENSES	**(949)**	**(1,039)**
TOTAL	**6,271**	**5,438**

Other expenses included bad debt losses of €0.1 million. In 2016, other expenses included bad debt losses of €0.3 million.

Other income consists of:

€000	2017	2016
Fees and royalties	**1,075**	770
Freight costs passed on to customers	**487**	424
Compensation received	**160**	93
Social security refunds	**7**	33
Other	**735**	1,155
TOTAL	**2,465**	**2,476**

4.5.14 Non-recurring operating income and expenses

€000	2017	2016
Non-recurring operating income	**1**	**45**
Impairment of intangible assets (Canada)	**-**	**(506)**
Other non-recurring operating expenses	**-**	**(10)**
Restructuring costs (Australia)	**(78)**	**(698)**
Restructuring costs (Germany)	**-**	**(488)**
Restructuring costs (UK)	**(103)**	
Restructuring costs (Canada)	**(181)**	**(413)**
TOTAL	**(360)**	**(2,071)**

4.5.15 Leases

4.5.15.1 Finance leases entered into as lessee

The Group's finance leases exclusively related to real estate leases, for which all purchase options were exercised as of December 31, 2014. Finance lease liabilities have been zero since December 31, 2014.

4.5.15.2 Operating leases entered into as lessee

The Group's only operating leases pertain to leased buildings, cars and computer hardware.

Indexation clauses are included notably in building leases, where rent is pegged to a cost of construction index.

Commitments on non-cancelable operating leases

€000	Dec 31, 2017	Dec 31, 2016
Less than 1 year	**5,881**	5,896
1 to 5 years	**6,999**	7,901
More than 5 years	**601**	520
Total minimum payments	**13,482**	14,318
TOTAL MINIMUM FUTURE SUBLEASE INCOME RECEIVABLE		**-**

Operating lease expenses for the year

€000	Dec 31, 2017	Dec 31, 2016
Minimum payments recognized	**6,421**	6,524
Conditional rents recognized	**-**	-
Sublease income recognized	**-**	-

4.5.16 Net financial income/(expense)

€000	Dec 31, 2017	Dec 31, 2016
Interest income from cash and cash equivalents	**414**	1,042
Net gains on sale of cash equivalents	**-**	-
INCOME FROM CASH AND CASH EQUIVALENTS	**414**	**1,042**
Interest on borrowings and overdrafts	**(369)**	(448)
Interest on finance leases	**-**	-
GROSS COST OF DEBT	**(369)**	**(448)**
NET INCOME FROM CASH AND CASH EQUIVALENTS	**45**	**594**

€000	Dec 31, 2017	Dec 31, 2016
Currency gains	**2,195**	2,988
Other income	**155**	7
OTHER FINANCIAL INCOME	**2,350**	**2,995**
Financial expenses related to employee benefits	**(72)**	(85)
Currency losses	**(4,532)**	(3,557)
Other expenses	**(127)**	(146)
OTHER FINANCIAL EXPENSES	**(4,731)**	**(3,789)**
OTHER FINANCIAL INCOME AND EXPENSES	**(2,382)**	**(794)**

4.5.17 Income tax

The 2017 tax rate used to calculate deferred taxes for French companies was 34.43% (2016: 34.43%).

When the temporary difference is expected to be reversed after 2018, the related deferred taxes are calculated at the rate of 28.92% and not 34.43%. The difference from the final income tax rate of 25% is non-material.

Income tax expense is broken down as follows:

€000	Dec 31, 2017	Dec 31, 2016
Current income tax expense	**(12,331)**	(12,525)
Deferred tax income/(expense)	**3,966**	690
TOTAL	**(8,365)**	**(11,835)**

Reconciliation of theoretical tax, at the French statutory tax rate, to effective tax is as follows:

€000	Dec 31, 2017	Dec 31, 2016
Net income for the year	**34,838**	**27,830**
CIR restatement	**(4,091)**	(3,810)
Apprenticeship tax credit (CIA) restatement	**-**	-
CVAE restatement	**(1,110)**	(1,038)
(Earnings)/loss of associates	**114**	137
Income tax expense	**8,365**	11,835
Pre-tax earnings adjusted for tax credits	**38,117**	**34,954**
Theoretical tax at 34.43%	**13,124**	**12,035**
Non-deductible expenses and non-taxable income	**209**	(34)
Impact of change in tax rate	**(2,968)**	65
Change in tax losses b/fwd and c/fwd	**(230)**	745
Tax rate differences for foreign companies	**(2,707)**	(2,222)
Other taxes (under IAS 12) (*)	**1,381**	1,434
Impact of reduced rate	**(27)**	(17)
Taxes with no tax base (tax credits, withholding taxes, etc.)	**143**	(116)
Miscellaneous	**(559)**	(55)
Effective tax	**8,365**	**11,835**
Effective tax rate	**21.95%**	**33.86%**

(*) Impact caused by restatement of taxes akin to CVAE.

Analysis of movements in deferred tax assets during the year:

€000	Dec 31, 2017	Dec 31, 2016
Opening balance	**8,952**	7,979
Recognized in the income statement	**461**	481
Recognized in other comprehensive income	**(51)**	61
Changes in consolidation scope	**-**	-
Reclassifications	**746**	385
Exchange differences	**(452)**	45
Closing balance	**9,656**	**8,952**

Analysis of movements in deferred tax liabilities during the year:

€000	Dec 31, 2017	Dec 31, 2016
Opening balance	**10,834**	10,452
Recognized in the income statement	**(3,505)**	(209)
Recognized in other comprehensive income	**-**	-
Changes in consolidation scope	**-**	-
Restatement of deferred tax liabilities via goodwill		(266)
Reclassifications	**746**	384
Exchange differences	**(1,120)**	473
Closing balance	**6,954**	10,834

Unrecognized deferred tax assets arising from 2017 tax losses reported by subsidiaries amounted to €0.7 million (2016: €1.3 million).

Pursuant to IAS 12 and subject to certain conditions, a business may offset its deferred tax assets and liabilities. This was done in the table above on the "Reclassifications" line.

Analysis of net deferred taxes by type:

€000	Dec 31, 2017	Dec 31, 2016
Intangible assets	**(2,635)**	(6,518)
Component-based approach (net)	**331**	349
Other temporary differences (net)	**1,987**	1,755
Internal margin on inventories	**2,544**	2,022
Internal capital gain on sales of fixed assets	**-**	-
Restatement of finance leases	**(46)**	(53)
Employee benefits	**1,797**	1,718
Tax losses carried forward	**-**	-
Regulated provisions	**(1,253)**	(1,149)
Other (net)*	**(22)**	(5)
TOTAL	**2,702**	**(1,882)**
Of which: Deferred tax assets	**9,656**	8,952
Deferred tax liabilities	**(6,954)**	(10,834)

* *Including exchange differences*

4.5.18 Earnings per share

4.5.18.1 Basic earnings per share

Basic earnings per share is calculated by dividing net income attributable to holders of common shares (net income Group share) by the weighted average number of common shares outstanding during the year.

€000	Dec 31, 2017	Dec 31, 2016
Net income attributable to holders of common shares (€000)	**34,831**	27,827
Weighted average number of common shares	**11,881,902**	11,881,902
Treasury shares at end of period (direct holding)	**(24,596)**	(24,596)
Treasury shares at end of period (liquidity contract)	**(984)**	(2,838)
Adjusted weighted average number of shares outstanding over the period	**11,856,322**	11,854,468
BASIC EARNINGS PER SHARE (€)	**2.94**	**2.35**

4.5.18.2 Diluted earnings per share

Diluted earnings per share is calculated by adjusting net income attributable to holders of common shares divided by the weighted average number of shares outstanding over the year for the impact of all potentially dilutive common shares. At December 31, 2016, there was no dilutive effect. At December 31, 2017, potentially dilutive instruments include grants of bonus shares.

	Dec 31, 2017	Dec 31, 2016
Net income attributable to holders of common shares (€000)	**34,831**	27,827
Expenses on grants of bonus shares	**200**	**-**
Earnings used to calculate diluted earnings (€000)	**35,031**	**27,827**
Weighted average number of shares outstanding over the year	**11,881,902**	11,881,902
Treasury shares at end of period (direct holding)	**(24,596)**	(24,596)
Treasury shares at end of period (liquidity contract)	**(984)**	(2,838)
Adjusted weighted average number of shares outstanding over the period	**11,856,322**	**11,854,468**
Dilutive effect of bonus share grants		
Number of shares including dilutive effect	**11,856,322**	**11,854,468**
Diluted earnings per share (€)	**2.96**	2.35

4.5.19 Goodwill

€000	Dec 31, 2017	Dec 31, 2016
At January 1		
Gross value	**78,689**	77,364
Opening book value	**78,689**	77,364
Acquisitions related to business combinations	**1,558**	-
Impairment losses recognized in the income statement	**-**	-
Reclassifications/allocation of goodwill	**-**	(266)
Exchange differences, net	**(4,373)**	1,591
At December 31		
Gross value	**75,874**	78,689
Closing book value	**75,874**	**78,689**

4.5.19.1 Impairment tests - Measurement of PP&E and intangible assets

In accordance with IAS 36, all cash-generating units (CGUs) containing goodwill were tested for impairment.

The CGUs defined for Vetoquinol Group are the following companies: Vetoquinol USA, Vetoquinol Canada, Vetoquinol France, Vetoquinol UK, Vetoquinol Belgium, Vetoquinol Switzerland, Vetoquinol Czech Republic, Vetoquinol Austria, Vetoquinol Poland, Vetoquinol Ireland, Vetoquinol Germany, Vetoquinol Italy, Vetoquinol Scandinavia, Vetoquinol India, Vetoquinol Asia and Vetoquinol Australia.

Analysis of goodwill allocated to these CGUs:

€000	Dec 31, 2017	Dec 31, 2016
Vetoquinol Biowet Poland	**2,282**	2,161
Vetoquinol GmbH/Germany	**1,705**	1,705
Vetoquinol UK	**396**	411
Vetoquinol Ireland	**421**	421
Vetoquinol Switzerland	**963**	1,050
Vetoquinol Austria	**772**	772
Vetoquinol Czech Republic	**941**	890
Vetoquinol USA	**23,119**	14,483
Vetoquinol Belgium	**500**	500
Vetoquinol Italy	**6,465**	6,465
Vetoquinol Scandinavia	**1,119**	1,153
Vetoquinol Asia	**38**	44
Vetoquinol India	**9,274**	9,923
Vetoquinol SA France	**15,981**	13,894
Bioniche	**-**	19,859
Vetoquinol Australia	**1,678**	-
Vetoquinol Canada	**10,220**	4,960
Total	**75,874**	**78,689**

The differences in value between 2016 and 2017 result from the VetCom acquisition and exchange differences on goodwill denominated in foreign currencies.

