vetoquinol
ACHIEVE MORE TOGETHER

2018 REGISTRATION DOCUMENT

Your trusted animal health partner

CONTENTS

2018 REGISTRATION DOCUMENT

Annual financial Report

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, 2018. The original French document was filed with the AMF (French Financial Markets Authority) on April 29, 2019.

A strong financial performance in 2018

€367.9 million

sales

(up 5.8% like-for-like)

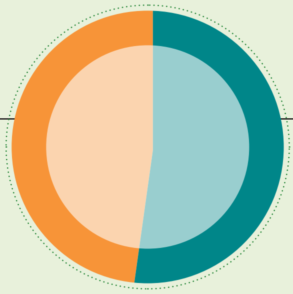
including **€179.4** million

from Essentials products

(up 9.1% like-for-like)

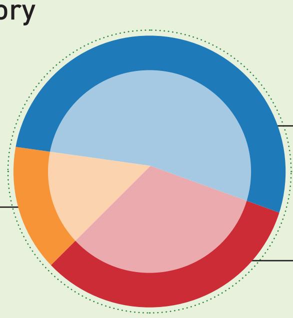
Breakdown of Group sales

per business segment



Breakdown of Group sales

per territory



€60.4 million

EBITDA

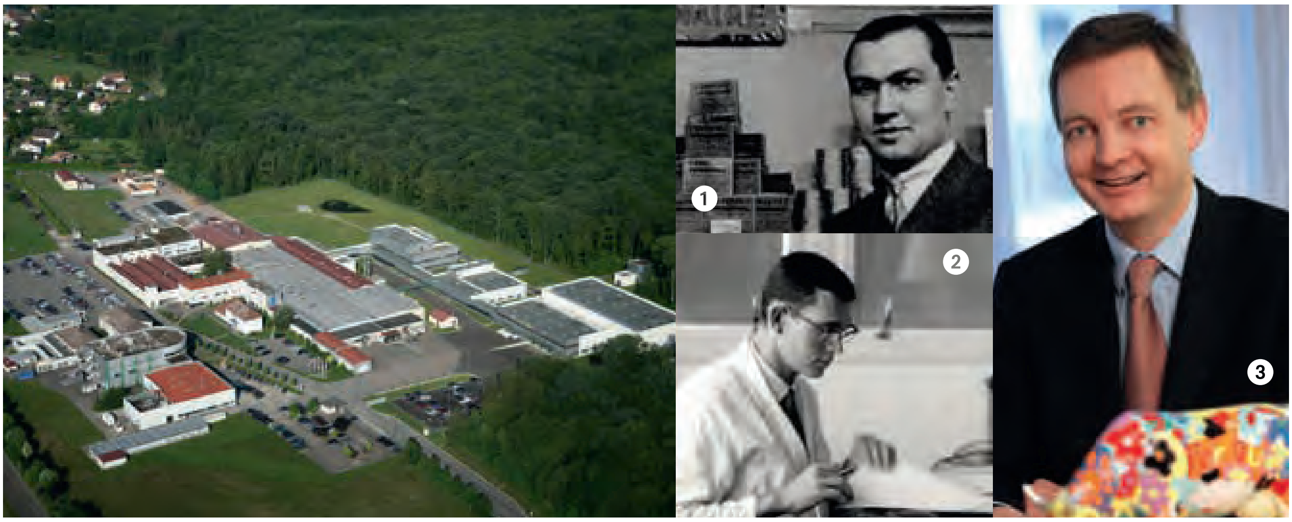
(16.4% of sales)

€48.4 million

EBIT

(13.2% of sales)

Vetoquinol, a long and illustrious history of entrepreneurial spirit



❶ *Joseph Frechin* – ❷ *Étienne Frechin* - ❸ *Matthieu Frechin*

Joseph Frechin's inspiration

It all began in 1933 in a pharmacy in Lure, a small town in eastern France. Joseph Frechin expanded his pharmacy business to include the production of specialized human pharmaceuticals, naming his company "Laboratoires Biochimiques de l'Est". He built up a substantial inventory of oxyquinoline, an antiseptic developed by a chemist friend.

It was then that he had the idea of using this product to treat animals. He then conducted the first trials with the help of his father Charles Frechin, a renowned veterinary surgeon in the region: the results were convincing. Christened Vetoquinol, the remedy became an instant success and was rapidly made available in many forms: tablets, powder, gel, oblets, intra-uterine tablets and creams. In 1948, Joseph Frechin added a veterinary department to his laboratory, and Vetoquinol was born.

Étienne Frechin's far-reaching vision

Vetoquinol's post-war growth was driven by the farming industry, which was making increasing use of veterinary drugs in order to reconstitute livestock populations. Vetoquinol gradually spread its wings and before long had 100 employees.

In 1962, Étienne Frechin joined his father's company in order to focus on its development. He moved the company headquarters to Magny-Vernois, a village just outside Lure.

Since then, Vetoquinol has offered its customers an ever-growing range of drugs and innovative solutions. In 1980, as much as 20% of the company's sales were generated outside France.

Totaling 280 employees at the time, the company set up an international department. Subsidiaries were established in the Netherlands, Ireland and Belgium.

Through establishment and takeovers Vetoquinol gradually built up a network of subsidiaries covering the entire planet.

The company's stock market listing in 2006 enabled it to secure new funds and acquire a foothold in new markets. This milestone was a golden opportunity to boost its reputation and share its vision of the animal health industry.

Matthieu Frechin's commitment

In April 2010, Matthieu Frechin was appointed Group Chief Executive Officer. As the grandson of the company's founder and the third generation to take the helm, his appointment reinforced the shareholders' ambition to continue Vetoquinol's captivating story in the same spirit of boldness, commitment and independence.

To continue developing, Vetoquinol decided to remain an independent company. Its manageable size and family shareholding structure make Vetoquinol a flexible and responsive company, while entrepreneurial focus, an innovative approach and strong team spirit with Matthieu at the helm are the very best assets for developing new products and solutions in order to promote animal health, improving the daily lives of cattle breeders and pet owners alike and helping vets to accomplish their mission with success; customer needs continue to be our primary source of inspiration.

Nearly two years ago, under Matthieu's guidance, Vetoquinol launched a drive to transform the company by focusing on initiative-taking, willingness and commitment. This transformation is inspired by Vetoquinol's mission to "enrich human lives through devotion to animal health and welfare" and by the values shared by all its employees working on 5 continents: trust, dare and collaborate. These values make Vetoquinol what it is today, a company with a common passion, energy and commitment.

Vetoquinol over the years

1933

Launch of "Vetoquinol" antiseptic by Joseph Frechin, a pharmacist in Lure.

1962

Étienne Frechin joined Vetoquinol.

1962

Relocation to Magny-Vernois.

1977

Creation of the Group's first overseas subsidiary, Vetam in the Netherlands.

1980

Establishment of R&D center and export department.

1984

Creation of Galvet Ltd (Ireland).

1987

- Launch of Tolfedine® anti-inflammatory drug.
- Acquisition of Psyphac (Belgium).

1990-2000

- Acquisition of Univet (UK), Antibioticos Pharma Vet (Spain), Austin, Dispar, Webster (Canada), Immunovet (USA) and MECA (Germany).
- Creation of Vetoquinol North America and Vetoquinol Mexico.
- Launch of Marbocyl® anti-infective (1995).

2001-2010

- Acquisition of Swiss-based Chassot group (2001).
- Launch of Aurizon®, a treatment for canine otitis (2001).
- Acquisition of Evsco® and Tomlyn® ranges (USA) (2002).
- Launch of Prilium® (canine cardiology), Propalin® (canine urinary incontinence) and Clavaseptin® (antibiotic) (2002).
- New R&D center in France (2003).
- Opening of sales office in Shanghai, China (2004).
- Acquisition of Semyung Vet (South Korea) and Vet Solutions (USA) (2006).
- IPO on Paris stock exchange (2006).
- Creation of Vetoquinol Unipessoal Lda (Portugal) (2007).
- Acquisition of Ascor Chimici (Italy) and Viavet (Scandinavia) (2008).
- Creation of a development unit in Canada (2008).
- Launch of Vetprofen® (anti-inflammatory drug) and Rubenal® (nephrology) (2008).
- Acquisition of the animal health division of Wockhardt Ltd, India (2009).
- Registration of Marbocyl® in Japan (2010).
- Launch of Acacia project, new extension for developing and manufacturing innovative tablets at the Group headquarters (2010).
- Launch of Kefloril® and Ceftiocyl®, two new antibiotics for food-producing animals (2010).
- In 2010, Matthieu was appointed CEO and Étienne Frechin became Chairman of the Board of Directors.

2011

- Establishment of a foothold in Brazil by acquiring Farmagricola SA based in São Paulo state.
- European launch of Cimalgex®, a new treatment for pain and inflammation in dogs.
- European launch of Forcyl®, a new single-injection anti-infective based on marbofloxacin.

2012

- Launch of Flevox®, a parasiticide for dogs and cats.
- Acquisition of Orsco, a veterinary drug manufacturer based near Lyon, France, which markets Zylkene®.
- New indication obtained for Forcyl® for the treatment of dairy cows.
- New marketing authorization (MA) for Forcyl® Swine, a patented innovation developed by Vetoquinol.

2013

- Vetoquinol's 80th anniversary celebrated by all Group subsidiaries.
- Simultaneous launch of Flexadin Plus and Flexadin Advanced in Europe and the USA, two non-medicinal products designed to support joint health and function in dogs and cats.
- US launch of Zylkene®, an innovative patented product designed to help dogs and cats cope with unfamiliar situations.

2014

- New milestone for Vetoquinol in China: award of GSP "Good Selling Practice" license required for distributing veterinary pharmaceuticals in China.
- Launch of Forcyl® in Brazil: first Group Essentials product on the Brazilian food-producing animal market.
- Acquisition of Bioniche Animal Health, a major supplier of reproduction products to the North America market. Vetoquinol adds new flagship reproduction products to its range.
- Launch of Tolfine in India: first Group Essentials product on the Indian cattle market.

2015

- Vetoquinol and Orion Pharma Animal Health sign a distribution partnership.
- Launch of a new Essentials product, Upcard®, an innovative drug for congestive heart failure in dogs.
- Vetoquinol and Nippon Zenyaku Kogyo Co. Ltd sign an agreement on a joint venture in Japan.
- Vetoquinol creates a new brand identity symbolized by a new logo and a single slogan: "Achieve More Together".

2016

- Creation of an R&D center in the USA designed to step up the development of pet products for the world's largest animal health market.
- Launch of Cimalgex® in Brazil: first Group Essentials product on the Brazilian pet market.
- Relocation of Folltropin® production to the main Vetoquinol facility in Canada.
- Launch of two Essentials products in China: Marbocyl P and Tolfedine.
- Magny-Vernois plant ISO 50001-certified: 1st veterinary pharmaceutical laboratory to obtain this certification.
- 10 years of stock trading, quality and transparency of financial reporting recognized.
- Vetoquinol ranked equal first (with TF1) in the Gaia Index of small to medium-sized companies for its commitment to corporate social responsibility (CSR) and outright leader in the category of companies posting sales between €150 and €500 million.

2017

Implementation of new "In Motion" strategic plan focused on three priorities: capitalizing on the Group's strong human potential, innovating in bio-technology and customer solutions, and consolidating our multi-specialist strategy.

Upgrading of production technology by building a large extension to the "injectables" production unit at the Group's main production plant in Magny-Vernois.

March 22: acquisition of Austria-based VetCom Pharma, thus boosting Vetoquinol's range of reproduction products for cattle and pigs.

Vetoquinol receives two awards:

- ranked 3rd in the "Mid-Cap Corporate Governance" category at the 14th Agefi Grands Prix Awards;
- ranked 2nd in the 2017 Gaia Index for ongoing commitment to corporate social responsibility (CSR).

September 27: Vetoquinol organizes an "Investor Day" in Paris to share its strategy with the analyst and investor community.

November 13, 2017: Vetoquinol acquires a stake in Plant Advanced Technologies PAT.

This investment is in line with the Group's innovation strategy;

PAT works on molecules of natural origin that are a potential alternative source of active ingredients for future veterinary drugs.

2018

- Vetoquinol enters the digital arena by acquiring a majority stake in Farmvet Systems Ltd, based in Northern Ireland.
- Vetoquinol continues the industrial upgrading program at the Lure site, via the Aucapi project (3rd year).
- Vetoquinol acquires a new R&D center in France and expands its innovation capacity.
- Launch of two pet products: Sonotix and Flexadin Chews.
- First MA obtained for the Japanese joint venture: Cefaseptin.
- Vetoquinol ranked 2nd in the 2018 Gaia Index.

Operations in all main animal health markets

Direct operations in **23** countries

France
Germany
UK
Italy
Spain
Poland

Belgium
Netherlands
Czech Republic
Austria
Ireland
Portugal

Sweden
Switzerland
USA
Canada
Mexico
Brazil

India
South Korea
China
Australia
Japan

100 distributors worldwide

1 STATEMENT OF NON-FINANCIAL PERFORMANCE

CONTENTS

"Enrich human lives through devotion to animal health and welfare" - this mission statement encapsulates Vetoquinol's commitment to make both animal and human welfare its core business.

For 85 years, Vetoquinol's daily goal has been to stay close to its customers and partners. Over the years, thanks to its expertise, Vetoquinol has built up a truly trusting relationship with its customers, by offering them innovative products and services that deliver their daily requirements. To achieve this mission, Vetoquinol harnesses the three values that unite all of its employees: trust, dare and collaborate.

These values are enshrined in our slogan: "Achieve more together".

Matthieu Frechin,
Vetoquinol CEO

1.1 A committed company

Vetoquinol is committed to making staff safety its No. 1 priority and had decided to implemented a program called "Vigilance, safety is everybody's business" (Vigilance, tous acteurs de notre sécurité) aimed at training all employees in safety matters. The aim is to establish a Group-wide "Shared Vigilance" culture by 2021. Every employee has a duty to act if they witness behavior that might constitute a safety risk, as identified through the practice of safety dialog.

"We want each person to be vigilant, not only for themselves, but also for others."
Matthieu Frechin

Vetoquinol has committed to an ambitious skills development project focusing on leadership.

The initiatives inspired by this project have bolstered Vetoquinol's management model and helped to establish good in-company management practices.

"Vetoquinol's leadership schools reflect our wish to help our employees grow and develop."
Matthieu Frechin

Vetoquinol is committed to maintaining its level of excellence in terms of non-financial assessment and rating. This independent recognition has allowed Vetoquinol to preserve its status as a benchmark in terms of CSR.

"Vetoquinol is proud to have been recognized seven years in a row by the Gaia non-financial ratings index."
Matthieu Frechin

Conceived horizontally, Vetoquinol's CSR policy permeates the whole of the Group's strategic plan and is a driving force behind the Group's overall performance. It guarantees the sustainability of these projects and the sharing of value added.

1.2 The Vetoquinol business model

Trends in the

Global market worth over $30 billion with 3-5% AAGR

2 separate segments:

- **Food-producing animals** providing food for humans (cattle, pigs, poultry, sheep, etc.)
- **Pets**
Dogs, cats and horses

Vetoquinol, a family-run

Resources

Human capital
2,132 employees based in 23 countries
66,416 hours of training in 2018
(up 14%)

Intellectual capital
+ 180 R&D technicians
> 7% of sales invested in R&D every year

Industrial capital
6 production sites
€11m capex per year

Financial capital
Sound financial structure
Net cash of **€111m**

Social capital
Revised code of ethics
Privileged relationship with vets

Environmental capital
Aim to reduce energy consumption by **6%** between 2016 and 2019

Operational excellence

veterinary industry

Réglementations de plus en plus contraignantes

Généralisation des lois sur le bon usage des antibiotiques

20 premiers acteurs mondiaux représentent 75% du marché

Productions en petites séries (liquides, poudres, comprimés...)

Aides à la décision grâce à la digitalisation

veterinary pharmaceutical company

Growth strategy

Focus

- **4 target species:** dogs/cats and cattle/pigs
- **3 territories:** Europe, Americas and Asia/Pacific
- **6 therapeutic domains:** mastitis, respiratory infections, reproduction, osteoarthritis, dermatology/otology and parasitology
- **> 40 Essentials products:** targeted medical offering, strategic segments and global distribution

Ongoing innovation

Scientific partnerships

Pipeline ➨ new product launches

50 R&D projects

Acquisitions

5 acquisitions in 8 years

Value creation

Human capital

Incentive agreement

Leadership development program

Intellectual capital

49% of sales generated by Essentials products

Industrial capital

> €11m annual investment

Financial capital

13.2% EBIT margin

9.9% net margin

> 15% payout

Social capital

7th consecutive year ranking among the Gaia Index Top 3

Environmental capital

Lure plant certified ISO 50001

1.3 Main CSR risks

Vetoquinol has adopted an ongoing commitment to improve its risk prevention measures and reduce the potential impact of incidents that could affect:

- its staff, property, stakeholders, environment or reputation;
- Group performance;
- adherence to Group values and ethics or compliance with regulations.

Operating risk impact assessments have been carried out in order to draw up a risk map to be rolled out in 2019. Vetoquinol will accordingly reinforce its means of analysis, prevention, reporting and indicator tracking in order to adapt swiftly to a constantly changing economic, political, environmental and legal environment.

The Group has established a set of internal legal regulations, including the procedure to be followed when signing contracts and agreements. The Group also organizes awareness training for employees regarding the management of legal and financial risks and compliance with increasingly stringent environmental regulations. The Group Finance and Legal Affairs Department conducts periodic internal audits on Group companies.

Vetoquinol's operations are subject to different regulations in France and overseas, particularly in terms of health law, trade regulations, competition law and stock market law. These constantly changing and increasingly stringent regulations are forcing the Group to enlist the services of an increasing number of legal experts, whether in-house or external, in order to ensure compliance.

List of main CSR risks

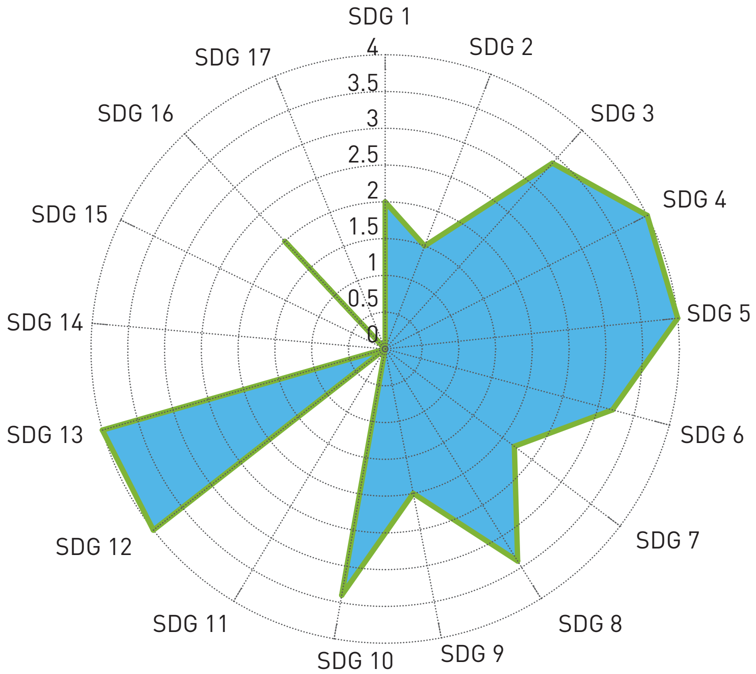
- Risk related to tightening regulations on the use of antibiotics in veterinary medicine (section 1.8.4, page 35)
- Risk of dependence on human health research to obtain new molecules (section 1.6.5, page 24)
- Risk related to the company's image and reputation (section 1.8.6, page 36)
- Risk related to the quality and sustainability of supplier relations (section 1.8.8, page 37)
- Risk related to acquisitions (section 1.8.2, page 33)
- HSE risks (section 1.7.1.3, page 25)
- Risk related to Vetoquinol's employment catchment area (section 1.5.7, page 21)

1.4 CSR strategy: sustainable development objectives

In September 2015, 17 Sustainable Development Goals (SDGs) were adopted by all 193 United Nations member states. Also referred to as the 2030 Agenda, this ambitious program aims to transform society by ending poverty and ensuring a fair and inclusive transition towards global sustainable development.

This report was prepared after an analysis of the SDGs had been carried out for the Vetoquinol Group. The chart below based on this analysis shows the relevance of each SDG for the Vetoquinol Group.

Throughout this report, we present the correspondence between CSR measures taken previously by the Group and the SDG guidelines applicable henceforth.



4 : highly relevant

0 : irrelevant

SUSTAINABLE DEVELOPMENT GOALS	**The challenge for Vetoquinol: "To enrich human lives through devotion to animal health and welfare"**
3 GOOD HEALTH AND WELL-BEING; 8 DECENT WORK AND ECONOMIC GROWTH	Vetoquinol's mission: ensure a healthy working environment for all Group employees and develop and promote decent working conditions.
4 QUALITY EDUCATION	Hiring, training and development of Vetoquinol staff, internal promotion.
5 GENDER EQUALITY; 10 REDUCED INEQUALITIES	Ensure gender equality.
6 CLEAN WATER AND SANITATION	Ensure reasonable water consumption and control the treatment of wastewater.
7 AFFORDABLE AND CLEAN ENERGY	Optimize energy consumption and develop the use of renewable energy.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Innovation: access to new molecules and skills development.
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Incorporate sustainable development factors into the industrial production and distribution of our products.
13 CLIMATE ACTION	Control Vetoquinol's carbon footprint.
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Develop and promote ethical business practices.

1.5 Staff information

The Group has defined three new values - Trust, Dare, Collaborate - designed to propel the Group forwards by their simplicity and "power".

Through an inclusive process promoting creativity and feedback, employee contributions are highly positive and a valuable source of motivation. These values serve as guidelines for 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. In 2018, among other things, Vetoquinol:

- launched an overhaul of the employee performance appraisal system. The Group is seeking to steer its managerial culture towards greater independence and accountability for managers and employees alike. An international working group has come up with a new process and a new solution based on a set of requirements defined by managers and employees at different levels; a pilot scheme will be conducted in 2019 across a selection of subsidiaries and central departments before being extended to all Group employees in 2020.
- organized the first ever "Innovation Day" for all Group employees: over a 48-hour period spanning all time zones, all employees were invited to set up small brainstorming groups in order to come up with new ideas and action proposals covering five themes related to our strategic priorities. A dedicated online portal was created on which all ideas generated by colleagues worldwide were displayed in real time and simultaneously translated into the viewer's language. Employees were invited to "like" the ideas they preferred. Vetoquinol broke all records by gathering over 4,000 ideas, compared to expectations of around 2,500 on the basis of similar experiments in other companies. Each country and each theme manager then selected the best ideas, which will be implemented as from 2019.

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.

Vetoquinol's people are the driving force behind the "In Motion" strategic plan; the HR Department tracks Group staff indicators on a monthly basis.

The Group is attentive to and frequently measures employee satisfaction. Following the introduction of a new staff barometer in 2015 at Vetoquinol France, in 2017 and 2018 Vetoquinol rolled out the system at all subsidiaries and repeated the survey in France in 2018. Vetoquinol is proud of the participation rate, a clear sign of its staff's commitment that also guarantees meaningful results. The results obtained show considerable differences between Group companies. Two subsidiaries, Canada and USA, clearly confirmed their certification with their first participation.

Since 2016, the Vetoquinol France entity has continued to work on its action plan for improvement. Two groups of "ambassadors" comprising volunteers from all levels of responsibility have met regularly to formulate and implement concrete actions, primarily for improving internal communication and employee recognition. The ambassadors have created materials to help improve the induction process for newcomers. They organized a "Fête de la Musique" (Music Festival) event for the first time, which attracted an audience of over 200 at two concerts performed entirely by Vetoquinol employees. The ambassadors also organized office open days allowing staff members to discover different departments at Vetoquinol.

Since late 2016, Vetoquinol has conducted innovative leadership courses (Leadership Schools), 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 followed a 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 and finished in 2018.

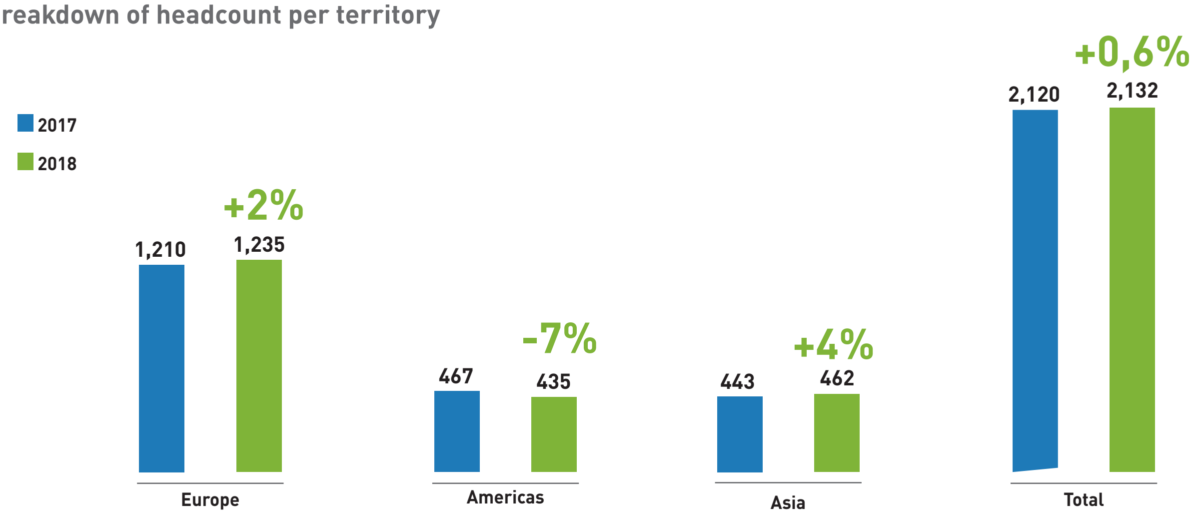
In 2018, all Group companies rolled out action plans involving a maximum number of employees in order to identify and implement the most appropriate solutions tailored to their specific culture and challenges. This initiative will continue until the completion of the "In Motion" strategic plan.

1.5.1 Headcount at December 31, 2018

1.5.1.1 2018 changes in headcount

As of December 31, 2018, the Group had 2,132 employees compared to 2,120 at the end of 2017. The headcount increased by 0.6% compared to 1.7% in 2017.

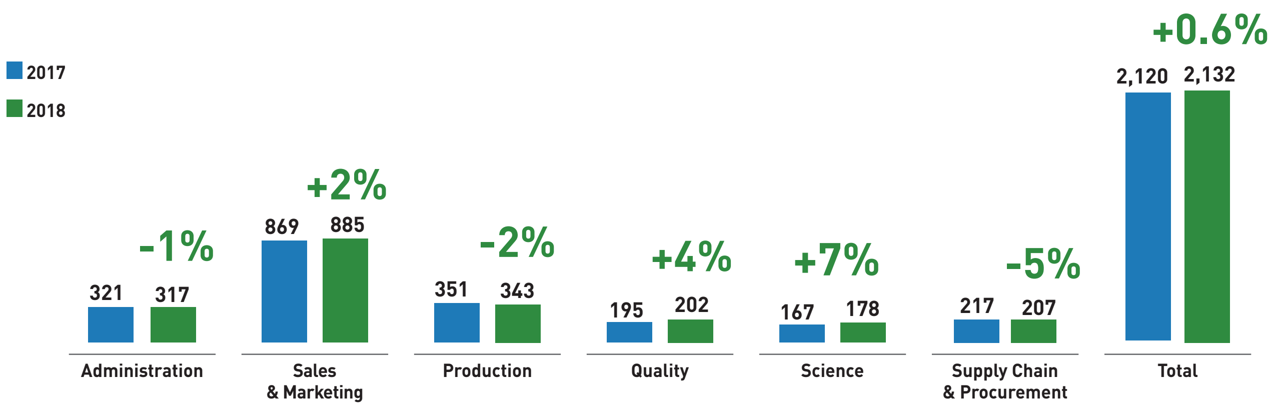
Breakdown of headcount per territory



Changes in headcount vary according to the regions concerned:

- In Europe, headcount increased 2%, including new hiring at Vetoquinol UK to fill posts left vacant at the end of 2017 and the integration of FarmVet Systems Ltd, a digital solutions start-up based in Northern Ireland; a number of posts remaining vacant at our production plant in Bertinoro (Italy) at the end of 2017 were filled in 2018.
- Headcount decreased by 7% in the Americas, mainly due to the closure of the Belleville production plant (Canada) as planned following the three-year period during which products were transferred to our second Canada plant at Princeville (Quebec),as well as a lower headcount in Brazil. In the case of this plan, Vetoquinol provided guidance services for employees affected: financial aid, help in finding new employment, internal redeployment support and support for training in new skills. Staff numbers also declined in Brazil due to the decision not to replace departing sales and production employees.
- Headcount rose 4% in Asia as a result of the gradual expansion of the workforce at our subsidiaries in India, Australia, China and South Korea in line with Group growth in these regions.

1.5.1.2 Breakdown of headcount per department



Significant changes include the increase in scientific staff due to the need to keep pace with growing requirements in a number of Group markets and the acquisition of an R&D center in France employing around 10 people.

The workforce is also growing in terms of quality. Despite job cuts in the Americas due to the closure of the Belleville plant, overall Group headcount increased 4%, mainly in France, also linked to increasing requirements affecting scientific departments.

The reduction in procurement and supply chain headcount is due to the outsourcing of certain logistics operations and a number of vacant posts at 2018 year-end in France.

