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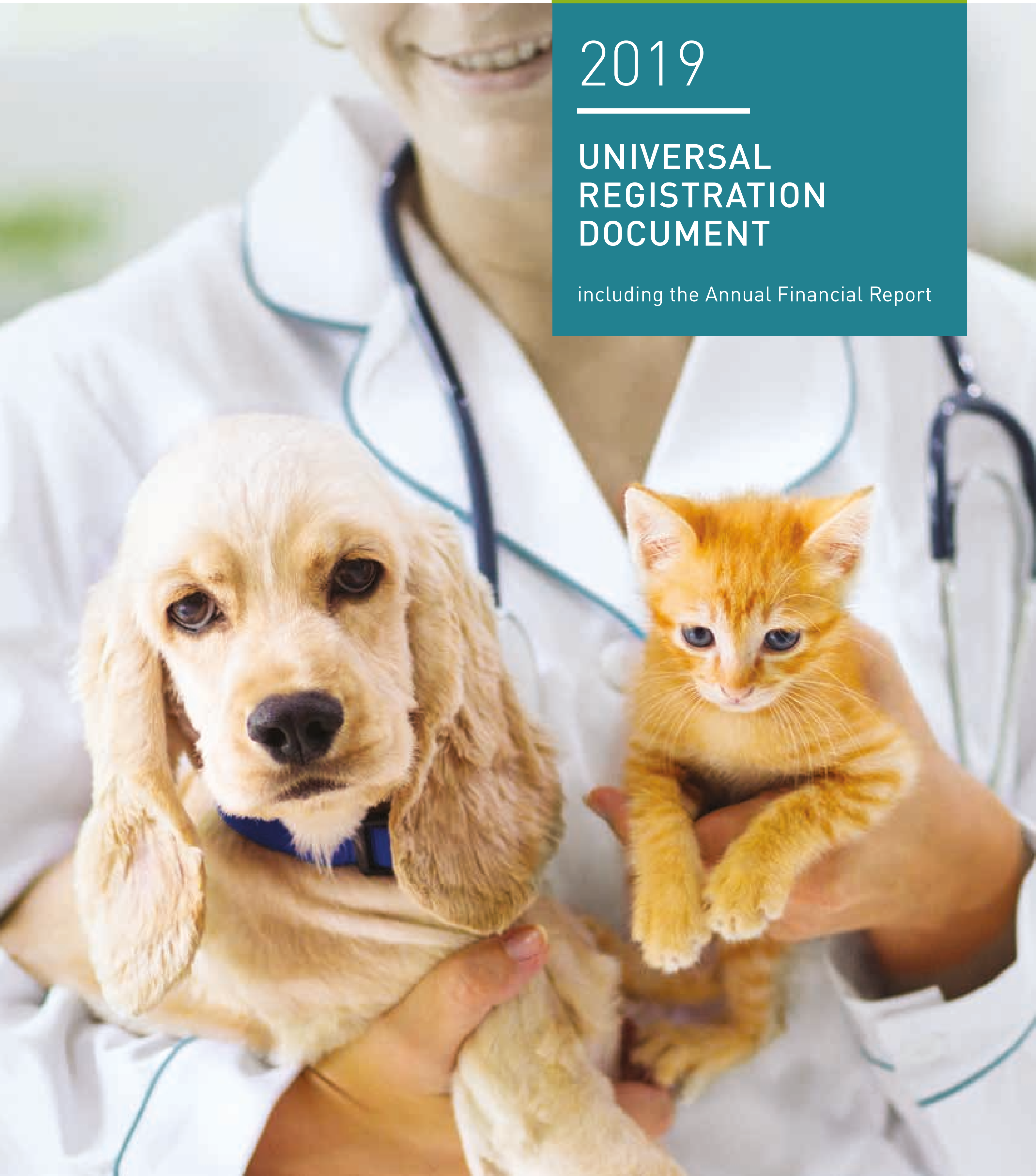
2019

UNIVERSAL REGISTRATION DOCUMENT

including the Annual Financial Report



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2019

UNIVERSAL REGISTRATION DOCUMENT

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Note to recipient of this document: this is the translation of an extract of the Universal Registration Document and Annual Financial Report for the year ended December 31, 2019. The original French document was filed with the AMF (French Financial Markets Authority) on April 23, 2020.

1 PRESENTATION OF THE GROUP

1.1 Message from Matthieu Frechin, Chief Executive Officer

Our dynamic and innovative family business has proved the merits of its unique positioning and expertise as well as its ability to forge lasting ties with loyal customers.

Strong teams, flexible organization and perfect understanding of our customers are the building blocks with which we are shaping the future of our company. I believe that one of the key factors for our future lies in the way we build our offering alongside our customers: together, we will help feed the planet in a sustainable manner and enhance the lives of pet owners in the company of their beloved animals.

In this vision in which our offering includes not only drugs and non-medicinal products, but also diagnostics, services and digital tools, one goal is particularly close to my heart: developing partnerships. As a trusted partner, we will provide even more support to our customers in managing their daily concerns.

In today's open and rapidly changing world, we cannot claim to be able to do everything ourselves or to possess all the expertise we need within the confines of our walls. Our ecosystem is huge and offers us countless opportunities to develop the best products and solutions for and with the help of our customers.

Besides building this vision, we have worked on our corporate values and I am happy to uphold values that have been established collectively through the contributions of so many of our employees. We have chosen three values to help us achieve more together: trust, dare and collaborate. All of our daily actions, attitudes and interactions with our partners are guided by these three core values.

Matthieu Frechin
Vetoquinol CEO

1.2 Vetoquinol, your trusted animal health partner

Founded in 1933, Vetoquinol is a leading global animal health company. Vetoquinol designs, develops, manufactures and sells drugs and non-medicinal products for food-producing animals (cattle and pigs) and pets (dogs and cats).

A top 10 global veterinary pharmaceutical company, Vetoquinol combines sustainability, growth and responsibility while pursuing its human adventure.

Vetoquinol enriches human lives through devotion to animal health and welfare

1.2.1 Business overview

Vetoquinol develops, manufactures and sells veterinary drugs and non-medicinal products exclusively dedicated to animal health. In response to the sweeping changes affecting the veterinary profession, Vetoquinol, a leading supplier, offers its customers all-inclusive solutions encompassing not only pharmaceutical and nutritional products, but also diagnostics, digital applications and services.

Vetoquinol has chosen to focus on a range of products entitled the "Essentials", products with strong growth potential that meet key requirements for pet owners and cattle and pig breeders identified in the veterinary profession. They are intended for sale worldwide and their scale effect improves their economic performance.

The Vetoquinol story began in France. Now, almost 90 years later, Vetoquinol products are marketed in over 100 countries including 24 countries in which Vetoquinol has direct operations. France accounts for less than 15% of Group sales. The USA is now Vetoquinol's No. 1 market.

While Vetoquinol manufactures and sells a number of products that are covered by patents, in most cases the active ingredient has entered the public domain.

However, harnessing its expertise and the results of its research work, Vetoquinol applies innovations to these freely available molecules in terms of galenic form or formulation which differentiate its products and gives them far-reaching competitive edge.

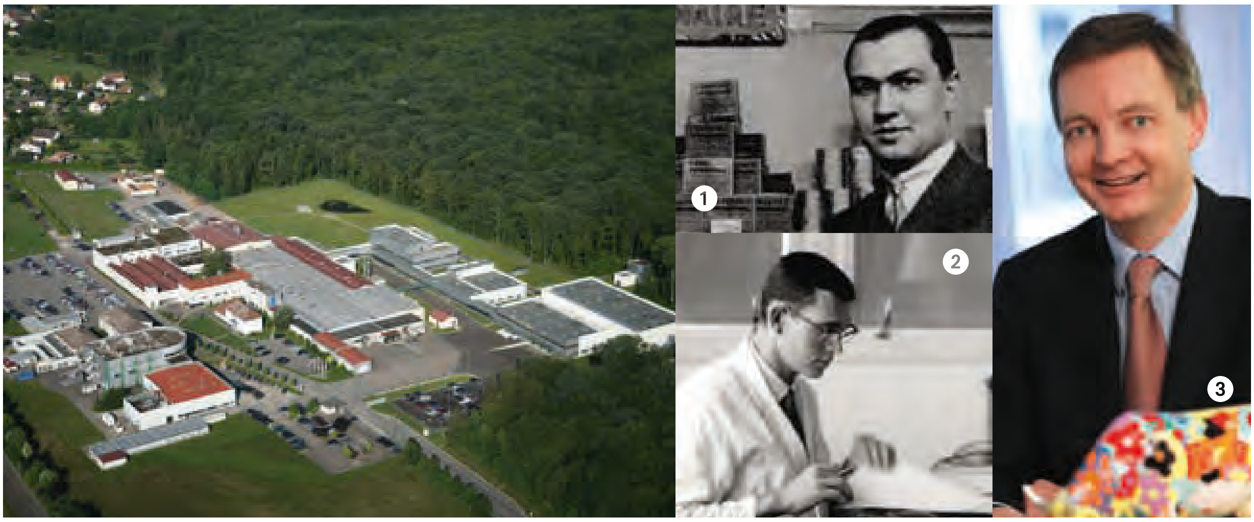
Vetoquinol is an active member of national (in the countries where it has a subsidiary), regional and global organizations that represent the profession. In particular, Vetoquinol is a corporate member of Health For Animals and Animal Health Europe, two associations in which all leading global veterinary pharmaceuticals are represented.

Vetoquinol, which has devoted its activities exclusively to veterinary medicine for almost 90 years, is fully engaged in the service of vets, animals, pet owners and breeders.

A sustainable business that targets four species representing 80% of the world market, the Group has a balanced risk profile at all levels. Vetoquinol sales in 2019 were evenly balanced between the pet and food-producing segments.

1.2.2 Serving animal health for over 85 years

1.2.2.1 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, vaginal inserts 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 Chief Executive Officer of Vetoquinol. 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.

Over 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.

1.2.2.2 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® (treatment for incontinence in female dogs) 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).
- Development of the Acacia project, a 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 with the acquisition of Farmagricola SA, a company located in the State of Sao Paulo.
- 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 launches of Flexadin Plus and Flexadin Advanced, non-medicinal products designed to support joint health and function in dogs and cats, in Europe and USA.
- 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 Cimalgex® in Brazil: first Group Essentials product on the Brazilian pet market.
- Acquisition of Bioniche Animal Health, a major supplier of reproduction products in North America. The Vetoquinol offering expands with new flagship products in the domain of reproduction.
- Launch of Tolfine in India: first Group Essentials product on the cattle market in India.

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 with 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 facilities by adding a major extension to the injectables production unit on the Group's main production complex 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: Vetoquinol acquires a stake in Plant Advanced Technologies (PAT), an investment 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 our future 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.

2019

- Vetoquinol purchases a 90% equity stake in Clarion Biociencias, a veterinary drug manufacturer based in Goias state, Brazil.
- Launch of two pet products in the USA: Ph-Notix and Flexprofen.
- Establishment of a subsidiary in New Zealand: Vetoquinol New Zealand Ltd.
- Vetoquinol acquires two reproduction products destined for the Australian and New Zealand markets: Cattle-Mate and Ovu-Late.
- Vetoquinol USA is certified as a Great Place to Work.
- Vetoquinol announces the reorganization of its industrial facilities in Italy, Poland and France (VITAL project).
- Vetoquinol and Klox Technologies Limited, a subsidiary of Klox Technologies Inc., enter into an exclusive global licensing agreement excluding China. Under the agreement, Vetoquinol will develop and market Klox's fluorescent light energy (FLE) products in the domain of animal health.

1.2.3 Operations in all main animal health markets

Direct operations in 24 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
- New Zealand

36.7%

47.2%

16.1%

100 distributors worldwide

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.

Sales and distribution

The Group operates in three territories: Europe, USA and Rest of World. The RoW division covers Asia Pacific, Latin America, Canada and the worldwide distributor network. In each country, subsidiaries report to the Regional Director to which they are attached; they have their own sales force, marketing department, regulatory department and support functions.

Each Regional Director is in charge of operations within their territory, 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, 2019, the Group had over 750 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 Company has a long-term sales policy and focuses on the quality of the relationship between its veterinary delegates and veterinary partner customers, listening and responding to their needs. For this purpose, Vetoquinol has developed a customer-centric approach where listening to customers and solutions designed on the basis of their needs are identified and marketed.

Vetoquinol is characterized by its determination to provide long-term support to its vet partners. The Group also makes considerable investments in the scientific training of vets.

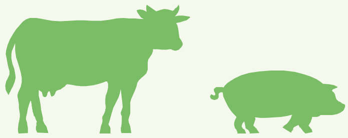
1.3 Vetoquinol's strategy

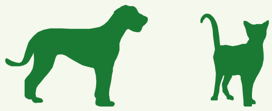
1.3.1 A focusing strategy: Essentials products targeted at four species

Vetoquinol develops, manufactures and sells drugs, non-medicinal products and services exclusively dedicated to animal health. The veterinary market is undergoing sweeping changes and continues to grow: product innovation and, above all, digital technology, the establishment of clinic chains and more rapid diagnostics enable businesses to respond differently and better to the expectations of breeders, pet owners and vets. Vetoquinol strives to offer its customers comprehensive solutions that include all the required ingredients for a satisfactory result.

1.3.2 Strategy focused on four species

Cattle and pigs	Dogs and cats
Food-producing animals (cattle, sheep, pigs, poultry) **60%** of the animal health world market	Dogs – cats **40%** of the animal health world market





Source: Vetoquinol 2019 estimates.

The ever-increasing demand for animal proteins (milk, eggs and meat) is forcing farmers worldwide to look for ways of increasing productivity, particularly through paying constant attention to the quality and health of their livestock. In the areas of dairy and meat (beef and pork) production, via the veterinary networks, Vetoquinol provides advice, products and related services designed to help farmers meet the increasingly complex challenges facing them.

The pet segment is characterized by sustainable growth in mature economies and high growth potential in growth economies, particularly Asia. Mirroring the unique emotional ties built up between pets and their owners, Vetoquinol offers a line of products that combine efficacy and simplicity of use.

1.3.3 Multi-specialist strategy

Vetoquinol focuses on an international range of products which it calls "Essentials": products of global reach, existing or potential market leaders that meet the daily needs of veterinary practitioners. Vetoquinol provides essential treatment and has recognized expertise in a number of therapeutic domains: infectious diseases, pain/inflammation, cardiology and reproduction.

Examples of Essentials products
FOR PETS

Cimalgex, Marbocyl, IPAKITINE, Cefaseptin, Clavaseptin, Prilium, flevox, Flexadin Advanced, Propalin, UpCard, Zylkène

Examples of Essentials products
FOR FOOD-PRODUCING ANIMALS

Forcyl, Marbocyl, FOLLTROPIN, PerMacyl

1.3.4 Hybrid growth strategy

Backed by sound financial management, tight control of growth, production and marketing and in-depth expertise in its core therapeutic domains, Vetoquinol pursues the following strategy:

- **Controlled, profitable growth** in keeping with the company's family values. Regular, measured and well-timed acquisitions ensuring that financial performance rapidly meets the company's standards.
- **Targeted growth:** Vetoquinol focuses its efforts on a limited number of "strategic countries" and on four target species: pigs and cattle (food-producing segment) and dogs and cats (pet segment).
- **A market underpinned by strong fundamentals:** in industrialized countries, household expenditure on pets is growing steadily due to the increasingly important role played by animals in the lives of human families. In the food-producing segment, the Group benefits from the steady growth of this market driven by the expansion of the world population and growing demand for animal protein.
- **In-depth expertise in target therapeutic domains:** In the pet segment, Vetoquinol has chosen to focus on dermatology, parasitology and improving mobility through the treatment of osteoarthritis. For food-producing animals, Vetoquinol more specifically targets the areas of reproduction, udder health 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 China and Brazil) and benefit from the strong growth expected in Asia. The Group is therefore present in China, India, Korea and Japan. In 2019, Vetoquinol acquired Clarion Biociencas, a veterinary drug manufacturer based in Brazil, thereby expanding its footprint in the world's third largest animal health market. Vetoquinol established a subsidiary in New Zealand in the same year.

Vetoquinol has therefore been able to extend its international network, strengthen its foothold in certain therapeutic segments, capitalize on its research programs and, as such, maintain a balanced risk profile.

At December 31, 2019, Vetoquinol had a solid financial structure in place to further its hybrid growth strategy, as well as the means to finance external growth and partnership objectives by ensuring its development in complete independence.

1.4 Value-creating business model

Worldwide trends in the

Global market > $**30**bn, growing by 3-5%

Ever tightening regulations

OUR RESOURCES

Human

- **2,372** employees in **24** countries
- Staff geared up for action

Financial

- Shareholders' equity: €**386**m
- Cash: €**72**m

Intellectual property

- >**1,000** MAs in the portfolio
- > **50** projects under development
- **60** R&D engineers
- **7.6**% of sales invested in R&D

Environmental

- Waste
- Energy
- Water

Industrial

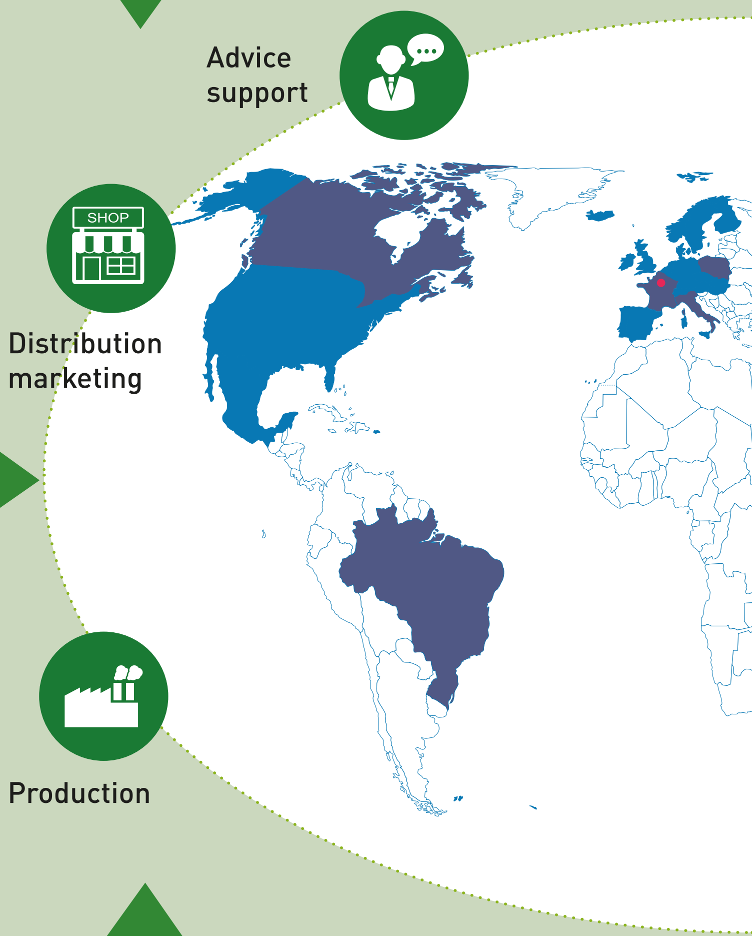
- **25** million boxes/pills manufactured per year
- **7** facilities worldwide
- €**14,3**m investments

Social and relational

- Stakeholder relations
- Family-based shareholding

OUR VISION

The most agile animal health biotech where our stakeholders create custom solutions for a better planet



Our main assets

Partnerships
Acquisitions

Our main brands

Zylkène, Prilium, dolpac, UpCard, flevox, Clavaseptin, Tolfine, Cefaseptin

veterinary industry

Top **20** global players > **75%** of the market

Small series production (liquids, powders, pills, etc.)