In 2016, Vetoquinol decided to restructure the production sites of its Bioniche business. As a result, the Bioniche business could no longer be recognized as a separate CGU. During 2017, the Group therefore re-allocated the Bioniche goodwill to other existing CGUs (Canada, USA, France) and allocated a portion of the Bioniche goodwill to the Australia CGU.

The recoverable value of intangible assets tested is the value in use determined using the discounted future cash flow method. Under this method, the recoverable amount of the asset is the present value of the estimated future cash flows expected from the continuous use of the asset and its disposal at the end of its useful life, less working capital and the value of other assets as of the date when the test is carried out. This valuation includes, in particular, a terminal value obtained by discounting to infinity a cash flow deemed to be normal at the end of the forecasting period.

Cash flow forecasts were established over a five-year period, based on the 2018 budget projections drawn up by management and the following assumptions for the years 2019-2022:

- Sales growth:
  - Western Europe: 1.2%,
  - Eastern Europe: 1.5%,
  - North America: 4%,
  - Asia: 6.1%,
  - Oceania: 5%.
- Growth to infinity of 1.7% to 3.4%, depending on the country
- The other values were derived from the cost structure shown on the most recent budget projection as of the date of the test (for example, profit margin from the 2018 budget applied to 2019 and the following years for the December 31, 2017 test), adjusted for non-recurring items.
- The discount rate varies by country, ranging from 5.8% to 7.7%.

No impairment expense was recorded for the last two years.

No impairment loss was identified for any of the other CGUs, or for any intangible assets or PP&E.

Likewise, an impairment test was conducted on the Equistro trademark, an intangible asset with an indefinite life, assuming sales growth to infinity of 1.7% and a 5.8% discount rate. On the basis of this test, no impairment was found.

Sensitivity analysis based on a deviation of +/- 1% in the discount rate resulted in no material negative adjustments, either at year-end 2017 or at year-end 2016.

4.5.20 Intangible assets

€000	Concessions, licenses and patents	Software	Trademarks	Other	Total
AT DECEMBER 31, 2015					
GROSS BOOK VALUE	**16,056**	**16,312**	**14,166**	**56,908**	**103,442**
ACCUMULATED AMORTIZATION	**(13,658)**	**(13,065)**	**(267)**	**(29,197)**	**(56,187)**
NET BOOK VALUE	**2,398**	**3,247**	**13,900**	**27,711**	**47,255**
Acquisitions	220	3,819	-	18	**4,057**
Acquisitions through business combinations	-	-	-	-	**-**
Change in consolidation method	-	-	-	-	**-**
Disposals	-	(15)	-	-	**(15)**
Reclassifications	132	66	-	(108)	**90**
Amortization	(556)	(703)	(16)	(4,389)	**(5,665)**
Deconsolidation	-	-	-	-	**-**
Exchange differences, net	152	36	31	601	**820**
AT DECEMBER 31, 2016					
GROSS BOOK VALUE	**16,432**	**20,027**	**14,207**	**58,227**	**108,894**
ACCUMULATED AMORTIZATION	**(14,087)**	**(13,578)**	**(293)**	**(34,395)**	**(62,353)**
NET BOOK VALUE	**2,345**	**6,450**	**13,914**	**23,833**	**46,541**
Acquisitions	1,098	1,454	-	105	**2,658**
Acquisitions through business combinations	238	-	-	-	**238**
Change in consolidation method	-	-	-	-	**-**
Disposals	-	(3)	-	-	**(3)**
Reclassifications	3,164	(3,324)	-	-	**(159)**
Amortization	(528)	(814)	(985)	(1,842)	**(4,169)**
Deconsolidation	-	-	-	-	**-**
Exchange differences, net	(91)	(33)	(275)	(2,194)	**(2,592)**
AT DECEMBER 31, 2017					
GROSS BOOK VALUE	**20,558**	**17,855**	**13,867**	**53,018**	**105,297**
ACCUMULATED DEPRECIATION	**(14,332)**	**(14,125)**	**(1,213)**	**(33,115)**	**(62,785)**
NET BOOK VALUE	**6,226**	**3,730**	**12,654**	**19,903**	**42,512**

Trademarks mainly comprise the Equistro trademark valued at €8,863,000, which has an indefinite life and, as such, is not amortized.

The "Other" column mainly includes the following intangible assets as of December 31, 2017:

- ophthalmic products purchased in 2008 from Vetcom (Canada) valued at €647,000 (2016: €730,000),
- an exclusive distribution contract for Zylkène products valued at €2,485,000 (2016: €3,010,000),
- product lists arising from the Ascor Chimici acquisition valued at €278,000 (2016: €556,000),
- product lists arising from the Wockhardt animal health division acquisition valued at €1,876,000 (2016: €2,559,000),
- product lists arising from the Farmagricola acquisition valued at €168,000 (2016: €252,000),
- product lists arising from the Bioniche animal health division acquisition valued at €13,956,000 (2016: €16,228,000).

4.5.21 Property, plant and equipment

€000	Land	Buildings	Plant and equipment	Other PP&E	PP&E in progress, advances and down payments	Total
AT DECEMBER 31, 2015						
GROSS BOOK VALUE	**3,841**	**72,786**	**58,480**	**15,176**	**3,817**	**154,098**
ACCUMULATED DEPRECIATION	**(830)**	**(48,920)**	**(41,512)**	**(12,091)**	**-**	**(103,353)**
NET BOOK VALUE	**3,011**	**23,865**	**16,968**	**3,084**	**3,817**	**50,745**
Additions	6	719	2,338	1,144	5,503	**9,711**
Acquisitions through business combinations	-	-	-	-	-	**-**
Change in consolidation method	-	-	-	-	-	**-**
Disposals	(290)	(172)	(104)	(54)	-	**(620)**
Depreciation	(52)	(3,383)	(3,691)	(1,363)	-	**(8,488)**
Exchange differences, net	301	478	486	54	120	**1,440**
Deconsolidation	-	-	-	-	-	**-**
Reclassifications	-	2,716	2,038	596	(5,489)	**(139)**
AT DECEMBER 31, 2016						
GROSS BOOK VALUE	**3,858**	**76,341**	**62,607**	**16,370**	**3,951**	**163,126**
ACCUMULATED DEPRECIATION	**(882)**	**(52,116)**	**(44,572)**	**(12,907)**		**(110,477)**
NET BOOK VALUE	**2,976**	**24,225**	**18,035**	**3,462**	**3,951**	**52,649**
Additions	493	2,650	3,516	1,009	3,710	**11,378**
Acquisitions through business combinations	-	-	-	-	-	**-**
Change in consolidation method	-	-	-	-	-	**-**
Disposals	-	(139)	(69)	(88)	-	**(296)**
Depreciation	(51)	(2,877)	(3,766)	(1,397)	-	**(8,092)**
Exchange differences, net	(199)	(409)	(423)	(88)	(6)	**(1,127)**
Deconsolidation	-	-	-	-	-	**-**
Reclassifications	45	1,040	1,635	871	(3,479)	**111**
AT DECEMBER 31, 2017						
GROSS BOOK VALUE	**4,197**	**79,075**	**65,402**	**16,882**	**4,174**	**169,730**
ACCUMULATED DEPRECIATION	**(933)**	**(54,586)**	**(46,475)**	**(13,112)**	**-**	**(115,106)**
NET BOOK VALUE	**3,264**	**24,489**	**18,928**	**3,769**	**4,174**	**54,624**

4.5.21.1 Finance leases

Property, plant and equipment includes the following assets held under finance leases (terminated in July 2014):

€000	Dec 31, 2017	Dec 31, 2016
Land		
Gross value	**101**	101
Net book value	**101**	**101**
Buildings		
Gross value	**10,027**	10,027
Accumulated depreciation	**(9,975)**	(9,944)
Net book value	**52**	**83**
Other PP&E		
Gross value	**-**	-
Accumulated depreciation	**-**	-
Net book value	**-**	**-**
Total		
Gross value	**10,129**	10,129
Accumulated depreciation	**(9,975)**	(9,944)
Net book value	**153**	**184**

The value of commitments to purchase property, plant and equipment is stated in Note 4.5.37.3.

4.5.22 Financial assets available for sale

In 2016, Group management decided to close the Group's plant and farm in Australia following the purchase of the Bioniche business. The building was valued at a market price of AUD 550,000 (€313,000). The Group sold its farm in Australia at a price of €0.6 million during the second half of 2016.

At the end of 2017, the plant in Australia was still available for sale. Its accounting valuation stood at AUD 435,000 (€284,000). Given the market price, the Group does not anticipate any adjustment of this valuation.

4.5.23 Other financial assets

Other financial assets at December 31 include equity investments in PAT (Plant Advanced Technologies) amounting to €500,000. In November 2017 Vetoquinol acquired a stake in PAT, a company headquartered in Vandoeuvre Les Nancy. The transaction was carried out via a €500,000 reserved capital increase at a price of €25 per share, following which Vetoquinol will hold an equity stake of just over 2% in PAT.

PAT is specialized in the identification, optimization and production of rare vegetable biomolecules previously inaccessible, for use in the cosmetics, pharmaceutical and agrochemicals industries. PAT develops globally-patented unique and eco-friendly technologies (PAT plantes à traire® and Target Binding®). The company is listed on Euronext Growth Paris.

4.5.24 Derivatives

As stated in Note 4.5.3.15, the Group occasionally makes use of derivatives, solely in order to reduce its exposure to foreign currency risk or interest rate risk.

During the last two financial years the Group had no exchange rate hedges outstanding.

As of December 31, 2017, there were two interest rate swaps outstanding with €110,000 negative fair value (2016: negative €248,000).