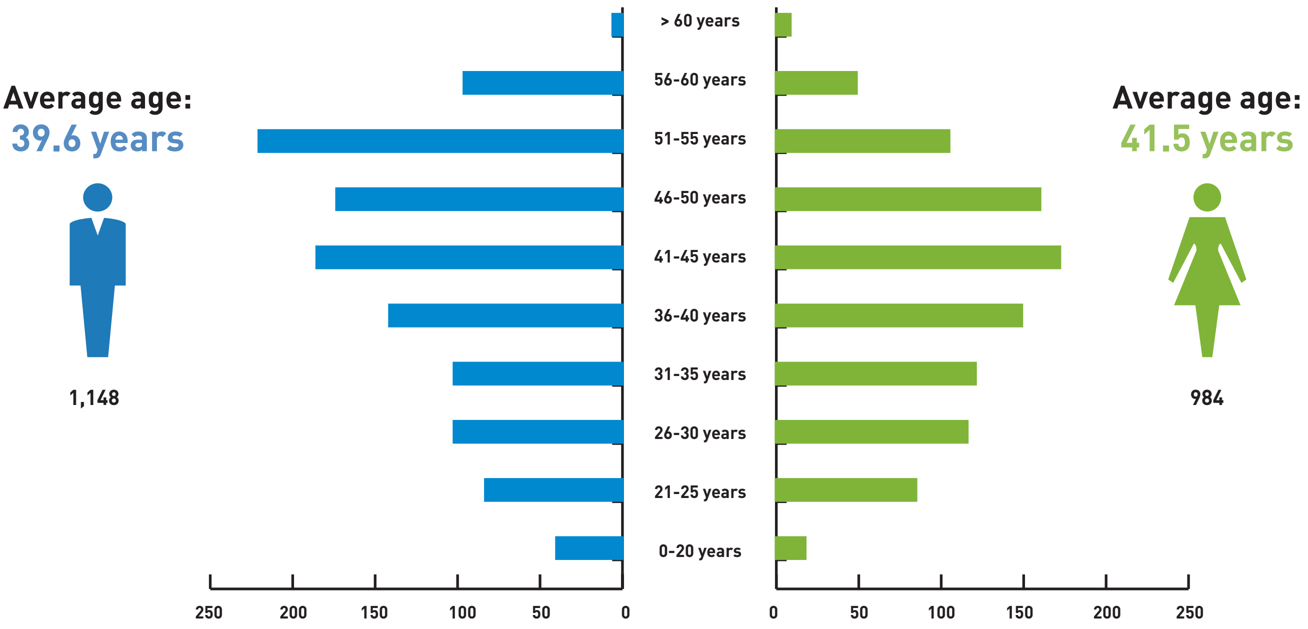
1.5.1.3 Breakdown of headcount per gender and territory

Headcount	Europe	Americas	Asia	Consolidated total
Women	702	248	34	**984**
	57%	*57%*	*7%*	***46.2%***
Men	533	187	428	**1,148**
	43%	*43%*	*93%*	***53.8%***
TOTAL	**1,235**	**435**	**462**	**2,132**
	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.

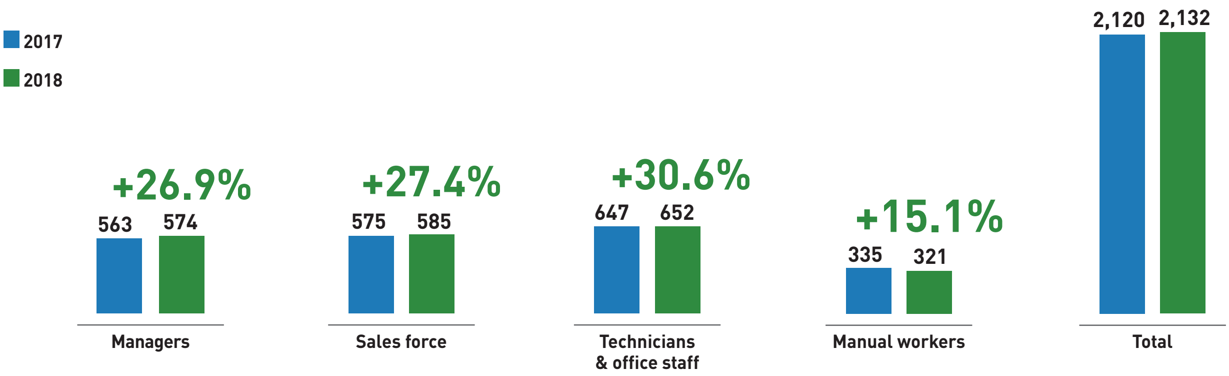
1.5.1.4 Age breakdown per gender



The age breakdown is relatively balanced and has not significantly changed since 2017: 23% of employees are under the age of 30, while 21% are over 50 years old. The average age of Group employees is 40.5.

Average length of service is 8.6 years. NB: the length of service of acquired companies' staff is based on their length of service with their respective companies.

1.5.1.5 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 a small portion of production to subcontractors if the Company does not possess the requisite technological resources.

1.5.2 Attractiveness as an employer

Vetoquinol's corporate culture, staff management philosophy and long-standing family ownership structure are major factors that encourage staff to stay with the company.

The cultivation of healthy management-staff relations in all companies contributes strongly to the implementation of company policy.

When Vetoquinol acquires overseas companies, the Group is highly attentive to the quality and sustainability of incumbent management teams.

1.5.2.1 Staff turnover

Vetoquinol consolidates all staff movements across all companies on a monthly basis, mainly in order to track staff turnover rates.

The 2018 Group staff voluntary departure rate was 11.3%, higher than the 2017 rate of 10.9%. This key indicator is monitored by the Human Resources Department:

- Excluding India, the rate is 6% in 2018, down from 7.6% in 2017. This rate appears to be sound and probably lower than many other companies.
- In India, the voluntary departure rate increased from 26% in 2017 to around 34%. The measures taken in 2017 need to be continued and stepped up. The job market remains extremely volatile. According to our information, our 2018 rate is close to that of our direct competitors.

1.5.2.2 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.

The overall Group absenteeism rate is 4.6% compared to 4.1% in 2017.

Excluding parental leave, the rate was 3.8% versus 3.1% in 2017.

Figures vary from country to country without ever reaching a level that could cause concern. Production plants have historically posted a higher rate of absenteeism than the sales subsidiaries.

The 0.7 percentage point increase in the overall absenteeism rate excluding parental leave is mainly due to increased absenteeism at production plants (up 1-1.5 percentage point) except for Poland, where absenteeism fell 1 percentage point.

The France rate increased by 1.5 percentage point, representing a quarter of days worked across the Group. This explains most of the increase in the overall rate.

Absences due to parental leave decreased by 0.2 percentage point from 1% in 2017 to 0.78%, mainly due to changes in Poland, primarily at the production plant. The numbers of days' maternity leave fell by nearly 1,000 between the two years, corresponding to 4 people on average per year.

In France, all new fathers exercised their right to paternity leave in 2018.

Absenteeism 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.

1.5.3 Recruitment, induction and compensation

Following consultation with employees, Vetoquinol has created its own employer slogan:
"Your future, their health, our family: let's work together to fulfill your potential. Vetoquinol's people are committed to improving the health and welfare of animals and humans alike. As a family business, we encourage trust, team spirit and flexibility. With your talent, let us achieve more together." The commitment of Vetoquinol's employees is demonstrated by the company LinkedIn page (https://www.linkedin.com/company/ vetoquinol), which has over 18,000 followers and serves to showcase the Group's operations and news.
Vetoquinol pays particular attention to the induction of newly hired staff. Individual induction programs lasting several weeks are prepared for managers joining the Company. 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, its history and 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.

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.

1.5.3.1 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.

1.5.3.2 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 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.

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.

At 2018 year-end, the Group parent company Vetoquinol SA decided to pay an exceptional bonus provided for under the French Act of December 24, 2018, in addition to the applicable statutory and optional employee profit-sharing schemes; this bonus relating to emergency economic and social measures was awarded to 76% of the Vetoquinol SA workforce and totals €342,000. It will be paid in February 2019.

1.5.4 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 2.15% 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	America	Asia	Europe	Total
Fixed-term	2.3%	1.7%	8.6%	**6.0%**
Permanent	97.7%	98.3%	91.4%	**94.0%**
TOTAL HEADCOUNT	**100.0%**	**100.0%**	**100.0%**	**100.0%**

1.5.5 Organization of staff dialog

Vetoquinol complies with local legislation regarding staff dialog.

In late 2018, Vetoquinol SA organized staff elections to appoint the members of the new Social and Economic Committee (Comité Social et Économique - CSE).

The new committee combines the former staff representative bodies comprising the Works Council (Comité d'Entreprise – CE), the Health, Safety and Environmental Committee (Comité d'Hygiène Sécurité Environnement - CHSCT) and the staff delegates (Délégués du Personnel – DP).

Members of the CSE are elected for a four-year term. Vetoquinol SA used these elections as an opportunity to switch to electronic voting.

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. New elections were held in 2018.

1.5.5.1 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:

- 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 2016-2019;
- November 9, 2018, company agreement on the operation of the CSE, 4-year term.

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

In 2018, an understanding was reached between management and employee representatives and the agreement was renegotiated for a further 5-year term.

1.5.5.2 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.

1.5.5.3 'Generation' agreement

In France, the company agreement signed on November 17, 2016 for 2016-2019 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 senior 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. In 2018, 5 young people on work/study traineeships were hired by Vetoquinol

(1 permanent contract, 3 fixed-term contracts and 1 international internship).
- 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 managed 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.

1.5.5.4 Staff fringe benefits

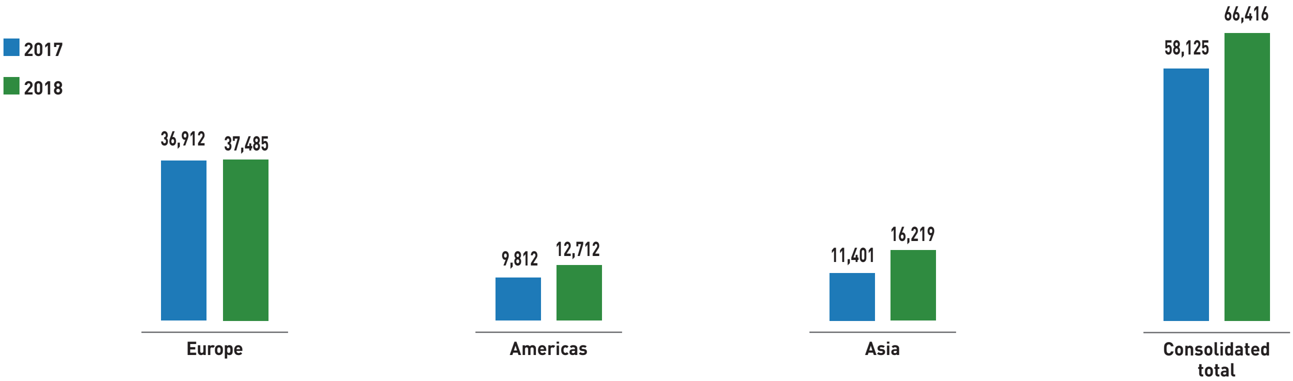
In France, in accordance with the law, the Social and Economic Committee manages Vetoquinol SA's staff fringe benefits in compliance with applicable statutory provisions.

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.

1.5.6 Training

Number of training hours per territory



Vetoquinol continued its training initiatives at Group level and posted a considerable increase (14.3%) in the number of training hours provided across the Group. Training hours increased a spectacular 42% in Asia, clearly related to India which increased its training hours by one third, with a focus on sales force training and management skills development.

Training hours also increased in the Americas (up 29%), mainly in relation to the Canada subsidiary (improved tracking and recording of in-house training hours and increase in personal development, leadership and sales efficiency training) and the Brazil production plant (focus on HSE training). Both of these subsidiaries doubled their number of training hours compared to 2017. Training hours in France correspond to planned training hours for training courses in progress in 2018.

Over the past three 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.

Vetoquinol also introduced a training program in Lean Management in 2017. In 2018, 5 certificates were granted. Vetoquinol SA currently has 5 Green Belt, 9 Yellow Belt and 1 Black Belt certified employees.

Skills development is one of the key human resources priorities of the Group, which requires its subsidiaries to allocate a minimum budget to employee training in this respect.

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

1.5.7 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 could 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.

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. In certain business lines, women are under-represented in positions carrying greater responsibility. However, they 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.

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

1.5.7.1 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.

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

1.6 Research & Development

1.6.1 Overview of the R&D process

The process of taking a molecule or compound through to its approval by the regulatory authorities can take as much as ten years, usually divided into four distinct phases:

- **Research –** The primary purpose of this phase is to identify new biological targets involved in pathological processes. Once these targets are identified and finely characterized, a large number of molecules are tested on them (screening) in order to measure their pharmacological activity. At this stage, the Group incurs limited expenditure and develops a network of contacts with academic and industrial partners in order to evaluate promising assets and, where appropriate, sign licensing agreements.

  The Group has built up extensive expertise in developed innovative dosage forms which make the drug more competitive (tolerance, means of administration, etc.).
- **Preclinical proof of concept –** The aim of this phase is to assess drug candidates in a controlled environment, in accordance with administered doses, and establish a preliminary pharmacokinetic (absorption, distribution, metabolism, elimination) and pharmacodynamic profile vis-à-vis the target animal species; these results allow us to verify the product's safety margin (safety of future drug) and tolerance and to confirm the optimum dosage schedule and treatment regime in order to ensure maximum efficacy and minimum side effects. In the animal health industry, this type of preclinical trial corresponds to phases I and II of the human medicine development process.

- **Development of the production process –** This phase is aimed at developing a production process resulting in a suitable formulation of the drug candidate and at developing all the processes required for industrial production of the future product.

  This phase includes developing the methods used to test product stability and the consistency of its subsequent quality.

  In the case of drugs intended for food-producing animals, whose products (meat, milk, eggs) are destined for human consumption, residue studies need to be conducted in order to determine the time lag between the end of treatment and the time of slaughtering or sale of the animal's products (eggs, milk).
- **Clinical trials –** These trials conducted on sick animals are the final phase of studies completed before the market authorization application is filed. They correspond to phase III of the human drug development process. These trials aim to test the efficacy of the drug and are conducted on a larger sample of animals (200-300) than during the preclinical phase in order to confirm the data generated by the preclinical trials.

  Lastly, in order to sell a veterinary drug it is necessary to obtain marketing authorization (MA). The MA application contains all the information obtained during development. After filing, it is subjected to scientific review by the supervisory health and/or farming authorities, in order to verify the quality of the veterinary drug, its harmlessness to the user, consumer, environment and treated animal, and its efficacy in the strict sense of the word.

1.6.2 Vetoquinol Group R&D strategy

Group R&D has two main goals:
- **develop sales** and profit margins by (i) bringing to market innovative, high-quality products offering greater efficacy, safety and ease of administration compared to existing products on the market, and (ii) defending all relevant products marketed by the Group.
- **develop the Group's reputation and scientific competencies** through publications in reputed scientific periodicals, communications at scientific events and the establishment of a network of scientific experts.

Determined strategic focus

R&D has contributed to the selection of high-potential therapeutic domains and target species on the basis of in-depth analysis. This analysis allows the Group to allocate R&D resources across its project portfolio in a logical manner, while developing its scientific knowledge in these domains.

R&D conducts research programs aimed at delivering innovative therapeutic solutions and product development programs focusing on the following Group areas of expertise: pain-inflammation, infectious diseases, cardiology-nephrology, reproduction and parasitology.

At the same time, the Group remains faithful to its traditions, never hesitating to explore new opportunities in other pathological domains where its technical expertise and marketing skills could make a difference.

The wide variety of skills possessed by Group staff give it the capacity to register innovative products based on new chemical entities and molecules discovered through biotechnology, improvements in dosage forms or the development of generics. Special attention is paid to managing the lifecycle of marketed products, by developing new formulations, dosage procedures and means of administration, indication extensions and registration in new countries and regions.

These programs are bolstered by a proactive policy of partnerships with government (INRA, INSERM, CNRS, veterinary schools) and private sector organizations in both research and development (development of new formulations, application of innovative drug delivery technology).

1.6.3 Organization of Vetoquinol's scientific division

The Group R&D department is geared towards developing new products and its organizational structure is constantly changing in order to improve. The department is currently staffed by 180 employees including around 60 senior scientists.

In 2018, total Group expenditure on R&D amounted to €26.4 million or 7.2% of sales.

€000	**2018**	**2017**	**2016**
R&D expenditure	**26.4**	25.5	24.2
% of sales	**7.2%**	7.2%	6.9%

Pharmaceutical R&D is primarily based in France, where the expertise and scientific excellence center at Group headquarters in Lure aims to develop global products destined for worldwide registration. This center is backed up by a number of overseas product development units (USA, Italy, Poland and Canada), which contribute to the development and support of local products.

These technicians have enabled the Group to register drugs in Europe, the Americas and Asia thanks to their global level expertise fueled by a network of internationally reputed pharmacologists, toxicologists, pharmacokineticists and clinical experts, all leading scientists in the main strategic domains. The Group has gained the trust of this expert network thanks to the ethical values and scientific credibility on which the Group is founded.

Emphasis is also placed on developing partnerships in order to roll out an innovative offering in the Group's strategic domains as efficiently as possible.

Vetoquinol's reputation is also enhanced by its policy of publications and presentations at international scientific conferences.

In view of the stringent regulatory environment surrounding the development of veterinary medicine, the Group decided to hire experts in regulatory affairs directly within its R&D department in order to provide two key contributions to the development process: advice on development strategy and the incorporation of data for the registration application.

Two departments help to increase responsiveness in communications between scientists:

- quality assurance, which continuously audits development processes in order to ensure the required levels of GLP, GCP and GMP;
- pharmacovigilance (drug safety), which constantly monitors proper use of products by our customers.

1.6.4 Overview of current R&D programs

Group R&D priorities have changed in light of changes in the animal health market and the increasing use of pet medicines. Initially geared almost entirely towards food-producing animals, the Group is currently directing a large part of its R&D operations towards the pet sector and has decided to focus on developing innovative production (biotechnology) and formulation (drug delivery) technology.

1.6.5 Risk of dependence on human health research to develop new molecules

In the animal health industry, innovation takes place in the domains that are specific to the industry, including parasiticides, vaccines and reproduction (productivity) and in domains shared with the human health industry, including antibiotherapy, pain and inflammation, cardiology and cancer.

These therapeutic domains may be seen as conferring an advantage on animal health companies belonging to a human health group, due to potentially easier access to a portfolio of molecules.

This is not a limiting factor with regard to Vetoquinol's capacity for innovation, for the following reasons:

- for animal health applications, there are many patented molecules used in the human health industry that have fallen into the public domain;
- in domains where research is highly intensive in the human health industry (cardiology, pain, cancer), a large number of biotechs are willing to license their technology and/or molecules to the animal health sector in order to help fund the early stages of development in human health;
- medium-sized human health companies that do not have an animal health department are happy to provide animal health pure players with their molecules if they can find an outlet for them. This provides an additional area of development that is worthwhile for these companies, as the animal health sector has a different growth curve to the human health market. Another source of innovation lies in drug repositioning, which aims to reposition existing molecules and develop them for new therapeutic indications.

1.7 Health, safety and environmental information

1.7.1 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.

1.7.1.1 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.

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, consolidates 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 1.7.2.4 Health and safety indicators in the workplace).

1.7.1.2 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.

In accordance with these guidelines, methodological guides are currently being put in place.

All production sites were audited in 2017 and all sales operations were audited in 2018.

An action plan has been prepared for each entity audited and is monitored at least every quarter to assess progress.

1.7.1.3 Control of HSE risks at the core of our business

List of main HSE risks:

- Industrial risk of fire or explosion, for example, at a workshop or warehouse, mainly related to the storage and use of inflammable liquids and combustible powders.
- Risk of serious bodily injury or occupational sickness related to various operations including handling dangerous substances, working with machinery, operation of vehicles, handling or moving goods on site.
- Environmental risk related to liquid discharges and atmospheric emissions, waste, consumption of natural resources and accidental pollution.
- Legal risk related to non-compliance with HSE regulations.

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 of every new workstation is carried out at the design stage 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 preventive 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. At production plants possessing an emergency plan, the managers and technicians responsible for putting the plan into action receive periodic in-house training on urgent measures to be taken.

1.7.2 Health and safety conditions in the workplace

1.7.2.1 The Vigilance behavioral program

One major focus of our accident prevention policy is behavior. For this purpose, an in-company program called "Vigilance" was launched in 2018.

The program has two goals: (I) develop the commitment and visible involvement of management in terms of safety, and (ii) enhance employees' awareness of the significance of behavior in causing and preventing accidents. A pilot scheme was conducted at the Lure production plant in 2018, with around 40 managers receiving coaching and around 250 employees receiving awareness training. The scheme will be rolled out across all R&D units and back office departments in France and the other production plants in 2019.

The plan aims to establish a so-called ***Shared Vigilance*** culture throughout the Group by 2021-2022: each manager and employee has a duty to act if they witness behavior that might constitute a safety risk, as identified through the practice of safety dialog.

In keeping with this policy, in 2019 Vetoquinol decided to allocate part of the individual bonus awarded to 60 Group senior executives to an objective related to the Group's lost-time industrial accident frequency rate (TF1).

1.7.2.2 Specific action carried out in 2018

At the Magny-Vernois plant (Group head office and the Group's largest site in terms of size and operations), 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 staff, management and the medical department, and meets quarterly or, if a risk arises, upon request. A report on its work is prepared at each Health, Safety and Working Conditions Committee (CHSCT) meeting. Furthermore, in 2016 and 2017, all managers received PSR training.

In 2018, the remit of the PSR Committee was redefined in order to place greater emphasis on prevention, by seeking to reduce contributory risk factors in advance and mitigating the impact on individual health. Meanwhile, a preliminary PSR survey was conducted by a PSR sub-committee in order to identify priority risk areas and factors. This will be followed by an in-depth survey on the areas thus identified in 2019.

The road hazard prevention program launched in 2017 in France was continued in 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 to 4 years.

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:

- at Bertinoro (Italy), new fall prevention fixtures have been installed on building roofs to protect maintenance operators, and pedestrian walkway markings have been reinforced on the site,
- at Gorzow (Poland), measures have been taken to protect powder plant operators from exposure to dust particles, and evacuation procedures from the various buildings have been upgraded and staff drills organized,
- at Magny-Vernois (France), a number of measures have been introduced to improve on-site pedestrian safety signs, all visitors to production facilities are provided with safety shoes and a complete survey of emergency exits has been conducted,
- at Mairipora (Brazil), respiratory protection in the production facilities has been enhanced, the evacuation procedure has been improved and emergency kits provided in case of accidental spillage,
- at Tarare (France), a number of machinery risks have been eliminated and new eye-rinses installed in the production facilities due to the risks of handling chemicals,
- at Princeville (Canada), a new HSE induction module has been devised for new recruits and the emergency plan has been revised,
- at the Lavaltrie and Fort Worth logistics facilities, official traffic plans have been drawn up to mitigate the risk of accidents involving pedestrians and fork-lifts in the warehouses,
- a formal system for monitoring first aid, hazardous situations and near-misses has been set up at the sales subsidiaries.

The amount of HSE investment made at industrial sites was in the region of €606,000 in 2018.

The first Group-wide HSE seminar involving all HSE officers at the production and logistics facilities was organized in 2018. As a result, a "Best Practice Sharing" process was launched at the facilities concerned.

1.7.2.3 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 and the Group Board of Directors.

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.

In 2018, a Social and Economic Committee (Comité Social et Économique – CSE) was set up at Vetoquinol France. The assignments of the former Health, Safety and Environmental Committee (Comité d'Hygiène Sécurité Environnement – CHSCT) were transferred to the new Health, Safety and Working Conditions Committee (Commission Santé et Sécurité et Conditions de Travail – SSCT), apart from employee consultation assignments which were fully transferred to the CSE. The SSCT committee analyses the risks and working conditions affecting each employee and conducts investigations into all industrial accidents and occupational sicknesses. It carries out periodic inspections and suggests improvements related to health and safety, working conditions, 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.

1.7.2.4 Occupational health and safety indicators

Group Safety Pyramid	2018	2017	2016
Number of lost-time accidents	11	7	14
Number of accidents without lost time	10	14	10
Provision of first aid	112	106	96
Number of near-misses and hazardous situations	232	94	2
Lost-time accident frequency rate	3.0	1.9	3.9
Severity rate	0.07	0.09	0.12

Pharmaceutical industry statistics – France (source: AMELI)

The lost-time industrial accident frequency rate (LTAR) in France is around 10 (2015: LTAR = 11.2 – 2016: LTAR = 11.7 – 2017: LTAR = 9.5).

The average severity rate in the French pharmaceutical industry is around 0.6.

The number of accidents reported in 2018 was close to the 2017 figure (21 accidents), although there was a marked increase in the number of lost-time accidents. Figures remain lower than in 2016. The severity rate was already very low in 2017 and decreased further in 2018, reflecting a reduction in the severity of injuries and accordingly shorter periods of lost time.

Accidents happened at four production plants located in France, Brazil, Poland and Italy. No lost-time accidents occurred at the other production plants or at any of the Group's sales and logistics facilities.

Behavior remains one of the primary causes behind these accidents, thus demonstrating the appropriateness of the Vigilance program.

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

The improvement in reporting on hazardous situations and near-misses in 2017 due to the introduction of an official information-gathering process continued in 2018. This is a very positive point, given that the "bottom" part of the pyramid is a proactive indicator leading to action before accidents arise.

One case of occupational sickness was recognized in 2018 at Magny-Vernois (France) due to a musculoskeletal disorder.

1.7.2.6 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.

1.7.3 Environmental information

The Group discloses environmental data concerning the production plants:

- Magny-Vernois and Tarare (France),
- Gorzow, Klodawa and Zwirowa (Poland),
- Bertinoro (Italy),
- Princeville (Canada),
- Mairipora (Brazil).

1.7.3.1 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 2018, 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.

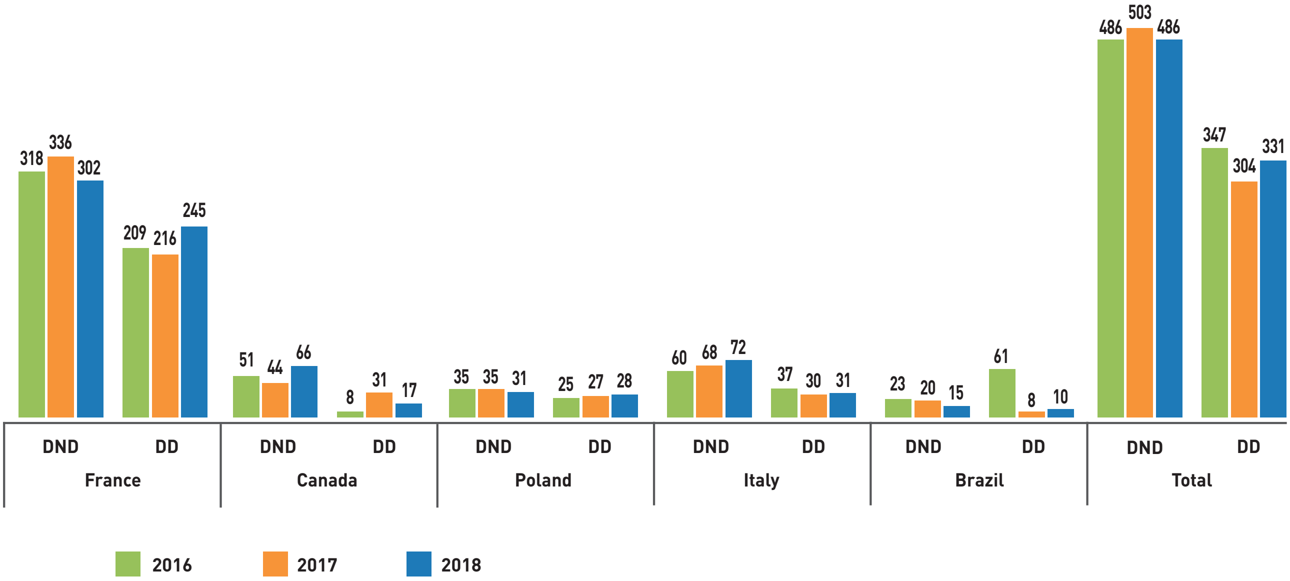
1.7.3.2 Waste management

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. An estimated 40% of waste generated by the Group's production plants is physically recycled in various ways, excluding energy recycling.

The volume of industrial waste produced in 2018 was similar to the 2017 volume, with a slight decrease in non-hazardous and a slight increase in hazardous waste.

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



2016 and 2017 data has been restated to include Tarare.

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 graph of industrial waste generated by the site.

1.7.3.3 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 m^3). 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.

Overall Group drinking water consumption in 2018 at production plants was stable compared to 2017.

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 2018, an audit by AFNOR renewed this certification.