OUR STRATEGY

Focus on 4 species (dogs/cats and cattle/pigs), 3 territories and 6 therapeutic domains

Essentials products
Operational excellence

PerMacyl® Tolfédine® CS Marbocyl® IPAKITINE® Propalin Flexadin Forcyl FOLLTROPIN® Cimalgex Flexadin Advanced

OUR SHARED VALUE CREATION

Customers

- Vets/breeders/pet owners
- Operational excellence
- “Customer-centricity” initiative

Shareholders

- Sustainable performance
- EBITDA > **16%** of sales
- EBIT > **11%** of sales
- Continued dividend policy

Employees

- Skills development (> 68,000h training)
- Great Place to Work

Environmental

- Decarbonized mobility

Suppliers and partners

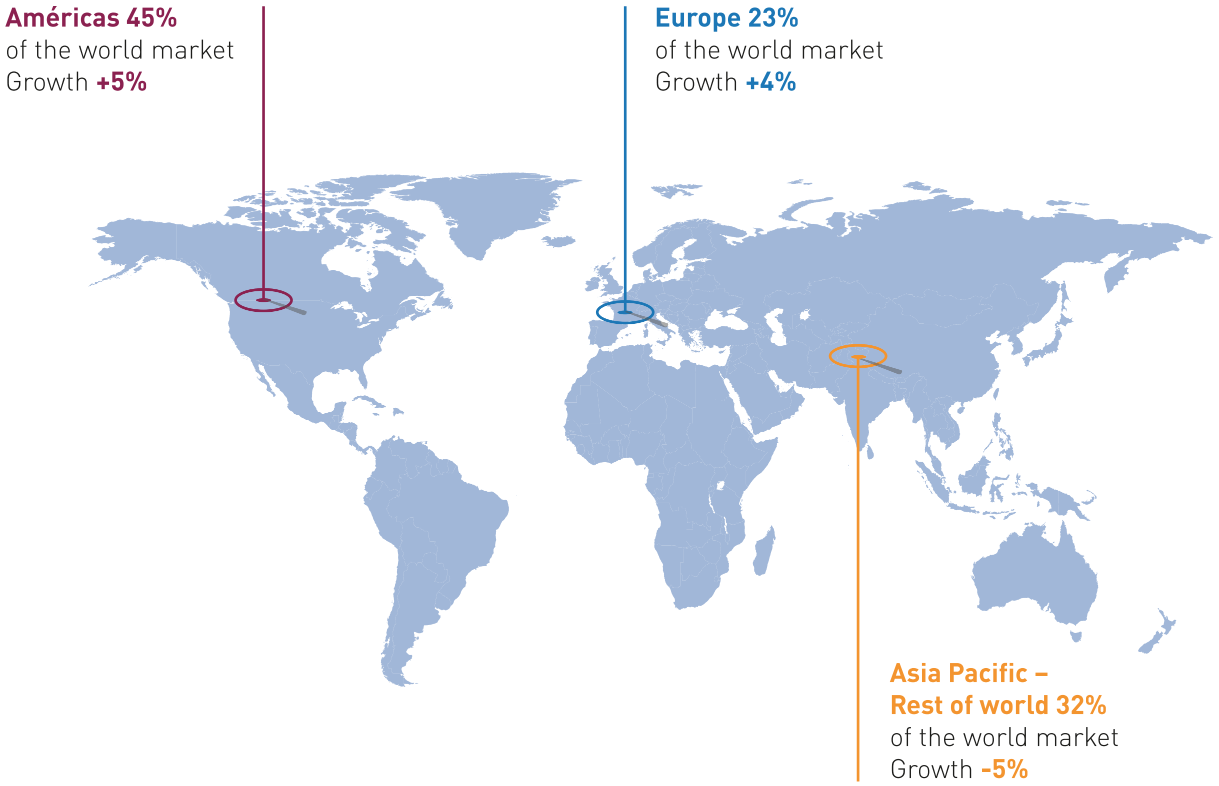
- > **1,000** suppliers
- > **50** partners

Society

- Commitments and ethics
- Gaia Rating
- Sustainable business

1.5 Animal health world market

1.5.1 Animal health world market



Source: Vetoquinol 2019 estimates.

In 2019, the animal world health market is expected to grow by around 1.5% at constant exchange rates (source: Vetoquinol estimates).

In terms of species, the animal health market is divided into two segments: the food-producing 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, the food-producing segment shrunk 4% in 2019, while the pet segment posted growth of around 10%.

In 2019 the market was severely impacted by the swine fever outbreak in Asia, particularly in China whose pig population was heavily depleted by the virus. This explains the negative growth on the food-producing animal market in Asia Pacific.

1.5.2 The animal health market by region

Market growth by major region is estimated as follows:

- Europe +4%;
- North America +4%;
- Latin America +11%;
- Asia Pacific and Rest of World -5%.

Source: Vetoquinol 2019 estimates.

Europe

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

In 2019, the market maintained stable growth of 4%. 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 subdivided into two distinct regions: North America, a mature but constantly growing 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. To strengthen its presence in this key market, Vetoquinol recently acquired Clarion Biociencias, which specializes in parasiticides for food-producing animals.

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. China is a particularly important market for Vetoquinol in terms of growth potential in both pet and food-producing segments; it is currently the world's second largest market and is positioning itself to overtake the USA and become the world's No. 1 market during the coming years. Vetoquinol is actively seeking to expand its footprint in this key territory, firstly in the pet segment, where its subsidiary has achieved recognition through the registration and launch of a number of Essentials products, but also in the pig market, where China is still the world's top consumer and producer of pork (source: USDA – United States Department of Agriculture) despite the swine fever crisis. Through active cooperation with local partners, in 2019 Vetoquinol successfully launched BoarBetter®, an unrivaled innovation designed to stimulate reproduction processes in pigs.

In 2017, Vetoquinol formed a partnership with Zenoaq, Japan's leading independent veterinary pharmaceutical company, in order to register and market the Group's Essentials products in Japan by harnessing our partner's expertise.

1.5.3 Animal health market outlook

The following are expected to be the main trends over the 2020-2022 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 and poultry,
- the unforeseeable impact of diseases that could temporarily affect meat production and consumption in specific regions (swine flu, bluetongue, bird flu, foot-and-mouth disease, etc.), such as the swine fever outbreak in China and South-East Asia,
- efforts to improve food safety and traceability, tightening regulations and a drive to improve animal health, notably in Asia in order to minimize the outbreak of health crises (swine fever, coronavirus),
- the promotion of animal welfare, including in the breeding sector,
- 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 in 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 in both pet and food-producing segments and is set to be a source of innovation in solutions and services,
- all regions are expected to post growth in the pet market,
- on the food-producing market, Latin America is expected to grow faster than North America or Europe in volume terms. In Asia, particularly in China and South-East Asia, growth is expected to slow down over the short and medium term due to the various health crises (swine fever, coronavirus). Over the long term, the food-producing animal market is expected to see robust growth in both volumes and value due to the drive to improve animal health.

1.6 Vetoquinol: an industrial Group

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. These processes are carried out under conditions that guarantee product quality, safety and efficacy.

In 2019, 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.

As of December 31, 2019 Vetoquinol had seven production units.

Generally speaking, Vetoquinol's international sales subsidiaries lease the buildings they occupy.

All Vetoquinol plants have GMP approval for their specific manufacturing operations, except for Tarare which only manufactures non-medicinal products. In addition, the Princeville plant in Canada is FDA-certified.

In the case of products which it lacks the technical capacity to produce, Vetoquinol uses subcontractors, who are monitored and audited by the Vetoquinol industrial department to ensure they apply the same standards of compliance as the Group's own plants.

Vetoquinol also distributes other companies' products, which are regularly monitored and audited by the industrial department.

A systematic quality approach has been implemented throughout all Vetoquinol 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 and release of raw materials and packaging items;
- the inspection and release 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.

1.6.1 France (Lure, Tarare, Paris and Angers)

The Company owns the Lure complex (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. Veterinary drugs and non-medicinal products for the entire global market are produced here. This unit produces sterile injectable liquids, non-sterile liquids and creams, and tablets.

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 Vetoquinol 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 Vetoquinol 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.

This plant produces non-medicinal products mainly for the European market. It manufactures powders, pellets, liquids, paste forms and soft chews.

1.6.2 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.

This plant produces veterinary drugs and non-medicinal products for the entire global market. It produces sterile and non-sterile injectable liquids, pellets, powders, tablets and liquid insecticides.

1.6.3 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. Vetoquinol will terminate this lease at the end of 2021 when all manufacturing operations will be transferred to Poland.

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.).

A few non-conformities were identified by the latest pharmaceutical audit conducted on the site by the authorities. Corrective measures have been approved by the authorities.

This plant produces 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. In July 2019, Vetoquinol announced the forthcoming relocation of the manufacture of some of these products to the Gorzów plant in Poland, followed by the gradual shutdown of the Italian manufacturing plant due to be completed by the end of 2021.

1.6.4 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 parasiticide workshops.

This plant mainly manufactures injectables, parasiticides and some dry and liquid forms for the Brazilian market.

1.6.5 Goiania (Brazil)

Vetoquinol Saude Animal Ltda, a Group subsidiary, owns the plant located in Goiania (Goias state). The surface area of the buildings is 7,725 sqm on a 15,341 sqm plot. The last inspection by MAPA's regulatory authorities in 2019 validated recent investments in injectable, antibiotic and parasiticide workshops. The sterile and non-sterile injectables plant has a production capacity of 7 million units. The plant has a special unit for producing plastic injectables. The plant has 110 employees, complies with all applicable MAPA regulations and was recently GMP-certified (Brazil). The Goiania unit has an innovative product research center.

1.6.6 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.

This plant produces veterinary drugs and non-medicinal products, mainly for the North American market but also for the European and Asian markets. It manufactures liquids and paste forms as well as powders. It is FDA-certified.

1.6.7 Main investments made over the last three years - excluding IFRS 16

€000	**2019**	**2018**	**2017**
Purchase of intangible assets	**(4,892)**	(2,943)	(2,622)
Purchase of PP&E	**(9,441)**	(11,276)	(11,082)
Purchase of available-for-sale assets	**(5)**	-	-
Purchase of other financial assets	**-**	-	(1,156)
Proceeds from sale of assets	**678**	279	596
Change in other financial assets	**(93)**	(85)	32
Net cash flow from business combinations	**(50,801)**	(3,726)	(1,450)
Net cash flow from investing activities (excluding IFRS 16)	**(64,547)**	(17,751)	(15,683)

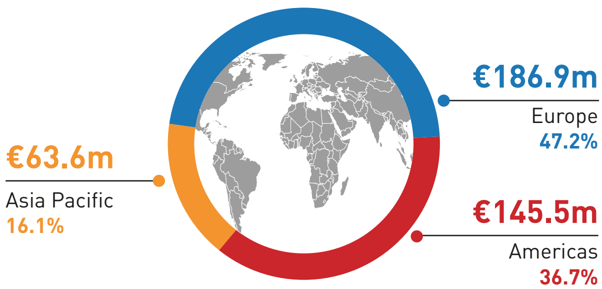
1.7 Financial performance

€396 million
sales
(up 3.3% like-for-like)

including **€190.6 million**
from Essentials products
(up 5.1% like-for-like)

Breakdown of Group
per business segment

Breakdown of Group sales
per territory



€65.4 million
EBITDA
(XX,X % du chiffre d'affaires)

€45.9 million
EBIT
(11.6% of sales)

1.8 Non-financial performance

Strong commitment

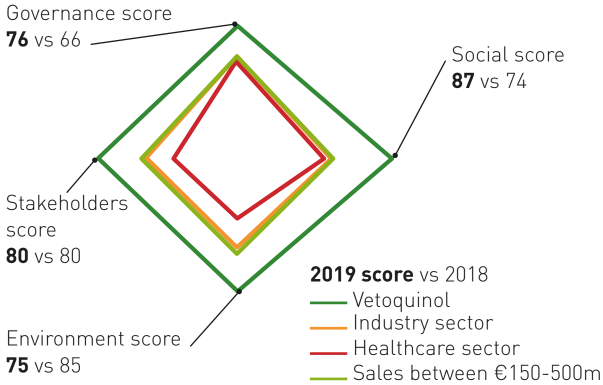
- Total score of 80% in the EthiFinance Gaia Rating, ranking Vetoquinol among the Top 10 France SMEs
- 2019 improvement on 2018 score
- Score above peers
- Similar scores in the different sections

2019 non-financial assessment by Gaia Rating

Overall score (xx/100)

Stakeholders	Social	Environment	Governance
80	87	75	76

Ranking: 6*/70
Vetoquinol overall ranking: 33/230



Group strengths

- Committed family firm
- World-class operations
- Group-wide 'In Motion' strategic plan benefits

Areas of improvement

- Health and safety
- Environment

The two major priorities in 2019

- Strong commitment among Vetoquinol employees worldwide to welfare, accident prevention, risk prevention and preservation of their health.
- Development of innovative designs in order to offer more sustainable products, including the eco-packaging initiative launched in 2019.

1.9 Simplified organizational chart

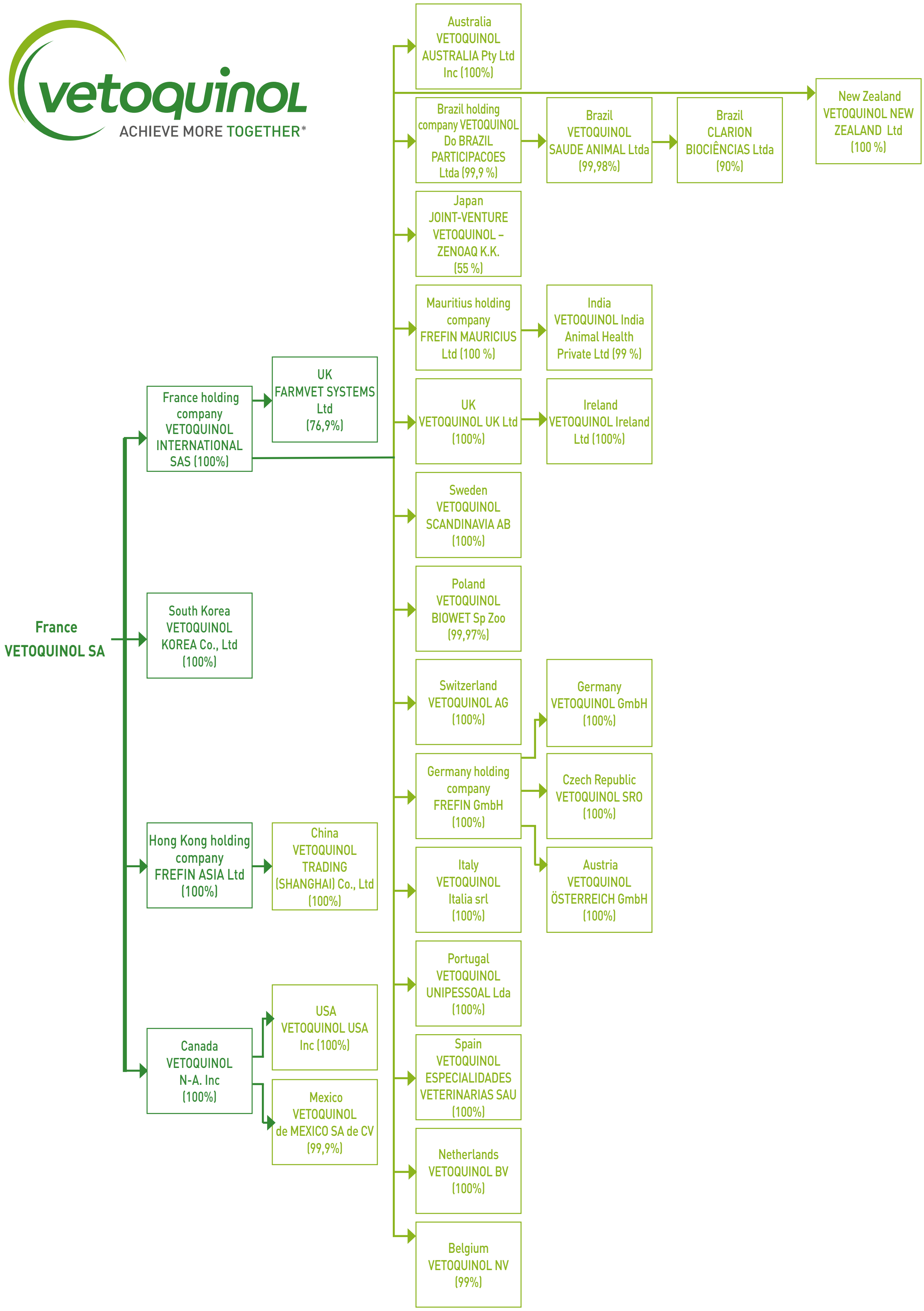
Section 1.2 provides an overview of the Group's business. The overall organization of Vetoquinol is centered on the parent company, Vetoquinol SA, which plays the role of Group holding company as well as carrying out a business activity in its own right.

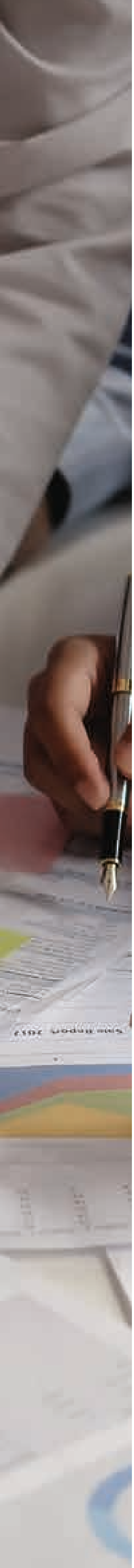
Accordingly, the Group's primary manufacturing plant is situated in Lure, the location of the head office. The Company (Vetoquinol SA) invoices its subsidiaries for sales of the finished products it manufactures.

Executive functions are centralized in the parent company, Vetoquinol SA.