€000	Dec 31, 2017			Dec 31, 2016		
	Notional	Positive fair value	Negative fair value	Notional	Positive fair value	Negative fair value
Forward currency contract	-	-	-	-	-	-
Over-the-counter currency options	-	-	-	-	-	-
Currency derivatives	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate swaps	**15,033**	**-**	**(110)**	23,689	-	(248)
Interest rate options	-	-	-	-	-	-
Interest rate derivatives	**15,033**	**-**	**(110)**	**23,689**	**-**	**(248)**

4.5.25 Inventories

4.5.25.1 Analysis of inventories by type

€000	Dec 31, 2017			Dec 31, 2016		
	Gross value	Impairment	Net book	Gross value	Impairment	Net book
Raw materials & consumables	**17,657**	**(344)**	**17,313**	17,005	(586)	16,419
Other supplies	**-**	**-**	**-**	10	-	10
Work in progress	**12,696**	**(474)**	**12,222**	14,178	(485)	13,693
Semi-finished and finished goods	**23,083**	**(552)**	**22,530**	21,925	(1,317)	20,608
Goods purchased for resale	**17,499**	**(185)**	**17,314**	18,876	(180)	18,696
TOTAL	**70,935**	**(1,555)**	**69,380**	**71,994**	**(2,568)**	**69,426**

4.5.25.2 Analysis of inventory impairment

€000	Dec 31, 2015	Additions	Reclassifications	Write-backs	Currency differences	Dec 31, 2016
Raw materials & consumables	394	563	(99)	(296)	25	586
Work in progress	335	390	102	(344)	1	485
Semi-finished and finished goods	1,016	1,123	(29)	(822)	28	1,317
Goods purchased for resale	324	174	-	(303)	(15)	180
TOTAL	**2,069**	**2,251**	**(25)**	**(1,765)**	**39**	**2,568**

€000	Dec 31, 2016	Additions	Reclassifications	Write-backs	Currency differences	Dec 31, 2016
Raw materials & consumables	586	223	-	(465)	-	344
Work in progress	485	549	-	(562)	2	4,74
Semi-finished and finished goods	1,317	845	-	(1,578)	(31)	552
Goods purchased for resale	180	162	-	(146)	(11)	185
TOTAL	**2,568**	**1,778**	**-**	**(2,751)**	**(40)**	**1,555**

4.5.26 Trade and other receivables

€000	Dec 31, 2017	Dec 31, 2016
Trade receivables	**60,255**	66,574
Impairment of trade receivables	**(3,072)**	(2,408)
Net trade receivables	**57,183**	**64,166**
Prepayments	**960**	877
Receivables from government agencies	**8,202**	7,733
Other operating receivables	**1,482**	522
Miscellaneous receivables	**484**	699
Provisions	**-**	-
Other receivables	**11,129**	9,830
Total trade and other receivables	**68,312**	**73,996**
Prepaid expenses	**2,326**	1,938
Loans and guarantees	**414**	336
Other	**-**	-
Total other current assets	**2,741**	**2,274**

All net trade receivables were due in less than one year. Receivables are subject to impairment depending on the risk of bad debts. The Group applies the following impairment method: receivables aged over 180 days and less than 360 days are 50% covered by provisions; over 360 days they are 100% covered.

4.5.27 Cash and cash equivalents

€000	Dec 31, 2017	Dec 31, 2016
Marketable securities	**38,947**	35,714
Cash	**74,074**	67,582
Cash and cash equivalents in the balance sheet (assets)	**113,022**	**103,296**

Le total de la trésorerie indiqué dans le tableau des flux de trésorerie comprend :

€000	Dec 31, 2017	Dec 31, 2016
Total cash and cash equivalents in the balance sheet	**113,022**	103,296
Bank overdrafts (Note 4.5.29)	**(25)**	(26)
Cash and cash equivalents in the CFS	**112,997**	**103,270**

4.5.28 Capital stock and additional paid-in capital

€000	Number of shares	Capital stock	Additional paid-in capital	Total
At December 31, 2015	**11,881,902**	**29,705**	**41,126**	**70,831**
At December 31, 2016	**11,881,902**	**29,705**	**41,126**	**70,831**
At December 31, 2017	**11,881,902**	**29,705**	**41,126**	**70,831**

At December 31, 2017, the capital stock amounted to €29,704,755 (2016: €29,704,755) divided into 11,881,902 shares (2016: 11,881,902 shares), each with a par value of €2.50.

4.5.28.1 Bonus shares s

The Combined Ordinary and Extraordinary General Meeting of May 24, 2016 authorized the Board of Directors, for a maximum period of 38 months, to grant existing or future bonus shares of the Company, on one or more occasions, to employees of the Company and those of related companies, as defined in Article L.225-197-2 of the French Commercial Code, or to certain categories among them as well as to company officers as defined by law.

Under this authorization, on March 22, 2017 the Board of Directors decided to grant bonus shares. The bonus shares granted to all beneficiaries will be vested at the end of a one-year vesting period starting on the day they are granted by the Board of Directors, i.e. March 23, 2018.

Fully vested shares may only be sold or transferred at the end of a one-year lock-in period starting on the day when the shares become fully vested, i.e. March 24, 2019.

Consequently, 6,000 bonus shares (2017 plan) were granted to Vetoquinol employees and corporate officers.

4.5.28.2 Stock options

None.

4.5.28.3 Treasury stock excluding liquidity contract

As of December 31, 2017, Vetoquinol held 24,596 treasury shares (2016: 24,596).

4.5.28.4 Dividend distribution

The shareholders' general meeting of May 30, 2017 approved the distribution of dividends attributable to FY 2016 amounting to €5,109,217.86, i.e. €0.43 per share (2016: €4,871,579.82 attributable to FY 2015 or €0.41 per share; 2015: €4,633,941.78 attributable to FY 2014, i.e. €0.39 per share). At the time the dividend was paid, Vetoquinol held a number of its own shares. The dividends attributable to these shares were not paid but were allocated to retained earnings. The total dividends paid out in 2017 amounted to €5,097,500.79 (2016: €4,859,854.23; 2015: €4,626,985.35).

The Group dividend distribution policy complies with a minimum payout of 15%.

The Board has proposed a 2017 dividend payout of €0.46 per share payable on June 6, 2018.

4.5.29 Financial liabilities

Current and non-current financial liabilities break down as follows:

€000	Dec 31, 2017	Dec 31, 2016
Borrowings and other financial liabilities	**6,630**	15,427
Finance lease liabilities (Note 4.5.15.1)	**-**	-
Total non-current financial liabilities	**6,630**	**15,427**
Borrowings and other financial liabilities	**8,775**	8,823
Finance lease liabilities (Note 4.5.15.1)	**-**	-
Bank overdrafts	**25**	26
Total current financial liabilities	**8,800**	**8,849**
TOTAL FINANCIAL LIABILITIES	**15,430**	**24,276**

The breakdown by maturity of financial liabilities is as follows:

€000	Total	< 1 an	1 à 5 ans	> 5 ans
At December 31, 2016				
Borrowings and other financial liabilities	24,250	8,823	15,427	-
Finance lease liabilities	-	-	-	-
Bank overdrafts	26	26	-	-
TOTAL FINANCIAL LIABILITIES	**24,276**	**8,849**	**15,427**	**-**
At December 31, 2017				
Borrowings and other financial liabilities	15,405	8,775	6,630	-
Finance lease liabilities	-	-	-	-
Bank overdrafts	25	25	-	-
TOTAL FINANCIAL LIABILITIES	**15,430**	**8,800**	**6,630**	

4.5.29.1 Reconciliation between opening and closing balances

Opening and closing financial liabilities are reconciled as follows, applying a distinction between cash flows and non-cash transactions:

€000	Dec 31, 2016	Cash flow	Non-cash transactions				Dec 31, 2017
			Acquisitions	Currency gains/ losses	Reclassifications	Changes in fair value	
Borrowings and other financial liabilities - non-current	15,269	(12)	-	(14)	(8,660)	-	**6,582**
Borrowings and other financial liabilities – current	8,733	(8,678)	-	(1)	8,660	-	**8,714**
Finance lease liabilities	-	-	-	-	-	-	-
Hedging instruments	248					138	**110**
TOTAL FINANCIAL LIABILITIES	**24,250**	**(8,691)**	**-**	**(16)**	**-**	**(138)**	**15,405**

4.5.29.2 Breakdown by currency and rate type

€000	Dec 31, 2017	Dec 31, 2016
Fixed rate	**209**	223
Total INR	**209**	**223**
Fixed rate	**-**	-
Total BRL	**-**	**-**
Fixed rate	**17**	33
Total AUD	**17**	**33**
Fixed rate	**-**	-
Total USD	**-**	**-**
Fixed rate	**-**	-
Total CAD	**-**	**-**
Fixed rate	**-**	-
Total PLN	**-**	**-**
Fixed rate on bonds	**-**	-
Fixed rate and floating swapped to fixed	**15,143**	23,937
Floating rate	**36**	56
Total EUR	**15,179**	**23,993**
Fixed rate	**15,369**	24,194
Floating rate	**36**	56
Total (all currencies combined)	**15,405**	**24,250**
Bank overdrafts	**25**	26
TOTAL	**15,430**	**24,276**

4.5.29.3 Collateral given as guarantee

None.

4.5.29.4 Credit lines

As of December 31, 2017, the Group had open lines of bank credit amounting to the equivalent of €23 million (2016: €30,632,000). €25,000 of these credit lines had been used (2016: €26,000).

4.5.29.5 Liquidity risk

In view of its available cash and cash equivalents as of December 31, 2017, the Group is not exposed to liquidity risk. Contractual cash flows include the notional amounts of the Group's financial liabilities and the non-discounted value of its contractual interest payments.

€000	Carrying amount	Contractual cash flows	Breakdown of contractual cash flows		
			< 1 year	1-5 years	> 5 years
At December 31, 2017					
Borrowings and other financial liabilities	15,405	15,588	8,918	6,670	-
Finance lease liabilities	-	-	-	-	-
Bank overdrafts	25	25	25	-	-
Trade payables	24,840	24,840	24,840	-	-
Payables to fixed asset suppliers	1,335	1,335	1,335	-	-
Other operating liabilities	18,320	18,320	18,320	-	-
TOTAL FINANCIAL LIABILITIES	**59,925**	**60,108**	**53,438**	**6,670**	**-**

€000	Carrying amount	Contractual cash flows	Breakdown of contractual cash flows		
			< 1 year	1-5 years	> 5 years
At December 31, 2016					
Borrowings and other financial liabilities	24,250	24,679	9,069	15,610	-
Finance lease liabilities	-	-	-	-	-
Bank overdrafts	26	26	26	-	-
Trade payables	26,686	26,686	26,686	-	-
Payables to fixed asset suppliers	999	999	999	-	-
Other operating liabilities	16,678	16,678	16,678	-	-
TOTAL FINANCIAL LIABILITIES	**68,639**	**69,068**	**53,458**	**15,610**	**-**

4.5.30 Provisions for employee benefits

€000	Dec 31, 2017	Dec 31, 2016
Provision for retirement bonus	**6,602**	6,451
Other employee benefits (CET time savings account, long-service awards, etc.)	**1,483**	1,444
TOTAL PROVISIONS FOR EMPLOYEE BENEFITS	**8,085**	**7,895**

4.5.30.1 Retirement bonuses

A retirement bonus system has been established for the Vetoquinol sites in France, Poland, Austria, Italy and Germany. In France, employees qualify for a retirement bonus ("Indemnités de fin de carrière") under the national collective bargaining agreement for production and sale of pharmaceutical, parapharmaceutical and veterinary products. The sensitivity analysis based on a deviation of +/- 0.25% in the discount rate did not result in any material (+/- €180,000) adjustments to the commitment.