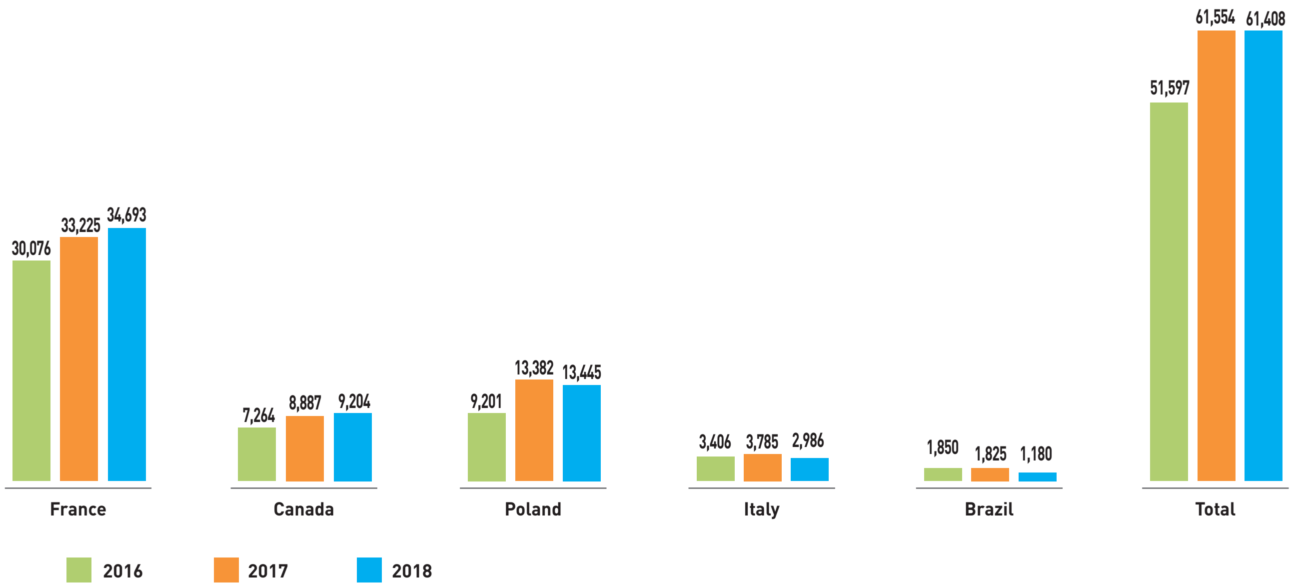
Several internal auditors have been trained. These auditors, as well as technical staff, also received training in saving energy.

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 2018, the benchmark electricity consumption level had been reduced by 4% compared to the 2016 benchmark. This reduction was mainly due to improvements in the operation of the central air control units. The benchmark gas consumption level remained relatively stable compared to 2016.

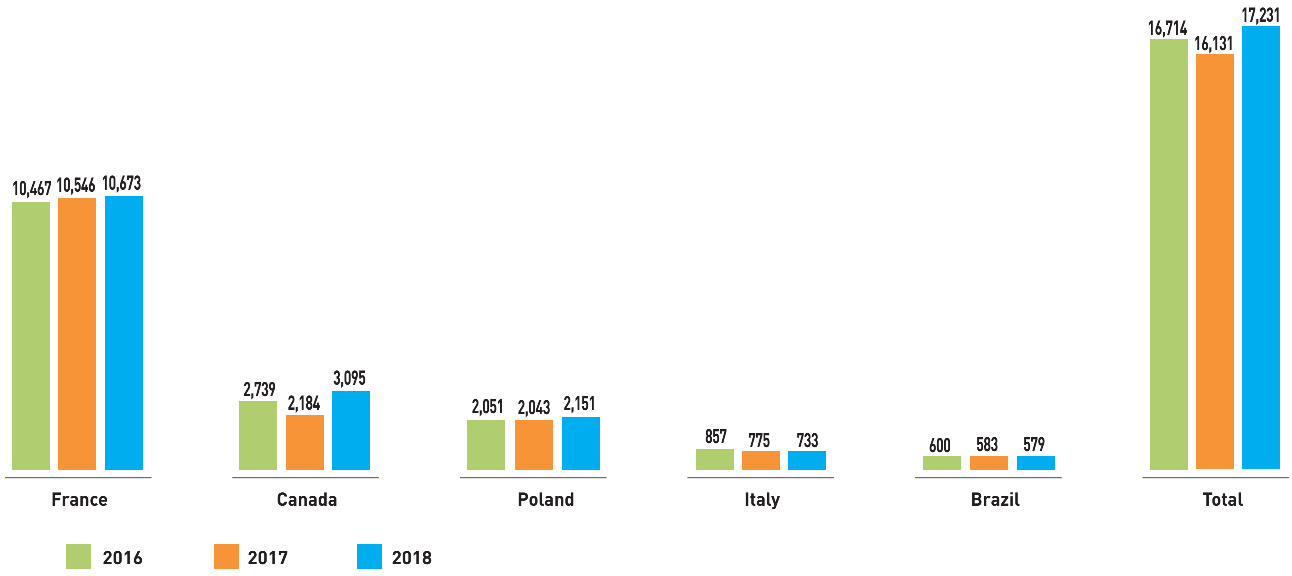
In terms of actual Group consumption, electricity consumption increased slightly in 2018, by 3%, but was still lower than 2016 consumption. Gas consumption fell by around 3% in 2018. Against a backdrop of business expansion, energy consumption was largely under control in 2018.

1.7.3.4 Drinking water consumption



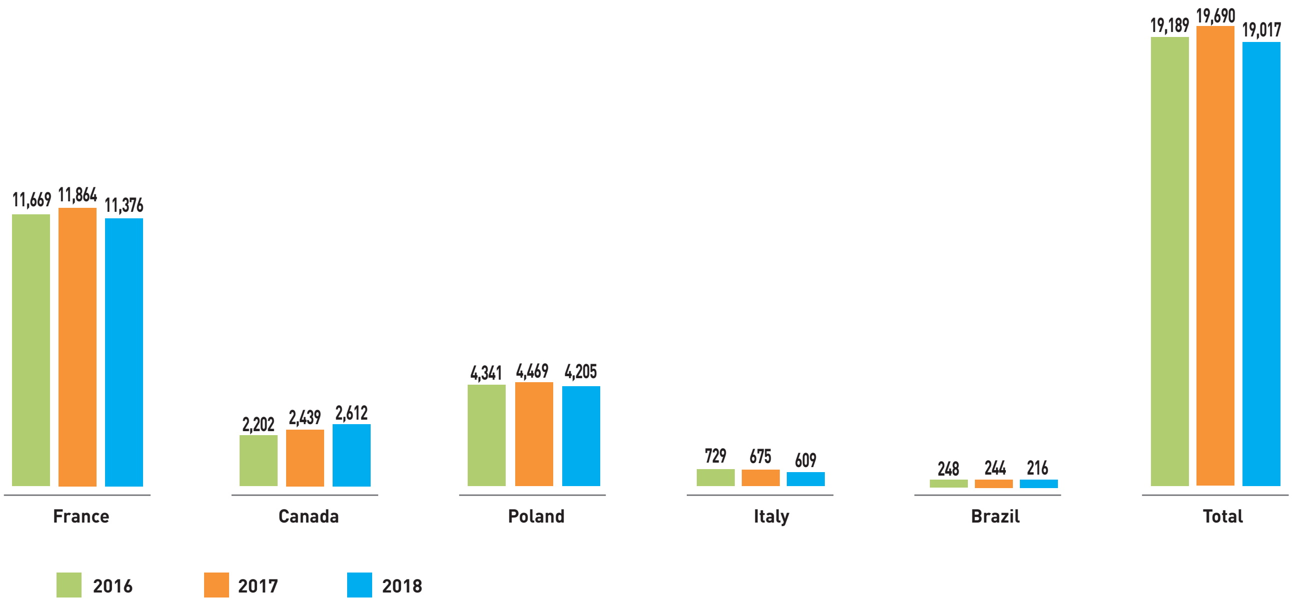
2016 and 2017 data has been restated to include Tarare.

1.7.3.5 Electricity consumption



2016 and 2017 data has been restated to include Tarare.

1.7.3.6 Combustible gas consumption



2016 and 2017 data has been restated to include Tarare.

1.7.3.7 Atmospheric emissions and 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.

For the first time, a report on greenhouse gas emissions covering all production plants (scopes 1 & 2) was prepared in 2018. The graph below shows emissions measured in CO_2 equivalent.

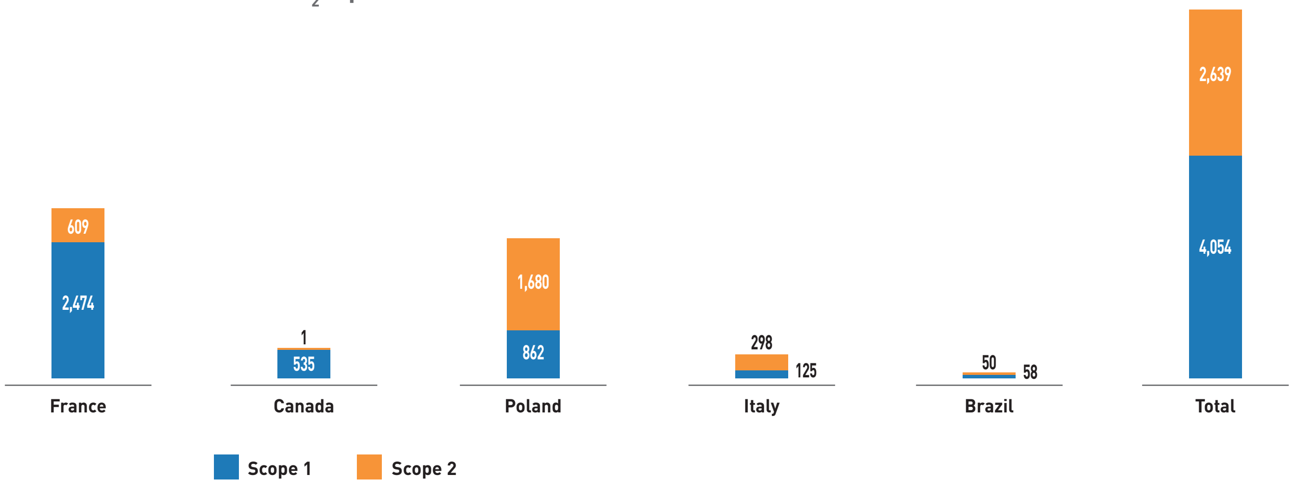
Scope 1 corresponds to direct emissions related to combustible consumption and any refrigerant gases emitted by the plants. Scope 2 corresponds to indirect emissions related to electricity consumption and are calculated according to country-specific emissions factors or local supplier factors (such as Hydroquebec in Canada).

The Group's industrial operations generate around 6,700 CO_2 equivalent tons of greenhouse gases. This ranks Vetoquinol as a moderate emitter in comparison and in proportion to other industrial veterinary pharmaceutical companies.

The ISO 50001-certified energy management system in place at the Lure facility, the Group's main CO_2 emitter, helps to continuously reduce the site's greenhouse gas emissions.

Regarding other atmospheric emissions, pollution risks are kept under control via appropriate control measures implemented at all production plants. Filter systems also help to reduce atmospheric emissions.

Emissions in tonnes of CO_2 equivalent



1.7.3.8 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 rather than destroying it in order to preserve the diversity of natural living organisms.

1.8 Social information

1.8.1 Good governance

The Vetoquinol Group has developed an exemplary corporate governance system enabling the establishment of a transparent set of principles, processes and controls in which the interests of the Board of Directors, management and stakeholders are harmonized.

The Vetoquinol Group receives frequent awards in recognition of its unflagging commitment to corporate social responsibility (CSR), its level of transparency and the maturity of its approach based on four criteria: governance, employment, the environment and external stakeholders, as well as over 120 quantitative criteria.

For the 7th year in a row, Vetoquinol has been ranked among the top three companies on the Gaia Index in terms of CSR commitment. The Gaia Index rates companies on the basis of non-financial indicators.

13 years of trading on Euronext Paris have enabled Vetoquinol to prove its adherence to standards of excellence in terms of the quality and transparency of its financial reporting.

Vetoquinol will pursue its efforts to develop its CSR program and continue to figure among the best companies in its category.

1.8.2 M&A transactions

The proactive acquisition strategy pursued by Vetoquinol for many years has led to its geographical expansion and the Group now operates in a large number of countries. Steady growth is achieved through acquisitions in high potential markets.

The risks associated with failing to manage this external growth should not be overlooked. Poorly managed integration could have an adverse impact on the Group's business activity, financial position and earnings.

To increase its size and profit margins, Vetoquinol intends to continue to make targeted, well managed acquisitions focusing on its three strategic territories: Europe, the Americas and Asia Pacific. Under the functional responsibility of the M&A department, a number of important points are covered during every acquisition process:

- the country culture;
- assumption or not of the target company's liabilities;
- potential streamlining of production equipment;
- product range synergies;
- R&D synergies;
- existence or absence of a sales network;
- potential issues regarding the integration of the management team;
- materialization of development assumptions identified during the assessment phases.

The M&A department also coordinates all in-company operations related to the planned acquisition, manages negotiations with the vendor and oversees the integration of the acquired companies.

Up until now, the integration of Group acquisitions has not led to material adverse consequences for the Group.

1.8.3 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 forty 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.

Some operations conducted by Vetoquinol and its subsidiaries

In France in 2018, Vetoquinol was the main sponsor of the Eurockéennes de Belfort festival for the sixth consecutive year.

Vetoquinol has been associated with the Musique et Mémoire festival for a number of years, an important event in the French baroque music 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.

Furthermore, as it has done for over 20 years, Vetoquinol organized blood donations at the Lure facility, where 150 employees gave their blood this time in order to help save lives. This year, Vetoquinol showed visible support for World Blood Donor Day by altering its logo.

In Germany, Vetoquinol has become a member of the "Pferde für unsere Kinder" association (Horses for our Children) in order to support its "10,000 wooden horses for preschools" initiative.

The initiative aims to support educational institutions to offer their children a fun and "horsy" approach to learning by offering wooden horses and a box of learning materials. Vetoquinol has promised to donate 7 wooden horses, including one for the preschool in Ismaning, the location of our German subsidiary.

In the UK, Vetoquinol supports the Medical Detection Dogs charity, which trains dogs to detect human diseases by smell. Vetoquinol organized a team of 9 walkers and 7 support personnel to take part in the 3 Peaks Challenge, climbing the highest peaks in England (Scafell Pike), Scotland (Ben Nevis) and Wales (Snowdon) in 24 hours. Vetoquinol collected several thousand euros of donations.

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

- The Centraide foundation aims to improve quality of life for the most vulnerable people and to build better communities by encouraging citizens to action. For over 10 years, Vetoquinol Canada has organized a number of schemes to raise money for the Centraide foundation. The 2018 campaign raised over 5,000 Canadian dollars.
- Vetoquinol is a partner of Granby zoo and sponsors the zoo's veterinary hospital. This partnership brings together two partners sharing similar values under the single banner of animal health and welfare.
- Employees organized initiatives in support of the Action Famille Lavaltrie and Hébergement d'Urgence Lanaudière charities, collecting provisions, hygiene products, clothing, toys, appliances and furniture during the Christmas holidays.
- Vetoquinol gave support to the city of Princeville in order to make improvements to a dog park. A major partner of this project, Vetoquinol allocated $5,000 for these improvements. Shelters with picnic tables are provided to pet owners who wish to spend a relaxing moment in the company of their pet.

Eco-responsibility initiatives were also set up:

- in France (energy saving challenge);
- in Canada, for the third 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 strives to stay on good terms with the local community and ensures that its locations blend smoothly into their surroundings.

The Group's operations, including its production plants, generate little noise, visual or environmental pollution impacting the local community.

1.8.4 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.

Preventing the development of bacterial resistance and preserving antimicrobial activity have become major public health challenges on a worldwide scale. Europe is among the most advanced regions in terms of tackling this issue. In accordance with this goal, some countries have established national plans and set targets to reduce the use of antibiotics in veterinary medicine. In 2014, France officially formalized its policy in a law protecting the future of farming, food and forestry industries. This law came into force in 2015. The UK and Germany have taken similar measures to encourage the reasonable use of antibiotics in the animal health sector.

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 anti-infectives in livestock farming whilst maintaining their medicinal efficacy and respecting environmental ecosystems.

Since 2016, Vetoquinol has been strongly committed 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.

These new regulations have had a gradual and continuous impact on the Group's business in Europe, leading to a reduction in the amount of sales generated by anti-infectives and the share of these sales in total Group sales. The use of critical antibiotics (fluoroquinolones and third and fourth-generation cephalosporins) is henceforth governed by restrictive regulations severely limiting their use. Vetoquinol expects to see a continuing decline in their use in 2019. The development of new animal health antibiotics will from now on be difficult.

1.8.5 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.

Vetoquinol has set up a website specifically devoted to pet owners: www.myhappy-pet.fr. The website is also available in 11 other countries. In Poland, Facebook page www.facebook.com/MyHappyPetPolska received 129,000 likes in 2018.

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 reliable 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.

1.8.5.1 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.

1.8.5.2 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.

1.8.5.3 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.

1.8.6 Image and reputation

Vetoquinol has become a leading global animal health company. The Group's reputation is of primary importance and is one of its key assets.

The fact that Vetoquinol has an excellent reputation in the animal health sector is no accident - this reputation is based on the Company's history and commitment to equity and integrity in its business relations and commercial transactions.

Vetoquinol pays great attention to the quality of its products and the needs of its customers. Nevertheless, there is a risk that negative publicity regarding its business practices or products, whether or not it is justified, could have an adverse impact on its business or give rise to litigation or other costly legal proceedings.

The Group has established a policy requiring every employee to see that his or her behavior, manner of communication and actions are in keeping with Group values and contribute towards upholding the Group's image. Employees must abide by the Code of Ethics when they publish statements on social media sites (Twitter, Facebook, specialist forums, etc.) in their capacity as Vetoquinol employees.

1.8.7 Ethics and fair practices

1.8.7.1 Code of Ethics

Trust, dare and collaborate in order to achieve more together: these are the values that Vetoquinol upholds and promotes all over the world. These values can only be put into practice if clearly defined rules of conduct are shared across the Group. For this purpose, Vetoquinol has reworked its good business practice guide into a code of ethics that sets out all of these shared rules applicable to all employees, while preserving the fundamental principles of integrity and fairness that have been the hallmark of Vetoquinol's identity for decades.

The code sets out the commitments, practices and behavior chosen and adopted by Vetoquinol in its dealings with employees and third parties alike. Every employee must at all times abide by the rules contained in the Code of Ethics:

- by showing loyalty to the company, colleagues and partners; by acting with integrity at all times;
- by fully respecting the law;
- by maintaining objectivity in all situations;
- by embodying the values of Vetoquinol;
- by preserving Vetoquinol's reputation for integrity.

Vetoquinol undertakes to fully comply with all laws and regulations applicable to its business activity in every country in which it operates.

Vetoquinol strives to uphold the highest possible ethical standards in its business relations with all of its partners.

Vetoquinol is committed to complying with the International Labour Organization declaration on fundamental labor principles and rights at all of its entities.

Vetoquinol is committed to preventing all forms of discrimination.

Vetoquinol is committed to complying with all applicable environmental standards.

1.8.7.2 Anti-corruption code of conduct

Vetoquinol has adopted the Middlenext code which refers to the United Nations Convention against Corruption and seeks to combat all forms of bribery and corruption.

The code lays down the fundamental principles and rules regarding corruption and influence-peddling with regard to:

- relations with public officials,
- gifts and invitations,
- donations to charities and political organizations,
- patronage and sponsorship,
- facilitation payments,
- monitoring of third parties,
- conflicts of interest,
- accounting records and internal controls.

Every employee is expected to behave in an exemplary fashion at Vetoquinol and to refrain from acting in violation of the behavioral rules laid down in this code.

An ethics hotline has been set up to enable employees to report any behavior they witness that violates this code of conduct. An Ethics Committee has also been set up to process and investigate all cases of alleged corruption. The committee comprises the Group General Counsel, the Global Human Resources Director and the Group Export Director, Australasia & Latin America.

Vetoquinol has offered its employees the chance to follow anti-corruption training provided by Middlenext. In 2018, 96 employees followed this training course in France. The courses will be offered at our subsidiaries in 2019.

1.8.7.3 The General Data Protection Regulation (GDPR)

Vetoquinol is committed to protecting the privacy of its employees and partners and has taken steps to bring company policy into line with GDPR requirements.

1.8.7.4 Stakeholder relations

Vetoquinol maintains strong communication with all of its stakeholders in various ways, both informal (conferences, in-house committees, etc.) and formal (meetings with professional organizations such as Health for Animals and SIMV, etc.), 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.

1.8.7.5 Prevention of tax evasion

Management periodically reviews the Group's transfer pricing policy.

1.8.8 Supplier relations

Like any industrial company, Vetoquinol is exposed to risk regarding the quality and sustainability of raw material supplies, which mainly consist of active ingredients, excipients and packaging materials required for the various stages of product manufacture. Vetoquinol is exposed to similar risks regarding purchases of finished products manufactured by third parties.

The Group uses a number of manufacturers that have been rigorously screened. No individual supplier accounts for a material portion of Group purchases in such a way as to incur a major risk for the Group regarding the manufacture of its main products.

Vetoquinol continues to optimize and safeguard its supplier base whilst ensuring that external costs are kept under control.

Through a sustained policy of approving new sources of supply, the Group aims to further safeguard production plant supply chains with a view to constantly improving purchasing terms and conditions.

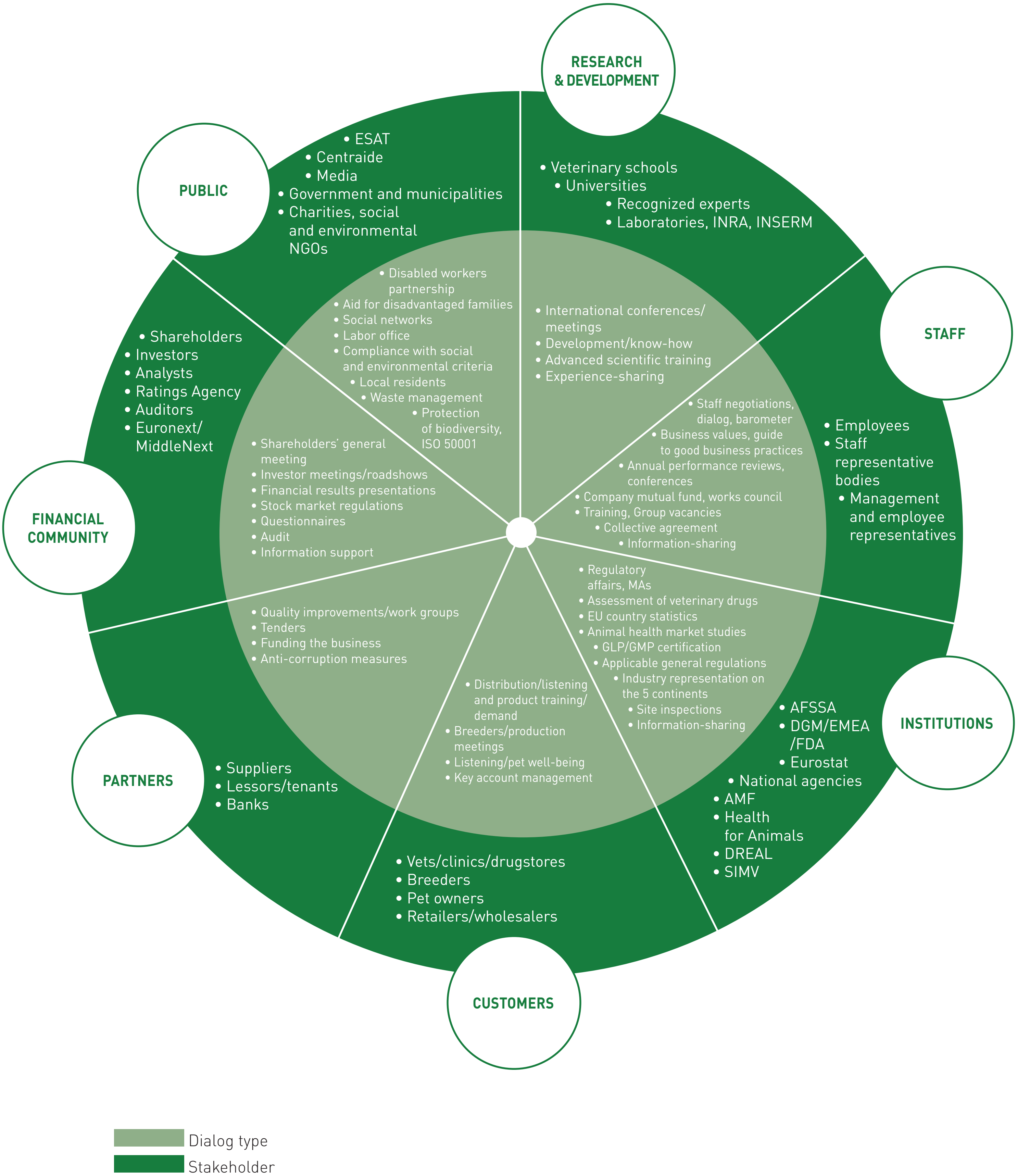
Regular supplier tenders culminating in the signing of agreements providing for optimal commercial relationships between the parties are conducive to building long-term partnerships that minimize risk of supplier default whilst ensuring tight control of expenditure.

The Group's main suppliers are periodically subjected to quality audits and assessments whereby these partners' performance and strength can be accurately measured against Group criteria; as part of a drive to improve partner relations, Vetoquinol plans to incorporate new social and environmental requirements as well as compliance with anti-corruption legislation. The Group organizes regular reviews with suppliers in order to strengthen their cooperation and seek ways to continuously improve the customer-supplier relationship. The Group also endeavors to support the economy of its region by making a certain amount of purchases from local businesses, in strict compliance with competition law and the need to sustain established partnerships.

The Group Procurement Department has launched a drive to optimize all procurement processes together with a transformation initiative fueled by the principles of continuous improvement. This transformation is designed to enhance the maturity of expenditure process controls across the Group and implement the guiding principles of the Group's procurement strategy aimed at increasing consistency, performance and ethics standards. The Group Code of Ethics lays down the rules of conduct whereby every employee is expected to behave with the utmost integrity and avoid all potential conflicts of interest.

These rules apply to all employees involved in procurement operations, whether directly or indirectly, occasionally or permanently; they govern relationships with suppliers of goods and services, subcontractors and partners whose products are distributed by Vetoquinol.

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



1.9 Auditor's report Year ended December 31, 2018

Dear Shareholders,

Further to the request submitted to us by Vetoquinol (the "entity") and in our capacity as independent third-party body authorized by COFRAC under number 3-1081 (the scope of this authorization may be consulted on www.cofrac.fr), we hereby submit to you our report on the consolidated statement of non-financial performance for the year ended December 31, 2018 (the "Statement"), as presented in the Group Management Report in accordance with the statutory and regulatory provisions of Articles L. 225-102-1, R. 225-105 and R. 225-105-1 of the French Commercial Code.

Entity's responsibility

The Board of Directors is required to draw up a Statement in compliance with statutory and regulatory provisions including a presentation of the business model, a description of the main non-financial risks, a presentation of the policies applied in response to these risks and the results of said policies, including key performance indicators.

The Statement was drawn up in accordance with the guidelines ("guidelines") applied by the entity, the main provisions of which may be consulted on request at the Company's head office.

Independence and quality control

Our independence is defined by the terms of Article L. 822-11-3 of the French Commercial Code and by our professional code of conduct. In addition, we have implemented a quality control system comprising documented policies and procedures designed to guarantee compliance with ethical principles, professional standards and applicable statutory and regulatory provisions.

Responsibility of the independent third-party body

It is our responsibility, on the basis of our work, to establish a substantiated opinion expressing a conclusion of limited assurance regarding:

- compliance of the Statement with the provisions of Article R. 225-105 of the French Commercial Code;
- fair presentation of the information provided in application of Article R. 225-105 I (3) and II of the French Commercial Code, namely the results of the policies, including key performance indicators, and the measures taken in response to the main risks (the "Information").

We are not, however, required to express an opinion regarding:

- the entity's compliance with other applicable statutory and regulatory provisions, including those related to the vigilance plan and the prevention of corruption and tax evasion;
- compliance of products and services with applicable regulations.

Nature and scope of audit

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

Our audit was conducted between March 4 and March 15, 2019, over a duration of 7 person-days.

We conducted five interviews with the persons responsible for the Statement.

We performed such operations as to allow us to assess the compliance of the Statement with regulatory provisions and the fair presentation of the Information:

- we acquired an understanding of the business activity of all companies included in the consolidation scope, the description of the main social and environmental risks related to such activity, the impact of such risks on the defense of human rights and the prevention of corruption and tax evasion, the policies established in response to said risks and the results of said policies;
- we assessed the appropriateness of the guidelines in terms of their relevance, completeness, reliability, objectiveness and clarity, taking industry good practices into account where applicable;
- we verified whether the Statement covered each information category listed by Article L. 225-102 1 of the French Commercial Code with regard to social and environmental issues, as well as the defense of human rights and prevention of corruption and tax evasion;
- we verified whether the Statement presented the business model and the main risks related to the business activity of all companies included in the consolidation scope, including, where relevant and proportionate, the risks generated by its business relationships, products or services, as well as the policies, measures and results, including key performance indicators;
- we verified whether the Statement presented the information listed in Article R. 225-105 II of the French Commercial Code, where such information is relevant to the main risks or policies presented;
- we assessed the process of selecting and approving the main risks;
- we ascertained the existence of internal control and risk management procedures implemented by the company;
- we assessed the consistency of the results and key performance indicators adopted with regard to the main risks and policies presented;
- we verified whether the Statement covered the consolidated scope, namely all companies included in the consolidation scope in accordance with Article L. 233-16 of the French Commercial Code;
- we assessed the information-gathering process established by the entity with a view to guaranteeing the completeness and fair presentation of the Information;

- with regard to the key performance indicators and other quantitative results that we deemed to be the most important, we conducted:
  - analytical procedures to verify the correct consolidation of the data collected and the consistency of comparative data;
  - sample tests aimed at verifying the due application of definitions and procedures and reconciling the data contained in the supporting documentation. This work was performed on a selection of contributing entities[1] covering between 22% and 100% of consolidated key performance indicator data and results selected for these tests[2];
- we consulted documentary sources and held interviews in order to corroborate what we considered to be the most important qualitative information (measures and results);
- we assessed the consistency of the Statement as a whole with our knowledge of all of the companies included in the consolidation scope.

We consider that the work we performed in the exercise of our professional judgment allows us to draw a conclusion of limited assurance, on the understanding that a greater degree of assurance would have required more extensive verification.

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 Statement cannot be entirely eliminated.