In 2019, the Vetoquinol Group:

- purchased a 90% equity stake in Clarion Biociencias Ltda, thereby significantly strengthening its foothold in Brazil, the world's third largest animal health market. Vetoquinol has operated in Brazil since 2011 through its subsidiary Vetoquinol Saude Animal and has hitherto focused on developing Essentials products designed for meat and dairy cattle, pigs and pets. Clarion Biociencias has a development pipeline of products for cattle and pets;
- established a new subsidiary in New Zealand: Vetoquinol New Zealand Ltd. This move is in line with the Group's policy to better serve this buoyant and growing market via a local operation and by promoting sales of Essentials products to veterinary clinics in New Zealand.


vetoquinol
ACHIEVE MORE TOGETHER*
France
VETOQUINOL SA
France holding company VETOQUINOL INTERNATIONAL SAS (100%)
UK FARMVET SYSTEMS Ltd (76,9%)
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%)
New Zealand VETOQUINOL NEW ZEALAND Ltd (100 %)
Brazil holding company VETOQUINOL Do BRAZIL PARTICIPACOES Ltda (99,9 %)
Brazil VETOQUINOL SAUDE ANIMAL Ltda (99,98%)
Brazil CLARION BIOCIÊNCIAS Ltda (90%)
Japan JOINT-VENTURE VETOQUINOL – ZENOAQ K.K. (55 %)
Mauritius holding company FREFIN MAURICIUS Ltd (100 %)
India VETOQUINOL India Animal Health Private Ltd (99 %)
UK VETOQUINOL UK Ltd (100%)
Ireland VETOQUINOL Ireland Ltd (100%)
Sweden VETOQUINOL SCANDINAVIA AB (100%)
Poland VETOQUINOL BIOWET Sp Zoo (99,97%)
Switzerland VETOQUINOL AG (100%)
Germany VETOQUINOL GmbH (100%)
Germany holding company FREFIN GmbH (100%)
Czech Republic VETOQUINOL SRO (100%)
Italy VETOQUINOL Italia srl (100%)
Austria VETOQUINOL ÖSTERREICH GmbH (100%)
Portugal VETOQUINOL UNIPESSOAL Lda (100%)
Spain VETOQUINOL ESPECIALIDADES VETERINARIAS SAU (100%)
Netherlands VETOQUINOL BV (100%)
Belgium VETOQUINOL NV (99%)



2 STATEMENT OF **NON-FINANCIAL PERFORMANCE**

Our commitment to sustainable development

We operate at the center of a global ecosystem encompassing the human race, the animal kingdom and the whole planet.

Within our market, the farming sector is challenged in terms of how animal proteins are produced: intensive farming, environmental impact, the nature and quantity of inputs, the attention paid to animal welfare, and health requirements are all topical issues that need to be factored into our offering of products and solutions for vets, breeders and pet owners alike.

Farmers are currently faced with the challenge of how to reconcile protection of the environment and resources such as water and cattle feed with animal welfare and the need to keep sale prices at an acceptable level for consumers.

Consumer expectations have an impact on the environment and are forcing us to rethink the way we interact with our value chain.

At Vetoquinol, on the occasion of the first ever I-Day (Innovation Day) organized by our Group, our employees echoed these expectations in terms of sustainable development.

We therefore decided to step up the importance of sustainable development in Group strategy via a special initiative forming part of our "Vetoquinol in Motion" strategic plan.

*This initiative, **which embodies our commitment to sustainable development,** focuses on three aspects: people, carbon footprint, and products. First, we have decided to focus on the health, safety and welfare of our people. We are also working on reducing our impact on the environment. Lastly, we have committed to developing an eco-packaging policy for our products. Our social footprint is a core feature of our commitments to our ecosystem.*

Our sustainable development policy is now structured, organized and managed within the framework of our strategic plan governance. The scope and objectives of this initiative have been defined and we can safely say that, in this area too, Vetoquinol is "In Motion".

Matthieu Frechin
Vetoquinol CEO

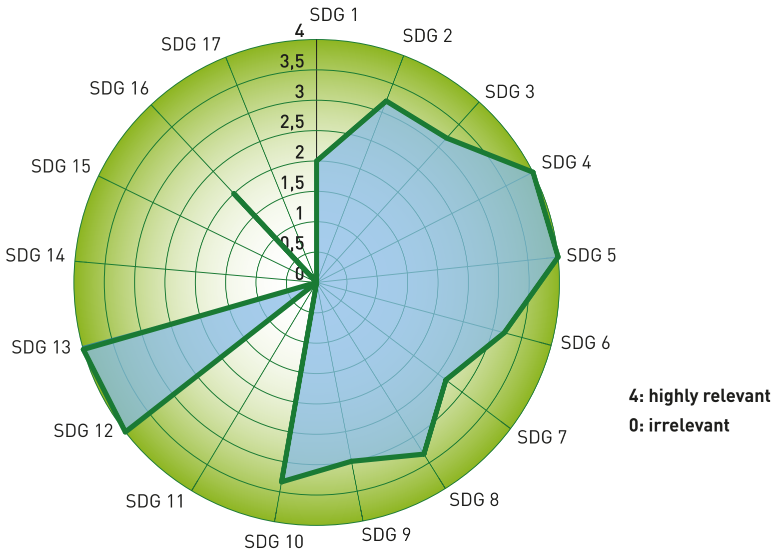
2.1 A strategy encompassing Corporate Social Responsibility (CSR)

Our commitment to sustainable development has now become one of the cornerstones of our strategic plan. Vetoquinol's Executive Committee is responsible for implementing the plan and has taken the necessary organizational steps to coordinate it. All aspects of the plan are reviewed at least once a year at an Executive Committee meeting or dedicated seminar. In addition, a quarterly report on progress with the plan is prepared and circulated. This system allows the Executive Committee to track the achievement of strategic plan targets, implement any corrective measures required and prepare a progress report to be forwarded to the Group Strategy Committee.

2.2 Vetoquinol's sustainable development goals

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.

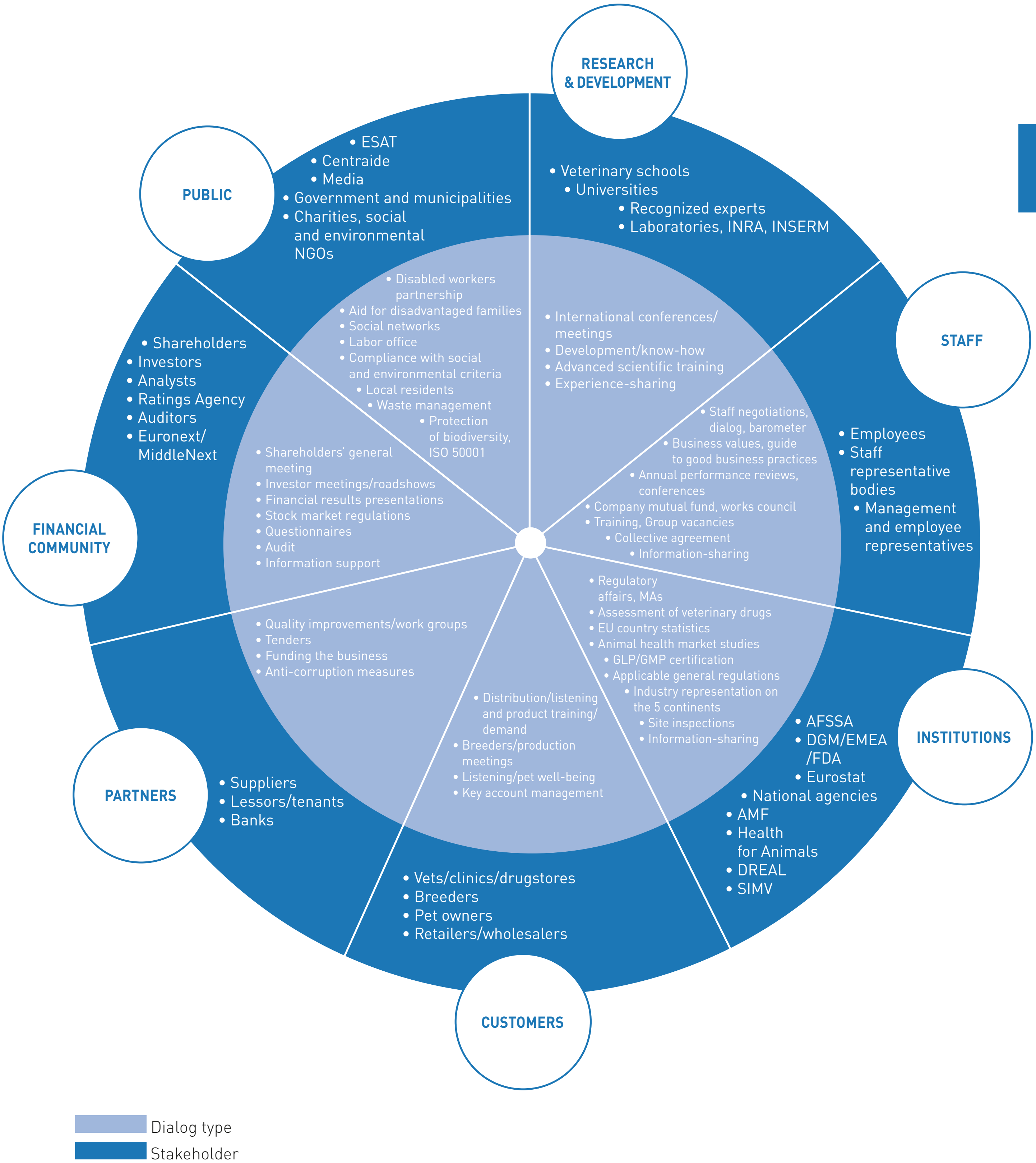


Accordingly, Vetoquinol has opted to pursue the following sustainable development goals:

3 GOOD HEALTH AND WELL-BEING; 8 DECENT WORK AND ECONOMIC GROWTH	Ensure a healthy working environment for all Group employees and develop and promote decent working conditions.
4 QUALITY EDUCATION	Hire, train and develop Vetoquinol people with a focus on 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.

These goals contribute towards the fulfillment of Vetoquinol's mission: "**To enrich human lives through devotion to animal health and welfare".**

The dialog conducted with Vetoquinol Group stakeholders is summarized in the chart below:



2.3 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 is based on 12 fundamental principles that are implemented throughout the Group:

- An HSE officer is appointed for each entity, who reports locally to management and operationally to the Group HSE manager. The HSE officer 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.
- Each entity collects and analyses information on accidents and incidents via a dedicated process. All major accidents and incidents are immediately reported to the Group HSE manager, who coordinates feedback from 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 audit and observation program. This program covers all the activities in which Vetoquinol employees are involved.
- Each entity deploys the necessary resources to manage emergency HSE situations, such as injury or pollution, as well as a customized crisis management procedure.

2.3.1 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 officer. 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 officers 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).

2.3.2 Development of internal HSE standards

A set of internal HSE guidelines (diagnostic tool) has been defined in order to facilitate implementation of the Group HSE policy at the various Vetoquinol entities. These guidelines are a collection of managerial and operational best practices in the key areas of HSE management. All Group entities have been audited. An action plan has been prepared for each entity audited and is monitored at least every quarter to assess progress.

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

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

HSE audits 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. On production sites that have an emergency plan, the managers and technicians responsible for putting the plan into action receive periodic internal training in emergency measures.

2.4 Vetoquinol's people

The simplicity and power of the three values "adopted" by Vetoquinol's employees are a strong driving force for the Group: trust, dare, collaborate.

These values serve as a benchmark that guides the daily work of each employee. They help to improve coordination between colleagues working in different professional areas and to increase consistency between action taken and decisions made globally.

In 2019, among other things, Vetoquinol:

- piloted a new process for assessing employee performance and development. The Group is seeking to steer its managerial culture towards greater independence and accountability for managers and employees alike. In 2018, an international working group came up with a new process and solution based on a set of requirements defined by managers and employees at different levels; a pilot scheme was conducted in 2019 across a selection of subsidiaries and central departments before being extended to all Group employees in 2020.
- launched a new strategic initiative geared to sustainable development, following the first Innovation Day organized in late 2018 with the involvement of all Group employees. 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. The inclusion of sustainable development in a large number of ideas prompted the Group Executive Committee to add a further dimension to the Vetoquinol strategic plan. Each country and each theme manager then selected the best ideas, which were implemented as from 2019.

These policies and values help Vetoquinol to operate in a manner worthy of 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. In 2017 and 2018, Vetoquinol introduced a standardized staff barometer covering all entities, subsidiaries and central departments 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. Each entity launched action plans on the basis of the results obtained. Two subsidiaries, Canada and USA, clearly confirmed their "Great Place to Work" certification from the moment they took part.

The Vetoquinol France entity is working 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 measures, primarily for improving internal communication and employee recognition. The ambassadors have created materials to help improve the induction process for newcomers. In 2018 and 2019 they organized the first two Vetoquinol music festivals performed entirely by Vetoquinol employees. The ambassadors also organized office open days allowing staff members to discover different departments and jobs at Vetoquinol.

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 in 2021.

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 have completed the 12-day training course, which the Group continues to offer to newly hired managers. All subsidiary and production plant managers as well as Group executives located outside France completed their training in 2018. In 2019, two Leadership Schools were organized for the management teams that report to the European subsidiary managers.

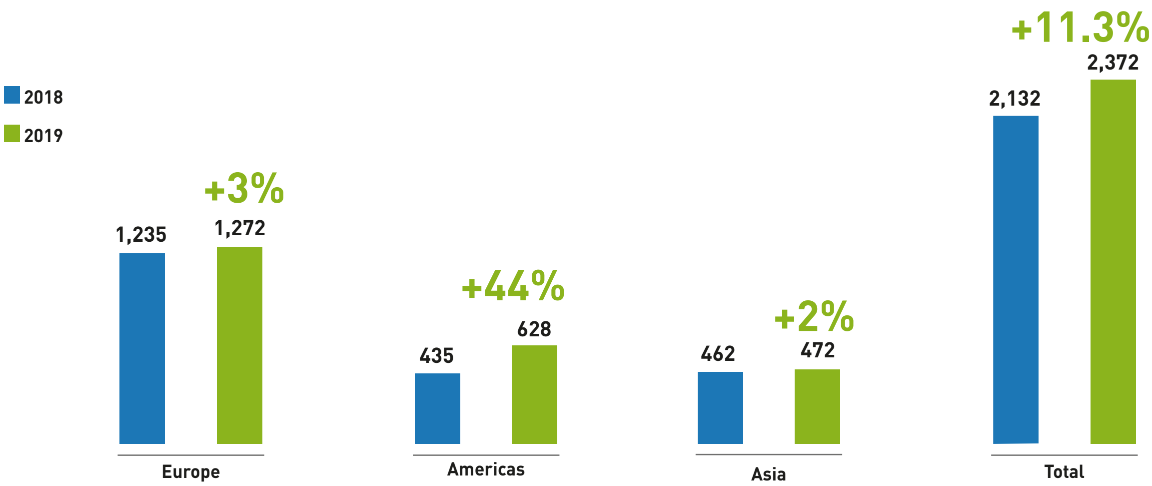
2.4.1 Headcount analysis at December 31, 2019

8 DECENT WORK AND ECONOMIC GROWTH

2.4.1.1 2019 changes in headcount

As of December 31, 2019, the Group had 2,372 employees compared to 2,132 at the end of 2018. The headcount increased by 11.3% compared to 0.6% in 2018.

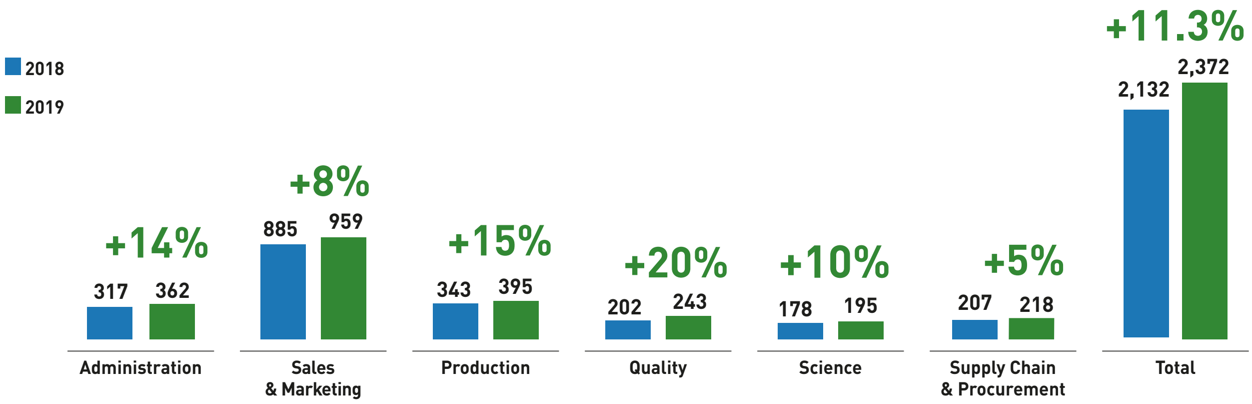
Breakdown of headcount per territory



Changes in headcount vary according to the regions concerned:

- In Europe, headcount increased by 3%, mainly due to hiring at FarmVet Systems Ltd. (Northern Ireland) to fill vacant positions in order to develop our food-producing animal health data business. For the time being, the reorganization of the Italian subsidiary initiated in 2019 has not had a material impact on headcount.
- North and South America headcount shot up by 44% (193 more employees), mainly due to the acquisition of the new Clarion manufacturing and sales facility in Brazil designed to boost Vetoquinol's operations in Brazil.
- Asia headcount increased by a mere 2% between the 2018 and 2019 year-ends, mainly due to the large number of positions left vacant in India. The plan to expand the India sales force is not yet reflected in this figure.

2.4.1.2 Breakdown of headcount per department



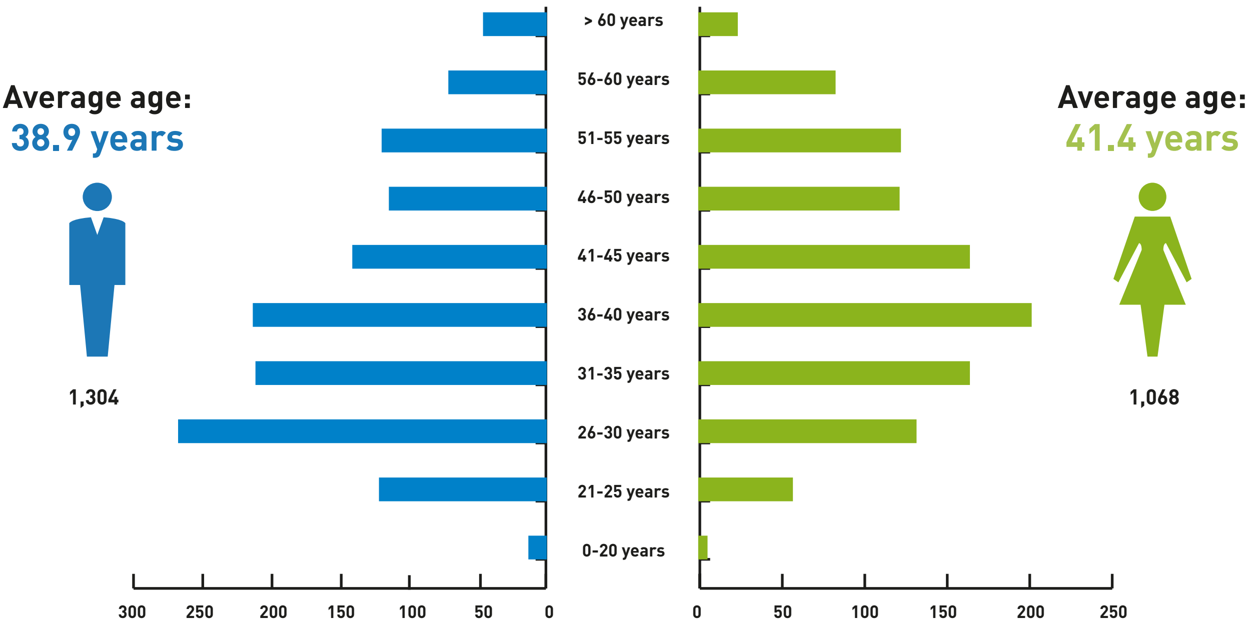
Broadly speaking, all departments expanded following the Clarion acquisition in Brazil. The increase was more prominent in the quality and production departments, as Clarion has a large manufacturing facility where most employees work in one of these departments. There was also a significant increase in administrative staff at the Goiania sales facility and at FarmVet Systems due to the ramp-up of development operations. The scientific department was boosted by the addition of product development staff from Clarion and a number of recruitments required to finalize the organization of the Angers research center acquired in 2018.