- **Changes in the corresponding liability are as follows:**

€000	Dec 31, 2017	Dec 31, 2016
Carrying amount at January 1	**6,451**	**5,516**
Expenses recognized in the income statement	**551**	661
Actuarial gains and losses recognized in other comprehensive income	**(10)**	712
Contributions paid	**(226)**	(301)
Reclassifications	**(87)**	(68)
Benefits paid from the fund	**(86)**	(64)
Exchange differences	**9**	(5)
New liabilities arising from acquisitions	**-**	-
Carrying amount at December 31	**6,602**	**6,451**

- **The following amounts were posted to the income statement for the year:**

€000	Dec 31, 2017	Dec 31, 2016
Cost of services rendered during the year	**453**	547
Financial cost	**62**	85
Cost of past services	**-**	-
Actuarial gains and losses recognized in the income statement	**36**	29
TOTAL	**551**	**661**

- **The main actuarial assumptions applied in France are as follows:**

	Dec 31, 2017	Dec 31, 2016
Discount rate	1.20%	1.39%
Salary increase rate	2.30%	2.50%
Social security contribution rate	47%	
Mortality table	TF-TH 2000-2002	
Staff turnover	Based on age range	

4.5.30.2 Other employee benefits

In France, employees qualify for long-service awards as defined by Decree no. 2000-1015 published in the official gazette (Journal Officiel) on October 19, 2000, as set forth in a company agreement or as standard practice. Vetoquinol also has its own system of long-service awards which entitles employees to receive bonuses based on years of service.

- **Changes in the corresponding liability are as follows:**

€000	Dec 31, 2017	Dec 31, 2016
Carrying amount at January 1	**1,444**	1,354
Expenses recognized in the income statement	**60**	136
Contributions paid	**(35)**	(30)
Reclassifications	**-**	-
Exchange differences	**15**	(17)
New liabilities arising from acquisitions	**-**	-
Carrying amount at December 31	**1,483**	**1,444**

- **The following amounts were posted to the income statement for the year:**

€000	Dec 31, 2017	Dec 31, 2016
Cost of services rendered during the year	**163**	65
Financial cost	**6**	8
Actuarial gains and losses	**(108)**	63
TOTAL	**60**	**136**

- **The main actuarial assumptions used for long-service awards are as follows:**

	Dec 31, 2017	Dec 31, 2016
Discount rate	0.80%	0.92%
Award appreciation rate	0.60%	
Social security contribution rate	47%	
Mortality table	TF-TH 2000-2002	
Staff turnover	Based on age range	

4.5.30.3 Pension commitments

- Defined benefit plans: the Group has no defined benefit pension plans.
- Defined contribution plans: the expenses related to defined contribution pension plans are detailed in Note 4.5.30.1.

4.5.31 Other provisions

€000	Provision for litigation	Other provisions	Total
At December 31, 2015	**574**	**765**	**1,339**
Additional provisions and increases	161	1,451	**1,611**
Amounts used	(154)	(292)	**(446)**
Reclassifications	129	(114)	**15**
Write-backs of amounts not used	-	-	**-**
Provisions arising from acquisitions	-	-	**-**
Exchange differences	-	62	**62**
At December 31, 2016	**709**	**1,872**	**2,581**
Additional provisions and increases	110	396	**506**
Amounts used	(234)	(673)	**(908)**
Reclassifications	-	-	**-**
Write-backs of amounts not used	-	-	**-**
Provisions arising from acquisitions	-	-	**-**
Exchange differences	-	(77)	**(77)**
At December 31, 2017	**585**	**1,521**	**2,106**

€000	Dec 31, 2017	Dec 31, 2016
Current	**1,549**	956
Non-current	**557**	1,625
TOTAL	**2,106**	**2,581**

Provisions for litigation concern sales and labor-related disputes and claims.

4.5.32 Government grants

The Group received conditional loans from the French government in 2015. As of December 31, 2017, loans received from OSEO and BPI France amounted to €113,000 (2016: €889,000).

4.5.33 Trade and other payables

€000	Dec 31, 2017	Dec 31, 2016
Trade payables	**24,840**	26,686
Payables to fixed asset suppliers	**1,335**	999
Tax and social security liabilities	**27,474**	28,397
Other operating liabilities	**18,320**	16,678
Other miscellaneous liabilities	**6**	2
Total trade and other payables	**71,975**	**72,761**
Deferred income	**24**	36
Total other current liabilities	**24**	**36**

All trade and other payables are due in less than one year.

4.5.34 Assets and liabilities by accounting category – IAS 39

The fair value of derivatives is measured using the valuations provided by bank counterparties.

The fair value of non-derivative financial liabilities, as shown in the table below ("fair value" column), corresponds to the present value of future cash flows generated by principal and interest payments, discounted at the market interest rate applicable at the balance sheet date.

"Cash and cash equivalents" are stated at amortized cost given that income and interest are periodically recognized in the income statement. At December 31, 2017 and December 31, 2016, there were no financial derivatives with positive fair values.

€000 – 2017	**Assets/liabilities at fair value through profit/loss**	**A/L at amortized cost**	**Non-financial instr.**	**Total car. value**	**Fair value**
Other equity investments	-	500	-	500	500
Other non-current assets (loans and advances)	-	835	-	835	835
Trade receivables and related accounts	-	71,052	-	71,052	71,052
Cash and cash equivalents	-	113,022	-	113,022	113,022
Derivatives	-	-	-	-	-
Financial assets at Dec 31, 2017	-	**185,409**	**-**	**185,409**	**185,409**
Bonds	-	-	-	-	-
Short/long-term borrowings and other financial liabilities	-	15,320	-	15,320	15,394
Derivatives	-	110	-	110	110
Trade payables	-	24,840	-	24,840	24,840
Payables to fixed asset suppliers	-	1,335	-	1,335	1,335
Other operating liabilities	-	18,320	-	18,320	18,320
Financial liabilities at Dec 31, 2017	-	**59,925**	**-**	**59,925**	**59,998**

€000 – 2016	**Assets/liabilities at fair value through profit/loss**	**A/L at amortized cost**	**Non-fin. instr.**	**Total car. value**	**Fair value**
Other equity investments	-	-	-	-	-
Other non-current assets (loans and advances)	-	847	-	847	847
Trade receivables and related accounts	-	76,270	-	76,270	76,270
Cash and cash equivalents	-	103,296	-	103,296	103,296
Derivatives	-	-	-	-	-
Financial assets at Dec 31, 2016	-	**180,413**	**-**	**180,413**	**180,413**
Bonds	-	-	-	-	-
Short/long-term borrowings and other financial liabilities	-	24,028	-	24,028	24,217
Derivatives	-	248	-	248	248
Trade payables	-	26,686	-	26,686	26,686
Payables to fixed asset suppliers	-	999	-	999	999
Other operating liabilities	-	16,678	-	16,678	16,678
Financial liabilities at Dec 31, 2016	-	**68,639**	**-**	**68,639**	**68,827**

4.5.35 Dividends per share

Dividends paid in 2017 amounted to €5,097,500.79 (2016: €4,859,854.23), i.e. €0.43 per share (2016: €0.41 per share). At the upcoming shareholders' general meeting on May 29, 2018, shareholders will be asked to approve a dividend payout of €0.46 per share.

4.5.36 Headcount

2017 headcount by functional dept. and geographical region	France	Western Europe (excl. France)	Eastern Europe	Americas	Asia	Consolidated total
Sales & Marketing	82	137	50	196	404	**869**
Administration & Management	150	37	45	72	17	**321**
Production	169	20	94	68	-	**351**
Quality	75	11	48	58	3	**195**
Procurement & Logistics	83	36	34	51	13	**217**
R&D	112	12	15	22	6	**167**
Total headcount at Dec 31, 2017	**671**	**253**	**286**	**467**	**443**	**2,120**

2016 headcount by functional dept. and geographical region	France	Western Europe (excl. France)	Eastern Europe	Americas	Asia	Consolidated total
Sales & Marketing	74	136	52	168	391	**821**
Administration & Management	149	33	47	65	16	**310**
Production	168	24	94	72	3	**361**
Quality	86	10	53	54	4	**207**
Procurement & Logistics	79	39	42	52	12	**224**
R&D	108	13	13	22	5	**161**
Total headcount at Dec 31, 2016	**664**	**255**	**301**	**433**	**431**	**2084**

4.5.37 Off-balance sheet commitments

4.5.37.1 Guarantees given

€000	Dec 31, 2017	Dec 31, 2016
Guarantees and deposits	**28**	25
Mortgages and collateral	**-**	22,202
TOTAL	**28**	**22,226**

In Canada, the advances (described in Note 4.5.37.2) were secured by a lien amounting to CAD 31.5 million, or €22.2 million, as of December 31, 2016, on all receivables, inventories and intellectual property of Vetoquinol NA Inc and its parent, Vetoquinol SA. As of December 31, 2017, this lien was withdrawn as the credit line was canceled.

4.5.37.2 Guarantees received

€000	Dec 31, 2017	Dec 31, 2016
Guarantees and deposits	**-**	7,048
Liability guarantees	**-**	44
TOTAL	**-**	**7,092**

In Canada, the Group obtained authorized bank lines of credit for a maximum of CAD 10 million on a consolidated basis, or €7,048,000 at the 2016 closing rate, which may be used in the form of bank loans with interest set at the bank's preferential rate plus 0.375%. No amounts had been drawn on this line of credit as of December 31, 2016. In 2017 the Group terminated these bank lines of credit.

In relation to the Bioniche Animal Health acquisition, Bioniche Life Sciences Inc granted Vetoquinol a guarantee for future liabilities with a 36-month term from the acquisition date, i.e. until April 15, 2017. The guarantee could only be called upon if the amount to be claimed under the guarantee exceeded CAD 100,000. Compensation paid out under the guarantee could not exceed the amount of the acquisition's purchase price.

An amount of €150,000 was paid into an escrow account in order to meet any "holdbacks" in the context of the purchase of VetCom-Pharma GmbH products.

4.5.37.3 Capital expenditure commitments

At the balance sheet date, Vetoquinol had contracted the following capital expenditure not recorded in the financial statements:

€000	Dec 31, 2017	Dec 31, 2016
Intangible assets	**123**	307
Property, plant and equipment	**2,872**	5,042
TOTAL	**2,996**	**5,349**

4.5.37.4 Operating lease commitments

Group commitments related to operating leases are explained in Note 4.5.15.

4.5.38 Contingent assets and liabilities

None.

4.5.39 Related party disclosures

4.5.39.1 Compensation paid to key executives

€000	Dec 31, 2017	Dec 31, 2016
Short-term benefits	**1,187**	1,197
Post-employment benefits		-
TOTAL	**1,187**	**1,197**

Vetoquinol Group top management includes:
- Matthieu Frechin, Chief Executive Officer;
- Étienne Frechin, Chairman;
- Jean-Yves Ravinet, Group Chief Operating Officer;
- Alain Masson, Chief Operating Officer and Chief Pharmacist.