Conclusion

On the basis of our work, we have not identified any material misstatements liable to call into question the compliance of the statement of non-financial performance with applicable regulatory provisions and the fact that the Information, taken as a whole, is presented fairly in accordance with the guidelines.

1 Operating facilities selected for the tests: France, Poland, Italy, Canada.

2 Employment, hires and dismissals, health and safety, overall environmental policy, climate change, circular economy.

Lyon, March 29, 2019

Finexfi

Isabelle Lhoste

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This report on the Company's corporate governance has been prepared in accordance with the final paragraph of Article L. 225-37 of the French Commercial Code.
It was approved by the Board of Directors at its meeting held on March 19, 2019.

2.1 Corporate governance rules

On December 16, 2014, the Board of Directors resolved to adopt the Middlenext corporate governance code for listed companies, which can be viewed at www.middlenext.com.

2.1.1 Summary table of recommendations of the Middlenext Code

Middlenext Code recommendations	Apply	Explanation
II. Supervisory power		
R1 Board member code of ethics	Yes	
R2 Conflicts of interest	Yes	
R3 Composition of the Board – independent directors	Yes	
R4 Board member information	Yes	
R5 Organization of Board and Committee meetings	Yes	
R6 Creation of Committees	Yes	
R7 Implementation of internal regulations	Yes	
R8 Choice of each director	Yes	
R9 Board member term of office	Yes	
R10 Director compensation	Yes	
R11 Implementation of an evaluation of the Board's work	Yes	
R12 Shareholder relations	Yes	
R13 Definition and transparency of compensation of executive directors	Yes	
R14 Preparation of "executive" succession	NC	
R15 Cumulative employment contract and corporate office		Mr. Masson's situation is unique to the extent that Vetoquinol is required to have a Chief Pharmacist who must also be a corporate officer.
R16 Severance pay	Yes	
R17 Supplementary retirement schemes	Yes	
R18 Stock options and bonus shares	Yes	
R19 Review of watch points	Yes	

2.1.2 The Board's internal regulations

On September 18, 2006, the Board adopted Internal Regulations that are regularly revised, and which were most recently updated on July 26, 2017. The latest version can be viewed in full on the Company's website (www.vetoquinol.com).

The Company therefore applies recommendations R1, R2 and R7 of the Middlenext Code, relating to ethical rules applicable to Board members, the prevention of conflicts of interest and the implementation of the Board's internal regulations, respectively. The Internal Regulations govern the functioning of the Board and its committees, as well as the Board's respective responsibilities and powers. For the sake of transparency, all directors are bound by the same duty of care, with the freedom to exercise their own judgment in accordance with decisions taken collectively. In terms of ethics, the measures applied by the Board are in line with the code applicable at the Company, thereby preventing any inside information from being inappropriately disclosed, and enabling secure trading of the Company's shares to take place.

In order to protect the Company and its shareholders' interests, Board members are required to report any identified or potential conflict of interest, and to refrain from taking part in any corresponding voting.

In particular, the Board's Internal Regulations specify:

- how the Board and its committees are organized and operate, as well as the Board's respective responsibilities and powers.
- Board members' rights and responsibilities, and specifically their right to information and code of ethics.

2.2 Corporate governance

The management of the Company is assured by the Chief Executive Officer. Since April 1, 2010, the duties of the Chairman and Chief Executive Officer have been separated, by way of a resolution of the Board of Directors adopted on December 10, 2009.
The Board of Directors determines the guidelines for the Company's business and oversees their implementation.

The Chairman of the Board of Directors organizes and manages the Board's work, and provides a report to the Shareholders' general meeting. He/she ensures the smooth operation of the Company's corporate bodies and, in particular, that the directors are able to fulfill their assignments.

2.2.1 Organization and operation of the Board of Directors

The Company's Board of Directors comprises at least three and no more than twelve members, who are appointed by the Ordinary General Meeting.

To the Company's knowledge, over the last five years, no Board member has:
- been convicted for fraud or has been the subject of an official public sanction imposed against them by statutory or regulatory authorities;
- has been involved in a bankruptcy, receivership or liquidation as an executive or corporate officer;
- has been prevented from acting as a member of an administrative, managerial or supervisory body, or from participating in the management of an issuer.

Within the meaning of recommendation R3 "Composition of the Board" of the Middlenext governance code, as adopted by the Company, Ms. Baud, Ms. Pacaud, Mr. Arnold and Mr. Champel are considered independent directors, as they are i) not bound by any financial, contractual or family ties with the Company liable to alter the independence of their judgment, ii) are not employees nor executive directors, iii) are not clients, suppliers, bankers, or Statutory Auditors of the Company, and iv) are not major shareholders.

The Board of Directors meets as often as the Company's interests require, and at least four times a year, at the Chairman's request, either at the head office, via conference call, or at any other location stated in the notice of meeting. Furthermore, if the Board has not met for over two months, the directors making up at least one third of the Board members may ask the Chairman to convene a meeting with a set agenda. If the Chairman is absent, the Chief Executive Officer may issue this notice of meeting and set the meeting's agenda.

The directors may be convened via any means, even verbally, and the agenda can only be approved during the meeting itself.

Any director may appoint another director to represent them during deliberations of the Board of Directors, and to vote on their behalf for one, some or all matters included on the agenda.

Each director in attendance may only represent one other director.

There is no service agreement binding the members of the administrative and management bodies to the issuer or any of its subsidiaries, and providing for the grant of benefits between Vetoquinol and its executives. The Board of Directors is assisted by an Audit Committee, an Appointments and Compensation Committee and a Strategy Committee.

The work of the Board of Directors is prepared and organized in accordance with applicable regulations and rules of good corporate governance. In accordance with recommendation 4 of the Middlenext Code, the documents are forwarded to Board members in advance; similarly, in between Board meetings and when the Company's current events warrant it, the Company sends the directors all important information.

Pursuant to recommendation 11 of the Middlenext Code, the Board of Directors completes a regular self-assessment questionnaire. The Chairman communicates the results of this assessment and sets up the necessary actions in order to improve the Board's operation.

2.2.1.1 Members of the Board of Directors and management (recommendation 8 of the Middlenext Code)

Mr. Étienne Frechin – Chairman of the Board of Directors

Date of birth:
1938

Business address:
Vetoquinol SA
Magny-Vernois
BP 189
70204 Lure Cedex

First appointed to the Board of Directors:
July 2, 1962

Expiry of term of office:
2021 Annual General Meeting

Current terms of office and functions at Vetoquinol:
- Chairman of the Board of Directors
- Member of the Strategy Committee

Career:
Mr. Frechin has held various positions at the Company:
- Production Director from 1963 to 1968
- Chief Executive Officer since 1968
- Chairman and Chief Executive Officer from 1980 to 2009
- Chairman since 2010

Training:
Self-taught

Current terms of office held in French and foreign companies:
- Permanent representative of Vetoquinol SA, Majority shareholder of Vetoquinol International
- Managing Partner of Demabel SARL, managing company of Soparfin SCA, Vetoquinol SA holding company
- Chairman, manager or director of certain Vetoquinol Group unlisted subsidiaries

Mr. Matthieu Frechin – Chief Executive Officer and non-independent director

Date of birth:
1969
Son of Étienne Frechin

Business address:
Vetoquinol SA
37 rue de la Victoire
75009 Paris

First appointed to the Board of Directors:
May 22, 2006

Expiry of term of office:
2022 Annual General Meeting

Current terms of office and functions at Vetoquinol:
- Chief Executive Officer
- Member of the Board of Directors
- Member of the Management Committee
- Member of the Strategy Committee

Career:
- Appointed Deputy Chief Executive Officer on August 21, 2006
- Appointed Chief Executive Officer to replace his father, Mr. Étienne Frechin, on December 10, 2009, effective April 1, 2010.

His term of office as Chief Executive Officer shall expire at the end of the 2020 Shareholders' general meeting, called to approve the 2019 financial statements.

Training:
- Doctor of Pharmacy, University of Nancy, 1995
- Postgraduate doctoral degree (DEA) in industrial systems engineering

Current terms of office held in French and foreign companies:
- Member of the Soparfin SCA Supervisory Board, Vetoquinol SA holding company
- Chairman of Lustah SAS
- Chairman or director of certain Vetoquinol Group unlisted subsidiaries

Mr. Jean-Charles Frechin – Member of the Board of Directors

Date of birth:
1945
Brother of Étienne Frechin

Business address:
Vetoquinol SA
Magny-Vernois
BP 189
70204 Lure Cedex

First appointed to the Board of Directors:
December 27, 1971

Expiry of term of office:
2021 Annual General Meeting

Current terms of office and functions at Vetoquinol:
- Member of the Board of Directors
- Member of the Audit Committee
- Member of the Compensation Committee
- Member of the Strategy Committee

Career:
- Pharmacist after the takeover of the family pharmacy in 1974
- Now retired

His term of office shall expire at the end of the 2021 Shareholders' general meeting, called to approve the 2020 financial statements.

Training:
- Doctor of Pharmacy, University of Besançon, 1970
- Graduate of the University of Strasbourg in general immunology and applied immunology, 1974

Current terms of office held in French and foreign companies:
- None

Ms. Martine Frechin – Member of the Board of Directors

Date of birth:
1939
Wife of Étienne Frechin

Business address:
Vetoquinol SA
Magny-Vernois
BP 189
70204 Lure Cedex

First appointed to the Board of Directors:
May 26, 2004

Expiry of term of office:
2020 Annual General Meeting

Current terms of office and functions at Vetoquinol:
- Member of the Board of Directors

Career:
- Retired

Her term of office shall expire at the end of the 2020 Shareholders' general meeting, called to approve the 2019 financial statements.

Current terms of office held in French and foreign companies:
- Chairwoman of the SCA Soparfin Supervisory Board, Vetoquinol SA holding company
- Managing partner of Demabel SARL

Mr. François Frechin – Member of the Board of Directors

Date of birth:
1933
Brother of Étienne Frechin

Business address:
Vetoquinol SA
Magny-Vernois
BP 189
70204 Lure Cedex

First appointed to the Board of Directors:
December 5, 1975

Expiry of term of office:
2021 Annual General Meeting

Current terms of office and functions at Vetoquinol:
- Member of the Board of Directors

Career:
- Pharmacist
- Now retired

His term of office shall expire at the end of the 2021 Shareholders' general meeting, called to approve the 2020 financial statements.

Training:
- Doctor of Pharmacy, University of Nancy, 1959
- Graduate of the University of Paris in serology, 1962
- Certificate in industrial pharmacy, 1960

Current terms of office held in French and foreign companies:
- None

Mr. Philippe Arnold – Member of the Board of Directors and independent director

Date of birth:
1941

Business address:
Vetoquinol SA
Magny-Vernois
BP 189
70204 Lure Cedex

First appointed to the Board of Directors:
June 4, 2007

Expiry of term of office:
2019 Annual General Meeting

Current terms of office and functions at Vetoquinol:
- Member of the Board of Directors
- Chairman of the Audit Committee
- Chairman of the Compensation Committee
- Member of the Strategy Committee

Career:
- Banking executive at BNP Paribas
- Now retired

His term of office shall expire at the end of the 2019 Shareholders' general meeting, called to approve the 2018 financial statements.

Training:
- Graduate of HEC and CPA

Current terms of office held in French and foreign companies:
- None

Mr. Louis Champel – Member of the Board of Directors and independent director

Date of birth:
1944

Business address:
Vetoquinol SA
Magny-Vernois
BP 189
70204 Lure Cedex

First appointed to the Board of Directors:
August 27, 2009

Expiry of term of office:
2022 Annual General Meeting

Current terms of office and functions at Vetoquinol:
- Member of the Board of Directors
- Member of the Audit Committee
- Member of the Compensation Committee
- Member of the Strategy Committee

Career:
- From 1970 to 1996, at Rhône-Poulenc he was Project Manager, Head of the Asia region, Chairman and Chief Executive Officer of the Group's pharmaceutical subsidiary in Indonesia, and Chief Executive Officer of the veterinary subsidiary Rhodia-Mérieux in Brazil and Chief Executive Officer, then Chairman and Chief Executive Officer of Rhône Mérieux France.
- He was involved in the creation of Merial in 1997, and was appointed Chairman and Chief Executive Officer until 2000.
- Now retired

His term of office shall expire at the end of the 2022 Shareholders' general meeting, called to approve the 2021 financial statements.

Training:
- Graduate of IEP Paris

Current terms of office held in French and foreign companies:
- None

Ms. Marie-Josèphe Baud – Member of the Board of Directors and independent director

Date of birth:
1949

Business address:
Vetoquinol SA
Magny-Vernois
BP 189
70204 Lure Cedex

First appointed to the Board of Directors:
May 22, 2013

Expiry of term of office:
2021 Annual General Meeting

Current terms of office and functions at Vetoquinol:

- Member of the Board of Directors
- Member of the Audit Committee
- Member of the Compensation Committee
- Member of the Strategy Committee

Career:

- Began her career in 1971 at Novartis, where she was responsible for market research, strategic planning and business development, before being named Director of Marketing, Sales & Marketing and Managing Director of Novartis Santé familiale.
- Joined the Pharmacia group in 1997 as Director of the Consumer Healthcare division, before becoming Strategy Director Europe. Between 2003 and 2007, she was Vice President of Sales and Marketing at TEVA Europe (world's largest producer of generic drugs), and chaired the TEVA France Group in 2006.
- President of Sandoz France (Novartis Group) from 2007 to 2010.

Her term of office shall expire at the end of the 2021 Shareholders' general meeting, called to approve the 2020 financial statements.

Training:

- Diplômée d'HEC (1970) et de l'INSEAD (PSD 1994).

Current terms of office held in French and foreign companies:

- Manager of MJB Conseil (EURL)

2

Ms. Élisabeth Pacaud – Member of the Board of Directors and independent director

Date of birth:
1956

Business address:
Vetoquinol SA
Magny-Vernois
BP 189
70204 Lure Cedex

First appointed to the Board of Directors:
May 29, 2018

Expiry of term of office:
2022 Annual General Meeting

Current terms of office and functions at Vetoquinol:

- Member of the Board of Directors
- Member of the Audit Committee
- Member of the Strategy Committee
- Member of the Compensation Committee (from 2019)

Career:

- A Doctor of Immunology, she began her career in 1980 at the Rhône Poulenc Research Center, before moving on to various Research and Development roles.
- In 1999, she joined the Group's Industrial Affairs Quality Department as Project Manager for the development of new products, before becoming Director for the sites in Northern and Southern Europe.
- In 2005, she was appointed Head of Risk Management and Product Quality alerts at Sanofi.
- In 2016, she was appointed Risk Manager at Sanofi, secretary of the risk committee.
- Since the beginning of 2017, Independent Director, member of the association OTECI, geared towards the professional integration of young people and support for businesses.

Training:

- PhD in Genetics, Faculty of Sciences (Lyon); degree in Immunology Studies and Research, Faculty of Medicine (Lyon)
- Master of Business – ICG Business School (Paris)
- Management Certificate – ESSEC

Current terms of office held in French and foreign companies:
No other terms of office

Mr. Jean-Yves Ravinet – Group Chief Operating Officer

Date of birth:
1957

Business address:
Vetoquinol SA
Magny-Vernois
BP 189
70204 Lure Cedex

First appointed to the Board of Directors:
August 27, 2013, effective September 2, 2013

Expiry of term of office:
2023 Annual General Meeting

Current terms of office and functions at Vetoquinol:

- Group Deputy General Manager
- Member of the Management Committee
- Member of the Strategy Committee

Career:

- Chief Executive Officer of Sumitomo Chemical Agro Europe, Africa and Middle East (€240m in revenues) for 10 years where, after having managed several subsidiaries in Europe (Turkey, Benelux, Scandinavia and Spain), he assumed the management of Rhône-Poulenc Agro Asia-Pacific (12 subsidiaries), then Latin America (15 subsidiaries).
- Head of global operations in agrochemical and pharmaceutical synthesis intermediates for Rhodia Life Science Systems for several years.

His term of office shall expire at the end of the 2023 Shareholders' general meeting, called to approve the 2022 financial statements.

Training:

- Agricultural engineering graduate from INA Paris, which became AgroParisTech in 2007

Current terms of office held in French and foreign companies:

- Director of certain unlisted Group subsidiaries

Mr. Alain Masson – Group Director of Quality

Date of birth:
1962

Business address:
Vetoquinol SA
Magny-Vernois
BP 189
70204 Lure Cedex

First appointed to the Board of Directors:
April 4, 2008

Expiry of term of office:
2020 Annual General Meeting

Current terms of office and functions at Vetoquinol:
- Group Deputy General Manager
- Group Director of Quality
- Chief Pharmacist

Career:
- Began his career in 1988 at Vetoquinol as Head of Quality Control.
- Subsequently held the positions Head of Quality Assurance, Director of Quality France and Group Director of Industrial Quality.
- Since 2008, he has managed all Vetoquinol Group quality at industrial sites, distribution subsidiaries and R&D centers.

His term of office shall expire at the end of the 2020 Shareholders' general meeting, called to approve the 2019 financial statements.

Training:
- Doctor of Pharmacy, University of Besançon, 1985
- Holds a specialized master's degree (DESS) in Industrial Pharmacy (cosmetology), Lyon, 1986

Current terms of office held in French and foreign companies:
- None

2

2.2.1.2 Frequency of Board of Director's meetings

The Board of Directors met four times in 2018, in accordance with recommendation 5 of Middlenext Code, with an attendance rate of 94.4%. The Statutory Auditors were validly convened.

The Board of Directors comprises nine members. All meetings were chaired by Mr. Étienne Frechin. As a rule, the breakdown of sales, the Company and Group's results, the product portfolio and market are presented at each meeting.

During these meetings, the following main points were addressed:
- the approval of the 2017 financial statements and the preparation of the Shareholders' general meeting;
- the reappointment of two directors;
- the appointment of a new director;
- the Company's professional equality and equal pay policy;
- Social and Environmental Responsibility;
- the reports of the Audit Committee and Statutory Auditors;
- the delegations of authority and authorizations to be granted to the Board of Directors by the Shareholders' General Meeting;
- acquisitions;
- executive compensation;
- Sapin 2 (law on transparency, anti-corruption and the modernization of the economy);
- transparency and the anti-gift law;
- the approval of the 2019 budget.

2.2.1.3 Conflicts of interest within the Company's administrative and management bodies

To the Company's knowledge, there are no conflicts of interest between the Company and the members of its administrative and management bodies. In order to identify and prevent any potential conflict of interest, the Board of Directors' Internal Regulations were implemented on September 18, 2006. They were last updated on July 26, 2017. They provide that the members of the Board of Directors or specialized Committees are required to notify the Board of any specific (even potential) conflict of interest, and to abstain from voting on any corresponding resolution.

2.2.2 Organization and composition of the Committees of the Board of Directors

Pursuant to recommendation 6 of the Middlenext Code, the Board of Directors decided to set up three specialized committees: an Audit Committee, an Appointments and Compensation Committee and a Strategy Committee.

2.2.2.1 Audit Committee

The Audit Committee was formed pursuant to the Board of Directors' meeting of April 4, 2008. It is responsible for giving the Board of Directors its opinion on the Vetoquinol SA consolidated and company half-yearly and annual financial statements. Its minutes must enable the Board of Directors to be fully informed.

More specifically, the Audit Committee's duties include:

- hearing the Statutory Auditors, financial, accounting, treasury and internal audit or management control directors. These hearings are held in the absence of senior management. It issues its opinion on the organization of the internal audit or management control departments and is informed of its work program;
- examining the financial statements in general and reviewing the accounting principles applied. The audit of the financial statements must include a note from the Chief Financial Officer;
- examining the scope of the Statutory Auditors' assignments;
- reviewing the draft annual or half-yearly reports;
- examining the consolidation scope and reasons why certain companies are not included;
- analyzing material risks and off-balance sheet commitments;
- examining any financial, accounting or risk management-related matter.
- issuing a recommendation on the choice of Statutory Auditors nominated by the General Meeting. This recommendation to the Board is prepared in accordance with applicable regulations; it also issues a recommendation to the Board when the reappointment of the Statutory Auditor(s) is planned, under the conditions set out in the regulations.
- approving the provision of services other than the certification of the financial statements, in accordance with applicable regulations.

For this purpose, the Committee meets at least twice a year, prior to the review of the half-yearly and annual financial statements by the Board of Directors, and on an ad hoc basis in order to review specific, important matters. The Committee met twice in 2018 and issued its recommendations to the Board of Directors at the meetings held on March 14 and July 25. The attendance rate for both of these meetings was 100%.

On the date this Registration Document was prepared, the Audit Committee comprised five people:

- Mr. Philippe Arnold, independent director and Chairman of the Committee;
- Mr. Louis Champel, independent director;
- Mr. Jean-Charles Frechin, director;
- Ms. Marie-Josèphe Baud, independent director;
- Ms. Elisabeth Pacaud, independent director.

2.2.2.2 Appointments and Compensation Committee

The Compensation Committee was established at the April 9, 2004 Board of Directors' meeting in order to review the compensation of the Company's executive directors and, where applicable, the employees of Group companies. Its duties include:

- recommending the compensation to be paid to corporate officers, determining the variable portion of their compensation (if any), based on an annual review of their personal performance, and in accordance with the Group's medium-term strategy;
- recommending the implementation of share subscription or purchase plans, company savings plans or the allocation of bonus shares, in favor of the corporate officers and employees of the Company or its subsidiaries;
- nominating, by name, from the corporate officers and employees of the Company or its subsidiaries, the beneficiaries of options, warrants, bonds or other securities giving immediate or deferred entitlement to the Company or its subsidiaries' capital stock;
- reviewing benefits in kind;
- recommending the allocation of attendance fees;
- examining proposed capital increases reserved for employees;
- overseeing the policy adopted by Group companies relating to the management of managers and, in particular, relating to the "succession plan" provided for or by each of the Group's main operational managers and for each of the core functions.

The Compensation Committee meets once a year and submits its recommendations to the Board of Directors in the form of a report.

On the date this Registration Document was prepared, the Compensation Committee comprised five people:

- Mr. Philippe Arnold, independent director, Chairman of the Committee;
- Mr. Louis Champel, independent director;
- Mr. Jean-Charles Frechin, director;
- Ms. Marie Josèphe Baud, independent director;
- Ms. Elisabeth Pacaud, independent director.

2.2.2.3 Strategy Committee

The Strategy Committee was formed on September 18, 2006. Its main role is to issue recommendations to the Board of Directors after having:

- assessed the Group's general strategy and policy;
- reviewed external growth opportunities;
- examined the evolution and outlook of the Group's business both nationally and internationally;
- examined plans to expand abroad;
- studied the Company's strategies that could be implemented by directors, particularly in terms of investment.

On the date this Registration Document was prepared, the Strategy Committee comprised the following people:

- the Chairman;
- the Chief Executive Officer;
- the Group Chief Operating Officer;
- four independent directors;
- one director.

2.2.2.4 Summary table of members of the Board of Directors and Board Committees

Last and first names, position	Independent director	First appointed	Expiry of term of office*	Audit Committee	Compensation Committee	Strategy Committee	Experience and expertise contributed
Étienne Frechin	No	1962	2021	No	No	Member	Senior management & Strategy
Matthieu Frechin	No	2006	2022	No	No	Member	Senior management & Strategy
Martine Frechin	No	2004	2020	No	No	No	Entrepreneurship
Jean-Charles Frechin	No	1971	2021	Member	Member	Member	Entrepreneurship – Pharmacy
François Frechin	No	1975	2021	No	No	No	Entrepreneurship – Pharmacy
Philippe Arnold	Yes	2007	2019	Chairman	Chairman	Member	Finance
Louis Champel	Yes	2009	2022	Member	Member	Member	Senior management & Strategy
Marie-Josèphe Baud	Yes	2013	2021	Member	Member	Member	Senior management & Strategy
Elisabeth Pacaud	Yes	2018	2022	Member	Member**	Member	Scientific and strategic

** In accordance with recommendation 9, the Board has provided in its bylaws that the term of office should be four years, with director reappointments being staggered.*
*** As from 2019.*

The Board pays particular attention to its composition, particularly in terms of the skills and experience of its directors. Furthermore, the appointment of a new independent director in 2018 enabled an initial gender rebalancing on the Board. This diversity, together with the presence of four independent directors, ensures the quality of the Board's discussions and decisions.

2.2.3 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.
There are no limits to senior management's powers.

2.2.3.1 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.

2.2.3.2 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.

2.3 Incentives and compensation of corporate officers and directors

2.3.1 Executive compensation

On March 14, 2018, the Board of Directors, upon the recommendation of the Compensation Committee and in accordance with the Sapin 2 law of December 9, 2016, decided to submit to the shareholders for their approval at the May 29, 2018 General Meeting the principles and criteria for compensation in respect of 2018.

The compensation of three executives was revalued as follows after approval by the shareholders at the May 29, 2018 Combined Ordinary and Extraordinary General Meeting:

- Chief Executive Officer – Matthieu Frechin: 1.7% on fixed remuneration, excluding all other items of compensation.
- Group Chief Operating Officer – Jean-Yves Ravinet: 1.7% on fixed remuneration, excluding all other items of compensation.
- Deputy CEO, Chief Pharmacist – Alain Masson: 2% (on Chief Pharmacist bonus).

These increases took effect retroactively as from January 1, 2018.

The variable bonuses attached to the 2018 objectives will be as follows (on the basis of full achievement of the objectives and subject to ex-post voting by shareholders):

- Chief Executive Officer – Matthieu Frechin: €180,353.
- Group Chief Operating Officer – Jean-Yves Ravinet: €105,575.

A system for reducing or increasing these amounts in the event that targets are not met or are exceeded, based on the Group's sales and EBIT, has been set up.

2.3.2 Summary table of compensation paid to each executive director

The items of compensation presented in the tables below represent gross amounts.

Étienne Frechin, Chairman	2016		2017		2018	
	Total due	Amounts paid	Total due	Amounts paid	Total due	Amounts paid
Fixed compensation [1]	165,487	165,487	149,000	149,000	**150,487**	**150,487**
Annual variable compensation [2][4]	-	-	-	-	**-**	**-**
Multi-year variable compensation [4]	-	-	-	-	**-**	**-**
Exceptional compensation [4]	-	-	-	-	**-**	**-**
Attendance fees [4]	7,215	7,215	7,215	7,215	**8,571**	**8,571**
Benefits in kind	Company car					
TOTAL	**172,702**	**172,702**	**156,215**	**156,215**	**159,058**	**159,058**

Matthieu Frechin, Directeur général	2016		2017		2018	
	Total due	Amounts paid	Total due	Amounts paid	Total due	Amounts paid
Rémunération fixe [1]	256,638	256,638	259,470	259,470	**265,244**	**265,244**
Rémunération variable annuelle [2][4]	165,000	152,872	170,000	151,810	**175,000**	**129,500**
Rémunération variable pluriannuelle [4]	-	-	-	-	**-**	**-**
Rémunération exceptionnelle [4]	-	-	-	-	**-**	**-**
Jetons de présence [4]	7,215	7,215	7,215	7,215	**8,571**	**8,571**
Benefits in kind	Company car + food/restaurant vouchers					
TOTAL	**428,853**	**416,725**	**436,685**	**418,495**	**448,915**	**403,315**

Jean-Yves Ravinet, Directeur général délégué	2016		2017		2018	
	Total due	Amounts paid	Total due	Amounts paid	Total due	Amounts paid
Rémunération fixe [1]	260,756	260,756	262,784	262,784	**257,345**	**257,345**
Rémunération variable annuelle [2][4]	96,600	89,389	99,500	84,575	**102,500**	**75,850**
Rémunération variable pluriannuelle [4]	-	-	-	-	**-**	**-**
Rémunération exceptionnelle [4]	-	-	-	-	**-**	**-**
Jetons de présence [4]	-	-	-	-	**-**	**-**
Benefits in kind	Company car + food/restaurant vouchers + **GSC cover (terminated 31/12/17)**				**Company car + food/ restaurant vouchers**	
TOTAL	**357,356**	**350,145**	**362,284**	**347,359**	**359,845**	**333,195**

Alain Masson, Directeur général délégué	2016		2017		2018	
	Total due	Amounts paid	Total due	Amounts paid	Total due	Amounts paid
Rémunération fixe [1]	127,025	127,025	122,712	122,712	**128,332**	**128,332**
Rémunération variable annuelle [2][4]	16,873	17,915	17,014	19,513	**17,902**	**18,382**
Rémunération variable pluriannuelle [4]	-	-	-	-	**-**	**-**
Rémunération exceptionnelle [4]	24,000	24,000	24,720	24,720	**25,200**	**25,200**
Jetons de présence [4]	-	-	-	-	**-**	**-**
Benefits in kind	Company car + food/restaurant vouchers					
TOTAL	**167,896**	**168,940**	**164,446**	**166,945**	**171,434**	**171,914**

(1) Fixed compensation includes benefits in kind and other recurring bonuses.
(2) Variable compensation is calculated based on the attainment of the Group's sales and EBIT targets, with a system for reducing or increasing amounts in the event that these targets are not achieved or exceeded.
(3) Chief Pharmacist bonus (see Summary table of the recommendations of the Middlenext Code).
(4) The amounts due correspond to year n-1.