2.4.1.3 Breakdown of headcount per gender and territory

Headcount	Europe	Americas	Asia	Consolidated total
Women	722	311	35	**1,068**
	57%	50%	7%	**45.0%**
Men	550	317	437	**1,304**
	43%	50%	93%	**55.0%**
TOTAL	**1,272**	**628**	**472**	**2,372**
	54%	**26%**	**20%**	**100%**

Three-quarters of the workforce at Clarion, the Brazilian company acquired in 2019, are men, predominantly working in the production and sales departments, a figure that has slightly upset Vetoquinol's gender balance. The Indian sales force grows each year and is exclusively made up of men, due to local working conditions and culture. Like-for-like excluding India, women continue to outnumber men across the Group, reflecting a satisfactory overall balance.

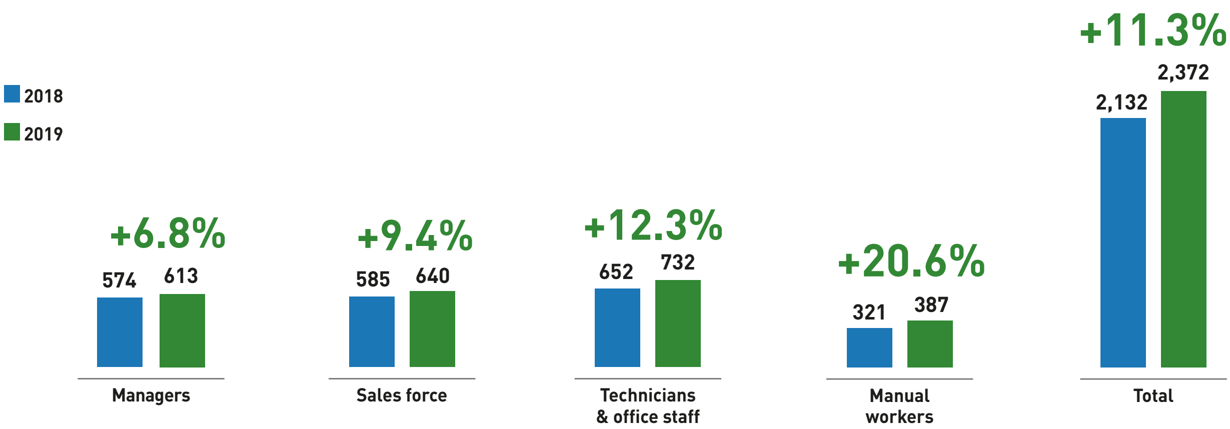
2.4.1.4 Age breakdown per gender



The age breakdown is relatively balanced and has not significantly changed since 2018: 25% of employees are under the age of 30, while 19% are over 50 years old. The average age of Group employees is 40.1 compared to 40.5 in 2018. This slight rejuvenation of the workforce is due to the acquisition of Clarion, Brazil, where the average age is 34.

Average length of service is 8.0 years. NB: the length of service of acquired companies' staff is based on their length of service with their respective companies.

2.4.1.5 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, there are proportionally fewer "manual workers". Vetoquinol also outsources some production to subcontractors if the Company does not possess the requisite technological resources.

2.4.2 Health and safety in the workplace

3 GOOD HEALTH AND WELL-BEING

2.4.2.1 The Vigilance behavioral program

One major focus of our accident prevention policy is individual behavior and management leadership. 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 employee awareness of the significance of behavior in causing and preventing accidents. The program was piloted at the Lure manufacturing facility in 2018. In 2019, it was rolled out in the French R&D and support departments and at the manufacturing facilities in Poland, Brazil, Italy and Canada. The program will be launched in the sales facilities outside France in 2020.

The plan aims to establish a so-called Shared Vigilance culture throughout the Group by 2012-2022: 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 2020 Vetoquinol decided to allocate part of the individual bonus awarded to Group senior executives to the Group's key safety targets (lost-time industrial accident frequency rate, number of risk situations escalated, annual HSE action plan completion rate).

2.4.2.2 Specific action carried out in 2019

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 in order to identify priority risk areas and factors. This was followed up in 2019 by the launch of a detailed diagnostic process covering risk areas identified in France.

The road hazard prevention program launched in 2017 in France was continued in 2019. 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 will be extended to the other Group entities in 2020.

A large number of preventive measures have been implemented at Group facilities, mainly to follow up internal HSE audits. A selection of these are as follows:

- Bertinoro (Italy): addition of movable retention basins and intervention kits to deal with warehouse and waste area leakage, purchase of oxygen detectors to increase production staff protection against the risk of anoxia (due to the use of nitrogen),
- Gorzów (Poland): improvements in the emergency evacuation process via the addition of new alarm systems and clearer on-site firefighting equipment signs,
- Magny-Vernois (France): organization of a Safety Day for all staff on September 6 based on entertaining interactive workshops, launch of plan to reinforce fire protection in the production areas,
- Princeville (Canada): installation of hydrogen and acetylene gas leak detectors in the laboratories, installation of new light displays in pedestrian-forklift collision risk areas inside production areas,
- Tarare (France): new pedestrian and vehicle signposting in outside areas, installation of an explosion vent on a powder mixer,
- Mairipora (Brazil): installation of anchor points on the roof of the production building, new procedure for improving safety at isolated workstations,
- Fort Worth logistics complex (USA): separation of pedestrian and forklift thoroughfares via new ground markings, new training program for staff exposed to chemical risks,

- sales subsidiaries: establishment of a periodic HSE internal audit process within the premises, new training courses in first aid and fire extinguisher operation.

HSE expenditure at manufacturing facilities totaled €407,000 in 2019 versus €606,000 in 2018.

The first Group-wide HSE seminars involving all HSE officers at the sales subsidiaries were organized in 2019.

2.4.2.3 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, Vetoquinol takes steps to mitigate risk of staff illness and injury.

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

- handling operations,
- repetitive work,
- night work.

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

2.4.2.4 Occupational heath and safety indicators

Group Safety Pyramid	2019	2018
Number of lost-time accidents	16	11
Number of accidents without lost time	14	10
Number of first aid interventions	105	112
Number of near-misses and hazardous situations	592	232
LOST-TIME ACCIDENT FREQUENCY RATE (LTAR OR TF1)	4.2	3.0
ACCIDENT AND FIRST AID FREQUENCY RATE (TAR OR TF3)	35.2	35.1
SEVERITY RATE	0.07	0.07
ANNUAL ACTION PLAN COMPLETION RATE	79%	77%

Pharmaceutical industry statistics - France (source: AMELI)

The lost-time industrial accident frequency rate (LTAR) in France is around 10 (2016: LTAR (TF1) = 11.7 – 2017: LTAR (TF1) = 9.5). The average severity rate in the French pharmaceutical industry is around 0.6.

The total number of accidents and first aid cases reported in 2019 was close to the 2018 figure (135 vs 133), although there was a marked increase in the number of lost-time accidents. Notwithstanding, the lost-time accident frequency rate remains well below the French pharmaceutical industry average. The severity rate was also low and comparable to the 2018 rate, reflecting the non-severe nature of injuries caused by accidents reported.

Lost-time accidents occurred in France, Poland and Italy and at the sales subsidiary in Australia. Generally speaking, there is no correlation between accident typology and the nature of Vetoquinol's core business, most accidents being caused by falls or slips. Behavior remains one of the primary causes behind these accidents, thus demonstrating the appropriateness of the Vigilance program.

The improvement in reporting on hazardous situations and near-misses in 2017 and 2018 due to the introduction of an official information-gathering process continued in 2019. It can be considered a real positive given that the 'lower' part of the pyramid is a proactive indicator that enables action to be taken before accidents occur.

Every Group entity now implements an annual action plan to mitigate the HSE risks identified by internal audits. The overall action plan completion rate for 2019 was 79% compared to a target of at least 70%.

Vetoquinol has set ambitious targets for 2020, including a lost-time accident frequency rate of below 3, over 1,200 hazardous situations reported and processed and an annual action plan completion rate of over 70%.

2.4.2.5 Compliance with ILO fundamental conventions

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

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

2.4.3 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.

2.4.3.1 Staff turnover

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

The 2019 Group staff voluntary departure rate was 11.3%, similar to the 2018 rate. This is a key indicator:

- Excluding India, the rate was 6.5% in 2019, slightly over the 2018 rate of 6%. This rate appears to be sound and probably lower than many other companies.
- In India, the voluntary departure rate dipped from 34% in 2018 to around 32%. The measures taken in previous years need to be continued and stepped up. The job market remains extremely volatile. According to our information, our 2019 rate is close to that of our direct competitors.

2.4.3.2 Absenteeism

Vetoquinol monitors absenteeism in all Group entities. The Company pays close attention to short and frequent absenteeism indicators, as this may generally be symptomatic of low staff morale and can disrupt operations.

The overall Group absenteeism rate was 4.8% compared to 4.6% in 2018.

Excluding parental leave the rate was 3.8%, as in 2018.

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.

Absence due to parental leave increased by 0.6 percentage points from 0.78% in 2018 to 1.04% in 2019, mainly due to the following increases in the number of days of maternity leave: 770 in Canada (manufacturing and sales facility), 500 in Poland (manufacturing and sales facility) and just under 400 in France.

In France, all new fathers exercised their right to paternity leave in 2019.

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.

2.4.4 Recruitment, induction and compensation

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, generous assignment of responsibilities and sustainability.

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

2.4.4.1 Profit sharing

In France, the Company applies an exceptional formula (amendment 2 of June 29, 2007) to calculate the amount of profit sharing, which is equal to 5% of the Company's operating income.
This formula is only applied where the resulting amount is greater than the amount calculated on the basis of the statutory formula.

2.4.4.2 Incentive scheme

In France, an incentive scheme was introduced 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 existing schemes (profit-share and incentive scheme); this bonus relating to emergency economic and social measures was awarded to 76% of the Vetoquinol SA workforce and totaled €342,000. It was paid in February 2019.

2.4.5 Organization of staff dialog

Vetoquinol complies with local legislation regarding staff dialog.

Vetoquinol SA has organized staff elections to appoint the members of the new Social and Economic Committee (Comité social et économique or CSE). The CSE combines the former staff representative bodies comprising the Works Council (Comité d'entreprise - CE), the Health, Safety and Working Conditions Committee (Comité d'hygiène, de sécurité et des conditions de travail - 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.

2.4.5.1 Collective agreements

Six company agreements were signed in France in 2019:

- February 4, 2019: agreement on the Technical Classification Committee,
- February 19, 2019: agreement on equality at work,
- April 17, 2019: agreement on 2019 wage policy,
- November 27, 2019: agreement on quality of life at work,
- November 28, 2019: agreement on workforce planning,
- December 17, 2019: agreement on working at home.

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.

2.4.5.2 Corporate savings plan

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

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

2.4.5.3 '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 the 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 continued employment of elderly employees,
- Ensure that skills and know-how are passed on.

A progress report is presented to management and staff representatives each year. An overall review will be drawn up in 2020.

2.4.5.4 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.

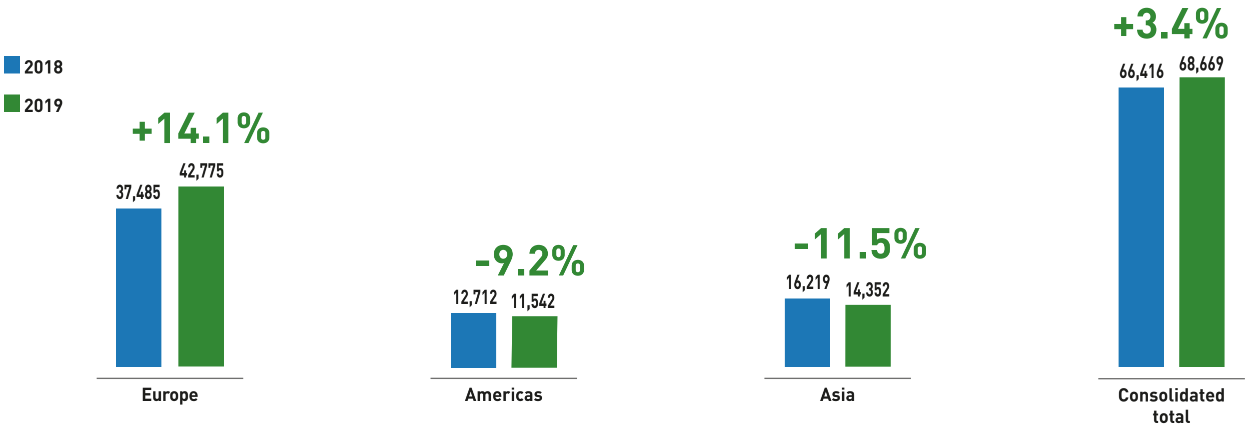
A secure website has been set up to provide employees with information on all fringe benefits and cultural activities (e.g. participating in sporting activities, travel, discounts, Christmas trees, miscellaneous events, etc.).

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.

2.4.6 Training

4 QUALITY EDUCATION

Number of training hours per territory



Vetoquinol continued its training initiatives at Group level and posted a slight increase (3.4%) in the number of training hours provided across the Group.

As part of the "Vetoquinol In Motion" strategic plan, a new process for assessing skills and performance called "Lead" is currently being rolled out Group-wide. Vetoquinol has initiated a major training program designed to provide guidance to all employees in relation to this skills development and cultural transformation drive. This program is spread over 2019 and 2020. This is the main reason for the increase in training hours in France (included in the Europe figures), as France had to start the program in 2019 due to the large number of employees and managers requiring training, whereas most other countries will only set up the program in 2020.

Training hours decreased in the Americas and Asia in the wake of the extensive training program carried out in 2017 and 2018.

The 9.2% reduction in training hours in the Americas is mainly due to Brazil (Vetoquinol manufacturing and sales facility), where training hours were cut by around 25% so that priority could be placed on the organizational integration of the new Clarion employees. For 2019, only Clarion figures are reported in this document. All other staff indicators concern only the existing Vetoquinol entity in Brazil.

In Asia, the 11.5% decrease in training hours was mainly related to the India subsidiary, which recorded a reduction in training hours of around 15% versus 2018, when the subsidiary carried out an extensive management skills development program in addition to the usual sales force training (sales techniques and product training).

In 2019, training hours in these territories reverted to levels closer to previous years but still above 2017 figures.

The average overall number of training hours in 2019 was 36.4 hours per employee, well above the target set by Vetoquinol (20 hours per person per year).

Vetoquinol also introduced a training program in Lean Management in 2017. In 2019, 3 managers obtained LEAN certification in France, as did 10 in Canada. Vetoquinol currently has 6 Green Belt, 21 Yellow Belt and 1 Black Belt certified employees.

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

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

2.4.7 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. Nevertheless, women currently occupy a quarter of the 55 most senior positions within the Group. In late 2019, a third woman joined the Group Executive Committee (30% female membership). 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').

2.4.7.1 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.

2.4.8 Working hours

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 2.3% for the Group as a whole. The percentage increased slightly versus 2018 (2.15%), mainly due to France (32 employees in 2019 vs 24 in 2018). Employees switching to part-time employment have generally chosen this arrangement themselves.

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

Type of employment contract	Americas	Asia	Europe	Total
Fixed-term	2.5%	0.4%	6.2%	**4.0%**
Permanent	97.5%	99.6%	93.8%	**96.0%**
TOTAL HEADCOUNT	**100.0%**	**100.0%**	**100.0%**	**100.0%**

2.5 Carbon footprint

The Group discloses environmental data concerning the production plants and R&D centers:

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

2.5.1 Pollution prevention

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 2019, Vetoquinol paid no compensation pursuant to any court decision relating to an environmental issue, The Group has not recorded any provisions or guarantees related to environmental contingencies.

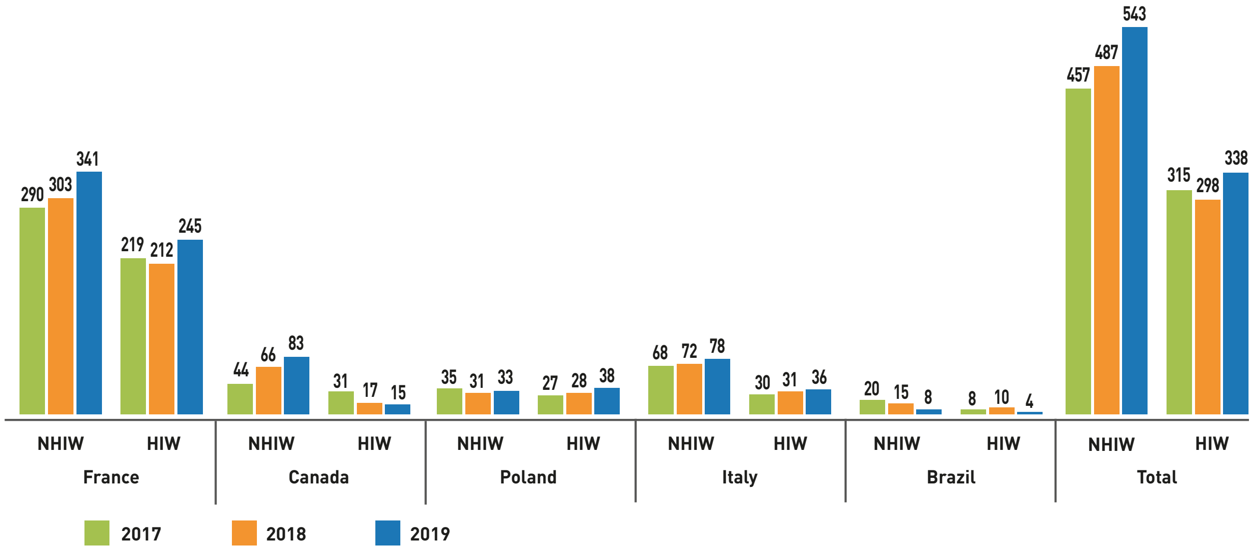
2.5.2 Waste management

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 treat waste is to reuse it: Vetoquinol prioritizes this solution and has already rolled out a procedure for pallets, transport containers, printing paper, etc. The Group's production plants currently recycle around 33% of their waste, not including energy recycling via incineration.

The volume of industrial waste in 2019 was slightly greater than in 2018, mainly due to the inclusion of the Angers facility in the reporting scope and the increased amount of production scrap requiring destruction at Lure. Vetoquinol aims to reduce the volume of waste at source and increase the recycling rate by stepping up waste sorting at all facilities and seeking new outsourced recycling solutions.