4.5.39.2 Related party transactions

None.

4.5.40 Post-balance sheet events

None.

4.5.41 Litigation and arbitration

There are no administrative, judicial or arbitration proceedings, including any proceedings of which the Company is aware, either pending or imminent, that could have or that have over the past 12 months had a material impact on the financial position or profitability of the Company and/or the Group.

4.5.42 Financial/commercial position

No change in the Group's financial or commercial position has occurred since December 31, 2017.

4.5.43 Honoraires

The listed fees relate to the fees for statutory auditors and the members of their networks, in accordance with AMF regulations. These fees relate to the statutory auditing of French companies (essentially the issuer and a sub-holding), with respect to the certification and review of the individual and consolidated financial statements.

Fees paid abroad include the certification of financial statements of fully consolidated subsidiaries by members of the network.

	Mazars		KPMG		PWC			
€000	2017		2016		2017		2016	
	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
Certification of individual and consolidated	**143**	**93%**	145	94%	**322**	**83%**	313	85%
Services other than account certification	**10**	**7%**	10	6%	**64**	**17%**	56	15%
Audit-related work	**-**	**-**	10	-	**14**	**-**	-	-
Legal and tax compliance	**10**	**-**	0	-	**50**	**-**	56	-
TOTAL	**153**	**100%**	**155**	**100%**	**386**	**100%**	**369**	**100%**

In 2017, "Services other than account certification" primarily consisted of the performance of audit procedures in the context of due diligence and tax compliance work.

4.5.43.1 Pre-approval policies and procedures set by the Audit Committee

The Vetoquinol Audit Committee has established a policy and procedures for the approval of auditing services and pre-approval of other services provided by the statutory auditors.

4.5.44 Group companies

Company	Head office	% held at Dec 31, 2017	% held at Dec 31, 2016
Vetoquinol SA	Magny-Vernois - 70204 Lure Cedex - France	100%	100%
Vetoquinol NA Inc.	2000 Chemin Georges – Lavaltrie – Quebec J5T 3S5 Canada	100%	100%
Vetoquinol USA Inc.	Corporation Trust Center – 1209 Orange Street – Wilmington – Delaware 19801 – USA	100%	100%
Vetoquinol de Mexico SA de CV	Mariano Escobedo n° 748, 5 Piso Int. - Col. Nueva Anzures - Delegation Miguel Hidalgo - Mexico	100%	100%
Vetoquinol Saude Animal Ltda	Rue Alcantara 195 – Villa Maria SP CEP -02110010 – Estado de São Paulo – Brazil	100%	100%
Vetoquinol Do Brasil Partici-pacoes Ltda	Rue Alcantara 195 – Villa Maria SP CEP -02110010 – Estado de São Paulo – Brazil	100%	100%
Vetoquinol Especialidades Veterinarias SA	Carretera de Fuencarral, km 15,700 – Edificio Europa I, Portal 3, piso 2, puerta 5, – 28108 Alcobendas (Madrid) – Spain	100%	100%
Vetoquinol Unipessoal Lda	Rua Consiglieri Pedroso – n° 123 – Edificio H – Queluz de Baixo – 2730-056 Barcarena – Portugal	100%	100%
Vetoquinol UK Ltd	Steadings Barn – Pury Hill Business Park – Towcester – United Kingdom – Northants NN12 7LS – UK	100%	100%
Vetoquinol Ireland Ltd	First Floor - Segrave House - 19-20 Earlsfort Terrace - Dublin 2 - Ireland	100%	100%
Vetoquinol NV	Kontichsesteenweg 42 - 263 Aartselaar - Belgium	99%	99%
Vetoquinol BV	Postbus 3191 - 5203 DD'S-Hertogenbosch - Netherlands	100%	100%
Vetoquinol International	Magny-Vernois - 70204 Lure Cedex - France	100%	100%
Frefin GmbH	Reichenbachstraße 1 – 85737 Ismaning - Germany	100%	100%
Vetoquinol GmbH (formerly Chassot)	Reichenbachstraße 1 – 85737 Ismaning - Germany	100%	100%
Vetoquinol Biowet Poland Sp. z.o.o.	UL. Kosynierow Gdynskich 13/14 St. – 66-400 Gorzów WKLP – Poland	100%	100%
Vetoquinol AG	Freiburgstrasse 255 – 3018 Bern – Switzerland	100%	100%
Vetoquinol s.r.o	Zámenická 411 - 28802 Nymburk - Czech Republic	100%	100%
Vetoquinol Österreich GmbH	Zehetnergasse 24 - A 1140 Wien - Austria	100%	100%
Vetoquinol Italia S.r.l	Via Piana 265 - Capocolle di Bertinoro - Italy	100%	100%
Vetoquinol Scandinavia AB	Box 9 – 265 21 Astorp - Sweden	100%	100%
Frefin Mauritius Ltd.	London Centre - 34 Remy Ollier Street - Port Louis - Republic Of Mauritius	100%	100%
Vetoquinol India Animal Health Private Ltd.	801, Sigma, 8th floor - Hirandani Business Park - Technology Street - Powai - Mumbai 400 076 - India	100%	100%
Frefin Asia Ltd.	Bonham Centre - 79-85 Bonham Strand - Sheung Wan - Hong Kong	100%	100%
Vetoquinol Korea Co. Ltd.	#11001-A, M-city tower, 195, Beakmaro, Ilsandong-gu, Goyang-si, Gyeonggi-do – South Korea	100%	100%
Vetoquinol Trading (Shan-ghaï) CO., Ltd.,	Suite 1607, Block C, 85 Loushanguan, Changning District, Shanghai, PRC	100%	100%
Vetoquinol Australia Pty Ltd Inc.	Cornwall Stodart- Level 10, 114 William Street, Melbourne – Vic 3000 – Australia	100%	100%
Bioniche Animal Health Europe Ltd merged with Vetoquinol Ireland Ltd in 2017	Bracetown Business Park – Clonee – Dublin 15 – Ireland	-	100%
Vetoquinol Japan	963-8862, Fukushima – Saikon – 1 – 13 – 26, Koriyama City – Japan	55%	55%

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4.6 Statutory auditors' report on the consolidated financial statements Year ended December 31, 2017

To the shareholders' general meeting

Opinion

In compliance with the terms of our engagement by your General Meetings, we have audited the consolidated financial statements of Vetoquinol SA for the financial year ended December 31, 2017, as appended to this report.

We hereby certify that the consolidated financial statements are, with reference to IFRS as adopted within the European Union, in order and accurate and fairly present the result of operations of the financial year ended as well as the financial position, assets and liabilities of the persons and entities included in the consolidation at the end of said financial year.

The above opinion is consistent with the content of our report to the Audit Committee.

Basis of opinion

Auditing standards

We conducted our audit in accordance with professional standards applicable in France. We believe that the evidence we have gathered provides a reasonable basis for our opinion.

Our responsibilities pursuant to these standards are described in the section of this report entitled "Responsibilities of the Statutory Auditors in the audit of the consolidated financial statements".

Indépendance

We conducted our audit in compliance with the rules of independence applicable to us for the period from January 1, 2017 to the issue date of our report and, in particular, we did not provide any service prohibited by Article 5(1) of Regulation (EU) no. 537/2014 or by the code of ethics for statutory auditors.

Justification of assessments - Key audit matters

In accordance with the provisions of Articles L.823-9 and R.823-7 of the French Commercial Code relating to the justification of our assessments, we draw to your attention the key audit matters in relation to risks of material misstatement which, in our professional judgment, were of most significance in the audit of the consolidated financial statements for the financial year, as well as our responses to those risks.

These assessments formed part of our audit of the consolidated financial statements, taken as a whole, and contributed to the formation of the opinion expressed above. We do not express an opinion on elements of these consolidated financial statements taken individually.

Valuation of goodwill

Risk identified

As of December 31, 2017, the gross and net value of goodwill amounted to €76 million. The accounting principles applied to the valuation of goodwill are set out in Note 4.5.3.10.1 "Goodwill" and the allocation per cash-generating unit (CGU) is presented in Note 4.5.19.1 to the consolidated financial statements.

Your Group reviews the valuation of goodwill once a year or more frequently if circumstances indicate a possible impairment, in accordance with the conditions described in Note 4.5.3.12 "Impairment of assets" to the consolidated financial statements. The recoverable amount was determined by reference to the value in use calculated on the basis of the discounted value of the estimated future cash flows expected from the group of assets comprising each cash-generating unit.

We believe that the valuation of goodwill represents a key audit matter, in light of the material significance of these assets in the financial statements of the Group and the level of judgment required on the part of the Management in order to determine the recoverable amount of these assets.

Our response

We conducted a critical analysis of the methods applied by the Management in order to determine the recoverable amount of goodwill. Our work involved:

- obtaining the tests prepared by the Management with the help of external consultation;
- assessing the reasonableness of the cash flow forecasts by means of interviews with the Finance Department and through comparisons with actual cash flows in 2017 and 2016;
- comparing the 2018 cash flows used in the tests with the 2018 budgets prepared by the Management;
- assessing the consistency and reasonableness of the major assumptions made (including growth rate and discount rate);
- reviewing the tests carried out by the Management on the sensitivity of the value in use to a variation in the major assumptions made.

Verification of the information on the Group provided in the management report

In accordance with professional standards applicable in France, we also carried out specific testing, as required by law, on the information relating to the Group provided in the management report prepared by the Board of Directors. We have no comment to make regarding the accuracy of this information or its consistency with the consolidated financial statements.

Information pursuant to other statutory and regulatory requirements

Appointment of the statutory auditors

PricewaterhouseCoopers Audit was appointed statutory auditor of Vetoquinol SA by the shareholders' general meeting of May 23, 1990, while Mazars was appointed by the shareholders' general meeting of May 30, 2017.

As of December 31, 2017, PricewaterhouseCoopers Audit was in its 27th consecutive year as statutory auditor, 12 years after the Company shares were admitted for trading on a regulated market, while Mazars was in its first year as statutory auditor.

Responsibilities of the management and of the persons charged with governance of the Company in relation to the consolidated financial statements

The Management is responsible for preparing consolidated financial statements that give a true and fair view of operations in accordance with IFRS as adopted by the European Union as well as for the implementation of the internal controls it deems necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

During the preparation of the consolidated financial statements, the Management is responsible for assessing the Company's capacity to continue as a going concern, for presenting the information required in these financial statements, where applicable, in relation to the continuity of operations and for applying the accounting policy for a going concern, unless there is a plan to liquidate the Company or cease its activity.