2.3.3 Items submitted for shareholder approval pursuant to Article L. 225-37-2 of the French Commercial Code

2.3.3.1 Decisions relating to total compensation for 2018

At its meeting of March 19, 2019, the Board of Directors, on the recommendation of the Compensation Committee, decided to submit the fixed items of compensation to the shareholders for their approval at the May 21, 2019 Annual General Meeting, variable and exceptional items comprising the total compensation and benefits in kind paid in respect of 2018 to the Chairman, the Chief Executive Officer and the Deputy Chief Executive Officers:

Summary table:

	Étienne Frechin	Matthieu Frechin Chief Executive Officer	Jean-Yves Ravinet Group Chief Operating Officer	Alain Masson Deputy CEO
Annual fixed compensation	€144,000	€257,142	€251,781	NA Employment contract
Annual variable compensation		€172,057	€98,501	NA Employment contract
Long-term variable compensation (stock options, bonus shares)				
Benefits in kind	Company car	Company car/food/ restaurant vouchers	Company car/food/ restaurant vouchers	Company car/food/ restaurant vouchers
Bonus				€2,100 (monthly)
Severance pay/non-compete clause			Performance conditions: EBIT for the previous year is higher or equal to 8% of net Group sales. Amount of severance pay: cannot exceed 3 months' wages	
Attendance fees (gross)	€8,571	€8,571		

2.3.3.2 Draft resolutions submitted for approval at the May 21, 2019 General Meeting

Approval of fixed, variable and exceptional items comprising total compensation and benefits in kind paid or allocated in respect of the financial year ended 31 December 2018

The General Meeting, voting under the quorum and majority conditions required for ordinary general meetings, and having read the Board of Directors' report on corporate governance, hereby approves the fixed, variable and exceptional items comprising the total compensation and benefits in kind paid or allocated to Mr. Étienne Frechin for the financial year ended 31 December 2018, in respect of his term of office as Chairman of the Company's Board of Directors (Resolution 10), to Mr. Matthieu Frechin in respect of his term of office as Chief Executive Officer of the Company (Resolution 11), to Mr. Jean-Yves Ravinet in respect of his term of office as Chief Operating Officer of the company (Resolution 12) and to Mr. Alain Masson in respect of his term of office as Deputy Chief Executive Officer of the company (Resolution 13).

2.3.3.3 Decision on the principles and criteria for the determination, allocation and distribution of the items of total compensation and benefits in kind in respect of the 2019 financial year

At its meeting held on March 19, 2019, the Board of Directors, on the recommendation of the Compensation Committee, decided to submit to the shareholders for their approval at the May 21, 2019 General Meeting, the principles and criteria for determining, allocating and distributing the items comprising the total compensation and benefits in kind for 2019 of the Chairman, Chief Executive Officer and Deputy Chief Executive Officers.

Changes to their compensation are in line with the Vetoquinol 2019 general compensation policy, and specifically takes into account market practices, experience and responsibility within the Company in accordance with the recommendations of the Middlenext Code. Annual variable compensation represents a percentage of annual fixed compensation, awarded based on the percentage of achievement of quantitative (sales, EBIT, etc.) and qualitative targets, with a 100% target base.

These targets are defined in accordance with Vetoquinol's strategy.

During this Board of Directors' meeting, the Vetoquinol policy on professional equality and equal pay was presented. The new indicators for professional equality will be presented to the directors at a later meeting.

2.3.3.4 Summary of compensation principles and criteria for 2019

Principles and criteria for compensation in respect of 2019	Étienne Frechin Chairman	Matthieu Frechin Chief Executive Officer	Jean-Yves Ravinet Group Chief Operating Officer	Alain Masson Deputy CEO
Annual fixed compensation	€144,000	€262,285	€256,817	NA Employment contract
Annual variable compensation (100% achievement of targets)	NA	€185,760 (Sales, profit) 100%	€108,750 Quantitative criteria (sales, profit, Safety) 60% Qualitative criteria 40%	NA Employment contract
Long-term variable compensation (stock options, bonus shares)	NA	NA	NA	NA
Benefits in kind	Company car	Company car/food/ restaurant vouchers	Company car/food/ restaurant vouchers	Company car/food/ restaurant vouchers
Bonus				€2,170 (monthly) Monthly Chief Pharmacist bonus
Severance pay/non-compete clause			Performance conditions: EBIT for the previous year is higher or equal to 8% of net Group sales. Amount of severance pay: cannot exceed three months' wages	
Attendance fees (gross)	€8,571	€8,571		

2.3.3.5 Draft resolutions submitted for approval at the May 21, 2019 General Meeting

Approval of the principles and criteria for determining, allocating and distributing the items of total compensation and benefits in kind granted in respect of the 2019 financial year

The Shareholders' General Meeting, voting under the quorum and majority conditions required for ordinary shareholders' meetings, after having reviewed the Board of Directors' report on corporate governance, hereby approves the principles and criteria for the determination, allocation and distribution of fixed, variable and exceptional items comprising the total compensation and benefits in kind attributable to the Chairman (Resolution 6), the Chief Executive Officer (Resolution 7), the Chief Operating Officer, Jean-Yves Ravinet (Resolution 8), to the Deputy Chief Executive Officer, Alain Masson (Resolution 9) as presented in this report on page 77.

2.3.4 Employment contracts and corporate office

Dirigeants mandataires sociaux	Employment contract		Supplementary pension scheme		Compensation or benefits due or likely to be due as a result of the termination or change of duties		Compensation under a non-compete clause	
	Yes	No	Yes	No	Yes	No	Yes	No
Étienne Frechin Chairman		X		X		X		X
Matthieu Frechin Chief Executive Officer		X		X		X		X
Jean-Yves Ravinet Chief Operating Officer		X		X	X (1)			X
Alain Masson Chief Operating Officer	X (2)			X		X		X

(1) Severance pay was provided for in accordance with the law (subject to performance conditions), and the maximum amount, after taking into account any amounts paid under the employment contract, is in accordance with the provisions of the Middlenext Code. The maximum amount may not exceed three months' wages, in accordance with recommendation 16 of the Middlenext Code.
(2) See R1 in the summary table of the recommendations of the Middlenext code (see section 2.1.1).

2.3.5 Regulated agreements

Agreements and commitments authorized during the past financial year.

Executive concerned: Mr. Jean-Yves Ravinet, executive director, Group Chief Operating Officer.

The December 15, 2015 Board of Directors' meeting approved the payment of termination benefits, subject to performance conditions. The termination benefit paid to Mr. Jean-Yves Ravinet may not exceed three month's wages (see section 2.3.4 Employment contracts and corporate office).

2.3.6 Table of attendance fees and other compensation paid to non-executive directors

In accordance with recommendation 10 of the Middlenext Code, the Board defines the allocation of attendance fees based on attendance at Board and Committee meetings.

Non-executive directors	Net 2016 attendance fees paid in 2017	Net 2017 attendance fees paid in 2018
Louis Champel	€15,200	€17,000
Philippe Arnold	€15,200	€17,000
Marie-Josèphe Baud	€15,200	€17,000
Jean-Charles Frechin	€15,200	€17,000
Martine Frechin	€5,700	€6,000
François Frechin	€5,700	€6,000

2.4 Group shareholders

2.4.1 Vetoquinol SA shareholders

	December 31, 2018		December 31, 2017		December 31, 2016	
Shareholders	**Number of shares held**	**% of capital held**	**Number of shares held**	**% of capital held**	**Number of shares held**	**% of capital held**
Soparfin SCA	**7,455,087**	**62.74%**	7,415,773	62.41%	7,415,773	62.41%
Étienne Frechin family	**495,126**	**4.17%**	529,440	4.46%	529,440	4.46%
SUBTOTAL ÉTIENNE FRECHIN FAMILY	**7,950,213**	**66.91%**	**7,945,213**	**66.87%**	**7,945,213**	**66.87%**
FCPE (employee investment fund)		**0%**	-	0%	-	0%
Treasury shares	**41,101**	**0.35%**	25,580	0.22%	27,434	0.23%
Float	**3,890,588**	**32.74%**	3,911,109	32.92%	3,909,255	32.90%
TOTAL	**11,881,902**	**100%**	**11,881,902**	**100%**	**11 881 902**	**100%**

With regard to shareholder relations and recommendation 12 of the Middlenext Code, the Group Director of Finance and Legal Affairs met regularly with minority shareholders over the past year.

2.4.2 Break-down of voting rights

	December 31, 2018		December 31, 2017		December 31, 2016	
Actionnaires	**Voting rights held**	**% of voting rights**	**Voting rights held**	**% of voting rights**	**Voting rights held**	**% of voting rights**
Soparfin SCA	**14,870,860**	**72.76%**	14,830,546	72.41%	14,830,546	72.12%
Étienne Frechin family	**990,252**	**4.85%**	1,058,880	5.17%	1,058,880	5.15%
SUBTOTAL ÉTIENNE FRECHIN FAMILY	**15,861,112**	**77.61%**	**15,889,426**	**77.58%**	**15,889,426**	**77.27%**
FCPE (employee investment fund)	**-**	**0%**	-	0%	-	0%
Float	**4,535,745**	**-**	4,565,487	22.42%	4,646,276	22.82%
THEORETICAL VOTING RIGHTS	**20,437,958**	**-**	**20,480,493**	**-**	**20,563,136**	**-**
TOTAL EXERCISABLE VOTING RIGHTS	**20,396,857**	**-**	**20,454,913**	**-**	**20,535,702**	**-**

A double voting right was established by the Extraordinary General Meeting of July 7, 2006.

No Company employee holds part of the capital stock via a corporate savings plan or employee investment fund. However, the employees hold 0.43% of the capital stock in the form of directly registered shares. They are validly convened at regular intervals. As a general rule: they are either present or grant proxy to the Chairman. Shareholder employees exercise their right of control.

2.4.3 Control of the issuer by another company

The Vetoquinol Group is controlled by Soparfin SCA, a company wholly owned by the Étienne Frechin family. Demabel, a French private limited company also controlled by the Étienne Frechin family, is the limited partner of Soparfin SCA.

The following measures have been implemented to prevent control over the Company from being exercised in an abusive manner:

- the Board of Directors of Vetoquinol SA has appointed three independent members of the Board of Directors and the various specialized committees;
- on December 10, 2009 the Board of Directors resolved to separate the powers of Chairman and Chief Executive Officer with effect from April 1, 2010.

2.4.4 Agreement potentially leading to a change of control

No such agreement exists.

2.5 Options, performance shares and long-term incentive plans

2.5.1 Share purchase or subscription options granted during the year to each executive director

None.

2.5.2 Share purchase or subscription options exercised during the year by each executive director

None.

2.5.3 Bonus shares granted to each executive director during the year

None.

History of bonus shares granted to each corporate officer

Share granted to	Date of plan	Number of shares granted during the year	Share value according to the method adopted for the consolidated financial statements	Vesting date	End of lock-in period	Performance conditions
Jean-Yves Ravinet	March 22, 2017	5,000	214,516	March 23, 2018	Upon expiry of corporate office	

2.5.4 History of share purchase or subscription options granted

None.

2.5.5 Share subscription or purchase options granted to the first ten employees who are not corporate officers, and options exercised by them

None.

2.6 Summary table of delegations in relation to capital increases and other authorizations granted to the Board of Directors effective in 2018

GRANTED BY THE MAY 30, 2017 COMBINED ORDINARY AND EXTRAORDINARY GENERAL MEETING				
Authorization type	**Subject of authorization**	**Validity of the delegation**	**Cap**	**Use**
Capital increase (14th resolution)	Capital increase by capitalization of reserves or additional paid-in capital	For a period of 26 months	Authorized amount: €80 million	This authorization was not used in 2017 or 2018.
Capital increase (15th resolution)	Grant stock options to Group employees	For a period of 38 months	Maximum number of shares to be issued: 150,000	This authorization was not used in 2017 or 2018.

GRANTED BY THE MAY 29, 2018 COMBINED ORDINARY AND EXTRAORDINARY GENERAL MEETING				
Authorization type	**Subject of authorization**	**Validity of the delegation**	**Cap**	**Use**
Share buyback (14th resolution)	Purchase of Company shares, in order to: • issue shares to employees and/or corporate officers, • bolster the share's trading and liquidity via an investment service provider, • purchase shares to hold as treasury shares for subsequent reissue, • issue shares to holders of equity-based securities.	For a period of 18 months	Treasury shares limited to a maximum of 7% of the capital stock, i.e. 831,733 shares with a par value of €2.50 each	In 2018 under this authorization: 13,322 shares were purchased and 13,343 shares sold
Bonus shares (15th resolution)	Granting of existing or future bonus shares without pre-emptive subscription rights to employees and/or corporate officers of the Company or its associates	For a period of 38 months	Total number of bonus shares authorized: 1,000,000	This authorization was not used in 2018.
Capital increase (16th resolution)	Issue of shares with pre-emptive subscription rights	For a period of 26 months	Maximum authorized amount • Equity issues €10,000,000, • representing €5,000,000 in debt	This authorization was not used in 2018.
Capital increase (17th resolution)	Issue of shares to the public without pre-emptive subscription rights	For a period of 26 months	Maximum authorized amount • Equity issues €10,000,000, • representing €5,000,000 in debt	This authorization was not used in 2018.
Capital increase (18th resolution)	Issue of shares without pre-emptive subscription rights under a public offering/private placement	For a period of 26 months	Maximum authorized amount • Equity issues €10,000,000, • representing €5,000,000 in debt	This authorization was not used in 2018.
Setting of overall caps (20th resolution)	Setting of overall caps applicable to the delegation of powers to carry out capital increases through the issue of shares or securities giving access to the capital stock and in respect of securities giving access to the capital stock or to a debt security.		Maximum par value of capital increase resulting from issue of shares or other securities: €20 million Maximum aggregate par value of issues of securities representing Company debt giving access to the capital: €10 million	This authorization was not used in 2018.

2.7 Preparation of information in accordance with Article L. 225-100-3 of the French Commercial Code

Pursuant to Article L. 225-37-5 of the French Commercial Code, factors likely to have an impact in the event of a takeover bid include:

The Company's capital structure.	Vetoquinol SA shareholders sections 2.4.1 and 2.4.2 Breakdown and changes in capital stock and voting rights over the last three financial years
Restrictions provided for in the bylaws on the exercise of voting rights and share transfers or clauses of agreements brought to the Company's attention pursuant to Article L. 233-11.	Information on the Company, chapter 5: 5.5.3.3 Other provisions of the bylaws – rights, privileges and restrictions attached to each class of shares (Article 19-4 of the bylaws) 5.5.3.7 Crossing of thresholds (Article 10(2) of the bylaws)
Direct or indirect holdings in the Company's capital stock of which it is aware, pursuant to Articles L. 233-7 and L. 233-12.	Information on the Company, chapter 5: Other provisions of the bylaws – rights, privileges and restrictions attached to each class of shares (Article 19-4 of the bylaws) 5.5.3.7 Crossing of thresholds (Article 10(2) of the bylaws)
A list of the holders of any securities with special control rights and a description thereof.	Information on the Company, chapter 5: 5.5.2.7 Shareholders' agreement and special agreements
The control mechanisms provided for in any employee share ownership scheme, when control rights are not exercised by the employees.	Vetoquinol SA shareholders sections 2.4.1 & 2.4.2 Breakdown and changes in capital stock and voting rights over the last three financial years. 0.43% of the capital stock is held by employees in the form of directly registered shares. They are validly convened at regular intervals. As a general rule: they are either present or grant proxy to the Chairman. Shareholder employees exercise their right of control.
Agreements between shareholders of which the Company is aware and which may give rise to restrictions to share transfers and the exercise of voting rights	Information on the Company, chapter 5: 5.5.2.7 Shareholders' agreement and special agreements
Rules applicable to the appointment and replacement of members of the Board of Directors and to the amendment of the Company's bylaws.	Information on the Company, chapter 5: 5.5.3.2 Principal bylaw provisions relating to governing and management bodies (see Article 11 et seq of the bylaws)
The Board of Directors' powers, specifically the issue or buyback of shares.	Corporate governance report: chapter 2 2.6 Summary table of delegation of powers effective in 2018 Information on the Company, chapter 5: 5.5.2.8 Treasury stock/share buyback program/liquidity contract plan
Agreements entered into by the Company to be amended or terminated in the event of a change of control, unless the disclosure thereof, except in cases of a legal obligation to disclose, seriously harms its interests.	Information on the Company, chapter 5: 5.5.3.6 Provisions enabling the deferral or prevention of a change of control
Agreements providing for compensation for members of the Board of Directors or employees, if they resign or are dismissed without just cause, or if their employment is terminated as a result of a takeover bid or exchange offer.	Corporate governance report: chapter 2 2.3.4 Employment contracts and corporate office Consolidated financial statements: chapter 3 3.5.3.8 Employee benefits

2.8 Conditions for participating in General Meetings

Each Vetoquinol shareholder, regardless of the number of shares they hold, may attend and vote in General Meetings.

Each share is attached to a voting right. To learn more about all of the conditions for participating in General Meetings, whether directly or indirectly (via postal voting), please visit the website, refer to the bylaws or contact the Company directly.

3 CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS

3.1 Consolidated statement of comprehensive income

€000	Notes	2018	2017	2017 Adjusted for IFRS 15
Sales	3.5.8	367,941	352,173	356,600
Purchases consumed		(112,853)	(111,627)	(111,627)
Other purchases and external expenses	3.5.10	(78,662)	(73,005)	(76,357)
Staff costs	3.5.11	(115,325)	(111,035)	(111,035)
Taxes other than on income		(4.962)	(4.624)	(4.624)
Depreciation and impairment of fixed assets	3.5.20/3.5.21	(12,838)	(12,220)	(12,220)
Provisions and write-backs		(89)	81	81
Other operating income	3.5.13	6,199	7,220	6,145
Other operating expenses	3.5.13	(977)	(949)	(949)
EBIT		**48,435**	**46,014**	**46,014**
% of sales		*13.2%*	*13.1%*	*12.9%*
Non-recurring operating income and expenses	3.5.14	(215)	(360)	(360)
OPERATING INCOME		**48,221**	**45,654**	**45,654**
% of sales		*13.1%*	*13.0%*	*12.8%*
Income from cash and cash equivalents	3.5.16	439	414	414
Gross cost of debt	3.5.16	(190)	(369)	(369)
NET COST OF DEBT	**3.5.16**	**249**	**45**	**45**
Other financial income	3.5.16	2,403	2,350	2,350
Other financial expenses	3.5.16	(2,291)	(4,731)	(4,731)
NET FINANCIAL INCOME/(EXPENSE)	**3.5.16**	**361**	**(2,337)**	**(2,337)**
INCOME BEFORE TAX		**48,581**	**43,317**	**43,317**
Income tax expense	3.5.17	(12,171)	(8,365)	(8,365)
NET INCOME EXCL. EARNINGS OF ASSOCIATES		**36,411**	**34,952**	**34,952**
Earnings/(loss) of associates		(185)	(114)	(114)
NET INCOME FOR THE YEAR		**36,226**	**34,838**	**34,838**
Attributable to:				
Parent company shareholders		36,259	34,831	34,831
Non-controlling (minority) interests		(33)	7	7
Exchange differences on translation of foreign operations reclassifiable to P/L		(2,116)	(10,873)	(10,873)
Post-tax actuarial gains (losses) not reclassified to P/L		282	7	7
Other comprehensive income, net of tax		-	-	-
Total comprehensive income for the year, net of tax		**34,392**	**23,973**	**23,973**
Attributable to:				
Parent company shareholders		34,425	23,966	23,966
Non-controlling (minority) interests		(33)	7	7
Basic EPS (€)	3.5.18	3.06	2.94	2.94
Diluted EPS (€)	3.5.18	3.07	2.96	2.96

		2018	2017	2017 Adjusted for IFRS 15
Operating income		48,221	45,654	45,654
Provisions and write-backs recorded under non-recurring operating income and expenses		(759)	(374)	(374)
Provisions and write-backs		89	(81)	(81)
Depreciation and impairment of fixed assets		12,838	12,220	12,220
EBITDA		**60,389**	**57,419**	**57,419**
% of sales		*16.4%*	*16.3%*	*16.1%*

3.2 Consolidated statement of financial position

€000	Notes	Dec 31, 2018	Dec 31, 2017
ASSETS			
Goodwill	3.5.19	**80,701**	**75,874**
Other intangible assets	3.5.20	**42,878**	**42,512**
Property, plant and equipment	3.5.21/3.5.22	**56,178**	**54,624**
Investments in associates		**656**	**790**
Other financial assets	3.5.23	**1,220**	**1,335**
Deferred tax assets	3.5.17	**9,846**	**9,656**
Total non-current assets		**191,479**	**184,791**
Inventories	3.5.25	**77,156**	**69,380**
Trade and other receivables	3.5.26	**73,847**	**68,312**
Current income tax receivables		**2,385**	**5,725**
Other current assets	3.5.26	**3,086**	**2,741**
Cash and cash equivalents	3.5.27	**117,630**	**113,022**
Total current assets		**274,104**	**259,179**
TOTAL ASSETS		**465,583**	**443,970**
SHAREHOLDERS' EQUITY			
Capital stock and additional paid-in capital	3.5.28	**70,831**	**70,831**
Reserves		**256,006**	**229,999**
Net income for the year		**36,259**	**34,831**
Equity attributable to parent company shareholders		**363,096**	**335,662**
Non-controlling (minority) interests		**(12)**	**66**
Shareholders' equity		**363,084**	**335,727**
LIABILITIES			
Non-current financial liabilities	3.5.29	**196**	**6,630**
Deferred tax liabilities	3.5.17	**7,370**	**6,954**
Provisions for employee benefits	3.5.30	**7,795**	**8,085**
Other provisions	3.5.31	**471**	**557**
Other long-term liabilities		**2,533**	**10**
Government loans	3.5.32	**-**	**113**
Total non-current liabilities		**18,365**	**22,350**
Trade and other payables	3.5.33	**74,471**	**71,975**
Current income tax liabilities		**2,243**	**3,545**
Current financial liabilities	3.5.29	**6,478**	**8,800**
Other provisions	3.5.31	**929**	**1,549**
Other current liabilities	3.5.33	**15**	**24,**
Government loans (portion due in less than 1 yr)	3.5.32	**-**	**-**
Total current liabilities		**84,135**	**85,893**
Total liabilities		**102,500**	**108,243**
TOTAL EQUITY AND LIABILITIES		**465,583**	**443,970**

3.3 Consolidated statement of cash flows

€000	Notes	Dec 31, 2018	Dec 31, 2017
Consolidated net income		**36,226**	**34,838**
Elimination of non-cash items		**-**	**-**
Depreciation, amortization and provisions		**12,482**	**12,032**
Elimination of (earnings)/loss of associates		**185**	**114**
Income tax expense		**12,171**	**8,365**
Interest expense		**(42)**	**4**
Provisions for employee benefits		**64**	**72**
Impairment of available-for-sale financial assets		**-**	**-**
Capital gains (losses) on sales, net of tax		**311**	**(292)**
Other non-cash items		**-**	**-**
Income and expenses from share-based payments		**58**	**200**
Cash flows from operating activities		**61,455**	**55,333**
Tax paid		**(12,661)**	**(15,365)**
Change in working capital		**(10,909)**	**1,258**
Net cash flow from operating activities		**37,884**	**41,225**
Purchase of intangible assets		**(2,943)**	**(2,623)**
Purchase of PP&E		**(11,276)**	**(11,082)**
Acquisition of financial assets		**-**	**(1,156)**
Proceeds from sale of assets		**279**	**596**
Loan repayments / income from other financial assets		**(85)**	**32**
Net cash flow from (used by) business combinations	3.5.7	**(3,726)**	**(1,450)**
Net cash flow from (used by) investing activities		**(17,751)**	**(15,683)**
Capital increase		**-**	**-**
Net (purchase)/sale of treasury stock		**(977)**	**-**
Issuance of debt and other financial liabilities		**-**	**-**
Repayment of financial liabilities		**(8,672)**	**(8,671)**
Interest paid		**(225)**	**(410)**
Interest received		**247**	**386**
Dividends paid to parent company shareholders	3.5.28.4	**(5,455)**	**(5,098)**
Dividends paid to non-controlling (minority) interests		**-**	**(1)**
Investment subsidies and government loans		**(113)**	**(776)**
Other cash flows from financing activities			**-**
Net cash flow from (used by) financing activities		**(15,195)**	**(14,569)**
Exchange gains (losses)		**(360)**	**(1,246)**
Net change in cash		**4,579**	**9,727**
Opening net cash and cash equivalents		**112,997**	**103,270**
Change in cash and cash equivalents		**4,579**	**9,727**
Closing net cash and cash equivalents	**3.5.27**	**117,576**	**112,997**

3.4 Statement of changes in consolidated equity

€000	Capital stock and additional paid in capital (Note 3.5.28)	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, 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**
Net income for the year	-	-	-	-	-	36,259	36,259	(33)	**36,226**
Other comprehensive income net of tax	-	(2,116)	282	-	(1,834)	-	(1,834)	1	**(1,833)**
Comprehensive income for the year	**-**	**(2,116)**	**282**	**-**	**(1,834)**	**36,259**	**34,425**	**(32)**	**34,392**
Appropriation of earnings	-	-	-	34,831	34,831	(34,831)	-	-	**-**
Stock options exercised	-	-	-	(79)	(79)	-	(79)	-	**(79)**
Bond conversions	-	-	-	-	-	-	-	-	**-**
Treasury shares	-	-	-	(957)	(957)	-	(957)	-	**(957)**
Dividends paid by the consolidating company	-	-	-	(5,454)	(5,454)	-	(5,454)	(1)	**(5,455)**
IFRS 9 impact	-	-	-	(557)	(557)	-	(557)	-	**(557)**
Other	-	-	-	55	55	-	55	(44)	**11**
December 31, 2018	**70,831**	**(6,912)**	**(543)**	**263,460**	**256,006**	**36,259**	**363,096**	**(12)**	**363,084**

3

3.5 Notes to the consolidated financial statements

3.5.1 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 2,132 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, 70200 Lure, 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 19, 2019. They will be submitted for shareholder approval at the next Ordinary General Meeting, due to be held on May 21, 2019.

3.5.2 Key events

In July 2018, the Vetoquinol Group acquired a majority stake in Farmvet Systems Ltd. A start-up based in Northern Ireland, Farmvet Systems harnesses its digital expertise in order to enhance the role of the vet on cattle farms.

Vetoquinol's long-term vision is to integrate Farmvet Systems applications into its solutions offering; this vision involves creating an ecosystem in which digital technologies, diagnostic tools and drugs work together to optimize veterinary practice and the effective management of animal health and welfare. This acquisition was financed entirely by equity (net cash).

3.5.3 Accounting principles

3.5.3.1 General accounting principles and standards – new standards and amendments applicable in 2018

The 2018 consolidated financial statements of Vetoquinol were prepared in accordance with the framework published by the IASB and with IFRS as adopted by the European Union as of December 31, 2018.

The IFRS adopted by the European Union as of December 31, 2018 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 3.5.6.

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, 2018:

- 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.
- Annual improvements to IFRS (2014-2016)
- Amendments to IFRS 2 – Clarifications of classification and measurement of share based payment transactions.
- IAS 40 – Transfers of investment property.
- IFRIC 22 – Foreign currency transactions and advance consideration.

The Group has applied IFRS 15 "Revenue from contracts with customers" since January 1, 2018, in accordance with the simplified retrospective method. In order to prepare comparisons, the Group assessed the impact of the standard on its sales, resulting in a €4.4 million increase for 2017. In 2018, the application of IFRS 15 gave rise to an increase in sales compared to figures reported in 2017. This increase is offset primarily by changes recorded under "Other purchases and external expenses" (€3.3 million) and "Other operating income" (€1.1 million). This restatement has no impact on the Group's EBIT in 2017 or 2018, and therefore no impact on opening equity. The table provided below shows the impacts of IFRS 15:

€000	Reported sales	Sales adjusted for IFRS 15	Impact of IFRS 15 on sales
2017	**352,173**	**356,600**	4,427
2018	**367,941**	**367,941**	-

The only impact of the application of IFRS 9 "Financial instruments" from January 1, 2018 was the recognition of an additional provision relating to expected losses on Group trade receivables. This provision amounted to €0.6 million and was recognized through equity.

The other standards, interpretations and amendments applied did not have a material impact on the Group consolidated financial statements.

The Group has elected not to apply in advance standards, interpretations and amendments adopted by the European Union and applicable from January 1, 2019 and for subsequent accounting periods, namely:

- IFRS 16 – Leases.
- Amendments to IFRS 9 – Prepayment features with negative compensation
- 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 16, when entering into a lease agreement with fixed payments, this standard requires a liability to be recorded in the balance sheet that corresponds to the discounted future payments, offset by a right-of-use asset that is depreciated over the term of the contract.

IFRS 16 will be applied as of January 1, 2019 in accordance with the "modified retrospective" transition approach, which provides for recognition of a liability at the transition date equal solely to the discounted residual rents, offset by a right-of-use asset adjusted for the amount of rent paid in advance or the amount of accrued lease payments. All impacts of the transition will be recorded against equity. The standard provides for various simplification measures during the transition. The Group has applied in particular those that exclude contracts maturing in less than twelve months and contracts for low-value assets, and those that allow replicating the contracts classified as finance leases under IAS 17.

The amount of the liability is highly dependent on the assumptions made regarding the duration of the commitments and the discount rate. The duration of the contract used to calculate the liability is the duration of the initially negotiated contract, without taking into account early termination or extension options, except in special cases.

The Group has set up a dedicated IT tool to collect contract data and perform the calculations required under the standard. The process of reviewing contracts and collecting the data required to calculate the liability at the transition date is nearing completion. The balance sheet impact of first-time application of IFRS 16 will be €9-12 million, to be compared to the amount of lease commitments at December 31, 2018, i.e. €11 million (see Note 3.5.15.2).

Most of the leases relate to the Group's business premises. The impact of the application of IFRS 16 on EBIT and net income will be immaterial.

3.5.3.2 Consolidation and business combinations

3.5.3.2.1 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 3.5.19). Conversely, if the share of assets, liabilities and contingent liabilities at fair value exceeds the acquisition cost, the excess is posted immediately to income.

Non-controlling 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-Zenoaq KK (Japan), which is recognized using the equity method.

Group companies are presented under Note 3.5.44 "Group companies".

3.5.3.3 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 events 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.

3.5.3.4 Foreign currency translation

3.5.3.4.1 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.

3.5.3.4.2 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.

3.5.3.4.3 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.