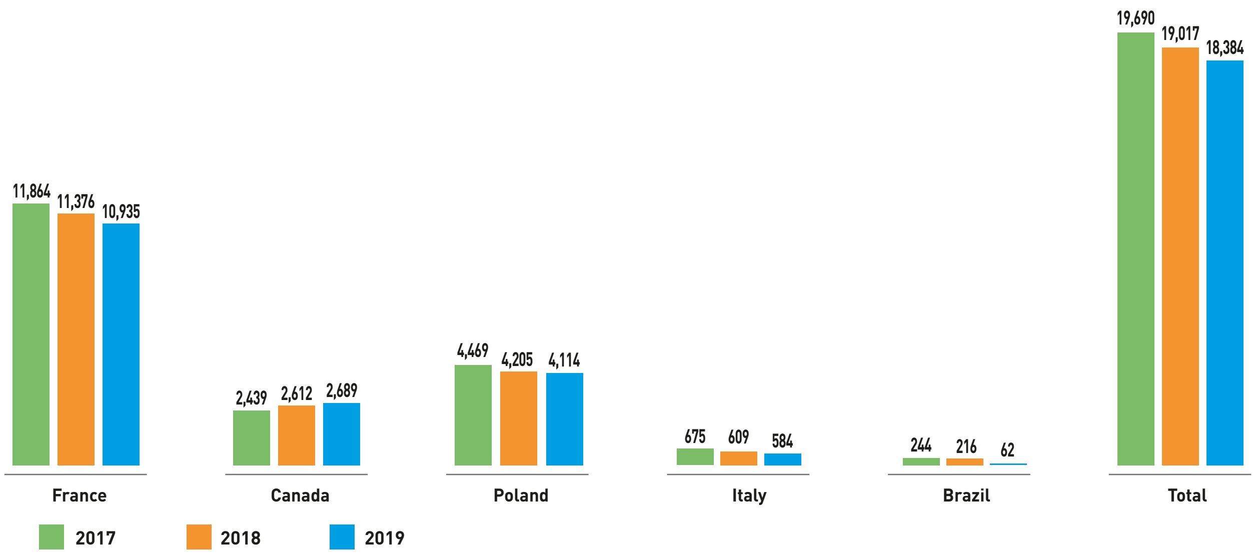
2.5.2.1 Hazardous (HIW) and non-hazardous (NHIW) industrial waste per country (in tons)



2019 data includes the Angers R&D center. 2017 and 2018 have not been restated in view of the limited contribution from Angers.

The data reported in the 2018 statement of non-financial performance, which is partly based on estimates made at the reporting date, has been restated in accordance with actual values.

2.5.2.2 Combustible gas consumption (kWh)



2019 data includes the Angers R&D center. 2017 and 2018 have not been restated in view of the limited contribution from Angers.

The data reported in the 2018 statement of non-financial performance, which is partly based on estimates made at the reporting date, has been restated in accordance with actual values.

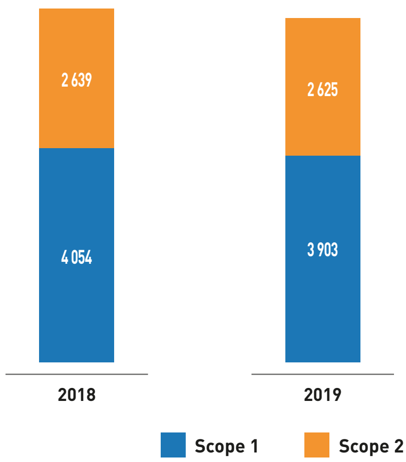
2.5.3 Atmospheric emissions and climate change

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.

As in 2018, a report on greenhouse gas emissions covering all production plants (Scopes 1 & 2) was prepared in 2019. The graph below shows emissions measured in CO2 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 calculated according to country-specific emissions factors or local supplier factors (such as Hydroquebec in Canada).

Emissions in tonnes of CO2 equivalent



In 2019, Group manufacturing operations generated around 6,530 CO2 equivalent tons of greenhouse gases, down approximately 2% from 6,700 tons in 2018 at equivalent scope.

Vetoquinol remains 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 CO2 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.

2.5.4 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.

2.6 Our products

2.6.1 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 potential candidate 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 candidate molecules and, where appropriate, sign licensing agreements. The Group has built up extensive expertise in developing appropriate screening programs and innovative dosage forms which make the drug more competitive (tolerance, means of administration, etc.). This initial phase culminates in a proof of concept designed to show that the candidate molecule(s) is/are suitable for treating the target disease.
- **Preclinical demonstration of efficacy and tolerance –** The purpose of this phase is to assess the selected drug candidate molecule 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 suitability of the candidate molecule for treating the target disease, as well as the future drug's safety margin (product tolerance). Lastly, this phase enables us to determine and confirm the dosage schedule, i.e. the optimum treatment regime designed to maximize efficacy and minimize side effects. In the animal health industry, this type of preclinical trial corresponds to phases I and II of the human medicine development process.
- In the case of drugs destined for food-producing animals (cattle, pigs and poultry) whose products (meat, milk and eggs) are destined for human consumption, residue studies need to be conducted in order to guarantee consumer safety. These studies aim to determine the time lag between the end of treatment and the time of slaughtering (meat industry) or sale of the animal's products (eggs and milk). The animal or its products cannot enter the food industry chain after this time lag has expired.
- Lastly, in the case of drugs destined for food-producing animals, ecotoxicology studies are conducted to demonstrate the harmlessness of drug residues excreted by the animal (droppings, urine, etc.) for the environment: ground, flora and fauna (environmental health).
- **Development of the production process –** This phase is aimed at developing a robust and repeatable 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 analytical methods used to test product stability and the consistency of its subsequent quality throughout the product's lifetime.
- **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 and safety 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 treated animal, user, consumer and environment, and its efficacy in the strict sense of the word.

2.6.2 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 that meet currently unfulfilled requirements such as 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.

2.6.2.1 Resolute 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 and dosage form solutions and product development programs focusing on the following Group areas of expertise: pain-inflammation, infectious diseases (dermatology, respiratory disorders, udder health), 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 or species 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).

2.6.3 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.

€000	2019	2018	2017
R&D expenditure	**29.9**	26.4	25.5
% of sales	**7.6%**	7.2%	7.2%

Pharmaceutical R&D is primarily based in France, where the Group has an expertise and scientific excellence center located at the Lure headquarters and a research center in Angers. R&D aims to develop global products destined for registration worldwide. The R&D department is backed up by a number of overseas product development units (USA, Italy and Poland), 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, pathologists 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 deploy an innovative product offering covering 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 entire design-to-development process: advice on development strategy and the incorporation of data for the registration application.

Three 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;
- the project department, which coordinates the various parties involved in research and development.

2.6.4 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 exclusively towards the food-producing segment, the Group is currently focusing a large portion of its research work on the pet segment while developing innovative production (biotechnologies) and formulation (drug delivery) technologies.

R&D is focusing on developing powerful "disruptive" innovations, in addition to incremental innovations and improvements in existing products.

2.6.5 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.

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

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. Most European countries have already established national plans and set targets to reduce the use of antibiotics in veterinary medicine. The use of critical antibiotics (fluoroquinolones and third and fourth-generation cephalosporins) is henceforth governed by restrictive regulations limiting their use. These regulations have had a gradual and continuous impact on the Group's business in Europe, leading to a reduction in the proportion of sales generated by anti-infectives.

Vetoquinol is strongly committed to helping veterinarians cope with these 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.

For over 20 years, Vetoquinol has carried out epidemic monitoring of the sensitivity of bacteria responsible for various diseases in pets and food-producing animals to the antiobiotics it markets, in order to verify that the treatment did not lead to a reduction in sensitivity or antibioresistance, even when administered correctly.

Given its extensive experience and expertise in anti-infectives, Vetoquinol continues to develop targeted curative treatment for diseases requiring the use of anti-infectives, thereby contributing to the responsible use of such drugs in the animal health sector.

2.6.7 Eco-friendly products

In keeping with its commitment to sustainable development (GI1), Vetoquinol plans to assign greater importance to environmental factors in developing new products and solutions. This means, during the early stages of product development, paying more attention to the environmental impact of the raw materials and production processes employed, as well as developing products that are inherently more "eco-friendly". For this purpose, the "Ecopack" project was launched in 2019. The project involves reducing the carbon footprint of product packaging by condensing pallet loads, thereby reducing the number of journeys, and using new packaging materials that are easier to recycle.

2.7 Social footprint

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

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

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

Every year, 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.

2.7.1.1 Community initiatives conducted by Vetoquinol and its subsidiaries

For the seventh year running, Vetoquinol was the main sponsor of the Eurockéennes de Belfort festival in France.

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.

In China, Vetoquinol sponsored the "Eagle Cup" veterinary competition geared towards continuously upskilling Chinese veterinary clinics. The competition was organized jointly by China Agricultural University and RuiPeng Pet Hospital. Around 700 people from 82 universities and colleges took part in the competition.
In Germany, Vetoquinol sponsored the studies of five veterinary university undergraduates.

In Canada, Vetoquinol continued to support the Centraide foundation. This foundation, which Vetoquinol has been supporting for 11 years, aims to improve quality of life for the most vulnerable people and to build better communities by encouraging citizens to act. Centraide provides aid to over 60,000 people. Over €6,000 worth of donations were collected thanks to the commitment of Vetoquinol's employees.

Eco-responsibility initiatives were also set up:
- In France, the Lure site organized a safety and energy day involving a number of workshops and stands. The main purpose was to recall the rules and behavior essential to everyone's safety in an informal and entertaining manner and to rally employees around a key issue for Vetoquinol that concerns every one of us.
- In Germany, employees created a roof-top flower garden to encourage bee pollination.
- In Brazil, an in-house awareness program was organized for employees on water and power consumption, plastic cups and hard copy printing.
- In Canada, for the fifth year in a row, the members of the Comité Vert (an eco-friendly committee comprising around 20 employees) undertook the clean-up of site surroundings as part of 'Earth Day' under the guidance of the Lavaltrie city council.
- Vetoquinol Canada Inc. also had electrical charging sockets installed in parking lots for use by employees.

Vetoquinol strives to stay on good terms with the local community and ensures that its locations are properly integrated into their surroundings.

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

2.7.2 Humans and animals: a lifelong relationship

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.myhappypet.fr. The website is also available in 12 other countries. In Poland, Facebook page www.facebook.com/MyHappyPetPolska received 152,000 likes in 2019.

This website was designed as part of the Group's digital strategy, which encourages the development of websites dedicated to vets and pet owners. The range of advice offered by veterinarians and published on the site provides pet owners with a reliable source of information.

Topics cover everyday animal health as well as more specific problems, for which pet owners seek sound advice. This site has been designed to assist pet owners: 75% of owners use the Internet to search for medical information, and for 90% of them vets remain the most reliable source (source: Thesis on Veterinary Medicine – Lyon 1 – 2014.)

Maintaining a close relationship with customers and partners remains Vetoquinol's guiding principle for meeting their needs and supporting them on a daily basis.

Animals and children

Pets play a primordial role in a child's individual and social 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.

Animals and elderly people living alone

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

Accordingly, in its 2018 report on "The social life of retirement home residents", the French Health Authority recommended the presence of animals, which helps to "assuage feelings of disorientation, benefit from a comforting presence and thereby enhance residents' quality of life".

Animals and the disabled

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

2.7.3 Ethics and fair practices

In 2019, the Group created a partnership, legal and risk department whose remit covers risk management, internal control procedures and Group compliance with applicable guidelines, including ethics, anti-corruption and the GDPR.

2.7.3.1 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. These universal rules applicable to all employees are set out in the Vetoquinol Code of Ethics.

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.

2.7.3.2 Anti-corruption code of conduct

Vetoquinol has adopted the Middlenext Anti-Corruption Code of Conduct, 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 will be set up in 2020 to enable all 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 Legal and Compliance Expert, 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 2019, over 500 employees completed these training courses in France and in the subsidiaries.

2.7.3.3 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.

2.7.3.4 Relations with stakeholders

Vetoquinol maintains solid communications with all of its stakeholders in various ways, both informal (via conferences, in-house committees, etc.) and formal (meetings of professional bodies such as Health for Animals and SIMV), and endeavors to respond promptly to any suggestions or concerns raised. This fruitful dialog results in wide and diversified understanding of priorities and issues related to Vetoquinol's sector of business, thereby advancing the Company's strategies in terms of respecting animals, humans and the environment.

2.7.3.5 Prevention of tax evasion

Vetoquinol pays special attention to the companies with which it does business and checks the consistency of the legal and financial information they send to Vetoquinol.

2.7.4 Supplier relations

See section on risks, paragraph 2.2.

2.8 Auditor's report

Year ended December 31, 2019

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, 2019 (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 the independent third-party body performs its duties, and with international standard ISAE 3000.

Our audit was conducted between February 21 and April 7, 2020, 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 (III) 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 entities 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 entity;
- 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 58% 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.

Lyon, April 8, 2020

Finexfi
Isabelle Lhoste
Partner

(1) Operating facilities selected for the tests: France, Italy.
(2) Indicators covering health and safety in the workplace, staff turnover, absenteeism, training, work organization, scientific division organization and headcount analysis.

6 CONSOLIDATED FINANCIAL STATEMENTS

6.1 Consolidated statement of comprehensive income

€000	Notes	2019	2018
Sales	6.5.8	395,990	367,941
Purchases consumed		(124,526)	(112,853)
Other purchases and external expenses	6.5.10	(81,442)	(78,662)
Staff costs	6.5.11	(122,818)	(115,325)
Taxes other than on income		(5,689)	(4,962)
Depreciation and impairment of fixed assets	6.5.20/6.5.21	(11,522)	(10,090)
Depreciation and impairment of fixed assets - IFRS 16		(4,792)	
Provisions and write-backs		(876)	(89)
Other operating income	6.5.13	6,043	6,199
Other operating expenses	6.5.13	(1,483)	(977)
EBIT BEFORE AMORTIZATION OF ACQUIRED ASSETS		**48,886**	**51,183**
% of sales		*12.3%*	*13.9%*
Amortization of acquired intangible assets		(2,982)	(2,748)
EBIT		**45,903**	**48,435**
% of sales		*11.6%*	*13.2%*
Non-recurring operating income and expenses	6.5.14	(5,018)	(215)
OPERATING INCOME		**40,886**	**48,221**
% of sales		10.3%	13.1%
Income from cash and cash equivalents	6.5.16	280	439
Gross cost of debt	6.5.16	(217)	(190)
Interest paid - Lease liabilities		(165)	
NET (COST OF DEBT)/INCOME FROM CASH AND CASH EQUIVALENTS	**6.5.16**	**(102)**	**249**
Other financial income	6.5.16	2,448	2,403
Other financial expenses	6.5.16	(2,551)	(2,291)
NET FINANCIAL INCOME/(EXPENSE)	**6.5.16**	**(205)**	**361**
INCOME BEFORE TAX		**40,681**	**48,581**
Income tax expense	6.5.17	(12,464)	(12,171)
NET INCOME FOR THE YEAR		**28,247**	**36,226**
Attributable to: Parent company shareholders		28,589	36,259
Non-controlling (minority) interests		(342)	(33)
Exchange differences on translation of foreign operations reclassifiable to P/L		1,603	(2,116)
Post-tax actuarial gains (losses) not reclassified to P/L		(554)	282
Other comprehensive income, net of tax		-	-
Total comprehensive income for the year, net of tax		**29,296**	**34,392**
Attributable to: Parent company shareholders		29,654	34,425
Non-controlling (minority) interests		(358)	(32)
Basic EPS (€)	6.5.18	2.42	3.06
Diluted EPS (€)	6.5.18	2.42	3.07
Operating income		**40,886**	**48,221**
Provisions and write-backs recorded under non-recurring operating income and expenses		4,372	(759)
Provisions and write-backs		876	89
Depreciation and impairment of fixed assets		14,504	12,838
Depreciation and impairment of fixed assets - IFRS 16		4,792	-
EBITDA		**65,429**	**60,389**
% of sales		*16.5%*	*16.4%*

6.2 Consolidated statement of financial position

€000	Notes	Dec 31, 2019	Dec 31, 2018
SALES			
Goodwill	6.5.19	**129,440**	**80,701**
Other intangible assets	6.5.20	**42,950**	**42,878**
Property, plant and equipment	6.5.21/6.5.22	**60,355**	**56,178**
Right-of-use assets (leases)		**10,386**	
Investments in associates		**707**	**656**
Other financial assets	6.5.23	**1,305**	**1,220**
Deferred tax assets	6.5.17	**9,005**	**9,846**
Total non-current assets		**254,148**	**191,479**
Inventories	6.5.25	**77,354**	**77,156**
Trade and other receivables	6.5.26	**90,052**	**73,847**
Current income tax receivables		**2,511**	**2,385**
Other current assets	6.5.26	**2,892**	**3,086**
Cash and cash equivalents	6.5.27	**84,511**	**117,630**
Total current assets		**257,320**	**274,104**
TOTAL ASSETS		**511,468**	**465,583**
SHAREHOLDERS' EQUITY			
Capital stock and additional paid-in capital	6.5.28	**70,831**	**70,831**
Reserves		**286,933**	**256,006**
Net income for the year		**28,589**	**36,259**
Equity attributable to parent company shareholders		**386,353**	**363,096**
Non-controlling (minority) interests		**(372)**	**(12)**
Shareholders' equity		**385,981**	**363,084**
LIABILITIES			
Non-current financial liabilities	6.5.29	**277**	**196**
Non-current lease liabilities		**6,300**	
Deferred tax liabilities	6.5.17	**7,775**	**7,370**
Provisions for employee benefits	6.5.30	**8,904**	**7,795**
Other provisions	6.5.31	**1,821**	**471**
Other long-term liabilities		**7,703**	**2,533**
Total non-current liabilities		**32,781**	**18,365**
Trade and other payables	6.5.32	**84,542**	**74,471**
Current income tax liabilities		**2,037**	**2,243**
Current financial liabilities	6.5.29	**1,132**	**6,478**
Current lease liabilities		**4,377**	
Other provisions	6.5.31	**610**	**929**
Other current liabilities		**9**	**15**
Total current liabilities		**92,706**	**84,135**
Total liabilities		**125,487**	**102,500**
TOTAL EQUITY AND LIABILITIES		**511,468**	**465,583**

6.3 Consolidated statement of cash flows

€000	Notes	Dec 31, 2019	Dec 31, 2018
Consolidated net income		**28,247**	**36,226**
Elimination of non-cash items		-	-
Depreciation, amortization and provisions		19,288	12,482
Depreciation, amortization and provisions - IFRS 16		4,792	
Elimination of (earnings)/loss of associates		(30)	185
Income tax expense		12,464	12,171
Interest expense		124	(42)
Interest expense - IFRS 16		165	
Provisions for employee benefits		81	64
Impairment of available-for-sale financial assets		-	-
Capital gains (losses) on sales, net of tax		387	311
Other non-cash items		-	-
Income and expenses from share-based payments		-	58
Cash flows from operating activities		**65,518**	**61,455**
Tax paid		(14,216)	(12,661)
Change in working capital		722	(10,909)
Net cash flow from operating activities		**52,024**	**37,884**
Purchase of intangible assets		(4,892)	(2,943)
Purchase of PP&E		(9,441)	(11,276)
Purchase of available-for-sale assets		(5)	-
Acquisition of financial assets		-	-
Proceeds from sale of assets		678	279
Loan repayments - other financial assets		(88)	(85)
Net cash flow from (used by) business combinations	6.5.7	(50,801)	(3,726)
Net cash flow from (used by) investing activities		**(64,547)**	**(17,751)**
Capital increase		-	-
Net (purchase)/sale of treasury stock		(521)	(977)
Issuance of debt and other financial liabilities		6	-
Repayment of financial liabilities		(8,816)	(8,672)
Cash flows from financing activities - IFRS 16		(4,966)	
Interest paid		(249)	(225)
Interest received		110	247
Dividends paid to parent company shareholders	6.5.28.4	(5,679)	(5,455)
Dividends paid to non-controlling (minority) interests		(1)	-
Investment subsidies and government loans		-	(113)
Other cash flows from financing activities		-	-
Net cash flow from (used by) financing activities		**(20,117)**	**(15,195)**
Exchange gains (losses)		(1,355)	(360)
Net change in cash		**(33,995)**	**4,579**
Opening net cash and cash equivalents		**117,576**	**112,997**
Change in cash and cash equivalents		(33,995)	4,579
Closing net cash and cash equivalents	**6.5.27**	**83,581**	**117,576**

6.4 Statement of changes in consolidated equity

€000	Capital stock and additional paid in capital (Note 6.5.28)	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, 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**
Net income for the year	-	-	-	-	-	28,589	28,589	(342)	**28,247**
Other comprehensive income, net of tax	-	1,619	(554)	-	1,064	-	1,064	(15)	**1,049**
Comprehensive income for the year	**-**	**1,619**	**(554)**	**-**	**1,064**	**28,589**	**29,654**	**(358)**	**29,296**
Appropriation of earnings	-	-	-	36,259	36,259	(36,259)	-	-	**-**
Stock options exercised	-	-	-	-	-	-	-	-	**-**
Bond conversions	-	-	-	-	-	-	-	-	**-**
Treasury shares	-	-	-	(469)	(469)	-	(469)	-	**(469)**
Dividends paid by the consolidating company	-	-	-	(5,679)	(5,679)	-	(5,679)	(1)	**(5,681)**
IFRS 16 impact	-	-	-	(301)	(301)	-	(301)	-	**(301)**
Other	-	-	-	52	52	-	52	-	**52**
December 31, 2019	**70,831**	**(5,293)**	**(1,097)**	**293,323**	**286,932**	**28,589**	**386,353**	**(372)**	**385,981**

6.5 Notes to the consolidated financial statements

6.5.1 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 2,372 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 24, 2020. They will be submitted for shareholder approval at the next Ordinary General Meeting, due to be held on May 26, 2020.