The Audit Committee is responsible for monitoring the financial information preparation process and for monitoring the efficiency of the internal control and risk management procedures as well as, where applicable, internal audit, as regards the procedures applied with regard to the preparation and processing of accounting and financial information.

The consolidated financial statements have been approved by the Board of Directors.

Responsibilities of the statutory auditors in the audit of the consolidated financial statements

Audit procedure and objective

It is our responsibility to prepare a report on the consolidated financial statements. It is our aim to obtain reasonable assurance that the consolidated financial statements taken as a whole do not contain any material misstatement. Reasonable assurance means a high level of assurance, but this does not guarantee that an audit performed in accordance with professional standards always enables every material misstatement to be detected. Misstatements may result from fraud or error and are deemed to be material when it can be reasonably expected that they might, individually or collectively, influence the financial decisions taken by the users of the financial statements on the basis of those statements.

As stipulated in Article L.823-10-1 of the French Commercial Code, our certification of the financial statements does not entail any guarantee of the viability or quality of your Company's management.

Within the framework of an audit conducted in accordance with professional standards applicable in France, the statutory auditors exercise their professional judgment throughout the audit. Furthermore, the statutory auditors:

- identify and evaluate the risk of the financial statements containing material misstatements, whether due to fraud or error, develop and implement audit procedures in response to these risks, and gather sufficient and appropriate evidence for their opinion. The risk of failing to detect a material misstatement resulting from fraud is higher than in the case of a material misstatement due to error, since fraud can involve collusion, falsification, deliberate omissions, false declarations or the bypassing of the internal control system;
- obtain an understanding of the aspects of internal control that are relevant to the audit in order to develop appropriate audit procedures, but not in order to express an opinion as to the effectiveness of the internal control system;
- assess the appropriateness of the accounting methods used and the reasonableness of the accounting estimates made by the Management, as well as of the related information provided in the consolidated financial statements;
- assess the appropriateness of the Management's use of the going concern principle in accounting and, according to the evidence obtained, the existence or non-existence of material uncertainty connected with events or situations likely to cast doubt on the Company's ability to continue its operations. This assessment is based on the evidence obtained up to the date of his report, on the understanding however that subsequent circumstances or events may cast doubt on the Company's ability to continue as a going concern. If they conclude that there is material uncertainty, they are obliged to draw the attention of readers of their report to the information contained in the financial statements concerning this uncertainty or, if this information is not provided or is irrelevant, to issue a certification with reservations or refuse to certify;
- evaluate the overall presentation of the consolidated financial statements and assess whether they give a true and fair view of the underlying events and transactions;
- with regard to the financial information concerning persons or entities included in the consolidation scope, they collect the evidence that they deems sufficient and appropriate in order to express an opinion on the consolidated financial statements. They are responsible for managing, supervising and carrying out the audit of the consolidated financial statements as well as the opinion expressed on these financial statements.

Report submitted to the Audit Committee

We submit to the Audit Committee a report on the scope of the audit work and the work program implemented, as well as the findings arising from our work. In addition, where necessary, we draw the Audit Committee's attention to any material deficiencies in the internal control system that we have identified as regards procedures related to the preparation and processing of accounting and financial information.

The elements communicated in the report submitted to the Audit Committee include the risks of material misstatement that we deem to be the most significant for the audit of the consolidated financial statements for the period and which thereby constitute the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration required under Article 6 of Regulation (EU) no. 537-2014 confirming our independence, within the meaning of the applicable regulations in France, as established primarily by Articles L.822-10 to L.822-14 of the French Commercial Code and in the code of ethics for statutory auditors. Where applicable, we discuss with the Audit Committee any risks to our independence and the safeguard measures applied.

Neuilly-sur-Seine and Villeurbanne, April 20, 2018

The Statutory Auditors

PricewaterhouseCoopers Audit	**Mazars**
Xavier Belet	Frédéric Maurel

6

INFORMATION ON THE COMPANY AND CAPITAL STOCK

6.1 Information on the Company – Bylaws

6.1.1 Information about Vetoquinol

6.1.1.1 Company name

The name of the Company is Vetoquinol SA.

6.1.1.2 Company registration in the Trade and Companies Register, APE code

Vetoquinol is registered in the Vesoul Trade and Companies Register under number 676 250 111. Its APE code is 2120Z, corresponding to the business of drug manufacture.

6.1.1.3 Secondary establishments

The Company has two secondary establishments registered in the (i) Villefranche/Saône Trade and Companies Register (2002 B 372) and the (ii) Paris Trade and Companies Register (98 B 14086).

6.1.1.4 Company incorporation date and term

The Company was incorporated as a French public limited company ("société anonyme") on May 12, 1962 and registered in the Trade and Companies Register as of August 10, 1962 under number 62 B 11 with the name of Vetoquinol. The Company term will expire on August 9, 2022.

6.1.1.5 Head office, legal form, governing law

The Company is a French public limited company with a Board of Directors ("société anonyme à Conseil d'administration").

The Company is governed by French law and its operation is mainly regulated by Articles L.225-1 et seq. of the French Commercial Code and by the terms of the Decree of March 23, 1967 on trading companies.

The Company's head office is located at Magny-Vernois 70200. The Company's telephone number is:
+33 (0)3 84 62 55 55.

The Company's website is: www.vetoquinol.com.

6.1.1.6 Financial year

The Company's financial year begins on January 1 and ends on December 31.

6.1.2 Capital stock

At the registration date of this Registration Document, Vetoquinol's capital stock stands at €29,704,755 divided into 11,881,902 shares, each with a par value of €2.50.

The shares comprising the Company's capital stock are fully subscribed and paid up.

6.1.2.1 Shares not representing capital

There are no shares not representing capital stock.

6.1.2.2 Treasury shares

Purchases of Company shares by the Company itself (see section 1.6.5).
Share buyback (see section 1.6.10).

6.1.2.3 Convertible securities

Stock options (see section 5.5.16.3).
Bonus shares (see section 5.5.16.2).

6.1.2.4 Terms and conditions governing any right of acquisition or obligation attached to capital subscribed, but not paid up, aimed at increasing the capital

None.

6.1.2.5 Information concerning the equity of any Group member covered by an option or by an agreement that provides for placing it under option

None.

6.1.2.6 Capital stock history

Transaction date	Transaction	Number of shares issued	Par value of capital increase	Total capital stock	Total number of shares	Par value per share
Dec 7, 2007	Opening balance				11,290,332	2.50
May 12, 2009	Exercise of options	2,300	5,750	28,231,580	11,292,632	2.50
Dec 31, 2010	No transaction during this year				11,292,632	2.50
Feb 27, 2011	Bond conversion	589,270	1,473,175	29,704,755	11,881,902	2.50

No transactions were carried out during the last four years.

6.1.2.7 Shareholders' agreement and special agreements

At the filing date of this Registration Document, the following agreements relating to the Company's shares are in force:

- Shareholders' agreement of December 13, 2013, on commitment to retain shares – Article 885-I bis of the French General Tax Code. The 2013 agreement relates to 2,500,006 Company shares, i.e. 24.27% of voting rights and 21.04% of dividend rights.
- This agreement was entered into between (i) the Étienne Frechin family and (ii) certain individual shareholders, for an initial term of two years, to allow signatories of the agreement who are not Company directors to receive a partial exemption from French wealth tax (ISF) and to establish a pre-emptive right in favor of Soparfin in the event of the sale or transfer of Company shares held by signatories of the agreement other than those belonging to the Étienne Frechin family.

6.1.2.8 Treasury stock/share buyback program/liquidity contract plan

Subject to the May 29, 2018 general meeting's approval of the resolution related to the buyback of the Company's shares, the Company will be authorized to buy back its own shares as required in order to:

- issue or sell shares to employees and/or Company officers (under the terms and conditions and according to the procedures prescribed by law), particularly in accordance with a stock option, bonus share or corporate savings plan,
- bolster the share's trading and liquidity by means of a liquidity contract entered into with an investment service provider in compliance with the AMAFI Code of Conduct as approved by the AMF, and entered into in compliance with market practices accepted by the AMF,
- purchase shares to hold as treasury shares for subsequent exchange or payment with regard to any acquisition transactions, in accordance with applicable regulations,
- to issue shares to the holders of securities giving access to the Company's capital stock upon exercise of the rights attached to such securities, in compliance with applicable regulations,
- apply any existing or future market practice approved by the AMF and, more generally, execute any other transaction in accordance with applicable regulations.

The purchase, sale or transfer transactions described above may be executed in any way permitted by legislation and applicable regulations, including within the context of negotiated trades.

These transactions may be executed at any time, including during the period of a public tender offer or pre-offer for the Company's shares, in compliance with Article 231-40 of the AMF General Regulation or during a period of pre-offer, public tender offer, public exchange offer or combined tender/exchange offer, initiated by the Company under the statutory and regulatory conditions in force and, in particular, in compliance with the provisions of Article 231-41 of the AMF General Regulation.

The general meeting sets the maximum number of shares that may be purchased under the applicable resolution at 7% of the Company's capital stock as of the date of the relevant general meeting, i.e. 831,733 shares with a par value of €2.50 each, subject to the following conditions: (i) when this authorization is exercised, the number of treasury shares currently held by the Company will be taken into account, so that the total number of treasury shares held by the Company does not exceed 10% of the capital stock; (ii) the number of treasury shares held for the purposes of payment or exchange in the event of a merger, demerger or asset transfer does not exceed 5% of the capital stock.

The general meeting decided that the total amount allocated to these acquisitions may not exceed €66,500,000 and that the maximum purchase price per share may not exceed €80, subject to the condition that the Company may not buy shares at a price higher than the greater of the following two values: the last quoted price corresponding to the execution of a transaction in which the Company was not a stakeholder, or the highest current independent purchase price offered on the trading platform through which purchase takes place.

In the event of a capital increase by capitalization of additional paid-in capital, reserves, profits or other amounts in the form of a bonus share grant during the term of this authorization, or in the event of a stock split or reverse stock split, the general meeting delegates to the Board of Directors the power to adjust the aforementioned maximum price per share in order to take into account the impact of these transactions on the share value.

The general meeting has granted the Board of Directors, with the option of further delegation subject to the conditions provided for by law, all powers required in order to:

- decide upon the exercise of this authorization,
- set the terms and conditions that will ensure, where required, the preservation of the rights of holders of equity securities giving access to the capital stock, stock options or performance share allocation rights, in compliance with statutory, regulatory and contractual provisions,
- place all trading orders and enter into all agreements as required, in particular, for the purpose of keeping registers of share purchases and sales, pursuant to applicable regulations,
- make all representations, complete all other formalities and, in general, do whatever is necessary.

The Board of Directors shall inform the shareholders at the Ordinary Annual General Meeting of all transactions executed pursuant to this authorization.

This authorization is granted for a term of eighteen (18) months as from the date of the May 29, 2018 general meeting.