3.5.3.5 IFRS 15 - Revenue recognition

Pursuant to IFRS 15, income from ordinary activities corresponds to the fair value of the financial consideration the Group expects to receive in return for providing goods or services to its customers.

The Group follows these steps for revenue recognition:

- identifying the contract,
- identifying the different performance obligations of the contract,
- determining the transaction price,
- allocating the transaction price,
- recognizing revenues when (or as) the entity satisfies a performance obligation.

3.5.3.6 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.

3.5.3.7 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.

3.5.3.8 Employee benefits

3.5.3.8.1 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 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.

3.5.3.8.2 Share-based payments

None.

3.5.3.9 Leases

3.5.3.9.1 Operating leases

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

3.5.3.9.2 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.

3.5.3.10 Intangible assets

3.5.3.10.1 Goodwill

Goodwill is valued at cost less accumulated impairment losses. See Note 3.5.3.3. 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 3.5.3.12. 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.

3.5.3.10.2 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.

3.5.3.10.3 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 line	5 to15 years
Software	Straight line	3 to 5 years
Products and/or Mas	Straight line	10 to 15 years
Other inc. customer relations	Straight line	10 years

3.5.3.11 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
Constructions	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 to10 years
Other PP&E	Straight line	5 years

3.5.3.12 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.

3.5.3.13 Financial assets available for sale

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

3.5.3.14 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.

3.5.3.15 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 3.5.4.1 below provides quantified details on the use of these instruments.

3.5.3.16 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.

3.5.3.17 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.

In addition to this systematic provision (IAS 39), the Group recognizes impairment for expected losses on trade receivables, in accordance with IFRS 9.

3.5.3.18 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).

3.5.3.19 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.

3.5.3.20 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.

3.5.3.21 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.

3.5.3.22 Non-current assets held for sale

None.

3.5.3.23 Subventions publiques

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.

3.5.3.24 Dividend distribution

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

3.5.4 Financial risk management

3.5.4.1 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 hedging instruments outstanding. For this reason, IAS 39 rules pertaining to such instruments were not found to apply to 2018 or the prior year.

The Group is a net buyer of USD amounting to around $15 million a year. The Group is net seller of other currencies in circulation in the Group, such as CAD (c. CAD 15 million) and GBP (c. GBP 10 million).

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 2018 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 €19.1 million decrease in consolidated sales (2017: €18.4 million) and a €2.5 million decrease in consolidated operating income (2017: €2.2 million).

Conversely, a 10% reduction in the value of the euro compared to other currencies would have resulted in a €23.3 million increase in sales (2017: €22.5 million) and a €3.0 million increase in consolidated operating income (2017: €2.7 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, 2018											
Trade receivables	29,739	11,308	6,938	4,717	3,481	1,142	1,356	667	515	3,734	**63,597**
Impairment of trade receivables	**(1,738)**	**(136)**	**(2)**	**(1)**	**(199)**	**(439)**	**(58)**	**(157)**	**(53)**	**(85)**	**(2,868)**
Net trade receivables	**28,002**	**11,172**	**6,936**	**4,716**	**3,281**	**703**	**1,297**	**510**	**462**	**3,650**	**60,729**
Prepayments	665	135	533	1	16	4	4	-	-	5	**1,363**
Prepaid expenses	707	729	948	73	54	102	2	1	-	182	**2,798**
Receivables from government agencies	8,231	-	269	40	323	181	645	5	3	407	**10,105**
Other operating receivables	975	18	93	39	-	19	178	-	-	-	**1,321**
Miscellaneous receivables	346	-	9	-	76	138	23	-	14	11	**617**
Provisions	-	-	-	-	-	-	-	-	-	-	**-**
Total other receivables	**10,924**	**883**	**1,851**	**154**	**469**	**444**	**851**	**6**	**16**	**604**	**16,204**
Trade and other payables	47,688	7,457	8,252	2,992	2,887	2,599	828	390	275	1,117	**74,486**
Net trade and other payables	**47,688**	**7,457**	**8,252**	**2,992**	**2,887**	**2,599**	**828**	**390**	**275**	**1,117**	**74,486**
Total gross balance sheet exposure	**(8,762)**	**4,597**	**535**	**1,877**	**864**	**(1451)**	**1,320**	**126**	**203**	**3,137**	**2,447**

€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)**

3.5.4.2 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, 2018, 99.0% of the Group's financial liabilities (including bank overdrafts) bore interest at a fixed rate (2017: 99.6%). Floating rate commitments amounted to €0.1 million as of December 31, 2018 (2017: €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 2018 financial statements, a 100 basis point increase in interest rates would have increased earnings by €580,000 (2017: €739,000 increase in earnings).

3.5.4.3 Liquidity risk management

The Group's cash – excluding bank overdrafts – stood at €117.6 million as of December 31, 2018 (2017: €113.0 million). Cash equivalents comprise fixed-rate term deposits with major retail banks amounting to €59.2 million (2017: €38.9 million).

2018 Group free cash flow before net cost of debt and tax amounted to €61.5 million, compared to €55.3 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 2017 and 2018, 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 2017 and 2018, 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 shareholders' general meetings.

In light of its financial position at December 31, 2018, the Group considers that it is not exposed to liquidity risk. As of December 31, 2018, the Group's cash was largely sufficient to meet its financial liabilities due in less than one year. Net debt amounted to €111.0 million as of December 31, 2018, compared to €97.5 million as of December 31, 2017.

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.

3.5.4.4 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 5.4% of consolidated revenues in 2018 (2017: 5.1%).

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, 2018 this amounted to €69.2 million (2017: €65 million).

3.5.5 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 3.5.28). The Group did not change its capital management policy during the course of the year.

3.5.6 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.

3.5.7 Business combinations

3.5.7.1 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.

The purchase price allocation was complete as of December 31, 2018, and the Group recognized and valued the intangible assets. Consequently, goodwill was revised.

3

€000	TOTAL
Acquisition of the products of VetCom in March 2017*	**1,800**
Total value of assets	**242**
Value of assets and liabilities identified in 2017	**-**
GOODWILL AT DEC 31, 2017	**1,558**
Value of products identified in 2018	**1,558**
GOODWILL AT DEC 31, 2018	**-**

** 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.*

3.5.7.2 Business combinations completed in 2018

In July 2018, the Vetoquinol Group acquired a majority stake in Farmvet Systems Ltd (76.90%). A start-up based in Northern Ireland, Farmvet Systems harnesses its digital expertise in order to enhance the role of the vet on cattle farms.

This acquisition was financed entirely by equity (net cash).

Given the nature of the transaction, any additional information received when finalizing the purchase price allocation during a 12-month period following the acquisition date may lead to adjustments on certain items in the Farmvet System Ltd purchase price allocation. As of 31 December 2018, the purchase price allocation was ongoing; excluding easily identifiable assets and liabilities (property, plant and equipment, inventories, receivables and payables), the entire premium on acquisition is posted to goodwill.

Regarding the remaining shares (23.10% of capital stock), the Group entered into a put/call agreement with the minority shareholders with the intention of acquiring the entire capital stock by 2021. This put/call option was valued at €2.6 million at 2018 year-end.

€000	TOTAL
Acquisition of majority stake in Farmvet	**3,734**
Value of the put/call option relating to the subsequent acquisition of Farmvet shares	**2,552**
Value of identified assets and liabilities as of acquisition date	**(147)**
Currency differences	**(60)**
GOODWILL AT DEC 31, 2018	**6,373**

3.5.7.3 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**
Additional payment relating to acquisition of VetCom products	**-**
Acquisition of majority stake in Farmvet	**3,734**
Farmvet liquid assets as of acquisition date	**8**
AMOUNT SHOWN IN 2018 CASH FLOW STATEMENT	**3,726**

3.5.8 Operating segments – IFRS 8

All 2018 and 2017 revenues came from sales of veterinary products and services.

3.5.8.1 2018 operating segment results

€000 **By asset location**	**Europe**	**Americas**	**Asia/Pacific (rest of world)**	**Consolidated total**
Sales	284,441	148 113	36,328	**468,882**
Inter-segment sales	(81,106)	(19,800)	(35)	**(100,941)**
Total external sales	**203,335**	**128,313**	**36,293**	**367,941**
EBIT	**29,301**	**15,246**	**3,888**	**48,435**
Non-recurring operating income and expenses	(100)	(131)	16	**(215)**
Operating income	**29,201**	**15,115**	**3,904**	**48,221**
Net financial income/(expense)	-	-	-	**361**
Income before tax	**-**	**-**	**-**	**48,581**
Income tax	-	-	-	**(12,171)**
Income after tax	**-**	**-**	**-**	**36,411**
Earnings/(loss) of associates	-	-	-	**(185)**
CONSOLIDATED NET INCOME	**-**	**-**		**36,226**

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	243,503	155,111	70,268	**468,882**
Inter-segment sales	(63,554)	(28,913)	(8,474)	**(100,941)**
TOTAL EXTERNAL SALES	**179,949**	**126,198**	**61,794**	**367,941**

3.5.8.2 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)**
Operating income	**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**

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

€000	**Europe**	**Americas**	**Asia/Pacific (rest of world)**	**Consolidated total**
2018				
Depreciation and amortization	(9,033)	(3,191)	(614)	**(12,838)**
Provisions and write-backs	439	(641)	112	**(89)**
Goodwill impairment	-	-	-	**-**
Expenses on grants of bonus shares	(75)	-	-	**(75)**
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)**

No impairment was posted directly to other comprehensive income in 2017 or 2018.

3.5.8.4 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, 2018				
Assets	294,742	126,564	44,278	**465,583**
Liabilities	55,084	36,936	10,480	**102,500**
Acquisition of assets	12,956	1,421	93	**14,471**
Acquisition of assets – IFRS 3 – Business combinations	9	-	-	**9**
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**

3.5.9 R&D costs

R&D costs incurred and expensed in 2018 amounted to €26.4 million, or 7.2% of sales (2017: €25.5 million, or 7.2% of sales).

3.5.10 Other purchases and external expenses

€000	2018	2017
General subcontracting	**7,469**	3,390
Lease and rental payments	**6,226**	6,421
Maintenance	**4,281**	4,284
Insurance	**1,121**	1,092
Analyses and research	**1,770**	2,651
Third-party staff	**1,782**	1,502
Fees and commissions paid to intermediaries	**16,851**	15,495
Advertising, publications, public relations	**13,380**	12,756
Freight and collective transportation of staff	**7,474**	7,318
Business travel and entertainment	**12,013**	11,730
Postage and telecommunications	**1,661**	1,879
Royalties on concessions, patents, licenses, trademarks, etc.	**1,554**	1,582
Other external services	**2,345**	2,274
Miscellaneous	**736**	634
TOTAL	**78,662**	**73,005**

3.5.11 Staff costs

€000	2018	2017
Wages and salaries	**84,826**	81,656
Social security charges (*)	**27,625**	27,172
Severance pay	**2,059**	1,299
Employee benefits (Note 3.5.30)	**725**	611
Employee long-term benefits – actuarial gains and losses recognized in the income statement	**16**	36
Expenses on grants of stock options	**-**	-
Expenses on grants of bonus shares	**75**	260
TOTAL EMPLOYEE BENEFITS	**115,325**	**111,035**

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

3.5.12 Share-based payments – bonus shares

A new bonus share plan was implemented in 2017; the impact of applying IFRS 2 amounted to €75,000 in 2018 (€260,000 in 2017). The value of bonus shares is determined on the basis of the share price as of the allotment date, less the present value of dividends foregone during the vesting period (Black-Scholes valuation model). There was no bonus share plan outstanding at 2018 year-end.

3.5.13 Other operating income and expenses

€000	2018	2017
Operating grants	**29**	10
Investment grants transferred to income for the year	**11**	11
Gains on asset sales	**279**	596
Research tax credit (Crédit d'Impôt Recherche - CIR)	**4,504**	4,137
Other income	**1,376**	2,465
OTHER OPERATING INCOME	**6,199**	**7,220**
Book values of assets sold	**(167)**	(295)
Other expenses	**(810)**	(653)
OTHER OPERATING EXPENSES	**(977)**	**(949)**
TOTAL	**5,223**	**6,271**

Other expenses included bad debt losses of €0.3 million. In 2017, other expenses included bad debt losses of €0.1 million.

Other income consists of:

€000	2018	2017
Fees and royalties	**-**	1,075
Freight costs passed on to customers	**447**	487
Compensation received	**14**	160
Social security refunds	**2**	7
Other	**914**	735
TOTAL	**1,376**	**2,465**

3.5.14 Non-recurring operating income and expenses

€000	2018	2017
Non-recurring operating income	**16**	**1**
Impairment of intangible assets (France)	**(100)**	-
Restructuring costs (Australia)	**-**	(78)
Restructuring costs (UK)	**-**	(103)
Restructuring costs (Canada)	**(131)**	(181)
Other non-recurring operating expenses	**(231)**	**(361)**
TOTAL	**(215)**	**(360)**

3.5.15 Leases

3.5.15.1 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.

3.5.15.2 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, 2018	Dec 31, 2017
Less than 1 year	3,805	5,881
1 to 5 years	6,399	6,999
More than 5 years	771	601
Total minimum payments	10,976	13,482
TOTAL MINIMUM FUTURE SUBLEASE INCOME RECEIVABLE	-	-

Operating lease expenses for the year

€000	Dec 31, 2018	Dec 31, 2017
Minimum payments recognized	6,226	6,421
Conditional rents recognized	-	-
Sublease income recognized	-	-

3.5.16 Net financial income/(expense)

€000	Dec 31, 2018	Dec 31, 2017
Interest income from cash and cash equivalents	439	414
Net gains on sale of cash equivalents	-	-
INCOME FROM CASH AND CASH EQUIVALENTS	439	414
Interest on borrowings and overdrafts	(190)	(369)
Interest on finance leases	-	-
GROSS COST OF DEBT	(190)	(369)
NET INCOME FROM CASH AND CASH EQUIVALENTS	249	45

€000	Dec 31, 2018	Dec 31, 2017
Currency gains	2,310	2,195
Other income	94	155
OTHER FINANCIAL INCOME	2,403	2,350
Financial expenses related to employee benefits	(64)	(72)
Currency losses	(2,063)	(4,532)
Other expenses	(164)	(127)
OTHER FINANCIAL EXPENSES	(2,291)	(4,731)
OTHER FINANCIAL INCOME AND EXPENSES	112	(2,382)

3.5.17 Income tax

The 2018 tax rate used to calculate deferred taxes for French companies was 34.43% (2017: 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, 2018	Dec 31, 2017
Current income tax expense	**(12,469)**	(12,331)
Deferred tax income/(expense)	**298**	3,966
TOTAL	**(12,171)**	**(8,365)**

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

€000	Dec 31, 2018	Dec 31, 2017
Net income for the year	**36,227**	**34,838**
CIR restatement	**(4,475)**	(4,091)
Apprenticeship tax credit (CIA) restatement	**-**	-
CVAE restatement	**(1,165)**	(1,110)
(Earnings)/loss of associates	**183**	114
Income tax expense	**12,171**	8,365
Pre-tax earnings adjusted for tax credits	**42,941**	**38,117**
Theoretical tax at 34.43%	**14,785**	**13,124**
Non-deductible expenses and non-taxable income	**(320)**	209
Impact of change in tax rate	**425**	(2,968)
Change in tax losses b/fwd and c/fwd	**31**	(230)
Tax rate differences for foreign companies	**(3,989)**	(2,707)
Other taxes (under IAS 12) (*)	**1,237**	1,381
Impact of reduced rate	**(26)**	(27)
Taxes with no tax base (tax credits, withholding taxes, etc.)	**139**	143
Miscellaneous	**(112)**	(559)
Effective tax	**12,171**	**8,365**
Effective tax rate	**28.34%**	**21.95%**

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

Analysis of movements in deferred tax assets during the year:

€000	Dec 31, 2018	Dec 31, 2017
Opening balance	**9,656**	**8,952**
Recognized in the income statement	**349**	461
Recognized in other comprehensive income	**(177)**	(51)
Changes in consolidation scope	**-**	-
Reclassifications	**299**	746
Exchange differences	**(281)**	(452)
Closing balance	**9,846**	**9,656**

Analysis of movements in deferred tax liabilities during the year:

€000	Dec 31, 2018	Dec 31, 2017
Opening balance	**6,954**	**10,834**
Recognized in the income statement	**51**	(3,505)
Recognized in other comprehensive income	**-**	-
Changes in consolidation scope	**-**	-
Restatement of deferred tax liabilities via goodwill	**-**	-
Reclassifications	**299**	746
Exchange differences	**66**	(1,120)
Closing balance	**7,370**	**6,954**

Unrecognized deferred tax assets arising from 2018 tax losses reported by subsidiaries amounted to €1.1 million (2017: €0.7 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, 2018	Dec 31, 2017
Intangible assets	**(2,556)**	(2,635)
Component-based approach (net)	**268**	331
Other temporary differences (net)	**1,614**	1,987
Internal margin on inventories	**2,888**	2,544
Internal capital gain on sales of fixed assets	**-**	-
Restatement of finance leases	**(39)**	(46)
Employee benefits	**1,727**	1,797
Tax losses carried forward	**-**	-
Regulated provisions	**(1,404)**	(1,253)
Other (net)*	**(21)**	(22)
TOTAL	**2,476**	**2,702**
Of which: Deferred tax assets	**9,846**	9,656
Deferred tax liabilities	**(7,370)**	(6,954)

* *Including exchange differences*

3.5.18 Earnings per share

3.5.18.1 Résultat de base par action

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, 2018	Dec 31, 2017
Net income attributable to holders of common shares (€000)	**36,259**	34,831
Weighted average number of common shares	**11,881,902**	11,881,902
Treasury shares at end of period (direct holding)	**(37,994)**	(24,596)
Treasury shares at end of period (liquidity contract)	**(3,107)**	(984)
Adjusted weighted average number of shares outstanding over the period	**11,840,801**	11,856,322
BASIC EARNINGS PER SHARE (€)	**3.06**	**2.94**

3.5.18.2 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, 2018, just as at December 31, 2017, potentially dilutive instruments include bonus shares granted.

	Dec 31, 2018	Dec 31, 2017
Net income attributable to holders of common shares (€000)	**36,259**	34,831
Expenses on grants of bonus shares	**75**	**260**
Earnings used to calculate diluted earnings (€000)	**36,334**	**35,091**
Weighted average number of shares outstanding over the year	**11,881,902**	11,881,902
Treasury shares at end of period (direct holding)	**(37,994)**	(24,596)
Treasury shares at end of period (liquidity contract)	**(3,107)**	(984)
Adjusted weighted average number of shares outstanding over the period	**11,840,801**	**11,856,322**
Dilutive effect of bonus share grants	**-**	-
Number of shares including dilutive effect	**11,840,801**	**11,856,322**
Diluted earnings per share (€)	**3.07**	2.96

3.5.19 Goodwill

€000	Dec 31, 2018	Dec 31, 2017
At January 1		
Gross value	**75,874**	78,689
Opening book value	**75,874**	78,689
Acquisitions related to business combinations	**6,432**	1,558
Impairment losses recognized in the income statement	**-**	-
Reclassifications/allocation of goodwill	**(1,558)**	-
Exchange differences, net	**(47)**	(4,373)
At December 31		
Gross value	**80,701**	75,874
Closing book value	**80,701**	**75,874**

3.5.19.1 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, Vetoquinol Australia and Farmvet Systems.

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Analysis of goodwill allocated to these CGUs:

€000	Dec 31, 2018	Dec 31, 2017
Vetoquinol Biowet Poland	**2,216**	2,282
Vetoquinol GmbH/Germany	**1,705**	1,705
Vetoquinol UK	**393**	396
Farmvet Systems	**6,373**	-
Vetoquinol Ireland	**421**	421
Vetoquinol Switzerland	**1,000**	963
Vetoquinol Austria	**772**	772
Vetoquinol Czech Republic	**935**	941
Vetoquinol USA	**24,027**	23,119
Vetoquinol Belgium	**500**	500
Vetoquinol Italy	**6,465**	6,465
Vetoquinol Scandinavia	**1,074**	1,119
Vetoquinol Asia	**40**	38
Vetoquinol India	**8,910**	9,274
Vetoquinol SA France	**14,404**	15,981
Vetoquinol Australia	**1,617**	1,678
Vetoquinol Canada	**9,850**	10,220
Total	**80,701**	**75,874**

The differences in value between 2017 and 2018 result from the Farmvet Systems acquisition and exchange differences on goodwill denominated in foreign currencies.

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 2019 budget projections drawn up by management and the following assumptions for the years 2020-2023:

- Sales growth:
  - Western Europe: 1.4%
  - Eastern Europe: between 1.0% and 2.0%,
  - North America: between 3.0% and 5.0%,
  - Asia: 8.0%
  - Oceania: 3.0%
- Growth to infinity of 1.7% to 5.0%, 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 2019 budget applied to 2020 and the following years for the December 31, 2018 test), adjusted for non-recurring items.
- The discount rate varies by country, ranging from 7.16% to 14.56%.

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 1.0% and a 7.5% 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 2018 or at year-end 2017.

3.5.20 Intangible assets

€000	Concessions, licenses and patents	Software	Trademarks	Other	Total
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 AMORTIZATION	**(14,332)**	**(14,125)**	**(1,213)**	**(33,115)**	**(62,785)**
NET BOOK VALUE	**6,226**	**3,730**	**12,654**	**19 903**	**42,512**
Acquisitions	756	2,265	-	110	**3,131**
Acquisitions through business combinations	-	-	-	-	**-**
Change in consolidation method	-	-	-	-	**-**
Disposals	-	(18)	(8)	-	**(26)**
Reclassifications	1,558	(89)	-	-	**1,468**
Amortization	(673)	(1,021)	(943)	(1,781)	**(4,418)**
Deconsolidation	-	-	-	-	**-**
Exchange differences, net	(52)	(22)	(259)	543	**210**
AT DECEMBER 31, 2018					
GROSS BOOK VALUE	**22,848**	**19,740**	**13,426**	**54,214**	**110,228**
ACCUMULATED AMORTIZATION	**(15,032)**	**(14,896)**	**(1,983)**	**(35,439)**	**(67,350)**
NET BOOK VALUE	**7,815**	**4,844**	**11,444**	**18,775**	**42,878**

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, 2018:

- ophthalmic products purchased in 2008 from VetCom (Canada) valued at €583,000 (2017: €647,000),
- an exclusive distribution contract for Zylkène products valued at €1,960,000 (2017: €2,485,000),
- product lists arising from the Wockhardt animal health division acquisition valued at €1,307,000 (2017: €1,876,000),
- product lists arising from the Farmagricola acquisition valued at €106,000 (2017: €168,000),
- product lists arising from the Bioniche animal health division acquisition valued at €12,352,000 (2017: €13,028,000).

3.5.21 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, 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
Additions	359	1,868	1,931	965	6,217	**11,340**
Acquisitions through business combinations	-	-	-	(9)	-	**(9)**
Change in consolidation method	-	-	-	-	-	**-**
Disposals	(41)	(323)	(52)	(90)	(58)	**(564)**
Depreciation	(98)	(2,966)	(3,827)	(1,456)	-	**(8,348)**
Exchange differences, net	(155)	(368)	(264)	(57)	(33)	**(877)**
Deconsolidation	-	-	-	-	-	**-**
Reclassifications	-	1,380	1,635	516	(3,537)	**(6)**
AT DECEMBER 31, 2018						
GROSS BOOK VALUE	4,360	80,743	66,500	16,878	6,763	175,243
ACCUMULATED DEPRECIATION	(1,031)	(56,662)	(48,150)	(13,222)	-	(119,065)
NET BOOK VALUE	3,329	24,081	18,350	3,655	6,763	56,178

3.5.21.1 Finance leases

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

€000	Dec 31, 2018	Dec 31, 2017
Land		
Gross value	**101**	101
Net book value	**101**	**101**
Buildings		
Gross value	**10,027**	10,027
Accumulated depreciation	**(10,007)**	(9,975)
Net book value	**21**	**52**
Other PP&E		
Gross value	**-**	-
Accumulated depreciation	**-**	-
Net book value	**-**	**-**
Total		
Gross value	**10,129**	10,129
Accumulated depreciation	**(10,007)**	(9,975)
Net book value	**122**	**153**

The value of commitments to purchase property, plant and equipment is stated in Note 3.5.37.3.

3.5.22 Financial assets available for sale

At the end of 2017, the plant in Australia was still available for sale. Its accounting valuation stood at AUD 435,000 (€284,000).

The Group sold this plant in 2018. At 2018 year-end, the Group held no more assets available for sale.

3.5.23 Other financial assets

Other financial assets at December 31 include equity investments in PAT (Plant Advanced Technologies) amounting to €400,000. In November 2017 Vetoquinol acquired a stake in PAT, a company headquartered in Vandœuvre-lès-Nancy. The transaction was carried out via a €500,000 reserved capital increase at a price of €25 per share, following which Vetoquinol held an equity stake of just over 2% in PAT. An impairment charge of €100,000 was recorded for this investment in 2018.

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.

3.5.24 Derivatives

As stated in Note 3.5.3.15, 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, 2018, there were two interest rate swaps outstanding with €25,000 negative fair value (2017: negative €110,000).

€000	Dec 31, 2018			Dec 31, 2017		
	Nominal	Juste valeur positive	Juste valeur négative	Nominal	Juste valeur positive	Juste valeur négative
Forward currency contract	-	-	-	-	-	-
Over-the-counter currency options	-	-	-	-	-	-
Currency derivatives	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate swaps	**6,378**	**-**	**(25)**	15,033	-	(110)
Interest rate options	-	-	-	-	-	-
Interest rate derivatives	**6,378**	**-**	**(25)**	**15,033**	**-**	**(110)**

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3.5.25 Inventories

3.5.25.1 Analysis of inventories by type

€000	Dec 31, 2018			Dec 31, 2017		
	Gross value	Impairment	Net book value	Gross value	Impairment	Net book value
Raw materials & consumables	**21,053**	**(276)**	**20,777**	17,657	(344)	17,313
Other supplies	**-**	**-**	**-**	-	-	-
Work in progress	**13,064**	**(646)**	**12,419**	12,696	(474)	12,222
Semi-finished and finished goods	**25,172**	**(1,121)**	**24,051**	23,083	(552)	22,530
Goods purchased for resale	**19,940**	**(31)**	**19,910**	17,499	(185)	17,314
TOTAL	**79,230**	**(2,074)**	**77,156**	**70,935**	**(1,555)**	**69,380**

3.5.25.2 Analysis of inventory impairment

€000	Dec 31, 2016	Additions	Reclassifications	Write-backs	Currency differences	Dec 31, 2017
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**

€000	Dec 31, 2017	Additions	Reclassifications	Write-backs	Currency differences	Dec 31, 2018
Raw materials & consumables	344	441	(6)	(497)	(6)	276
Work in progress	474	708	-	(535)	(1)	646
Semi-finished and finished goods	552	1,273	29	(713)	(20)	1,121
Goods purchased for resale	185	29	(5)	(177)	(1)	31
TOTAL	**1,555**	**2,451**	**18**	**(1,923)**	**(28)**	**2,074**

3.5.26 Trade and other receivables

€000	Dec 31, 2018	Dec 31, 2017
Trade receivables	**63,597**	60,255
Impairment of trade receivables	**(2,868)**	(3,072)
Net trade receivables	**60,729**	**57,183**
Prepayments	**1,363**	960
Receivables from government agencies	**10,105**	8,202
Other operating receivables	**1,321**	1,482
Miscellaneous receivables	**328**	484
Provisions	**-**	-
Other receivables	**13,118**	11,129
Total trade and other receivables	**73,847**	**68,312**
Prepaid expenses	**2,798**	2,326
Loans and guarantees	**288**	414
Other	**-**	-
TOTAL OTHER CURRENT ASSETS	**3,086**	**2,741**

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.

The only impact of the application of IFRS 9- "Financial instruments" from January 1, 2018 was the recognition of an additional provision, relating to expected losses on the Group's trade receivables. This provision amounted to €0.6 million and was recognized through equity.

3.5.27 Cash and cash equivalents

€000	Dec 31, 2018	Dec 31, 2017
Marketable securities	**59,172**	38,947
Cash	**58,458**	74,074
Cash and cash equivalents in the balance sheet (assets)	**117,630**	**113,022**

Total cash and cash equivalents in the cash flow statement include:

€000	Dec 31, 2018	Dec 31, 2017
Total cash and cash equivalents in the balance sheet	**117,630**	113,022
Bank overdrafts (Note 3.5.29)	**(54)**	(25)
Cash and cash equivalents in the CFS	**117,576**	**112,997**

3.5.28 Capital stock and additional paid-in capital

€000	Nombre d'actions	Capital social	Primes d'émission	Total
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, 2018	**11,881,902**	**29,705**	**41,126**	**70,831**

At December 31, 2018, the capital stock amounted to €29,704,755 (2017: €29,704,755) divided into 11,881,902 shares (2017: 11,881,902 shares), each with a par value of €2.50.

3.5.28.1 Bonus shares

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.

The Board of Directors did not grant any further bonus shares in 2018.

The bonus shares granted by the Board of Directors on March 22, 2017 have been vested – consequently, 6,000 bonus shares were vested to Vetoquinol SA employees (1,000) and corporate officers (5,000). At December 31, 2018, there were no outstanding bonus shares granted (2017: 6,000 bonus shares granted).

3.5.28.2 Stock options

None.

3.5.28.3 Treasury stock excluding liquidity contract

As of December 31, 2018, Vetoquinol held 37,994 treasury shares (2017: 24,596).

3.5.28.4 Dividend distribution

The shareholders' general meeting of May 29, 2018 approved the distribution of dividends attributable to FY 2017 amounting to €5,465,672.92, i.e. €0.46 per share (2017: €5,109,217.86 attributable to FY 2016, i.e. €0.43 per share). At the time the dividend was paid, Vetoquinol held a number of these shares as treasury shares. The dividends attributable to these shares were not paid but were allocated to retained earnings. The total dividends paid out in 2018 amounted to €5,453,756.32 (2017: €5,097,500.79).