6.5.2 Key events

In 2019, the Vetoquinol Group purchased a 90% equity stake in Clarion Biociencias Ltda, thereby significantly strengthening its foothold in Brazil, the world's third largest animal health market. Vetoquinol has operated in Brazil since 2011 through its subsidiary Vetoquinol Saude Animal and has hitherto focused on developing Essentials products designed for meat and dairy cattle, pigs and pets. Clarion Biociencias has a strong development pipeline of products for cattle and pets that are nearly ready for launch; some of these products may also be used on pigs, a species not covered by Clarion at present; all of these promising projects, highly complementary to those of Vetoquinol, are expected to generate powerful sales synergies. This acquisition was financed by Vetoquinol SA as the Group parent company.

In late 2019, the Vetoquinol Group established a new subsidiary in New Zealand: Vetoquinol New Zealand Ltd. This move is in line with the Group's policy to better serve this buoyant and growing market via a local operation and by promoting sales of Essentials products to veterinary clinics in New Zealand.

One R&D project was discontinued in 2019, leading to a €3.5 million impairment charge recorded under non-recurring expenses.

6.5.3 Accounting principles

6.5.3.1 General accounting principles and standards – new standards and amendments applicable in 2019

The 2019 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, 2019.

The IFRS adopted by the European Union as of December 31, 2019 may be consulted in the section on IAS/IFRS standards and interpretations on the European Commission website: ec.europa.eu.

The financial statements have been prepared on a historical cost basis, except for financial assets and liabilities measured at fair value through 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 6.5.6.

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, 2018, with the exception of standards, interpretations and amendments adopted by the European Union and applicable for accounting periods beginning on or after January 1, 2019:

- Amendments to IAS 19 - Plan amendment, curtailment or settlement.
- Amendments to IAS 28 - Long-term interests in associates and joint ventures.
- Amendments to IFRS 9 - Prepayment features with negative compensation.
- IFRS 16 - Leases.
- Annual improvements to IFRS (2015-2017).
- IFRIC 23 - Uncertainty over income tax treatments.

With effect from January 1, 2019, the Group has applied IFRS 16 "Leases" (Note 6.5.15) in accordance with the "modified retrospective" approach, which provides for recognition of a liability at the transition date equal solely to the present value of 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 have been recorded against equity. The Group now recognizes lease liabilities that were previously classified as operating lease commitments in accordance with IAS 17.

To allow comparison, the Group has measured and presented the impact of the standard on the various financial statements in the form of pro forma financial statements.

The Group has applied the IFRIC 23 interpretation on uncertain tax positions with effect from January 1, 2019. This has had no impact on the Group financial statements.

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, 2020 and for subsequent accounting periods, namely:

- Amendments to references to the conceptual framework in IFRS standards;
- Amendments to IAS 1 and IAS 8 - Definition of material;
- Amendments to IFRS 3 - Definition of a business;
- Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform.

The Group has not yet begun to analyze the potential impact of first-time application of these new standards.

6.5.3.2 Consolidation and business combinations

6.5.3.2.1 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. 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 (representing businesses as defined by IFRS 3) 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 6.5.19). 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 shareholders' equity. The amount of their share in consolidated net income and items of other comprehensive income is presented separately below these two items.

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 6.5.43 "Group companies".

6.5.3.3 Business combinations

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

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

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

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

6.5.3.4 Foreign currency translation

6.5.3.4.1 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.

6.5.3.4.2 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.

6.5.3.4.3 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.

6.5.3.5 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 companies: Vetoquinol USA, Vetoquinol Canada, Vetoquinol France, Vetoquinol UK, Vetoquinol Belgium, Vetoquinol Switzerland, Vetoquinol Czech Republic, Vetoquinol Austria, Vetoquinol Poland, Vetoquinol Ireland, Vetoquinol Germany, Vetoquinol Italy, Vetoquinol Scandinavia, Vetoquinol India, Vetoquinol Asia and Vetoquinol Australia.

Farmvet Systems, a new Group CGU, was not tested for impairment in 2019 but the 12-month purchase price allocation process was completed during the year.

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.

6.5.4 Financial risk management

6.5.4.1 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 functioning 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 2019 or the prior year.

The Group is a net buyer of USD amounting to around $8 million a year. The Group is net seller of other currencies in circulation in the Group, such as CAD (c. CAD 10 million) and GBP (c. GBP 6-7 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 2019 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 a €21.1 million decrease in consolidated sales (2018: €19.1 million) and a €2.1 million decrease in consolidated operating income (2018: €2.5 million).

Conversely, a 10% reduction in the value of the euro compared to other currencies would have resulted in a €25.8 million increase in sales (2018: €23.3 million) and a €2.6 million increase in consolidated operating income (2018: €3.0 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 any gains or losses arising from 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, 2019											
Trade receivables	32,890	13,680	11,982	4,093	4,152	978	6,195	606	524	3,694	**78,796**
Impairment of trade receivables	**(1,410)**	**(157)**	**(2)**	**(103)**	**(235)**	**(449)**	**(23)**	**(163)**	**(37)**	**(113)**	**(2,691)**
Net trade receivables	**31,481**	**13,524**	**11,980**	**3,990**	**3,917**	**529**	**6,173**	**443**	**488**	**3,581**	**76,104**
Prepayments	508	572	30	3	372	15	27	-	-	12	**1,540**
Prepaid expenses	678	520	879	68	52	73	73	1	7	215	**2,565**
Receivables from government agencies	7,493	-	276	74	113	85	1,635	13	-	560	**10,250**
Other operating receivables	437	92	206	41	-	20	119	-	-	27	**941**
Miscellaneous receivables	351	6	11	-	85	124	953	1	6	7	**1,543**
Provisions	-	-	-	-	-	-	-	-	-	-	**-**
Total other receivables	**9,467**	**1,190**	**1,402**	**186**	**623**	**317**	**2,808**	**15**	**12**	**821**	**16,840**
Trade and other payables	51,124	9,934	8,365	2,972	3,458	2,279	4,285	338	413	1,383	**84,551**
Net trade and other payables	**51,124**	**9,934**	**8,365**	**2,972**	**3,458**	**2,279**	**4,285**	**338**	**413**	**1,383**	**84,551**
Total gross balance sheet exposure	**(10,176)**	**4,779**	**5,017**	**1,204**	**1,081**	**(1,432)**	**4,696**	**120**	**87**	**3,018**	**8,394**

€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**	**(1,451)**	**1,320**	**126**	**203**	**3,137**	**2,447**

6.5.4.2 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.

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, 2019, 92.3% of the Group's financial liabilities (including bank overdrafts) bore interest at a fixed rate (2018: 99.0%). Floating rate commitments amounted to €0.9 million as of December 31, 2019 (2018: €0.1 million). The latest loans taken out for €41 million to finance the Bioniche acquisition were swapped in 2014. These loans had been fully repaid by December 31, 2019.

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

On the basis of the 2019 financial statements, a 100 basis point increase in interest rates would have increased earnings by €651,000 (2018: €580,000 increase in earnings).

6.5.4.3 Liquidity risk management

The Group's cash – excluding bank overdrafts – stood at €83.6 million as of December 31, 2019 (2018: €117.6 million). Cash equivalents comprise fixed-rate term deposits with major retail banks amounting to €18.5 million (2018: €59.2 million).

2019 Group free cash flow before net cost of debt and tax amounted to €65.5 million, compared to €61.5 million in the previous year.

In light of its financial position at December 31, 2019, the Group considers that it is not exposed to liquidity risk. As of December 31, 2019, the Group's cash was largely sufficient to meet its financial liabilities due in less than one year. Net debt excluding IFRS 16 amounted to €83.1 million as of December 31, 2019, compared to €111.0 million as of December 31, 2018.

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.

6.5.4.4 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 terms of the Group's term deposits, management considers that there is no bank counterparty default risk.

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 24 countries and a network of 100 distributors.

In some 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 5.6% of consolidated revenues in 2019 (2018: 5.4%).

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, 2019 this amounted to €83.9 million (2018: €69.2 million).

6.5.5 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 senior 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 6.5.28).

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

6.5.6 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;
- duration of product life cycles;
- provisions for restructuring and environmental and litigation risks;
- valuation of goodwill, intangible assets and property, plant and equipment acquired as well as their estimated useful life;
- pension commitments.

6.5.7 Business combinations

6.5.7.1 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 with equity (cash).

The purchase price allocation was complete as of December 31, 2019, and the Group recognized and valued the intangible assets.

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 the end of 2021. The value of the put/call option was revised in 2019 and currently stands at €2.1 million as of December 31, 2019 (€2.6 million at 2018 year-end).

€000	TOTAL
Acquisition of majority stake in Farmvet	3,734
Value of 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
Value of acquired assets identified in 2019	2,750
Value of deferred tax identified in 2019	(472)
Value of put/call option relating to the subsequent acquisition of Farmvet shares	(555)
Currency differences	238
GOODWILL AT 12/31/2019	3,777

6.5.7.2 Business combinations completed in 2019

On April 15, 2019, Vetoquinol acquired Clarion Biociencias, a veterinary drug manufacturer based in Goias state, Brazil. Founded in 1998, Clarion Biociencias develops, manufactures and distributes medicines and non-medicinal products mainly for the livestock market.

Thanks to its location in the heart of Brazil's cattle-breeding region, the firm is strongly positioned in this species segment, which represents over 50% of the Brazilian animal health market, as well as in internal and external parasiticides. Clarion Biociencias employs around 200 people including a 70-strong sales force.

Thanks to this acquisition, the Vetoquinol Group is set to significantly strengthen its foothold in Brazil, the world's third largest animal health market.

As of 31 December 2019, the purchase price allocation was still underway; 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 (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 the end of 2022. This put/call option was valued at €5.6 million as of December 31, 2019.

€000	TOTAL
Acquisition of majority stake in Clarion	51,978
Value of put/call option relating to the subsequent acquisition of Clarion shares	5,606
VALUE OF IDENTIFIED ASSETS AND LIABILITIES AS OF ACQUISITION DATE	4,981
Currency differences	(2,687)
GOODWILL AT 12/31/2019	49,915

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

€000	TOTAL
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**
Acquisition of majority stake in Clarion	51,978
Clarion liquid assets as of acquisition date	15
Currency difference between acquisition date exchange rate and average rate related to the Clarion acquisition	(1,513)
Additional payment relating to acquisition of VetCom products	350
AMOUNT SHOWN IN 2019 CASH FLOW STATEMENT	**50,801**

6.5.8 Operating segments – IFRS 8

2019 and 2018 revenues were essentially derived from sales of veterinary products and services. The Group receives no income from patent, know-how, manufacturing or trademark licenses.

Pursuant to IFRS 15, income from ordinary activities corresponds to the 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.

6.5.8.1 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. The Group's operating segments are geographical segments monitored individually through internal reporting.

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 (i.e. antibiotics, parasiticides, etc.);
- production processes: production lines are common to both segments and there is no significant difference 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.

6.5.8.2 2019 operating segment results

€000 By asset location	Europe	Americas	Asia/Pacific (rest of world)	Consolidated total
Sales	292,386	163,707	37,501	**493,595**
Inter-segment sales	(81,631)	(15,906)	(68)	**(97,605)**
Total external sales	**210,756**	**147,801**	**37,433**	**395,990**
EBIT	**27,863**	**14,482**	**3,559**	**45,903**
Non-recurring operating income and expenses	(5,018)	-	-	**(5,018)**
Operating income	**22,845**	**14,482**	**3,559**	**40,886**
Net financial income/(expense)				**(205)**
Income before tax				**40,681**
Income tax				**(12,464)**
Income after tax				**28,217**
Earnings/(loss) of associates				**30**
CONSOLIDATED NET INCOME				**28,247**

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	248,861	173,191	71,543	**493,595**
Inter-segment sales	(61,979)	(27,681)	(7,945)	**(97,605)**
TOTAL EXTERNAL SALES	**186,882**	**145,511**	**63,598**	**395,990**

6.5.8.3 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**

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

€000	Europe	Americas	Asia/Pacific (rest of world)	Consolidated total
2019				
Depreciation and amortization	(10,179)	(3,672)	(653)	**(14,504)**
Provisions and write-backs	(634)	(178)	(63)	**(876)**
Depreciation - IFRS 16	(3,221)	(1,077)	(494)	**(4,792)**
Goodwill impairment	-	-	-	**-**
Expenses on grants of bonus shares	-	-	-	**-**
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)**

6.5.8.5 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, 2019				
Assets	258,417	209,997	43,054	**511,468**
Liabilities	62,932	54,269	8,286	**125,487**
Acquisition of assets	10,771	2,847	1909	**15,527**
Acquisition of assets – IFRS 3 – Business combinations	-	4,177	-	**4,177**
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**

6.5.9 R&D costs

R&D costs incurred and expensed in 2019 amounted to €30.0 million, or 7.6% of sales (2018: €26.4 million, or 7.2% of sales).

6.5.10 Other purchases and external expenses

€000	2019	2018
General subcontracting	**9,001**	7,469
Lease and rental payments (*)	**1,656**	6,226
Maintenance	**4,655**	4,281
Insurance	**1,004**	1,121
Analyses and research	**2,577**	1,770
Third-party staff	**1,726**	1,782
Fees and commissions paid to intermediaries	**19,689**	16,851
Advertising, publications, public relations	**14,210**	13,380
Freight and collective transportation of staff	**8,051**	7,474
Business travel and entertainment	**12,548**	12,013
Postage and telecommunications	**1,738**	1,661
Royalties on concessions, patents, licenses, trademarks, etc.	**1,563**	1,554
Other external services	**2,284**	2,345
Miscellaneous	**740**	736
TOTAL	**81,442**	**78,662**

(*) In 2019, €4,938,000 was deducted from leases in line with the IFRS 16 restatement (commercial, vehicle and hardware leases). The remaining balance corresponds to short-term leases excluded from the scope of IFRS 16.

IFRS 16 establishes a single model for lessee recognition of leases, whereby a right-of-use asset is recognized under assets and a lease liability under liabilities. On the income statement, the lessee recognizes depreciation and interest charges.

6.5.11 Staff costs

€000	2019	2018
Wages and salaries	**90,323**	84,826
Social security charges (*)	**29,115**	27,625
Severance pay	**2,312**	2,059
Provisions for employee benefits (Note 6.5.30)	**1,002**	725
Employee long-term benefits – actuarial gains and losses recognized to P/L	**67**	16
Expenses on grants of stock options	**-**	-
Expenses on grants of bonus shares	**-**	75
TOTAL EMPLOYEE BENEFITS	**122,818**	**115,325**

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

6.5.12 Share-based payments – bonus shares

There was no bonus share plan outstanding at 2019 year-end, as in the previous year.

6.5.13 Other operating income and expenses

€000	2019	2018
Operating grants	**15**	29
Investment grants transferred to income for the year	**8**	11
Gains on asset sales	**678**	279
Research tax credit (Crédit d'Impôt Recherche - CIR)	**3,839**	4,504
Other income	**1,504**	1,376
OTHER OPERATING INCOME	**6,043**	**6,199**
Book values of assets sold	**(836)**	(167)
Other expenses	**(646)**	(810)
OTHER OPERATING EXPENSES	**(1,483)**	**(977)**
TOTAL	**4,560**	**5,223**

Other expenses included bad debt losses of €0.3 million. In 2018, other expenses included bad debt losses of €0.3 million.

Other income consists of:

€000	2019	2018
Fees and royalties	**-**	-
Freight costs passed on to customers	**362**	447
Compensation received	**53**	14
Social security refunds	**-**	2
Other	**1,089**	914
TOTAL	**1,504**	**1,376**

6.5.14 Non-recurring operating income and expenses

€000	2019	2018
Non-recurring operating income	**-**	**16**
Impairment of intangible assets (France)	**(3,502)**	(100)
Restructuring costs (Italy)	**(1,516)**	-
Restructuring costs (Canada)	**-**	(131)
Other non-recurring operating expenses	**(5,018)**	**(231)**
TOTAL	**(5,018)**	**(215)**

6.5.15 Leases - IFRS 16

As of the transition date, most leases were classified as operating leases under IAS 17.

Right-of-use assets were valued as of January 1, 2019, the transition date, at the discounted present value of future lease payments. The main changes arising from application of IFRS 16 are as follows:

- recognition of a right-of-use asset amounting to €10.4 million as of December 31, 2019 (€10.4 million as of January 1, 2019) and a financial liability amounting to €10.7 million as of December 31, 2019 (€10.7 million as of January 1, 2019), and a €0.3 million reduction in shareholders' equity arising from the discounting of leases to their present value;
- lease expenses amounting to €4.9 million in respect of 2019 were eliminated. To offset this reduction, depreciation charges of €4.8 million and interest charges of €160,000 were recognized for 2019.