6.1.3 Articles of incorporation and bylaws

6.1.3.1 Corporate purpose (see Article 2 of the bylaws)

The Company's main purpose, both in France and abroad, directly or indirectly, is as follows: the preparation, manufacture, packaging, importation and exportation, purchase, wholesaling and distribution of all pharmaceutical specialties designed for veterinary and human use, as well as all medical, pharmaceutical, clinical, biological and industrial research.

6.1.3.2 Principal bylaw provisions relating to governing and management bodies (see Article 11 et seq of the bylaws)

The Board of Directors

The Board of Directors consists of at least three and no more than twelve members. Each director must hold at least two shares during their entire term of office.

Pursuant to the Company bylaws, the term of office for directors is set at four years. Upon completion of their term, all retiring Board members are eligible for reappointment.

Chairman of the Board of Directors

The Chairman is appointed for a term not exceeding his/her term as director. He/she may be re-elected.

With regard to the performance of the duties of Chairman, the age limit is set at 90 years of age.

Senior management

Senior management is exercised by an individual appointed by the Board of Directors, who shall bear the title of Chief Executive Officer.

The Chief Executive Officer may or may not also be the Chairman of the Board of Directors.

Upon termination of the Chief Executive Officer's term of office, for any reason whatsoever, the Board shall choose between the two options for the exercise of senior management referred to in the preceding paragraph. The appointment of the Chief Executive Officer may be revoked by the Board of Directors at any time. If the dismissal is decided without just cause, it may give rise to damages.

With regard to the performance of the duties of Chief Executive Officer, the age limit is set at 80 years of age.

Deputy Chief Executive Officers

The Board of Directors may appoint up to four Deputy CEOs. With regard to the performance of the duties of Deputy CEO, the age limit is set at 80 years of age.

Chief Pharmacist

Pursuant to the provisions of Article L.5142-1 of the French Public Health Code, any company involved in the manufacture, importation, exportation and wholesale distribution of veterinary drugs must be owned by a pharmacist, veterinarian or a company in which a pharmacist or veterinarian participates in the governance or senior management. The aforementioned pharmacists and veterinarians are referred to as "Chief Pharmacist" or "Chief Veterinarian". They are personally responsible for the application of the relevant statutory and regulatory provisions, without prejudice, where applicable, to the Company's joint and several liability.

Pursuant to the provisions of Article R 5142-33 of the aforementioned Code, in public limited companies ("sociétés anonymes") the Chief Pharmacist or Chief Veterinarian must hold the position of Chairman of the Board, Chief Executive Officer or Deputy Chief Executive Officer.

In addition, pursuant to the French Public Health Code, the Board of Directors shall appoint an acting chief pharmacist or veterinarian, who shall assume the same powers and duties as those conferred upon the Chief Pharmacist or Veterinarian during periods of replacement.

6.1.3.3 Other provisions of the bylaws – rights, privileges and restrictions attached to each class of shares (Article 19-4 of the bylaws)

A double voting right was established by the Extraordinary General Meeting of July 7, 2006. It is attached to all shares that are fully paid up and that are proved to have been registered for at least two years in the name of the same shareholder.

6.1.3.4 Actions required to modify shareholder rights and when the conditions are more stringent than those provided for by law

Apart from the provisions of Article 10(2) of the bylaws relating to declarations of the crossing of thresholds, as cited in section 6.1.3.7 below, there is no other provision of the bylaws or internal regulations that could, to the Company's knowledge, result in the modification of shareholders' rights (see section 6.1.3.6 below).

6.1.3.5 Conditions for convening Ordinary and Extraordinary Annual General Meetings and procedures for admission

General meetings are convened and deliberate under the conditions provided for by law. They are held at the head office or at any other location specified in the meeting notice.

Any shareholder may participate in the meetings in person, by proxy or by remote voting, upon proof of identity and of the fact that the shares have been recorded for accounting purposes in his/her name (or in the name of the authorized intermediary registered under his/her name if his/her place of residence is outside France) by midnight, Paris time, on the second business day prior to the meeting, either in registered share accounts or in bearer share accounts kept by the authorized intermediary, in one of the locations specified in the meeting notice.

In the case of bearer shares, the authorized intermediary must issue a shareholding certificate ("attestation de participation").

Shareholders who have chosen their manner of participation in the meeting (in person, by remote voting or by proxy) and have notified the Company thereof may not alter their choice. However, it is specified that shareholders' physical attendance at a meeting shall have the effect of canceling any absentee votes submitted remotely or by proxy.

Remote or proxy votes shall only be taken into account if the voting forms are delivered to the Company no less than two days prior to the date of the meeting.

In case of conflict between a proxy vote and a remote vote, the remote vote shall prevail over the proxy vote. Any shareholder may also, if the Board of Directors or its Chairman so permits at the time when the general meeting is convened, participate in this meeting by videoconference or other electronic means of remote communication or transmission, subject to the conditions and limitations provided for by the applicable statutory and regulatory provisions. Such shareholder shall be deemed present at the meeting for the purposes of calculating the quorum and majority.

6.1.3.6 Provisions enabling the delay, deferral or prevention of a change of control

Apart from the provisions of Article 10(2) of the bylaws (below) relating to threshold crossing disclosures, as cited in section 6.1.3.7 below, there is no other provision of the bylaws or internal regulations that could, to the Company's knowledge, have the effect of deferring or preventing a change of control over the Company.

6.1.3.7 Crossing of thresholds (Article 10(2) of the bylaws)

In addition to the statutory requirement to report crossing of thresholds as provided for in Article L.233-7 of the French Commercial Code, any individual or legal entity, acting alone or in concert, that acquires a percentage of the Company's capital stock or voting rights at least equal to 2.5% and to any multiple of such percentage without limit, must notify the Company, by registered letter with recorded delivery sent to the Company head office, of the total number of shares and voting rights that they hold.

Notification should also be made when the percentage of capital stock or voting rights held falls below one of the aforementioned thresholds.

In the event of breach of the obligation provided for in the bylaws to declare crossing of thresholds under the aforementioned conditions, and at the request, as recorded in the minutes of the General Meeting, of one or more shareholders holding together at least 2.5% of the capital stock or voting rights, the shares exceeding the fraction that should have been declared shall be stripped of voting rights until the end of a two-year period following the rectification of such breach.

6.1.3.8 Conditions governing changes to the capital stock that are more stringent than those provided for by law

There is no other provision in the bylaws or internal regulations governing changes to the capital stock that is more stringent than those provided for by law.

6.1.3.9 Delegation of powers effective in 2017

See "Report on the Company's corporate governance", chapter 3 – section 3.6: Summary table of delegations in relation to capital increases and other authorizations granted to the Board of Directors effective in 2017.

6.1.3.10 Composition of capital stock

As of December 31, 2016, the capital stock amounted to €29,704,755 divided into 11,881,902 shares with a par value of €2.50 each.

No changes occurred in 2017.

6.1.3.11 Dividend distribution

The shareholders' general meeting of May 30, 2017 approved the distribution of dividends attributable to FY 2016 amounting to €5,109,217.86, i.e. €0.43 per share (2016: €4,871,579.82 attributable to FY 2015, i.e. €0.41 per share, 2015: €4,633,941.78 attributable to FY 2014 or €0.39 per share and 2014: €4,396,303.74 attributable to FY 2013, i.e. €0.37 per share). At the time the dividend was paid, Vetoquinol held a number of its own shares. The dividends attributable to these shares were not paid but were allocated to retained earnings. The total dividends paid out in 2017 amounted to €5,097,500.79 (2016: €4,859,854.23 and
(2015: €4,626,985.35).

6.1.3.12 Bonus shares

See "Report on the Company's corporate governance", chapter 3 – section 3.5.3: Bonus shares granted during the financial year.

6.1.3.13 Stock options

At December 31, 2017, there were no outstanding stock options.

6.1.3.14 Treasury stock excluding liquidity contract

As of December 31, 2017, Vetoquinol held 24,596 treasury shares (2016: 24,596). 6,000 of the 24,596 treasury shares are allocated according to the bonus share plan of March 22, 2017.

6.1.4 Information on Company share transactions performed by corporate officers and related persons

During the 2017 financial year, Brigitte Hollegien, wife of Hans Hollegien, Group Director - Marketing and Communication, bought 476 Vetoquinol SA shares.

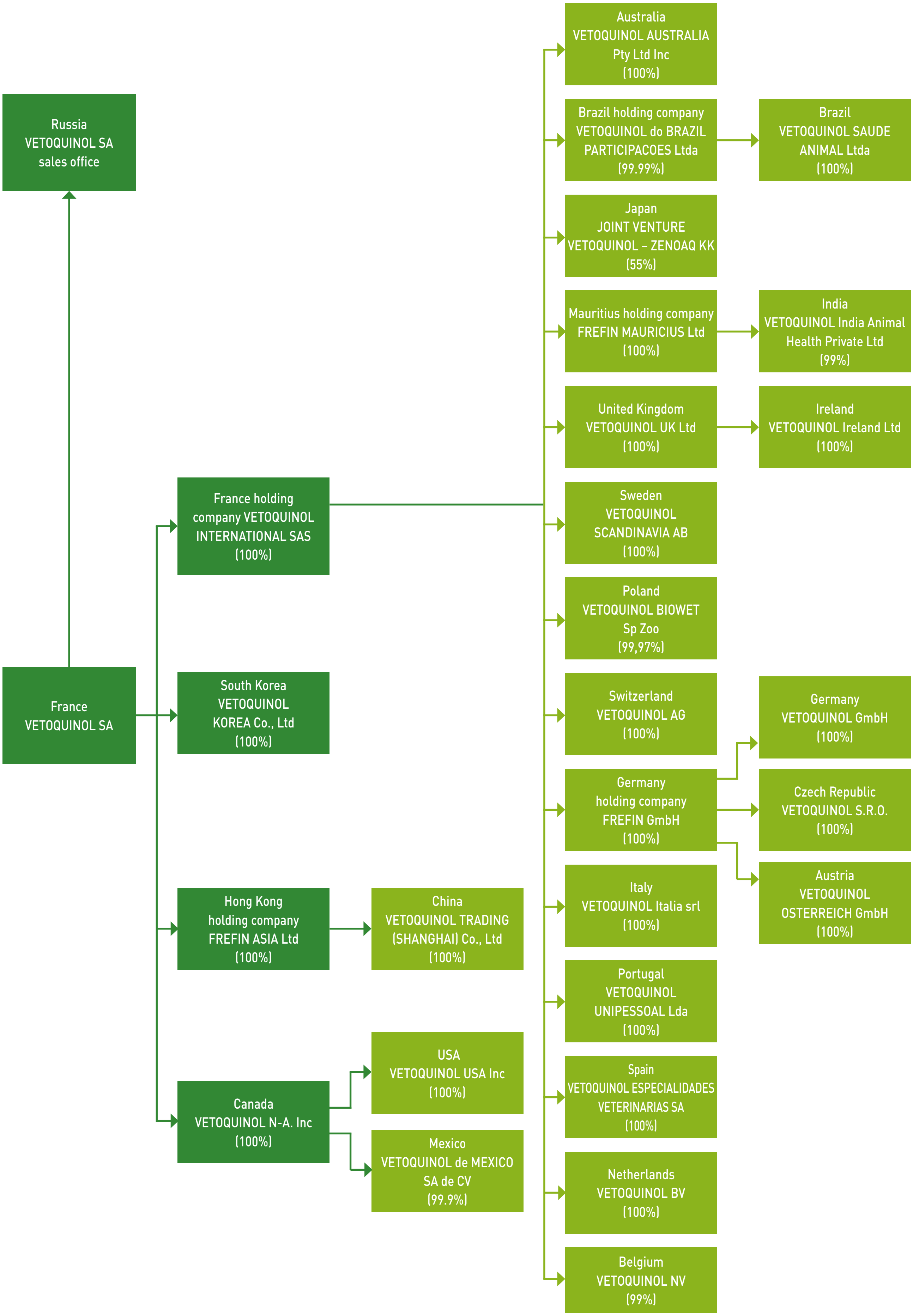
6.2 Simplified Group organizational chart as of December 31, 2017

Section 1.2 provides an overview of the Group's business.