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

The Board has proposed a 2018 dividend payout of €0.48 per share payable on June 4, 2019.

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3.5.29 Financial liabilities

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

€000	Dec 31, 2018	Dec 31, 2017
Borrowings and other financial liabilities	**196**	6,630
Finance lease liabilities (Note 3.5.15.1)	**-**	-
Total non-current financial liabilities	**196**	**6,630**
Borrowings and other financial liabilities	**6,424**	8,775
Finance lease liabilities (Note 3.5.15.1)	**-**	-
Bank overdrafts	**54**	25
Total current financial liabilities	**6,478**	**8,800**
TOTAL FINANCIAL LIABILITIES	**6,674**	**15,430**

The breakdown by maturity of financial liabilities is as follows:

€000	Total	< 1 year	1-5 years	> 5 years
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**	**-**
At December 31, 2018				
Borrowings and other financial liabilities	6,620	6,424	196	-
Finance lease liabilities	-	-	-	-
Bank overdrafts	54	54	-	-
TOTAL FINANCIAL LIABILITIES	**6,674**	**6,478**	**196**	**-**

3.5.29.1 Reconciliation between opening and closing balances

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

€000	Dec 31, 2017	Cash flow	Non-cash transactions				Dec 31, 2018
			Acquisitions	Currency gains/ losses	Reclassifications	Changes in fair value	
Borrowings and other financial liabilities - non-current	6,582	-	-	(8)	(6,378)	-	**196**
Borrowings and other financial liabilities – current	8,714	(8,692)	-	(1)	6,378	-	**6,399**
Finance lease liabilities	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Hedging instruments	110	-	-	-	-	(85)	**25**
TOTAL FINANCIAL LIABILITIES	**15,405**	**(8,692)**	**-**	**(9)**	**-**	**(85)**	**6,620**

3.5.29.2 Breakdown by currency and rate type

€000	Dec 31, 2018	Dec 31, 2017
Fixed rate	**202**	209
Total INR	**202**	**209**
Fixed rate	**-**	-
Total BRL	**-**	**-**
Fixed rate	**-**	17
Total AUD	**-**	**17**
Fixed rate	**-**	-
Total USD	**-**	**-**
Fixed rate	**-**	-
Total CAD	**-**	**-**
Fixed rate	**-**	-
Total PLN	**-**	**-**
Fixed rate on bonds	**-**	-
Fixed rate and floating swapped to fixed	**6,403**	15,143
Floating rate	**16**	36
Total EUR	**6,419**	**15,179**
Fixed rate	**6,605**	15,369
Floating rate	**16**	36
Total (all currencies combined)	**6,620**	**15,405**
Bank overdrafts	**54**	25
TOTAL	**6,674**	**15,430**

3.5.29.3 Collateral given as guarantee

None.

3.5.29.4 Credit lines

As of December 31, 2018, the Group had open lines of bank credit amounting to €16 million (2017: €23 million). €54,000 of these credit lines had been used (2017: €25,000).

3.5.29.5 Liquidity risk

In view of its available cash and cash equivalents as of December 31, 2018, 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, 2018					
Borrowings and other financial liabilities	6,620	6,661	6,465	196	-
Finance lease liabilities	-	-	-	-	-
Bank overdrafts	54	54	54	-	-
Trade payables	25,650	25,650	25,650	-	-
Payables to fixed asset suppliers	1,585	1,585	1,585	-	-
Other operating liabilities	18,445	18,445	18,445	-	-
TOTAL FINANCIAL LIABILITIES	**52,355**	**52,396**	**52,200**	**196**	**-**

€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**	**-**

3.5.30 Provisions for employee benefits

€000	Dec 31, 2018	Dec 31, 2017
Provision for retirement bonus	**6,295**	6,602
Other employee benefits (CET time savings account, long-service awards, etc.)	**1,499**	1,483
TOTAL PROVISIONS FOR EMPLOYEE BENEFITS	**7,795**	**8,085**

3.5.30.1 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 (+/- €170,000) adjustments to the commitment.

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

€000	Dec 31, 2018	Dec 31, 2017
Carrying amount at January 1	**6,602**	**6,451**
Expenses recognized in the income statement	**615**	551
Actuarial gains and losses recognized in other comprehensive income	**(430)**	(10)
Contributions paid	**(262)**	(226)
Reclassifications	**(173)**	(87)
Benefits paid from the fund	**(51)**	(86)
Exchange differences	**(6)**	9
New liabilities arising from acquisitions	**-**	-
Carrying amount at December 31	**6,295**	**6,602**

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

€000	Dec 31, 2018	Dec 31, 2017
Cost of services rendered during the year	**543**	453
Financial cost	**56**	62
Cost of past services	**-**	-
Actuarial gains and losses recognized in the income statement	**16**	36
TOTAL	**615**	**551**

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

	Dec 31, 2018	Dec 31, 2017
Discount rate	1.60%	1.20%
Salary increase rate	2.30%	2.30%
Social security contribution rate	47%	
Mortality table	TF-TH 2000-2002	
Staff turnover	Based on age range	

3.5.30.2 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, 2018	Dec 31, 2017
Carrying amount at January 1	**1,483**	1,444
Expenses recognized in the income statement	**110**	60
Contributions paid	**(69)**	(35)
Reclassifications	**-**	-
Exchange differences	**(25)**	15
New liabilities arising from acquisitions	**-**	-
Carrying amount at December 31	**1,499**	**1,483**

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

€000	Dec 31, 2018	Dec 31, 2017
Cost of services rendered during the year	**131**	163
Financial cost	**5**	6
Actuarial gains and losses	**(26)**	(108)
TOTAL	**110**	**60**

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

	Dec 31, 2018	Dec 31, 2017
Discount rate	1.15%	0.80%
Award appreciation rate	0.60%	
Social security contribution rate	47%	
Mortality table	TF-TH 2000-2002	
Staff turnover	Based on age range	

3.5.30.3 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 3.5.30.1.

3.5.31 Other provisions

€000	Provision for litigation	Other provisions	Total
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	-	3	**3**
Exchange differences	-	(77)	**(77)**
At December 31, 2017	**585**	**1,521**	**2,106**
Additional provisions and increases	85	377	**462**
Amounts used	(250)	(917)	**(1,167)**
Reclassifications	-	29	**29**
Write-backs of amounts not used	-	-	**-**
Provisions arising from acquisitions	-	-	**-**
Exchange differences	-	(39)	**(39)**
At December 31, 2018	**420**	**970**	**1,390**

€000	Dec 31, 2018	Dec 31, 2017
Current	**929**	1,549
Non-current	**471**	557
TOTAL	**1,400**	**2,106**

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

3.5.32 Government grants

At December 31, 2018 there were no advances outstanding.

3.5.33 Trade and other payables

€000	Dec 31, 2018	Dec 31, 2017
Trade payables	**25,650**	24,840
Payables to fixed asset suppliers	**1,585**	1,335
Tax and social security liabilities	**28,754**	27,474
Other operating liabilities	**18,445**	18,320
Other miscellaneous liabilities	**36**	6
Total trade and other payables	**74,471**	**71,975**
Deferred income	**15**	24
Total other current liabilities	**15**	**24**

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

3.5.34 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, 2018 and December 31, 2017, there were no financial derivatives with positive fair values.

€000 – 2018	Assets/liabilities at fair value through profit/loss	Assets/liabilities at amortized cost	Non-financial instruments	Total carrying amount	Fair value
Other equity investments	-	400	-	400	400
Other non-current assets (loans and advances)	-	820	-	820	820
Trade receivables and related accounts	-	76,933	-	76,933	76,933
Cash and cash equivalents	-	117,630	-	117,630	117,630
Derivatives	-	-	-	-	-
Financial assets at Dec 31, 2018	-	**195,783**	**-**	**195,783**	**195,783**
Bonds	-	-	-	-	-
Short/long-term borrowings and other financial liabilities	-	6,649	-	6,649	6,665
Derivatives	-	25	-	25	25
Trade payables	-	25,650	-	25,650	25,650
Payables to fixed asset suppliers	-	1,585	-	1,585	1,585
Other operating liabilities	-	18,445	-	18,445	18,445
Financial liabilities at Dec 31, 2018	-	**52,355**	**-**	**52,355**	**52,371**

€000 – 2017	Assets/liabilities at fair value through profit/loss	Assets/liabilities at amortized cost	Non-financial instruments	Total carrying amount	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**

3.5.35 Dividends per share

Dividends paid in 2018 amounted to €5,453,756.32 (2017: €5,097,500.79), i.e. €0.46 per share (2017: €0.43 per share). At the upcoming shareholders' general meeting on May 21, 2019, shareholders will be asked to approve a dividend payout of €0.48 per share.

3.5.36 Headcount

2018 headcount by functional dept. and geographical region	France	Western Europe (excl. France)	Eastern Europe	Americas	Asia	Consolidated total
Sales & Marketing	83	139	53	193	417	**885**
Administration & Management	149	44	43	61	20	**317**
Production	155	21	102	65	-	**343**
Quality	91	11	52	44	4	**202**
Procurement & Logistics	78	33	35	47	14	**207**
R&D	119	14	13	25	7	**178**
Total headcount at Dec 31, 2018	**675**	**262**	**298**	**435**	**462**	**2,132**

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**

3

3.5.37 Off-balance sheet commitments

3.5.37.1 Guarantees given

€000	Dec 31, 2018	Dec 31, 2017
Guarantees and deposits	**28**	28
Mortgages and collateral	**-**	-
TOTAL	28	28

3.5.37.2 Guarantees received

€000	Dec 31, 2018	Dec 31, 2017
Guarantees and deposits	**-**	-
Liability guarantees	**-**	-
TOTAL	-	-

In 2017, the Group paid €150,000 into an escrow account to cover potential "holdbacks" related to the purchase of VetCom-Pharma GmbH products.

In relation to the acquisition of a majority stake in Farmvet Systems in 2018, the Group placed €500,000 in an escrow account to cover potential liability guarantees. The amount has been deposited for an 18-month term starting on July 27, 2018.

3.5.37.3 Capital expenditure commitments

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

€000	Dec 31, 2018	Dec 31, 2017
Intangible assets	**675**	123
Property, plant and equipment	**4,922**	2,872
TOTAL	5,597	2,996

3.5.37.4 Operating lease commitments

Group commitments related to operating leases are explained in Note 3.5.15.

3.5.38 Contingent assets and liabilities

None.

3.5.39 Related party disclosures

3.5.39.1 Compensation paid to key executives

€000	Dec 31, 2018	Dec 31, 2017
Short-term benefits	**1,182**	1,187
Post-employment benefits		
TOTAL	**1,182**	**1,187**

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.

3.5.39.2 Related party transactions

None.

3.5.40 Post-balance sheet events

See Note 1.13.2.

3.5.41 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.

3.5.42 Financial/commercial position

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

3.5.43 Fees

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				PWC			
€000	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
Audit								
Certification of individual and consolidated financial statements	**157**	**95%**	143	93%	**295**	**81%**	322	83%
Services other than account certification	**8**	**5%**	10	7%	**67**	**19%**	64	17%
Audit-related work	**-**	**-**	-	-	**7**	**-**	14	-
Legal and tax compliance	**8**	**-**	10	-	**60**	**-**	50	-
TOTAL	**165**	**100%**	**153**	**100%**	**362**	**100%**	**386**	**100%**

3.5.43.1 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.

3.5.44 Group companies

Company	Head office	% held at Dec 31, 2018	% held at Dec 31, 2017
Vetoquinol SA	Magny-Vernois – 70200 Lure – 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 Alcantara195 – Villa Maria SP CEP – 02110010 – Estado de Sao Paulo – Brazil	100%	100%
Vetoquinol Do Brasil Participacoes Ltda	Rue Alcantara195 – Villa Maria SP CEP – 02110010 – Estado de Sao 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%
Farmvet Systems Ltd	27 High Street - Moneymore - UK - Magherafelt BT45 7PA - UK	76.9%	-
Vetoquinol NV	Kontichsesteenweg 42 - 263 Aartselaar - Belgium	99%	99%
Vetoquinol BV	Postbus 3191 - 5203 DD'S-Hertogenbosch - Netherlands	100%	100%
Vetoquinol International	Magny-Vernois – 70200 Lure – France	100%	100%
Frefin GmbH	Reichenbachstraße 1 – 85737 Ismaning – Germany	100%	100%
Vetoquinol GmbH (formerly Chassot GmbH)	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 (Shanghaï) CO., Ltd.,	Suite 1607, Block C, 85 Loushanguan, Changing District, Shanghaï, PRC	100%	100%
Vetoquinol Australia Pty Ltd Inc.	Cornwall Stodart - Level 10, 114 William Street, Melbourne – Vic 3000 – Australia	100%	100%
Vetoquinol-Zenoaq K.K.	1-1 Tairanoue, Sasagawa, Asaka-machi, Koriyama, Fukushima – Japan 963-0102	55%	55%

3.6 Statutory auditors' report on the consolidated financial statements Year ended December 31, 2018

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, 2018, 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".

Independence

We conducted our audit in compliance with the rules of independence applicable to us for the period from January 1, 2018 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.

Comment

Without bringing into question the opinion expressed above, we would draw your attention to Note 3.5.3.1 "General accounting principles and standards – New standards and amendments applicable in 2018" in the notes to the consolidated financial statements, which presents the impacts of changes in accounting methods relating to the application as of January 1, 2018 of IFRS 15 "Revenue from contracts with customers" and IFRS 9 "Financial instruments".

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, 2018, the net value of goodwill amounted to €80.7 million. The accounting principles applied to the valuation of goodwill are set out in Note 3.5.3.10.1 "Goodwill" and the allocation per cash-generating unit (CGU) is presented in Note 3.5.19 to the consolidated financial statements.

Your Group reviews the valuation of goodwill once a year or more frequently if circumstances indicate possible impairment, in accordance with the conditions set out in Note 3.5.3.12 "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 management in order to determine the recoverable amount of goodwill. Our work involved:

- reviewing the tests prepared by management with the help of external consultation;
- assessing the reasonableness of the cash flow forecasts by means of interviews with members of the Finance Department and comparisons with actual cash flows in 2018;
- comparing the 2019 cash flows used in the tests with the 2019 budgets prepared by management;
- assessing the consistency and reasonableness of the major assumptions made (including growth rate and discount rate);
- performing a critical analysis of the tests carried out by management on the sensitivity of the value in use to changes in the main assumptions made.

Specific testing

In accordance with professional standards applicable in France, we also carried out specific testing, as required by law and regulations, 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.

We hereby certify that the consolidated statement of non-financial performance provided for in Article L. 225-102-1 of the French Commercial Code is included in the management report, on the understanding that, in accordance with the provisions of Article L. 823-10 of said Code, we have not assessed the information provided in this statement for fairness or consistency with the consolidated statements and this information must be the subject of a report by an independent third-party body.

Disclosures required 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, 2018, PricewaterhouseCoopers Audit was in its 29th consecutive year as statutory auditor, including 13 years since the Company shares were admitted for trading on a regulated market, while Mazars was in its second year as statutory auditor.

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

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, management is responsible for assessing the Company's capacity to continue as a going concern, for presenting in these financial statements, where applicable, the required information in relation to going concern 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 management, as well as of the related information provided in the consolidated financial statements;
- assess the appropriateness of 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 deem 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.

Lyon and Villeurbanne, April 29, 2019

The Statutory Auditors

PricewaterhouseCoopers Audit

Elisabeth L'Hermite

Mazars

Séverine Hervet

5 INFORMATION ON THE COMPANY, MARKET AND CAPITAL STOCK

CONTENTS

5.1 Vetoquinol Group activities

5.1.1 Overview of the business

The Group develops, produces and markets veterinary drugs and non-medicinal products exclusively dedicated to animal health. The veterinary profession is changing rapidly. And so is Vetoquinol, a leading player that offers its customers comprehensive solutions, including both pharmaceutical and nutraceutical products, diagnostics, digital applications and services.

Vetoquinol covers most curative treatments, and has proven expertise in various therapeutic areas: anti-infectives, pain management, inflammation and reproductive assistance.

Vetoquinol focuses on a range of products called "Essentials". These are existing or potential market-leading products designed to meet the daily requirements of vets in the companion animal or livestock sector. They are intended for sale worldwide and their scale effect improves their economic performance.

Initially selling its products in France, today the Vetoquinol Group's products are sold in over 100 countries, with the Group operating directly in 23. France represents 15% of the Group's sales.

Vetoquinol targets four species in its growth markets: cats and dogs in the pet segment, cattle and pigs in the livestock segment, and has a balanced portfolio in its strategic markets.

Like most players in the animal health market, the Group manufactures and markets relatively few products covered by a patent, but mainly products whose active ingredient has fallen into the public domain.

However, these molecules, which are free of all intellectual property rights, are also a source of innovation in terms of dosage or formulation, thanks to the Group's know-how and research, setting it apart and giving it a significant competitive edge.

It is worth noting that the Group is an active member of professional national (in countries where it has a subsidiary), regional and global bodies. In particular, Vetoquinol chairs IFAH/Health for Animals in Brussels, where the main global animal health companies are represented.

5.1.1.1 Vetoquinol's strategy

The Group devotes all of its efforts to improving animal health, through the development of new drugs. The "In Motion" strategic plan is based on three main priorities: the consolidation of a multi-specialist strategy, innovation through biotechnologies and customer solutions, and the considerable potential of its employees.

Based on sound financial management, tight control over the development, production and marketing process, and solid expertise in certain therapeutic segments, the Group is implementing the following strategy:

- **controlled and profitable growth** in keeping with the company's family values. External growth has been consistent, regular and measured, resulting in financial performances in line with the Group's standards.
  To promote the Essentials range, the core of its international business, the Group focuses its efforts on a limited number of "strategic countries" for its four main species in targeted areas;
- **targeted growth in a market with strong fundamentals:** in industrialized countries, household spending on pets is constantly on the rise due to the increasing importance of pets within families. In the livestock segment, the Group benefits from the steady growth of this market, resulting from the increase in numbers worldwide and growing demand for animal proteins;
- **growth in targeted therapeutic areas:** the Group has chosen dermatology, parasitology and osteoarthritis management as its priority areas for pets. For livestock animals, Vetoquinol more specifically targets the areas of reproduction, mastitis, and respiratory problems;
- **gaining market share in the Americas and Asia.** While consolidating its positions in Europe, the Group aims to gain a foothold in the Americas (the United States is the world's leading animal health market, ahead of Brazil) and benefit from the strong growth expected in Asia. The Group is therefore present in China, India, Korea and Japan.

5.1.1.2 Description of the Group's main products

Anti-infectives

Vetoquinol is a major player on the anti-infective market for all species. The Group has a number of flagship trademarks, such as Marbocyl®, Forcyl®, Ceftiocyl, and Clavaseptin®. Designed for the treatment of canine and feline otitis, Aurizon® and Oridermyl® are also leaders in this market.

Pain-inflammation

An ethical issue is becoming more and more important: awareness of the pain felt by animals as well.

The Company develops a comprehensive range of products designed to prevent and relieve pain:

- the food supplement range for the management of osteoarthritis with Flexadin®,
- non-steroidal anti-inflammatory drugs: Tolfédine® for cats and dogs and Tolfine® for livestock, and Cimalgex® for dogs. With this contribution to animal well-being, the Group meets a requirement that is at once ethical and therapeutic, given the detrimental effects of pain on health.

Reproduction: major productivity issues in cattle and pig farming

Synchronization of the heat of both dairy cows and sows is key to farm management and productivity gains: Cue mate and Bioestrovet address these issues.

Similarly, the transfer of genetic potential can be improved by embryo transfer. Ovarian stimulation is a sophisticated technique for which Folltropin is the leading product.

5.1.1.3 Sales and distribution

The Group operates in two regions: Europe/North America (excluding Mexico) and Asia Pacific, Latin America, this department also manages the worldwide network of distributors.

In each country, subsidiaries report to the Regional Director to which they are attached; they have their own sales force, a marketing team and also a regulatory team.

Each Regional Director is in charge of activities within their region, both in terms of partnership management and relations with local distributors, in line with the Group's strategy and policies. Regional Directors are members of the Group's Management Committee. At December 31, 2018, the Group had over 700 veterinary delegates at its subsidiaries. The Group has a qualified sales force, regularly trained by veterinary experts in technical aspects and by a network of in-house trainers in sales and communication techniques (Sales Excellence Program).

The Group has a long-term sales policy and focuses on the quality of the relationship between its veterinary delegates and customers, listening and responding to their needs.

The Group's commercial strategy is characterized by its desire to support its veterinary partners over the long term. The Group also makes considerable investments in the scientific training of vets.

5.1.1.4 Vetoquinol's competitive advantages

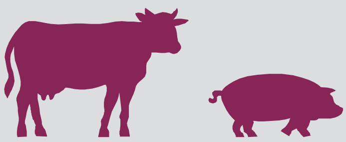
A "pure player"

Unlike several players in the animal health market, who are attached to a human health group, the Group is exclusively dedicated to veterinary activities.

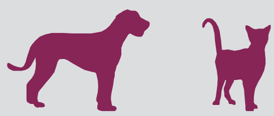
The Group therefore focuses exclusively on veterinarians, animals and their owners, whether individuals or breeders.

A balanced profile, four target species representing 80% of the world market. The Group has a balanced risk profile at all levels. At December 31, 2018, Group sales were distributed equally between the food-producing animals segment and pets, however were slightly higher in the pet segment (55%).

Estimate of the world market



Food-producing animals (cattle, sheep, pigs, poultry)
56%
of the animal health world market



Dogs - Cats
39%
of the animal health world market

Source: Vetoquinol 2018 estimates; the remaining 5% represents products that are not species-specific.

Vetoquinol operates in the main animal health markets worldwide. The Group covers the world's main consumer regions with operations in mature markets, such as Western Europe, the Americas, and those with strong growth potential, such as Eastern Europe, Asia and more recently, Brazil.

Breakdown of 2018 sales per region

34.3%
of 2018 sales
Americas

48.9%
of 2018 sales
Europe

16.8%
of 2018 sales
Asia/Pacific – Rest of world

Proven expertise in company acquisition

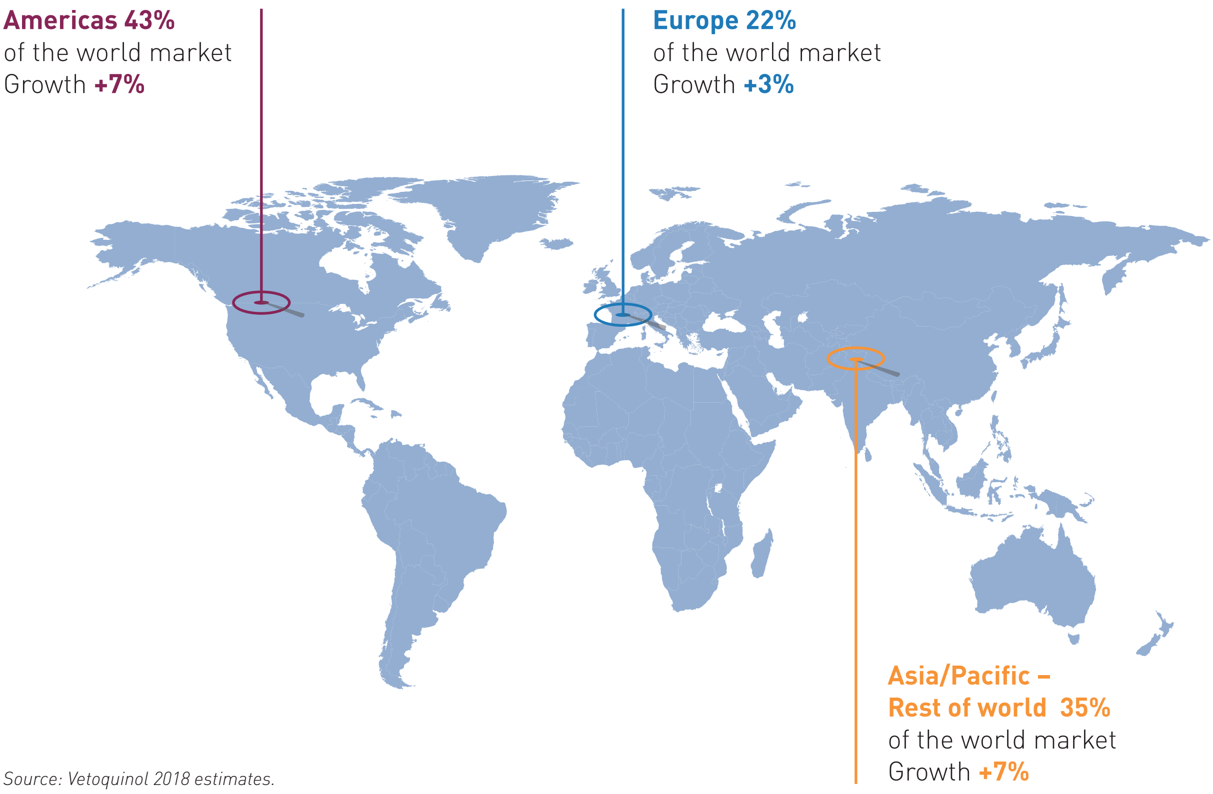
Since 1977, the date its first subsidiary in the Netherlands was created, the Group's development strategy has been largely based on external growth. The Group's management team has always implemented a targeted acquisition policy, focusing on commercial and industrial synergies to support organic sales growth.

The Group has therefore been able to extend its international network, strengthen its foothold in certain therapeutic segments, amortize its research costs and, as such, maintain a balanced risk profile.

At December 31, 2018, Vetoquinol had a solid financial structure in place to further its hybrid growth strategy, as well as the means to finance its external growth and partnership objectives by ensuring its development in complete independence.

5.1.2 Animal health world market

5.1.2.1 Animal health world market



Source: Vetoquinol 2018 estimates.

In 2018, the animal world health market is expected to grow 5-7% at constant exchange rates (source: Vetoquinol estimates).

In terms of species, the animal health market is divided into two types of activities: the food-producing animals segment (cattle, sheep, pigs, poultry, etc.) and the pet segment (dogs, cats, horses, etc.). These two segments are separated as they are based on different economic rationales: the food-producing segment is a high-volume market driven by profitability and subject to significant variations during a health crisis (e.g: bluetongue, bird flu, swine flu, etc.) while the pet segment represents a market with higher added value and growth, while still being linked to the increase in the purchasing power of owners (pets' "parents"). The relative importance of these two segments varies considerably from country to country, depending on their economies.

At constant exchange rates, market growth in the food-producing animals segment was 3%, and 12% for the pet segment.

5.1.2.2 Animal health market by region

The breakdown of the world market by major region is estimated as follows:

- Europe +3%
- North America +6%
- Latin America +11%
- Asia/Pacific and rest of world +7%

Source: Vetoquinol 2018 estimates.

Europe

Europe is Vetoquinol's No. 1 core market, thanks to the presence of its subsidiaries in all major countries.

In 2018, the market maintained stable growth of 3%. The main growth driver in Europe for food-producing animals is the vaccine segment, which offsets a continued decline in the antibiotics market. For the pet segment, growth is driven by specialty dermatology and cardiology pharmaceuticals.

Americas

The Americas market is divided into two distinct areas: North America, a mature market, and Latin America, a developing market.

North America

North America, and more specifically the United States, is the No. 1 market worldwide with a market share of more than 33%. In the pet segment, the US market alone accounts for about half of the world market in this segment. Canada is the 10th biggest animal health market in the world.

Animal production is up, as is the pet market, which is also being driven by parasiticides for pets and the introduction of new products.

Latin America

Latin America is the region with the strongest market growth. It is a developing region dominated by beef, pork and poultry production. The pet market is growing as peoples' standard of living improves.

Brazil still represents growth potential for Vetoquinol.

It is a rapidly developing country among the world's leading animal health markets.

Brazil has one of the largest global cattle populations, representing about 10 times that of France. Brazil has the ambition and the political desire to become the top global producer and exporter of animal protein.

It is not only one of the world's leading producers of cattle, pigs and poultry, but also offers high growth potential in the pet market.

Also present in Mexico for over 20 years, Vetoquinol mainly operates in the dairy cow segment and, more recently, in the pet segment.

Asia Pacific (and rest of world)

Vetoquinol is present on these markets, either directly through its subsidiaries, or through a network of quality distributors in most countries in the region.

Vetoquinol operates directly in South Korea, India, China and Australia. These regions represent strong growth potential for all of the Group's species and strategic areas.

In 2017, Vetoquinol formed a partnership with Japan-based Zenoaq, in order to bring the Group's Essentials products to the Japanese market thanks to our partner's expertise.

5.1.2.3 Animal health market outlook

The following are expected to be the main trends over the 2018-2021 period:

- the development of both generic drugs, including in the United States, and those resulting from technological innovation,
- the largest contribution to real growth is expected to come from pets, poultry and pigs,
- the unpredictable influence of regional diseases that may temporarily affect the production and consumption of meat (swine fever, bluetongue, bird flu, foot-and-mouth disease, etc.),
- the aim to improve food security,
- the promotion of animal welfare, including in breeding,
- the development of care for older pets is expected to boost the sale of veterinary drugs for the treatment of chronic illnesses, including cardiovascular and kidney diseases and pain treatments,
- the introduction of tighter regulatory constraints, even within less-developed countries, in order to promote animal product exports,
- volumes in the anti-infective market are expected to grow, however below that of market growth over the period, and varying considerably from region to region. For food-producing animals, this trend, which has already been observed in Europe in recent years, will continue and extend across North America. This trend is related to regulatory restrictions aiming to avoid any form of antibiotic resistance in non-curative treatments in favor of the rational use of antibiotics in curative treatments,
- vaccines and new pet therapies are expected to grow at a higher rate than the market,
- the digital transformation of the sector will be stepped up, both in the Pet segment and the food-producing animal segment, and is set to be a source of innovation in solutions and services,
- all regions are expected to post positive growth. Asia and the Rest of the World and Latin America are expected to grow faster than North America or Europe in volume terms.