The principles are as follows:

- the lease term corresponds to the non-cancelable lease period, unless the Group is reasonably certain to exercise the contractual extension or early termination options;
- the discount rate applied to calculate the right-of-use asset and lease liability is determined in accordance with the incremental borrowing rate as of the beginning of the lease term;
- measurement of liabilities at the present value of remaining rent payments, discounted to January 1, 2019 using the incremental borrowing rate of each lessee (per individual entity);
- in the absence of a contractually defined implicit rate, the discount rate applied is the average 10-year incremental borrowing rate the lessee would have had to pay.

The average discount rate for lease liabilities at January 1, 2019 was 1.7%. The average discount rate for new lease liabilities arising in 2019 was 2.2%. These discount rates correspond to the average rates weighted as per the amount of lease liabilities to which they relate.

The main leases restated are real estate and transport vehicle leases.

The Group applies the two exemptions provided for by IFRS 16, whereby short-term leases and leases of low-value assets are not recognized on the balance sheet.

- Leases with a term of no more than 12 months.
- Leases for low-value assets: leases for assets whose replacement value does not exceed USD 5,000.

The following table shows right-of-use assets as of December 31, 2019 broken down by asset class.

€000	Dec 31, 2019	Jan 1, 2019
Land	**1**	1
Buildings	**6,712**	7,414
Plant, machinery and equipment	**26**	114
Vehicles	**3,469**	2,642
Furniture, office equipment, hardware	**178**	245
TOTAL	**10,386**	**10,416**

Financial liabilities relating to leases amounted to €10,713 million as of January 1, 2019; the difference between this amount and the amount of off-balance sheet lease commitments at December 31, 2018 (€10,976 million) is analyzed as follows:

€000	
Non-cancelable lease commitments at 12/31/2018	10,976
Discounting	(299)
Other (additional term/leases)	36
LEASE LIABILITIES AT 1/1/2019	**10,713**

Impact on financial statements (€000)

BALANCE SHEET at December 31, 2019	IFRS 16 impact
Pre-IFRS 16 non-current assets	243,762
Right-of-use assets (leases)	10,386
POST-IFRS 16 NON-CURRENT ASSETS	**254,148**
Pre-IFRS 16 current liabilities	26,481
Lease liabilities due in less than 1 year	6,300
POST-IFRS 16 CURRENT LIABILITIES	**32,781**
Pre-IFRS 16 non-current liabilities	88,329
Lease liabilities due in more than 1 year	4,377
POST-IFRS 16 NON-CURRENT LIABILITIES	**92,706**

2019 INCOME STATEMENT	IFRS 16 impact
Pre-IFRS 16 other purchases and external expenses	(86,380)
Canceled rent payments	4,938
POST-IFRS 16 EXTERNAL EXPENSES	**(81,442)**
Pre-IFRS 16 depreciation and impairment of fixed assets	(11,522)
Depreciation and impairment of fixed assets - IFRS 16 impact	(4,792)
POST-IFRS 16 DEPRECIATION AND IMPAIRMENT OF FIXED ASSETS	**(16,314)**
Pre-IFRS 16 gross cost of debt	(217)
Interest paid - Lease liabilities	(165)
POST-IFRS 16 GROSS COST OF DEBT	**(382)**
Pre-IFRS 16 income tax expense	(12,464)
Deferred tax - IFRS 16 impact	-
POST-IFRS 16 INCOME TAX EXPENSE	**(12,464)**

TOTAL IMPACT ON INCOME STATEMENT	**(19)**

6.5.16 Net financial income/(expense)

€000	2019	2018
Interest income from cash and cash equivalents	**280**	439
Net gains on sale of cash equivalents	**-**	-
INCOME FROM CASH AND CASH EQUIVALENTS	**280**	**439**
Interest on bonds	**-**	-
Interest on borrowings and overdrafts	**(217)**	(190)
Interest on other borrowings - IFRS 16	**(165)**	-
Interest on finance leases	**-**	-
GROSS COST OF DEBT	**(382)**	**(190)**
NET (COST OF DEBT)/INCOME FROM CASH AND CASH EQUIVALENTS	**(102)**	**249**

€000	2019	2018
Currency gains	**2,275**	2,310
Other income	**174**	94
Other financial income	**2,448**	2,403
Financial expenses related to employee benefits	**(81)**	(64)
Currency losses	**(1,869)**	(2,063)
Other expenses	**(601)**	(164)
OTHER FINANCIAL EXPENSES	**(2,551)**	**(2,291)**
OTHER FINANCIAL INCOME AND EXPENSES	**(103)**	**112**

6.5.17 Income tax

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.

The 2019 tax rate used to calculate deferred taxes for French companies was 32.02% (2018: 34.43%).

When the temporary difference is expected to be reversed after 2019, the related deferred taxes are calculated at the rate of 28.92% and not 32.02%. The difference from the final income tax rate of 25% is non-material.
Income tax expense is broken down as follows:

€000	2019	2018
Current income tax expense	**(11,634)**	(12,469)
Deferred tax income/(expense)	**(830)**	298
TOTAL	**(12,464)**	**(12,171)**

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

€000	2019	2018
Net income for the year	**28,247**	**36,227**
CIR restatement	**(3,848)**	(4,475)
CVAE restatement as per IAS 12	**(1,200)**	(1,165)
(Earnings)/loss of associates	**(30)**	183
Income tax expense	**12,464**	12,171
Pre-tax earnings adjusted for tax credits	**35,633**	**42,941**
Theoretical tax at 32.02% (34.43% in 2018)	**11,410**	**14,785**
Non-deductible expenses and non-taxable income	**746**	(320)
Impact of change in tax rate	**1,586**	425
Change in tax losses b/fwd and c/fwd	**438**	31
Tax rate differences for foreign companies	**(2,895)**	(3,989)
Other taxes (under IAS 12) (*)	**1,245**	1,237
Impact of reduced rate	**(28)**	(26)
Taxes with no tax base (tax credits, withholding taxes, etc.)	**(106)**	139
Miscellaneous	**69**	(112)
Effective tax	**12,464**	**12,171**
Effective tax rate	**34.98%**	**28.34%**

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

Analysis of movements in deferred tax assets during the year:

€000	2019	2018
Opening balance	**9,846**	**9,656**
Recognized in the income statement	**(1,385)**	349
Recognized in other comprehensive income	**217**	(177)
Changes in consolidation scope	**-**	-
Reclassifications	**318**	299
Exchange differences	**9**	(281)
Closing balance	**9,005**	**9,846**

Analysis of movements in deferred tax liabilities during the year:

€000	2019	2018
Opening balance	**7,370**	**6,954**
Recognized in the income statement	**(554)**	51
Recognized in other comprehensive income	**-**	-
Changes in consolidation scope	**-**	-
Changes in deferred tax liabilities via goodwill	472	-
Reclassifications	**318**	299
Exchange differences	**171**	66
Closing balance	**7,775**	**7,370**

Unrecognized deferred tax assets arising from 2019 tax losses reported by subsidiaries amounted to €1.5 million (2018: €1.1 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, 2019	Dec 31, 2018
Intangible assets	**(4,055)**	(2,556)
Component-based approach (net)	**290**	268
Other temporary differences (net)	**1,699**	1,614
Internal margin on inventories	**2,680**	2,888
Internal capital gain on sales of fixed assets	**-**	-
Restatement of finance leases	**(36)**	(39)
Employee benefits	**2,005**	1,727
Tax losses carried forward	**287**	-
Regulated provisions	**(1,659)**	(1,404)
Other (net)*	**18**	(21)
TOTAL	**1,230**	**2,476**
Of which: Deferred tax assets	**9,005**	9,846
Deferred tax liabilities	**(7,775)**	(7,370)

** including exchange differences.*

6.5.18 Earnings per share

6.5.18.1 Basic earnings per share

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

€000	2019	2018
Net income attributable to holders of common shares (€000)	**28,589**	36,259
Weighted average number of common shares	**11,881,902**	11,881,902
Treasury shares at end of period (direct holding)	**(47,994)**	(37,994)
Treasury shares at end of period (liquidity contract)	**(2,084)**	(3,107)
Adjusted weighted average number of shares outstanding over the period	**11,831,824**	11,840,801
BASIC EARNINGS PER SHARE (€)	**2.42**	**3.06**

6.5.18.2 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 common shares having a potentially dilutive effect. At December 31, 2019, just as at December 31, 2018, potentially dilutive instruments include bonus shares granted.

	2019	2018
Net income attributable to holders of common shares (€000)	**28,589**	36,259
Expenses on grants of bonus shares	**-**	**75**
Earnings used to calculate diluted earnings (€000)	**28,589**	**36,334**
Weighted average number of shares outstanding over the year	**11,881,902**	11,881,902
Treasury shares at end of period (direct holding)	**(47,994)**	(37,994)
Treasury shares at end of period (liquidity contract)	**(2,084)**	(3,107)
Adjusted weighted average number of shares outstanding over the period	**11,831,824**	**11,840,801**
Dilutive effect of bonus share grants	**-**	-
Number of shares including dilutive effect	**11,831,824**	**11,840,801**
Diluted earnings per share (€)	**2.42**	3.07

6.5.19 Goodwill

6.5.19.1 Goodwill

Goodwill is valued at cost less accumulated impairment losses. See Note 6.5.3.3. for the initial valuation of goodwill.

Under IAS 36, goodwill is allocated to cash-generating units for purposes of impairment testing as described below. 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.

€000	2019	2018
At January 1		
Gross value	**80,701**	75,874
Opening book value	**80,701**	75,874
Acquisitions related to business combinations	**52,603**	6,432
Impairment losses recognized in the income statement	**-**	-
Reclassifications/allocation of goodwill	**(2,833)**	(1,558)
Exchange differences, net	**(1,030)**	(47)
At December 31		
Gross value	**129,440**	80,701
Closing book value	**129,440**	**80,701**

6.5.19.2 Impairment tests - measurement of PP&E and intangible assets

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

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

Farmvet Systems, a new Group CGU, was not tested for impairment in 2019 but the 12-month purchase price allocation process was completed during the year.

Analysis of goodwill allocated to these CGUs:

€000	Dec 31, 2019	Dec 31, 2018
Vetoquinol Biowet Poland	**2,239**	2,216
Vetoquinol GmbH/Germany	**1,705**	1,705
Vetoquinol UK	**413**	393
Farmvet Systems	**3,777**	6,373
Vetoquinol Ireland	**421**	421
Vetoquinol Switzerland	**1,038**	1,000
Vetoquinol Austria	**772**	772
Vetoquinol Czech Republic	**946**	935
Vetoquinol USA	**24,597**	24,027
Vetoquinol Belgium	**500**	500
Vetoquinol Italy	**6,465**	6,465
Clarion	**49,915**	
Vetoquinol Scandinavia	**1,055**	1,074
Vetoquinol Asia	**41**	40
Vetoquinol India	**8,859**	8,910
Vetoquinol SA France	**14,439**	14,404
Vetoquinol Australia	**1,729**	1,617
Vetoquinol Canada	**10,529**	9,850
Total	**129,440**	**80,701**

The differences in value between 2018 and 2019 result from the acquisition of Clarion Biociencias, the purchase price allocation for the Farmvet Systems acquisition and exchange differences on goodwill denominated in foreign currencies.

The difference in goodwill for 2018 results from the Farmvet Systems acquisition and exchange differences.

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 2020 budget projections drawn up by management and the following assumptions for the years 2021-2024:

- Sales growth:
  - Western Europe: 1.7%
  - Eastern Europe: 2.3%
  - North America: 3.0%
  - Asia: 8.0%
  - Oceania: 5.0%
- Growth to infinity of 1.6% 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 2020 budget applied to 2021 and the following years for the December 31, 2019 test), adjusted for non-recurring items.

The discount rate varies by country, ranging from 7.08% to 13.90%.

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 1.6% and a 7.24% discount rate. On the basis of this test, no impairment was found.

Sensitivity testing based on a deviation of +/-1% in the discount rate resulted in no material negative adjustments as of December 31, 2019 and 2018.

6.5.20 Intangible assets

€000	Concessions, licenses and patents	Software	Trademarks	Other	Total
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 (net book value)	-	(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**
Acquisitions	3,447	2,430	-	19	**5,896**
Acquisitions through business combinations	97	2,787	-	-	**2,884**
Change in consolidation method	-	-	-	-	**-**
Disposals (net book value)	(3,968)	(74)	-	-	**(4,041)**
Reclassifications		(19)	1,989	(1,989)	**(19)**
Amortization	(735)	(1,670)	(994)	(1,597)	**(4,997)**
Deconsolidation	-	-	-	-	**-**
Exchange differences, net	3	87	(60)	320	**350**
AT DECEMBER 31, 2019					
GROSS BOOK VALUE	**22,387**	**22,991**	**13,406**	**52,459**	**111,244**
ACCUMULATED AMORTIZATION	**(15,728)**	**(14,607)**	**(1,035)**	**(36,924)**	**(68,294)**
NET BOOK VALUE	**6,659**	**8,384**	**12,371**	**15,536**	**42,950**

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 intangible assets pertaining to the following items as of December 31, 2019:

- ophthalmic products purchased in 2008 from VetCom (Canada) valued at €581,000 (2018: €583,000),
- an exclusive distribution contract for Zylkene products valued at €1,435,000 (2018: €1,960,000),
- product lists arising from the Wockhardt animal health division acquisition valued at €807,000 (2018: €1,307,000),
- product lists arising from the Farmagricola acquisition valued at €61,000 (2018: €106,000),
- product lists arising from the Bioniche animal health division acquisition valued at €11,271,000 (2018: €12,352,000).

6.5.20.1.1 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 from when the agreement begins to apply.

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.

6.5.20.1.2 Other intangible assets

Intangible assets are carried at cost on the balance sheet and are systematically amortized over their useful life, except for rights, trademarks and other items comprising the Equistro® range, which have an indefinite useful life; an impairment test is carried out at least once a year to determine whether an impairment charge needs to be recorded.

The same amortization periods are used throughout the Group:

Categories	Method	Period
Licenses and patents	Straight line	5-15 years
Software	Straight line	3-5 years
Products and/or MAs	Straight line	10-15 years
Other inc. customer relations	Straight line	10 years

6.5.21 Property, plant and equipment

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

Categories	Method	Period
Buildings	Straight line	15-40 years
Fixtures	Straight line	10-20 years
Production equipment	Straight line	6-15 years
Vehicles/office equipment/research	Straight line	5-8 years
Other PP&E	Straight line	5 years

€000	Land	Buildings	Plant and equipment	Other Property, plant and equipment	PP&E in progress, advances and down payments	Total
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	-	-	-	-	-	**-**
Net book value	(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**
Additions	10	953	3,370	1,554	3,744	**9,631**
Acquisitions through business combinations	-	111	1,351	804	1,777	**4,043**
Change in consolidation method	-	-	-	-	-	**-**
Disposals (net book value)	-	(167)	(126)	(97)	(106)	**(495)**
Depreciation	(119)	(3,254)	(4,379)	(1,737)	-	**(9,488)**
Exchange differences, net	7	384	131	5	(40)	**487**
Deconsolidation	-	-	-	-	-	**-**
Reclassifications	2	3,968	2,523	639	(7,132)	**-**
AT DECEMBER 31, 2019						
GROSS BOOK VALUE	**4,264**	**84,954**	**74,270**	**19,432**	**5,005**	**187,925**
ACCUMULATED DEPRECIATION	**(1,035)**	**(58,878)**	**(53,049)**	**(14,607)**	**-**	**(127,570)**
NET BOOK VALUE	**3,229**	**26,076**	**21,220**	**4,824**	**5,005**	**60,355**

6.5.22 IFRS 5

Not applicable as of December 31, 2019.

6.5.23 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.

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.

6.5.24 Derivatives

As of December 31, 2018, there were two interest rate swaps outstanding with €25,000 negative fair value. As of December 31, 2019, there were no swaps outstanding. 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.

€000	Dec 31, 2019			Dec 31, 2018		
	Notional	**Positive fair value**	**Negative fair value**	**Notional**	**Positive fair value**	**Negative fair value**
Forward currency contract	-	-	-	-	-	-
Over-the-counter currency options	-	-	-	-	-	-
Currency derivatives	**-**	**-**	**-**	**-**	**-**	**-**
Interest rate swaps	-	-	-	6,378	-	(25)
Interest rate options	-	-	-	-	-	-
Interest rate derivatives	**-**	**-**	**-**	**6,378**	**-**	**(25)**

6.5.25 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.

6.5.25.1 Analysis of inventories by type

€000	Dec 31, 2019			Dec 31, 2018		
	Gross value	Impairment	Net book value	Gross value	Impairment	Net book value
Raw materials & consumables	**22,509**	**(822)**	**21,687**	21,053	(276)	20,777
Other supplies	**-**	**-**	**-**	-	-	-
Work in progress	11,811	(664)	11,147	13,064	(646)	12,419
Semi-finished and finished goods	**26,708**	**(1,406)**	**25,303**	25,172	(1,121)	24,051
Goods purchased for resale	**19,339**	**(122)**	**19,217**	19,940	(31)	19,910
TOTAL	**80,367**	**(3,013)**	**77,354**	**79,230**	**(2,074)**	**77,156**

6.5.25.2 Analysis of inventory impairment

€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**

€000	Dec 31, 2018	Additions	Reclassifications	Write-backs	Currency differences	Dec 31, 2019
Raw materials & consumables	276	788	-	(243)	1	822
Work in progress	646	689	-	(672)	1	664
Semi-finished and finished goods	1,121	1,880	-	(1,656)	60	1,406
Goods purchased for resale	31	110	-	(19)	-	122
TOTAL	**2,074**	**3,468**	**-**	**(2,589)**	**61**	**3,013**

6.5.26 Trade and other receivables

€000	Dec 31, 2019	Dec 31, 2018
Trade receivables	**78,796**	63,597
Impairment of trade receivables	**(2,691)**	(2,868)
Net trade receivables	**76,104**	**60,729**
Prepayments	**1,540**	1,363
Receivables from government agencies	**10,250**	10,105
Other operating receivables	**941**	1,321
Miscellaneous receivables	**1,217**	328
Provisions	**-**	-
Other receivables	**13,948**	13,118
Total trade and other receivables	**90,052**	**73,847**
Prepaid expenses	**2,565**	2,798
Loans and guarantees	**327**	288
Other	**-**	-
Total other current assets	**2,892**	**3,086**

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 of €0.6 million in 2018 relating to expected losses on the Group's trade receivables. As of December 31, 2019, this provision stood at €0.3 million.

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.

6.5.27 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).

€000	Dec 31, 2019	Dec 31, 2018
Marketable securities	**18,509**	59,172
Cash	**66,002**	58,458
Cash and cash equivalents in the balance sheet (assets)	**84,511**	**117,630**

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

€000	Dec 31, 2019	Dec 31, 2018
Total cash and cash equivalents in the balance sheet	**84,511**	117,630
Bank overdrafts (Note 6.5.29)	**(930)**	(54)
Cash and cash equivalents in the CFS	**83,581**	**117,576**

6.5.28 Capital stock and additional paid-in capital

€000	Number of shares	Capital stock	Additional paid-in capital	Total
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, 2019	**11,881,902**	**29,705**	**41,126**	**70,831**

At December 31, 2019, the capital stock amounted to €29,704,755 (2018: €29,704,755) divided into 11,881,902 shares (2018: 11,881,902 shares), each with a par value of €2.50.