The overall organization of the Group is centered on the parent company, Vetoquinol SA, which plays the role of Group holding company as well as carrying out a business activity in its own right (see "Group companies", p. 108). Accordingly, the Group's primary manufacturing plant is situated in Lure, the location of the head office. The Company (Vetoquinol SA) invoices its subsidiaries for sales of the finished products it manufactures.

Group executive functions are centralized in the parent company, Vetoquinol SA.
Vetoquinol Group announced:

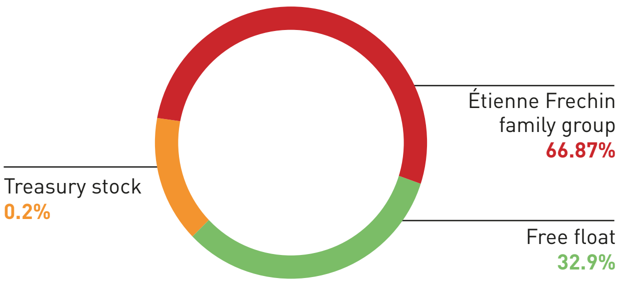
- the acquisition of Austrian-based VetCom-Pharma on March 22, 2017. This acquisition enables Vetoquinol to expand its reproduction range of products for cattle and pigs, initially in Europe.
  No staff or industrial facilities were taken over as part of this transaction, which was financed with cash;
- the consolidation of the Irish subsidiary Bioniche Animal Health Europe Ltd. on October 14, 2017. This phase marks the end of the consolidation process of companies acquired in 2014 with the acquisition of the animal health business of the Bioniche Group.


Russia
VETOQUINOL SA
sales office
France
VETOQUINOL SA
France holding
company VETOQUINOL
INTERNATIONAL SAS
(100%)
South Korea
VETOQUINOL
KOREA Co., Ltd
(100%)
Hong Kong
holding company
FREFIN ASIA Ltd
(100%)
China
VETOQUINOL TRADING
(SHANGHAI) Co., Ltd
(100%)
Canada
VETOQUINOL N-A. Inc
(100%)
USA
VETOQUINOL USA Inc
(100%)
Mexico
VETOQUINOL de MEXICO
SA de CV
(99.9%)
Australia
VETOQUINOL AUSTRALIA
Pty Ltd Inc
(100%)
Brazil holding company
VETOQUINOL do BRAZIL
PARTICIPACOES Ltda
(99.99%)
Brazil
VETOQUINOL SAUDE
ANIMAL Ltda
(100%)
Japan
JOINT VENTURE
VETOQUINOL – ZENOAQ KK
(55%)
Mauritius holding company
FREFIN MAURICIUS Ltd
(100%)
India
VETOQUINOL India Animal
Health Private Ltd
(99%)
United Kingdom
VETOQUINOL UK Ltd
(100%)
Ireland
VETOQUINOL Ireland Ltd
(100%)
Sweden
VETOQUINOL
SCANDINAVIA AB
(100%)
Poland
VETOQUINOL BIOWET
Sp Zoo
(99,97%)
Switzerland
VETOQUINOL AG
(100%)
Germany
VETOQUINOL GmbH
(100%)
Germany
holding company
FREFIN GmbH
(100%)
Czech Republic
VETOQUINOL S.R.O.
(100%)
Austria
VETOQUINOL
OSTERREICH GmbH
(100%)
Italy
VETOQUINOL Italia srl
(100%)
Portugal
VETOQUINOL
UNIPESSOAL Lda
(100%)
Spain
VETOQUINOL ESPECIALIDADES
VETERINARIAS SA
(100%)
Netherlands
VETOQUINOL BV
(100%)
Belgium
VETOQUINOL NV
(99%)

6

6.3 Group shareholders

6.3.1 Breakdown of share capital as of December 31, 2017



6.3.2 Stock market information

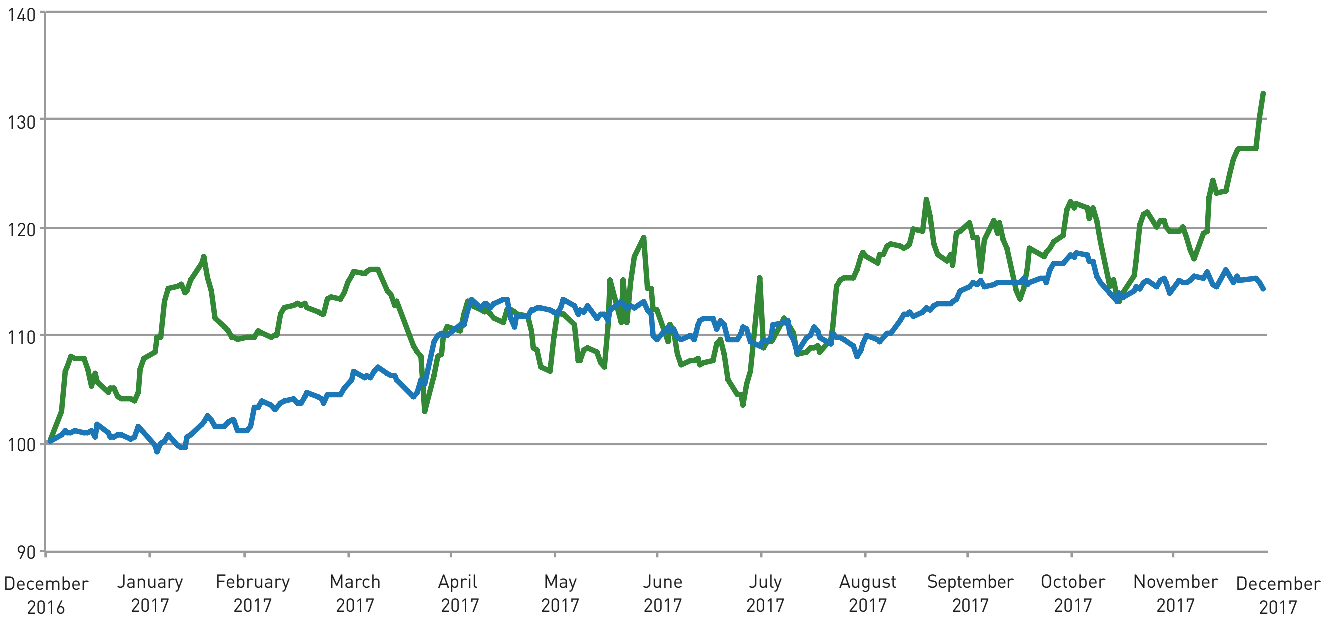
The Vetoquinol share is listed on Euronext Paris – Compartment B Eurolist.

Share information

- ISIN code: FR0004186856
- Symbol: VETO
- Compartment B Eurolist
- Index: CAC All Shares
- The Vetoquinol share is eligible for the French PEA-PME personal equity plan.

At the close of the period, on December 31, 2017, Vetoquinol's market capitalization stood at €719 million, compared with €541 million at December 31, 2016.

In 2017, Vetoquinol enjoyed a good year on the stock market with share price growth of almost 33%



At December 31, 2017, the Vetoquinol share closed at €60.53 compared to €45.53 at December 31, 2016, representing positive market performance of 32.9%.
Since 2006, Vetoquinol has entrusted the management of its liquidity contract to Oddo Corporate Finance, 12, boulevard de la Madeleine, 75009 Paris.

6.3.3 Financial reporting timetable

January 23, 2018	2017 sales (after market close)
March 15, 2018	2017 results (after market close)
April 12, 2018,	Q1 2018 sales (after market close)
May 29, 2018	shareholders' general meeting
June 6, 2018	Dividend payout
July 26, 2018	H1 2018 sales and results (after market close)
October 18, 2018	Q3 2018 sales (after market close)
January 24, 2019	2018 sales (after market close)

6.3.4 Investor relations

Vetoquinol fosters a close relationship with investors based on dialog and trust. The Company regularly meets domestic and international investors, thereby giving them the opportunity to talk to its managers. Vetoquinol undertakes to provide comprehensive, accurate, fair and transparent information.

Financial information on Vetoquinol, including press releases, interim results, annual results, the Registration Document and all other regulated financial information, may be viewed and downloaded via the "Investors' Corner" section of its website (http://www.vetoquinol.com/eng/content/investisseurs).

Prior year financial information filed or registered with the AMF may also be accessed via the website. These documents may be obtained upon written request from the Company head office at: Vetoquinol SA, Magny-Vernois – BP 189 – 70204 Lure Cedex, France.

The Company bylaws, minutes of general meetings, the parent company and consolidated financial statements, statutory auditors' reports and all other corporate documents may be consulted in hard copy format at the Company head office, in accordance with the provisions of the French Commercial Code.

Whilst complying with fair information access rules, the Investor Relations department is ready to deal with all requests submitted by shareholders, whether they be individual or institutional investors.

On September 27, 2017, Vetoquinol organized its first ever Investor Day at the Edouard VII conference center in Paris. At this conference, Matthieu Frechin was joined by the Group Science Department Director, the Group Europe and North America Director, the Group Manufacturing and Quality Operations Director, the Group Finance and Legal Director and the Head of Investor Relations to present the key features of the "In Motion" strategic plan to an audience of financial analysts and investors.

Shareholder contact

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• Frefin GmbH
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Vetoquinol Biowet Sp Z.o.o.
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Polska

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Portugal

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