5.1.2.4 Competitive positioning

In 2018, Vetoquinol remained No. 9 in the world (source: Vetoquinol 2018 estimates) in the veterinary drug market, i.e. the animal health market excluding non-core activities (pet-food and medicinal nutrients, diagnostics, equipment, etc.).

5.2 Group property and equipment

The Group has premises for all its subsidiaries dedicated to industrial, research, administrative and storage purposes. Generally speaking, Vetoquinol's international sales subsidiaries lease the buildings they occupy.

France (Lure, Tarare, Paris and Angers)

The Company owns the site in Lure (Magny-Vernois). The site covers an area of nearly 16 hectares, including over 24,000 sqm of built areas (floor area), or nearly 37,000 sqm of developed area. It houses the Company's head office, industrial activities, R&D, logistics and Group functions.

The Tarare plant occupies a 10,000-sqm site with two built areas totaling 4,000 sqm. Vetoquinol owns the premises. In February 2014, the Company signed a commercial lease for offices in Paris (located at 37 Rue de la Victoire), which house the France Department and certain Group functions.

In September 2018, the Company acquired an R&D center near Angers. This site occupies an area of approximately 100 hectares of leased farming land.

Classified facilities

The Lure site is subject to the following provisions relating to facilities classified for environmental protection (ICPE) under the dual regime of reporting and registration following the revisions of the ICPE nomenclature in 2006 and 2010. The site is operated in accordance with its updated authorization order taking into account the site's recent extensions.

Lure is the subject of regular inspections by departments at DREAL, most recently on September 20, 2016.

The site is not affected by the provisions of the Seveso directives. In absolute terms, all drugs and their active ingredients are liable to present environmental risks; however, the drugs manufactured by the Group do not present any specific or higher risks than the human or veterinary drugs on the market.

Protection of the environment

The measures taken by the Group to protect the environment are appropriate in terms of waste sorting, water consumption, the prevention of groundwater and surface water pollution, the prevention of drinking water pollution, noise control and energy consumption.

Tarare

The Tarare plant is not subject to provisions relating to classified facilities.

The products manufactured at the plant do not present any risks to the environment. Only a few raw materials, which may present a hazard under certain circumstances, are present in small quantities at the plant.

Major investments have been made in recent years in the security of the premises.

Plants in Poland (Gorzów, Klodawa)

Vetoquinol Biowet Sp. Z.o.o. owns three sites located in the Gorzów Wielkopolski district:

- a production plant in Gorzów itself, with a built surface area of nearly 8,000 sqm, on a plot of land of approximately 14,000 sqm. This site houses our Polish subsidiary's management team, production units and laboratories;
- a production plant in Zwirowa, with a built surface area of nearly 8,000 sqm, on a plot of land of approximately 34,000 sqm.
- a storage site in Klodawa, with warehouses of 1,000 sqm, on a plot of land of 6,000 sqm.

Gorzów manages environmental matters in conjunction with local authorities. Inspections carried out over the last three years have not given rise to any major observations.

Bertinoro (Italy)

Vetoquinol Italy owns all of its materials, workshops and equipment.

The total surface area of the buildings is 8,000 sqm, 4,200 sqm of which is dedicated to production. These industrial and administrative premises are leased.

The Bertinoro plant is not subject to provisions relating to classified facilities, however must comply with local environmental regulations (air pollution, effluent, waste management, etc.).

The last pharmaceutical inspection conducted by the authorities did not identify any non-compliance, and no recent major defects are to be reported.

Mairipora (Brazil)

Vetoquinol Saude Animal LDA, a Group subsidiary, owns the site (land and buildings) and the factory located in Mairipora, near São Paulo. The surface area of the buildings is 4,500 sqm, on a 28,000 sqm plot.

The last inspection by MAPA's regulatory authorities in 2016 validated recent investments in injectable and antiparasitic workshops.

Princeville (Canada)

Vetoquinol North America Inc. owns the factory in Princeville, Quebec. This site comprises 20,000 sqm of land and 7,000 sqm of developed premises (laboratories, workshops, warehouses, offices).

Canada manages environmental matters in conjunction with local authorities. Inspections carried out over the last three years have not given rise to any major observations.

Belleville (Canada)

The Belleville plant was closed in 2018 and its operations were transferred to Princeville.

5.3 The Group's industrial processes

The purpose of the production units is to transform raw materials (active ingredients, excipients) into finished products, store and ship them, as well as to manufacture active ingredients.

In 2018, Vetoquinol manufactured close to 25 million products in a variety of forms:

- sterile injectable liquids;
- drinkable liquids;
- powders and pellets;
- pastes and creams;
- tablets;
- drug premixes;
- soft chews.

At December 31, 2018, the Group had six production units operating in:

- Lure (France): veterinary drugs and non-medicinal products for the entire global market. This unit produces sterile injectable liquids, non-sterile liquids and creams, tablets;
- Gorzów (Poland): veterinary drugs and non-medicinal products for the entire global market. It produces sterile injectable and non-sterile liquids, pellets, powders, tablets and liquid insecticides;
- Princeville (Canada): veterinary drugs and non-medicinal products mainly for North America. It manufactures liquids and pastes as well as powders;
- Tarare (France): non-medicinal products mainly for the European market. It manufactures powders, pellets, liquids, pastes and soft chews;
- Bertinoro (Italy): veterinary drugs and non-medicinal products for the domestic market, but also for export. They are mainly premixes in the form of powders, pellets and liquids intended exclusively for food-producing animals;
- Mairipora (Brazil): this plant mainly manufactures injectables, antiparasitic agents and some dry and liquid forms for the Brazilian market;
- All Group plants have GMP-approval, except for Tarare which only manufactures non-medicinal products. In addition, the Princeville and Belleville plants in Canada are FDA-certified.

The Group also distributes other companies' products, which are regularly monitored and audited.

A systematic quality approach has been implemented throughout all of the Group's production lines, reflecting the importance of people in this respect: there is one person in quality (quality assurance or control) for every two people in production.

In particular, quality control involves:

- the inspection of raw materials and packaging items;
- the inspection of finished products;
- water, air and environmental compliance.

Quality assurance ensures that the Group's plants and external manufacturers are in compliance with all pharmaceutical standards (GMP, FDA, PMDA, MAPA, FAMI QS, ISO), as well as the implementation of adequate resources (materials and equipment, personnel and organization, premises and flows) in terms of numbers and quality.

5.4 Main investments made over the last three years

€000	31 déc 2018	31 déc 2017	31 déc 2016
Purchase of intangible assets	**(2,943)**	(2,622)	(4,155)
Purchase of PP&E	**(11,276)**	(11,082)	(9,440)
Purchase of assets available for sale	**-**	-	-
Purchase of other financial assets	**-**	(1,156)	(457)
Proceeds from sale of assets	**279**	596	720
Change in other financial assets	**(85)**	32	(87)
Net cash flow from business combinations	**(3,726)**	(1,450)	-
Net cash flow from investing activities	**(17,751)**	(15,683)	(13,419)

5.4.1 Investments in intangible assets

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.

5.4.2 Investments in PP&E

Over the last three years (2016 to 2018), investments in property, plant and equipment have mainly consisted of the renewal of equipment, but also new production and/or renovation capacities, mainly at the various industrial plants in Lure, in France in 2016-2018, the Mairipora plant in Brazil in 2016. The production transfer of the Belleville plant to Princeville in Canada was completed in 2018 – additional investments related to the reorganization were required over the past three years.

5.5 Information on the Company – Bylaws

5.5.1 Information about Vetoquinol

5.5.1.1 Company name

The name of the Company is "Vetoquinol SA".

5.5.1.2 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.

5.5.1.3 Secondary establishments

The Company has three secondary establishments registered in the (i) Villefranche-sur-Saône Trade and Companies Register (2002 B 372), the (ii) Paris Trade and Companies Register (98 B 14086) and (iii) the Angers Trade and Companies Register (2018 B 01293).

5.5.1.4 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.

5.5.1.5 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 Lure.

The Company's telephone number is:
+33 (0)3 84 62 55 55.

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

LEI: 969500YPOAETQIK48R39.

5.5.1.6 Financial year

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

5.5.2 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.

5.5.2.1 Shares not representing capital

There are no shares not representing capital stock.

5.5.2.2 Treasury shares

Purchases of Company shares by the Company itself (see section 1.10.5).

Share buyback (see section 1.10.10).

5.5.2.3 Convertible securities

Stock options (see section 1.10.4).

Allocation of bonus shares (see section 1.10.3).

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

None.

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

None.

5.5.2.6 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
12/07/2007	Opening balance				11,290,332	2.50
5/12/2009	Exercise of options	2,300	5,750	28,231,580	11,292,632	2.50
12/31/2010	No transaction during the year				11,292,632	2.50
2/27/2011	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.

5.5.2.7 Shareholders' agreement and special agreements

None.

5.5.2.8 Treasury stock/share buyback program/liquidity contract plan

Subject to the May 21, 2019 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 via an investment service provider, under a liquidity agreement that meets the acceptance criteria defined by the AMF in its Decision 2018-01 of July 2, 2018, establishing equity liquidity agreements as an accepted market practice and in accordance with the AMAFI Code of Ethics recognized 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 21, 2019 general meeting.

5.5.3 Articles of incorporation and bylaws

5.5.3.1 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.

5.5.3.2 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.

5.5.3.3 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.

5.5.3.4 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 5.5.3.7 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 5.5.3.6 below).

5.5.3.5 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.

5.5.3.6 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 5.5.3.7 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.

5.5.3.7 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.

5.5.3.8 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.

5.5.3.9 Delegation of powers effective in 2018

See "Report on the Company's corporate governance", chapter 2 – section 2.6: Summary table of delegations in relation to capital increases and other authorizations granted to the Board of Directors effective in 2018.

5.5.3.10 Composition of capital stock

As of December 31, 2018, 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 2018.

5.5.3.11 Dividend distribution

The shareholders' general meeting of May 29, 2018 approved the distribution of dividends attributable to FY 2017 amounting to €5,465,674.92, i.e. €0.46 per share (2017: €5,109,217.86 attributable to FY 2016, or €0.43 per share, 2016: €4,871,579.82 attributable to FY 2015, or €0.41 per share and 2015: 4,633,941.78 in respect of 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 2018 amounted to €5,453,610.50 (2017: €5,097,500.79 and 2016: €4,859,854.23).

5.5.3.12 Bonus shares

None.

5.5.3.13 Stock options

At December 31, 2018, there were no outstanding stock options.

5.5.3.14 Treasury stock excluding liquidity contract

As of December 31, 2018, Vetoquinol held 37,994 treasury shares (2017: 24,596).

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

During 2018, the following transactions were carried out:

- Mr. Jean-Charles Frechin, director, sold 5,000 Vetoquinol SA shares to holding company Soparfin SCA,
- Ms. Bénédicte Leurs, daughter of Mr. Étienne Frechin and member of the Soparfin SCA Supervisory Board, sold 34,314 Vetoquinol SA shares to Soparfin SCA,
- Mr. Jean-Yves Ravinet, Chief Operating Officer of Vetoquinol SA, purchased 2,000 Vetoquinol SA shares.

5.6 Simplified Group organizational chart as of December 31, 2018

Section 5.1 provides an overview of the Group's business.

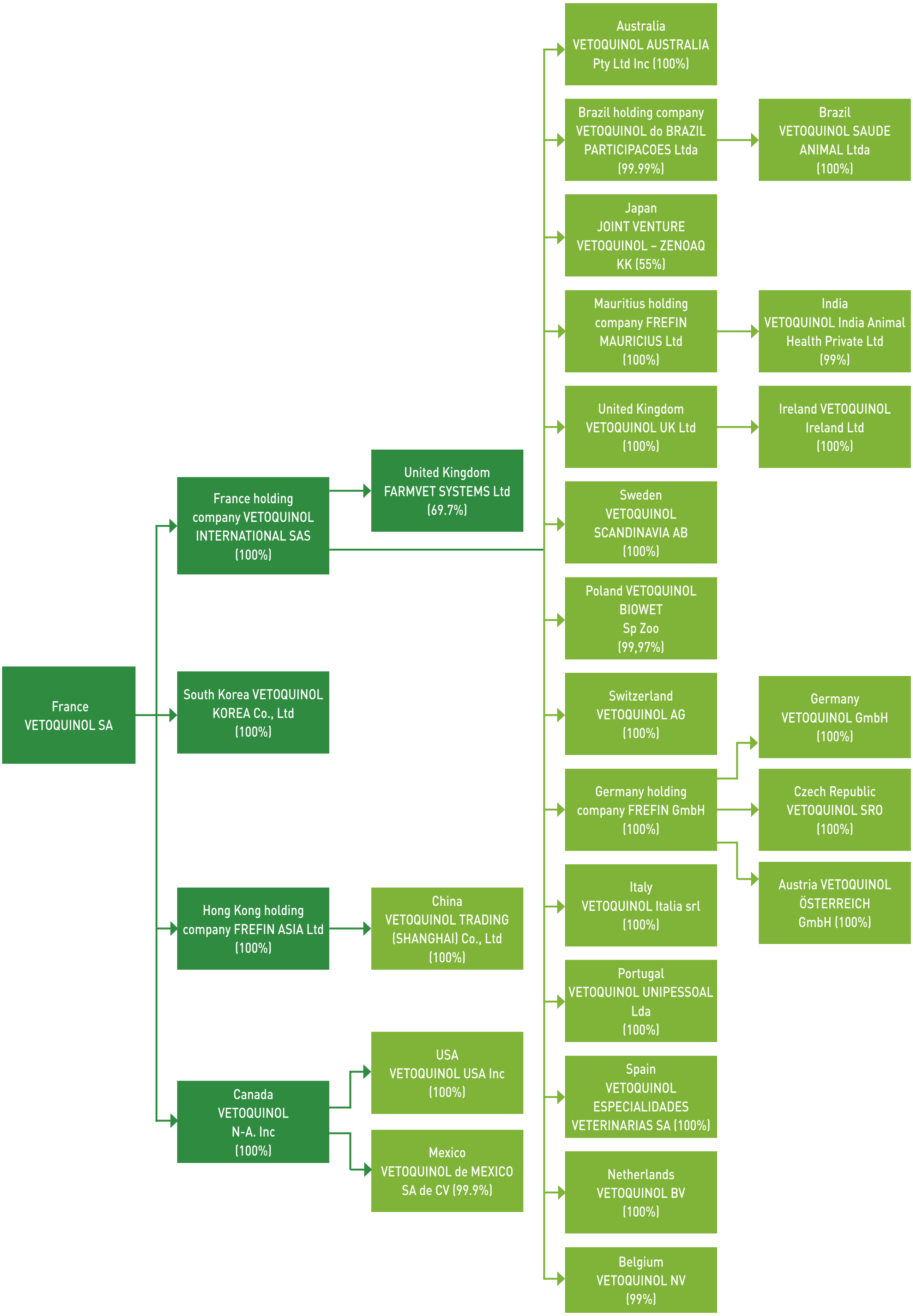
The overall organization of the Group is centered on the parent company, Vetoquinol SA, which plays the role of Group holding company as well as carrying out a business activity in its own right (see "Group companies", p. 167).

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.

In 2018, the Vetoquinol Group announced:

- The acquisition of a majority stake in Farmvet Systems Ltd, a start-up based in Northern Ireland. The integration of Farmvet Systems applications in the Vetoquinol range of solutions is part of the Company's long-term vision. This vision involves creating an ecosystem in which digital technologies, diagnostic tools and drugs work together to optimize veterinary practice and the effective management of animal health and welfare. Vetoquinol thus confirms its commitment to the "one world one health" initiative.
- The closure of the Representative Office in Moscow given the uncertainties of the Russian political, legal, economic and regulatory environment. Vetoquinol is also strengthening its partnership with the local distributor.


France VETOQUINOL SA
France holding company VETOQUINOL INTERNATIONAL SAS (100%)
United Kingdom FARMVET SYSTEMS Ltd (69.7%)
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 holding company FREFIN GmbH (100%)
Germany VETOQUINOL GmbH (100%)
Czech Republic VETOQUINOL SRO (100%)
Austria VETOQUINOL ÖSTERREICH 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%)

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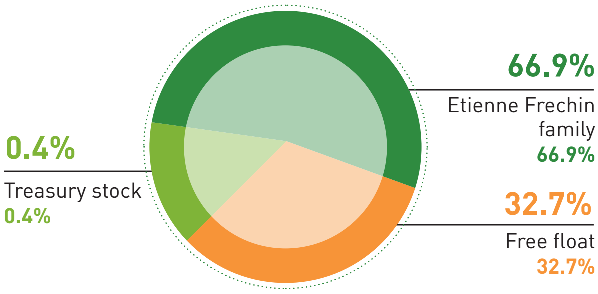
5.7 Group shareholders

5.7.1 Breakdown of share capital as of December 31, 2018



5.7.2 Stock market information

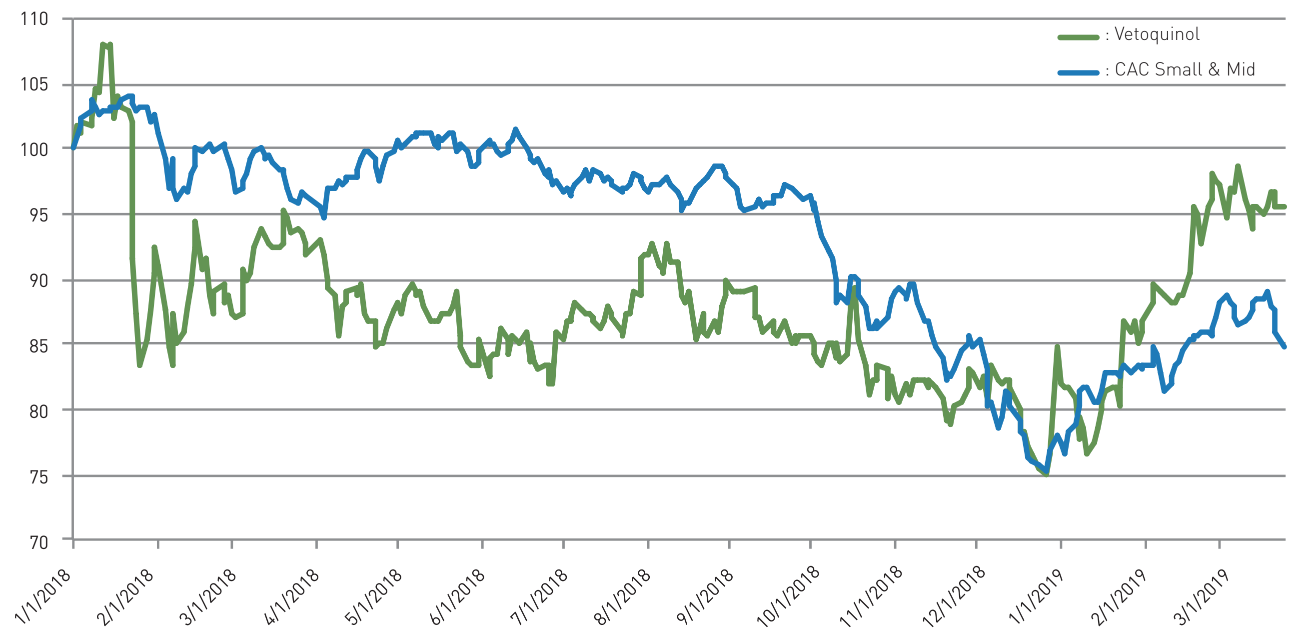
The Vetoquinol share is listed on Euronext Paris – Compartment B Eurolist.

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, 2018, Vetoquinol's market capitalization stood at €603.6 million, compared to €719 million at December 31, 2017.

Performance of Vetoquinol share since January 1, 2018, base 100



At December 31, 2018, the Vetoquinol share closed at €50.80 compared to €60.53 at December 31, 2017, representing a decrease of 16.07%.

Since 2006, Vetoquinol has entrusted the management of its liquidity contract to Oddo Corporate Finance, 12, boulevard de la Madeleine, 75009 Paris.

5.7.3 Financial reporting timetable

January 24, 2019	2018 sales (after market close)
March 21, 2019	2018 results (after market close)
April 17, 2019	Q1 2019 sales (after market close)
May 21, 2019	Shareholders' general meeting
June 4, 2019	Dividend payout
July 25, 2019	H1 2019 sales and results (after market close)
October 16, 2019	Q3 2019 sales (after market close)
January 23, 2020	2019 sales (after market close)

5.7.4 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.

Shareholder contact

Vetoquinol – Finance and Legal Affairs
Department BP 189 – Magny-Vernois
F-70204 Lure Cedex Tel.: 33 (0)3 84 62 59 88
Email: relations.investisseurs@vetoquinol.com

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GLOSSARY

CMR	Substances known to be carcinogenic and/or mutogenic and/or reprotoxic.
DREAL	French Regional Directorate for Environment, Development and Housing (Direction Régionale de l'Environnement, de l'Aménagement et du Logement).
EMA (European Medicines Agency)	European agency for the evaluation of medicines, based in London.
ERP	Aims to standardize the Company's information system with a single tool, capable of covering a wide range of management areas (production management, procurement, inventories, sales, accounting, etc.).
EUROSTAT	Eurostat (official name: Statistical office of the European Union) is a directorate of the European Commission responsible for statistical information at EU level. Its role is to generate official statistics for the European Union, mainly by collecting, reconciling and aggregating data published by the national statistical institutes of the EU Member States (European Union), candidate countries and EFTA countries (European Free Trade Association).
FDA	The Food and Drug Administration is the US administration for foodstuffs and medicines. Among other things, this organization has the power to authorize the marketing of drugs in the United States of America.
GLP	Good Laboratory Practices.
GMP	Good Manufacturing Practices for pharmaceuticals consist of all the rules to be followed in order to obtain the required quality.
Group	Means the Group comprising Vetoquinol SA and its subsidiaries.
IFAH/ Health for Animals	Organization representing veterinary product, vaccine and other pharmaceutical manufacturers in developed and developing countries all over the world.
MA	Marketing authorization. The MA is the authorization awarded to a drug in order to be sold. When a pharmaceutical company wants to market a drug, it must submit an application to the relevant authority in the country concerned: a national agency (such as AFSSA in France, the Direction générale du médicament or DGM in Belgium), European agency (EMA), or the Food and Drug Administration (FDA) in the United States.
Middlenext Code	Published in 2009, the Middlenext Code outlines governance adapted to the size and structure of companies' capital, and is therefore more appropriate for our family-owned company.
Organic growth	Year-on-year sales growth in terms of volume and/or price at constant exchange rates.
Veterinary delegate	Laboratory representative to customers, with a scientific and commercial focus and expertise.
Veterinary drug	Refers to any substance or composition with curative or preventive properties against animal diseases

VETOQUINOL **WORLDWIDE**

AUSTRALIA
Vetoquinol Australia Pty Ltd.
Unit 302.2,
6 Boronia Road
Da Vinci Business Park
Brisbane Airport, Qld 4008
Tel. 1800 032 355
sales.australia@vetoquinol.com
www.vetoquinol.com.au

AUSTRIA
Vetoquinol Österreich GmbH
Vetoquinol Österreich GmbH
Zehetnergasse 24
1140 Wien
Tel. +43 14 16 39 10
office@vetoquinol.at
www.vetoquinol.at

BELGIUM
Vetoquinol N.V.
Kontichsesteenweg 42
2630 Aartselaar
Tel. +32 3 877 44 34
info.be@vetoquinol.com
www.vetoquinol.be

BRAZIL
• Vetoquinol Saude Animal Ltda
Rua Alcantara, 195 Vila Maria
São Paulo – SP 02110-010
Tel. +55 11 3568-1111
faleconosco@vetoquinol.com
www.vetoquinol.com.br

• Mairipora Industrial site
Tel. +55 11 4486 8999

CANADA
Vetoquinol N.-A. Inc.
2000, chemin Georges, Lavaltrie,
Québec, J5T 3S5
Tel. +1 450 586 22 52
Toll free number/Numéro
sans frais 1 800 565 0497
canada_info@vetoquinol.com
www.vetoquinol.ca

• Princeville Industrial Site
Tel. +1 819 364 3073

CZECH REPUBLIC
Vetoquinol s.r.o.
Zámečnická 411
288 02 Nymburk
Tel. +420 325 51 38 22
info.cz@vetoquinol.com
www.vetoquinol.cz

FRANCE
Head Office
Vetoquinol S.A.
Magny-Vernois BP 189
70204 Lure cedex
Tel. +33 3 84 62 55 55
vetoquinol@vetoquinol.com
www.vetoquinol.com

Secondary companies
37 rue de la Victoire
75009 Paris
Tel. +33 1 55 33 50 25
communication.france@vetoquinol.com
www.vetoquinol.fr

Z.I. du Cantubas
Avenue J. Kessel
69170 Tarare cedex
Tel. +33 4 74 05 37 50
www.vetoquinol.fr

GERMANY
Vetoquinol GmbH
Reichenbachstraße 1,
85737 Ismaning
Tel. +49 89 999 79 74 0
germany_info@vetoquinol.com
www.vetoquinol.de

INDIA
Vetoquinol India Animal
Health Private Ltd
801, SIGMA Building, 8th Floor,
Hiranandani Business Park,
Technology Street,
Powai - Mumbai - 400076
Tel. +91 22 6132 2609
headoffice.mumbai@vetoquinol.com
www.vetoquinol.in

IRELAND
Vetoquinol UK Ltd
Steadings Barn
Pury Hill Business Park
Nr Alderton
Towcester NN12 7LS
Northamptonshire
Tel. +44 1280 814 500
office@vetoquinol.com
www.vetoquinol.co.uk

ITALY
Vetoquinol Italia s.r.l.
Via Piana, 265
47032 Bertinoro (FC)
Tel. +39 0543 462411
italy@vetoquinol.com
www.vetoquinol.it

JAPAN
Vetoquinol-Zenoaq K.K.
1-1 Tairanoue, Sasagawa, Asaka-
machi, Koriyama, Fukushima
Japan 963-0102
Kurumi Oshio
oshio-kurumi@vetoquinol-zenoaq.jp
Tel. : +81 (0)24 937 3350

MEXICO
Vetoquinol de México S.A. de C.V.
Mariano Escobedo # 748 5º Piso
Int. 2 - Col. -Nueva Anzures
Delegación Miguel Hidalgo
México, D.F. C.P. 11590
Tel. +52 55 5262 7540
Servicioalcliente_mx@vetoquinol.com
www.vetoquinol.mx

NETHERLANDS
Vetoquinol B.V.
Postbus 3191 - 5203 DD's-
Hertogenbosch
Tel. +31 10 498 00 79
info.nl@vetoquinol.com
www.vetoquinol.nl

NORTH IRELAND
Farmvet Systems Ltd
27 High Street
Moneymore
Magherafelt
Co Londonderry
BT 457PA
North Ireland

PEOPLE'S REPUBLIC OF CHINA
Vetoquinol Trading (Shanghai) Co, Ltd
Room C - 1607, Floor 16, Block C
No, 85, Lou Shan Guan
Road Oriental International Plaza
Chang Ning District
Shanghai 200336
Tel. +86 21 52570660
www.vetoquinol.cn

POLAND
Vetoquinol Biowet Sp. z o.o.
ul. Kosynierów Gdynskich 13-14
66-400 Gorzów Wlkp.
Tel. +48 95 728 5500
info.pl@vetoquinol.com
www.vetoquinol.pl

PORTUGAL
Vetoquinol Unipessoal LDA
Rua Consiglieri Pedroso,
nº 123 Edifício H
Queluz de Baixo
2730-056 Barcarena
Tel. +351 21 434 0300
info.portugal@vetoquinol.com
www.vetoquinol.pt

SOUTH KOREA
Vetoquinol Korea Co. Ltd
11001-A, M-city tower, 195,
Baengma-ro, Ilsandong-gu
Goyang-si, Gyeonggi-do,
South Korea
(Zip code: 10403)
Tel. +82 31 967 8853
webmaster@vetoquinolkorea.com
www.vetoquinol.kr

SPAIN
Vetoquinol Especialidades
Veterinarias S.A.U.
Carretera de Fuencarral 24
Edificio Europa I
Portal 3 - 2º 5
28108 Alcobendas - Madrid
Tel. +34 91 490 37 92
marketing.espana@vetoquinol.com
www.vetoquinol.es

SWEDEN
Vetoquinol Scandinavia AB
Box 9 - SE-265 21 Astorp
Sweden
Tel. +46 426 7603
www.vetoquinol-scandinavia.com

SWITZERLAND
Vetoquinol AG
Freiburgstr. 255
3018 Bern
Tel. +41 31 818 56 56
Info.switzerland@vetoquinol.com
www.vetoquinol.ch

UNITED KINGDOM
Vetoquinol UK Ltd.
Steadings Barn
Pury Hill Business Park
Nr Alderton
Towcester NN12 7LS
Northamptonshire
Tel. +44 1280 814 500
office@vetoquinol.com
www.vetoquinol.co.uk

UNITED STATES
Vetoquinol USA Inc.
4250 N. Sylvania Ave.
Fort Worth, TX 76137
Tel. +1 817 529 7500
Toll free number +1 800 267 5707
customerserviceusa@vetoquinol.com
www.vetoquinolusa.com

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ACHIEVE MORE TOGETHER

Vetoquinol SA
French public limited company with capital of €29,704,755
676 250 111 RCS Vesoul

www.vetoquinol.com

Vetoquinol Head Office – Magny-Vernois
70200 Lure – Tel.: +33 (0)3 84 62 55 55
E-mail: relations.investisseurs@vetoquinol.com

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