6.5.28.1 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 during the last two years. At December 31, 2019, as in the previous year, there were no outstanding bonus shares granted.

6.5.28.2 Stock options

None.

6.5.28.3 Treasury stock excluding liquidity contract

As of December 31, 2019, Vetoquinol held 47,994 treasury shares (2018: 37,994).

6.5.28.4 Dividend distribution

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

The shareholders' general meeting of May 21, 2019 approved the distribution of dividends attributable to FY 2018 amounting to €5,703,312.96, i.e. €0.48 per share (2018: €5,465,674.92 attributable to FY 2017, i.e. €0.46 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 dividend paid in 2019 amounted to €5,679,270.24 (2018: €5,453,756.32).

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

The Board has proposed a 2019 dividend payout of €0.38 per share payable on June 4, 2020.

6.5.29 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 in Property, plant and equipment.

Interest expenses are expensed as incurred.

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

€000	Dec 31, 2019	Dec 31, 2018
Borrowings and other financial liabilities	**277**	196
Non-current financial liabilities	**6,300**	-
Total non-current financial liabilities	**6,577**	**196**
Borrowings and other financial liabilities	**201**	6,424
Current lease liabilities	**4,377**	-
Bank overdrafts	**930**	54
Total current financial liabilities	**5,509**	**6,478**
TOTAL FINANCIAL LIABILITIES	**12,086**	**6,674**

The breakdown by maturity of financial liabilities is as follows:

€000	Total	< 1 year	1-5 years	> 5 years
At December 31, 2018				
Borrowings and other financial liabilities	**6,620**	6,424	196	-
Bank overdrafts	**54**	54	-	-
TOTAL FINANCIAL LIABILITIES	**6,674**	**6,478**	**196**	**-**
At December 31, 2019				
Borrowings and other financial liabilities	**478**	201	277	-
Lease liabilities	**10,677**	4,377	5,814	486
Bank overdrafts	**930**	930	-	-
TOTAL FINANCIAL LIABILITIES	**12,085**	**5,508**	**6,091**	**486**

6.5.29.1 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, 2018	Cash flow	Non-cash transactions				Dec 31, 2019
			Acquisitions	Currency gains/ losses	IFRS 16 reclassification/ impact	Changes in fair value	
Borrowings and other financial liabilities - non-current	196	(2,393)	2,774	(114)	(186)	-	**277**
Borrowings and other financial liabilities - current	6,399	(6,432)	52	(4)	186	-	**201**
Lease liabilities	-				10,677	-	10,677
Hedging instruments	25	-	-	-	-	(25)	**-**
TOTAL FINANCIAL LIABILITIES	**6,620**	**(8,825)**	**2,826**	**(118)**	**10,677**	**(25)**	**11,155**

6.5.29.2 Breakdown by currency and rate type

€000	Dec 31, 2019	Dec 31, 2018
Fixed rate	973	202
Total INR	**973**	**202**
Fixed rate	634	-
Total BRL	**634**	**-**
Fixed rate	147	-
Total AUD	**147**	**-**
Fixed rate	1,022	-
Total USD	**1,022**	**-**
Fixed rate	308	-
Total CAD	**308**	**-**
Fixed rate	95	-
Total CHF	**95**	**-**
Fixed rate	37	-
Total CNY	**37**	**-**
Fixed rate	286	-
Total CZK	**286**	**-**
Fixed rate	633	-
Total GBP	**633**	**-**
Fixed rate	218	-
Total KRW	**218**	**-**
Fixed rate	20	-
Total MXN	**20**	**-**
Fixed rate	147	-
Total PLN	**147**	**-**
Fixed rate	102	-
Total SEK	**102**	**-**
Fixed rate on bonds	-	-
Fixed rate and floating swapped to fixed	6,533	6,403
Floating rate	-	16
Total EUR	**6,533**	**6,419**
Fixed rate	11,155	6,605
Floating rate	-	16
Total (all currencies combined)	**11,155**	**6,620**
Bank overdrafts	930	54
TOTAL	**12,085**	**6,674**

6.5.29.3 Collateral given as guarantee

None.

6.5.29.4 Credit lines

As of December 31, 2019, the Group had open lines of bank credit amounting to €16,664,000 (2018: €16 million). €664,000 of these credit lines had been used (2018: €54,000).

6.5.29.5 Liquidity risk

In view of its available cash and cash equivalents as of December 31, 2019, 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, 2019					
Borrowings and other financial liabilities	478	478	201	277	-
Bank overdrafts	930	930	930	-	-
Trade payables	30,445	30,445	30,445	-	-
Payables to fixed asset suppliers	2,776	2,776	2,776	-	-
Other operating liabilities	20,618	20,618	20,618	-	-
TOTAL FINANCIAL LIABILITIES	**55,247**	**55,247**	**54,970**	**277**	**-**

€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	-
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**	**-**

6.5.30 Provisions for employee benefits

6.5.30.1 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.

€000	Dec 31, 2019	Dec 31, 2018
Provision for retirement bonus	**7,209**	6,295
Other employee benefits (CET time savings account, long-service awards, etc.)	**1,695**	1,499
PROVISIONS FOR EMPLOYEE BENEFITS	**8,904**	**7,795**

6.5.30.2 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 testing based on a deviation of +/- 0.25% in the discount rate did not result in any material (+/- €214,000) adjustments to the commitment.

• Changes in the corresponding liability are as follows:

€000	Dec 31, 2019	Dec 31, 2018
Carrying amount at January 1	**6,295**	**6,602**
Expenses recognized in the income statement	**710**	615
Actuarial gains and losses recognized in other comprehensive income	**780**	(430)
Contributions paid	**(219)**	(262)
Reclassifications	**(147)**	(173)
Benefits paid from the fund	**(213)**	(51)
Exchange differences	**3**	(6)
New liabilities arising from acquisitions	**-**	-
Carrying amount at December 31	**7,209**	**6,295**

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

€000	Dec 31, 2019	Dec 31, 2018
Cost of services rendered during the year	**482**	543
Financial cost	**161**	56
Cost of past services	**-**	-
Actuarial gains and losses recognized in the income statement	**67**	16
TOTAL	**710**	**615**

• The main actuarial assumptions applied in France are as follows:

	Dec 31, 2019	Dec 31, 2018
Discount rate	0.70%	1.60%
Salary increase rate	2.90%	2.30%
Social security contribution rate	45.4%	47%
Mortality table	TF-TH 2000-2002	
Staff turnover	Based on age range	

6.5.30.3 Other long-term 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, 2019	Dec 31, 2018
Carrying amount at January 1	**1,499**	**1,483**
Expenses recognized in the income statement	**292**	110
Contributions paid	**(100)**	(69)
Reclassifications	**-**	-
Exchange differences	**4**	(25)
New liabilities arising from acquisitions	**-**	-
Carrying amount at December 31	**1,695**	**1,499**

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

€000	Dec 31, 2019	Dec 31, 2018
Cost of services rendered during the year	**217**	131
Financial cost	**7**	5
Actuarial gains and losses	**68**	(26)
TOTAL	**292**	**110**

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

	Dec 31, 2019	Dec 31, 2018
Discount rate	0.30%	1.15%
Award appreciation rate	0.60%	2.30%
Social security contribution rate	45.4%	47%
Mortality table	TF-TH 2000-2002	
Staff turnover	Based on age range	

6.5.31 Other 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.

€000	Provision for litigation	Other provisions	Total
At December 31, 2017	**585**	**1,521**	**2,106**
Additional provisions and increases	95	**377**	**472**
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	**430**	**970**	**1,400**
Additional provisions and increases	445	**1,256**	**1,701**
Amounts used	(260)	**(451)**	**(711)**
Reclassifications	-	**25**	**25**
Write-backs of amounts not used	-	**-**	**-**
Provisions arising from acquisitions	-	**-**	**-**
Exchange differences	-	**15**	**16**
At December 31, 2019	**614**	**1,816**	**2,430**

€000	Dec 31, 2019	Dec 31, 2018
Current	**610**	929
Non-current	**1,821**	471
TOTAL	**2,430**	**1,400**

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

6.5.32 Trade and other payables

€000	Dec 31, 2019	Dec 31, 2018
Trade payables	**30,445**	25,650
Payables to fixed asset suppliers	**2,776**	1,585
Tax and social security liabilities	**30,640**	28,754
Other operating liabilities	**20,618**	18,445
Other miscellaneous liabilities	**63**	36
Total trade and other payables	**84,542**	**74,471**
Deferred income	**9**	15
Total other current liabilities	**9**	**15**

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

6.5.33 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, 2019 and December 31, 2018, there were no derivatives with positive fair values.

€000 – 2019	Assets/liabilities at fair value through profit/loss	Assets/liabilities at amortized cost	Total carrying amount	Fair value
Other equity investments	400	-	400	400
Other non-current assets (loans and advances)	-	905	905	905
Trade receivables and related accounts	-	92,944	92,944	92,944
Cash and cash equivalents	-	84,511	84,511	84,511
Derivatives	-	-	-	-
Financial assets at Dec 31, 2019	400	**178,361**	**178,761**	**178,761**
Bonds	-	-	-	-
Short/long-term borrowings and other financial liabilities	-	1,409	1,409	1,409
Lease liabilities		10,677	10,677	10,677
Derivatives	-	-	-	-
Trade payables	-	30,445	30,445	30,445
Payables to fixed asset suppliers	-	2,776	2,776	2,776
Other operating liabilities	-	20,618	20,618	20,618
Financial liabilities at Dec 31, 2019	-	**65,924**	**65,924**	**65,924**

€000 – 2018	Assets/liabilities at fair value through profit/loss	Assets/liabilities at amortized cost	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**

6.5.34 Dividends per share

Dividends paid in 2019 amounted to €5,679,270.24 (2018: €5,453,756.32), i.e. €0.48 per share (2018: €0.46 per share).

At the upcoming shareholders' general meeting on May 26, 2020, shareholders will be asked to approve a dividend payout of €0.38 per share.

6.5.35 Headcount

2019 headcount by functional dept. and region	France	Western Europe (excl. France)	Eastern Europe	Americas	Asia	Consolidated total
Sales & Marketing	80	148	54	248	429	**959**
Administration & Management	159	52	44	85	22	**362**
Production	161	17	98	119	-	**395**
Quality	92	13	54	80	4	**243**
Procurement & Logistics	82	28	32	64	12	**218**
R&D	129	14	15	32	5	**195**
Total headcount at Dec 31, 2019	**703**	**272**	**297**	**628**	**472**	**2,372**

2018 headcount by functional dept. and 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**

6.5.36 Off-balance sheet commitments

6.5.36.1 Guarantees given

€000	Dec 31, 2019	Dec 31, 2018
Guarantees and deposits	**8**	28
Mortgages and collateral	**-**	-
TOTAL	**8**	**28**

6.5.36.2 Guarantees received

€000	Dec 31, 2019	Dec 31, 2018
Guarantees and deposits	**-**	-
Liability guarantees	**-**	-
TOTAL	**-**	**-**

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.

In relation to the acquisition of Clarion Biociencias in 2019, the Group placed BRL 20 million in an escrow account to cover potential liability guarantees. The amount has been deposited for a 5-year term starting on April 15, 2019.

6.5.36.3 Capital expenditure commitments

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

€000	Dec 31, 2019	Dec 31, 2018
Intangible assets	**2,242**	675
Property, plant and equipment	**1,590**	4,922
TOTAL	**3,832**	**5,597**

6.5.37 Contingent assets and liabilities

None.

6.5.38 Related party disclosures

6.5.38.1 Compensation paid to key executives

€000	Dec 31, 2019	Dec 31, 2018
Short-term benefits	**1,264**	1,182
Post-employment benefits		
TOTAL	**1,264**	**1,182**

Vetoquinol Group top management includes:

- Matthieu Frechin, Chief Executive Officer;
- Étienne Frechin, Chairman;
- Jean-Yves Ravinet, Group Chief Operating Officer;
- Alain Masson, Deputy CEO and Chief Pharmacist.

6.5.38.2 Related party transactions

None.

6.5.39 Post-balance sheet events

COVID-19

The financial statements of the entity have been prepared on a going concern basis. The operations of the Vetoquinol Group subsidiaries began to be affected by the COVID-19 epidemic from Q2 2020 and the entity expects to see an adverse impact on the financial statements for 2020 or 2021. However, given the recent nature of the epidemic and the measures announced by the government to support businesses, the Company cannot at present provide a quantified estimate of the damage.

As of the date on which the shareholders of the entity approved the financial statements for 2019, management was not aware of any major uncertainties liable to cast doubt on the entity's ability to continue operating.

VETOQUINOL TO ACQUIRE RIGHTS FOR PROFENDER® AND DRONTAL® FROM ELANCO ANIMAL HEALTH FOR THE EUROPEAN ECONOMIC AREA AND THE UK

On February 12, 2020, Vetoquinol agreed terms to acquire the European Economic Area and UK rights to Profender® and Drontal® product families from Elanco Animal Health. This acquisition will be financed through a combination of available cash and committed financing from Vetoquinol banking partners for $140 million in an all cash deal subject to customary post-closing adjustments. The deal is expected to close by mid-year 2020. According to the terms of the deal, Vetoquinol will acquire the Profender® and Drontal® product families, the intellectual property, registrations and other rights currently owned by Bayer AG's animal health business. The Profender® and Drontal® families of products are spot-on and tablet de-wormer products for cats and dogs. Vetoquinol's acquisition of Profender® and Drontal® is related to Elanco's acquisition of Bayer AG's animal health business, which is subject to regulatory approval from European Commission and the Federal Trade Commission.

6.5.40 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.

6.5.41 Financial/commercial position

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

6.5.42 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 company), 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.

€000	Mazars	PWC
	2019	2019
	Amount	Amount
Statutory audit fees		
Issuer	**82**	**108**
Fully consolidated subsidiaries	**62**	**209**
Services other than account certification		
Services required under statutory and regulatory provisions - Issuer	**5**	**5**
Services required under statutory and regulatory provisions - Fully consolidated subsidiaries	**-**	**-**
Other services - Issuer	**-**	**-**
Other services - Fully consolidated subsidiaries	**14**	**27**
TOTAL	**163**	**349**

6.5.42.1 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.

6.5.43 Group companies

Company	Head office	% held at Dec 31, 2019	% held at Dec 31, 2018
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 – Wilming-ton - Delaware 19801 – USA	100%	100%
Vetoquinol de Mexico SA de CV	Blvd Manuel Avila Camacho 118 piso 22 Despacho 2202 - Col. Lomas de Chapultepec - Delegation Miguel Hidalgo – Mexico	100%	100%
Vetoquinol Saude Animal Ltda	Avenida Fausto Dallape Dallape, 90, térreo, sala 1, Terra Preta Cidade de Mairipora – Estado de Sao Paulo CEP 07662-670 – Brazil	100%	100%
Clarion Biociências	Rua 11, Quadra 7, Lote 47 a 55, s/n - Polo Empresarial de Goiás, GO, 74900-000, Brazil	90%	-
Vetoquinol Do Brasil Partici-pacoes Ltda	Avenida Fausto Dallape Dallape, 90, térreo, sala 1, Terra Preta Cidade de Mairipora – Estado de Sao Paulo CEP 07662-670 – Brésil	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	12 Northbrook Road, Ranelagh, Dublin 6 – Ireland	100%	100%
Farmvet Systems Ltd	27 High Street - Moneymore - Magherafelt BT45 7PA - United Kingdom	76.9%	76.9%
Vetoquinol NV	Kontichsesteenweg 42 - 263 Aartselaar - Belgium	99%	99%
Vetoquinol BV	Postbus 9202, 4801 Le Breda – 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.	Walterovo námEstí 329/3 – Mechanika 2 - 158000 Prague – Czech Republic	100%	100%
Vetoquinol Österreich GmbH	Greindl & Koeck Gußhausstraße 14/5 1040 Vienna – 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	5th Floor, Rubis Center 30 Dr Eugene Laurent Street – Port Louis – Republic of Mauritius	100%	100%
Vetoquinol India Animal Health Private Ltd.	801, Sigma, 8th floor – Hirandani Business Park – Techno-logy Street – Powai – Mumbai 400 076 – India	100%	100%
Frefin Asia Ltd	Bonham Centre – 79-85 Bonham Strand – Sheung Wan – Hong Kong	100%	100%
Vetoquinol Korea Co. Ltd	#11001-A, M-city tower, 195, Beakmaro, Ilsandong-gu, Goyang-si, Gyeonggi-do – South Korea	100%	100%
Vetoquinol Trading (Shan-ghai) Co. Ltd.	Suite 1607, Block C, 85 Loushanguan, Changning District, Shanghai, PRC	100%	100%
Vetoquinol Australia Pty Ltd Inc.	Cornwall Stodart- Level 10, 114 William Street, Melbourne – Vic 3000 – Australia	100%	100%
Vetoquinol New Zealand Ltd	60 Parnell Road - Parnell – 1052 Auckland - New Zealand	100%	-
Vetoquinol-Zenoaq K.K.	1-1 Tairanoue, Sasagawa, Asaka-machi, Koriyama, Fukushima – Japan 963-0102	55%	55%

6.6 Statutory auditors' report on the consolidated financial statements

Year ended December 31, 2019

To the shareholders' general meeting,

6.6.1 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, 2019, as appended to this report. The financial statements were approved by the Board of Directors on March 24, 2020 on the basis of information available at that date, amid a changing environment in relation to the Covid-19 crisis.

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.

6.6.2 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, 2019 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.

6.6.3 Comment

Without calling into question the opinion expressed above, we would draw your attention to Note 6.5.3.1. "General accounting principles and standards – New standards and amendments applicable in 2019" in the notes to the consolidated financial statements, which presents the impacts of changes in accounting methods relating to the application of IFRS 16 "Leases" and IFRIC 23 "Uncertainty over income tax treatments" as from January 1, 2019.

6.6.4 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, as approved under the aforementioned circumstances, 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, 2019, the net value of goodwill amounted to €129.4 million. The accounting principles applied to the valuation of goodwill are set out in Note 6.5.19.1.1 "Goodwill" and the allocation per cash-generating unit (CGU) is presented in Note 6.5.19.2 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 6.5.3.5 "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 materiality of these assets in the Group's financial statements and the level of judgment required on the part of management to determine the recoverable amount of these assets.

Our response

We conducted a critical analysis of the methods applied by management 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 2019;
- comparing the 2020 cash flows used in the tests with the 2020 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.

6.6.5 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 approved by the Board of Directors on March 24, 2020. Management has informed us that it will communicate a message regarding events occurring and facts coming to light after the balance sheet date in relation to the impact of the Covid-19 crisis to the shareholders' general meeting called to approve the financial statements.

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.

6.6.6 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, 2019, PricewaterhouseCoopers Audit was in its 30th consecutive year as statutory auditor, including 14 years since the Company shares were admitted for trading on a regulated market, while Mazars was in its second year as statutory auditor.

6.6.7 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 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.

6.6.8 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 23, 2020

The Statutory Auditors

PricewaterhouseCoopers Audit	**Mazars**
Elisabeth L'Hermite	Séverine Hervet

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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