Reference document

2009

Our business, animals.
Our advantage, people.

Vétoquinol
a Sign of Passion

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a Sign of Passion

2009

REFERENCE DOCUMENT

The English language version of this registration document is a free translation from the original, which was prepared in French. All possible care has been taken to ensure that the translation is accurate presentation of the original. However, in all matters of interpretation, views or opinion expressed in the original language version of the document in French take precedence over the translation.

AMF | AUTORITÉ DES MARCHÉS FINANCIERS

For the purposes of implementation of its general regulation, especially Article 212-13, the *Autorité des marchés financiers* (AMF) - Financial Markets Authority - has registered this reference document on 22/04/2010 under number R. 10-027. This document may not be used in support of any financial operation unless accompanied by an issue note approved by the Financial Markets Authority. It has been drawn up by the issuing party and is binding upon its signatories. Registration, as per the provisions of article L621-8-1-I of the Monetary and Financial Code, has been carried out after prior checking by the AMF for "completeness and intelligibility of the document and for coherence of the information contained". It does not imply authentication by the AMF of the accounting and financial elements presented.

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1. PERSON IN CHARGE

1.1. PERSON IN CHARGE OF THE REFERENCE DOCUMENT

Mr. Étienne Frechin, Chairman of the Board of Directors and Managing Director of Vétoquinol

1.2. ATTESTATION BY THE PERSON IN CHARGE OF THE REFERENCE DOCUMENT

I hereby confirm, having taken all reasonable measures in this respect, that the information included in this reference document is, to my knowledge, true and presents no omissions that might alter its scope. I hereby confirm that, to my knowledge, the accounting records have been drawn up as per the relevant accounting rules and provide a faithful image of the legacy, financial position and earnings of the company and of all undertakings included in the consolidation and that the information related to the management report under Chapter 27 presents a faithful chart of the evolution of business, earnings and financial position of the company and of all undertakings included in the consolidation, as well as a description of the main risks and uncertainties to which they are exposed.

I have obtained from the statutory account controllers a letter indicating that they have completed their work ("lettre de fin de travaux"), stating that they have verified the information relating to the financial position and financial statements contained in this document and that they have read the entire document.

Étienne Frechin

Chairman - Managing Director of Vétoquinol

2. PERSONS IN CHARGE OF AUDITING

2.1. STATUTORY AUDITORS

■ **PRICEWATERHOUSECOOPERS AUDIT**

63, rue de Villiers – 92200 Neuilly sur Seine

Member company of the Regional Company of statutory auditors of Versailles

Company represented by Mr. Xavier Aubry

Company appointment renewed by the Ordinary General Assembly, dated 19 May 2008, for a duration ending with conclusion by the general assembly upon the financial statements as of 31 December 2013.

■ **KPMG SA**

3, rue Armand Bloch – BP 13193 – 25203 Montbéliard Cedex

Member company of the Regional Company of statutory auditors of Versailles

Company represented by Mr. Laurent Hoffnung and Mr. Laurent Genin

Company appointed for replacing Mr. Laurent Hoffnung by the Ordinary General Assembly, dated 06 June 2005, for a duration ending with conclusion by the general assembly upon the financial statements as of 31 December 2010.

2.2. ALTERNATE AUDITORS

■ **Mr. Étienne Boris**

63, rue de Villiers – 92208 Neuilly sur Seine

Date of birth: 20 February 1956, place of birth: Boulogne Billancourt (92)

Of French nationality,

Appointed by the Ordinary General Assembly, dated 19 May 2008, for a duration ending with conclusion by the general assembly upon the financial statements as of 31 December 2013.

■ **Mr. Pascal Dayet**

44A, rue du bois de Bourgeois – 25000 Montbéliard

Date of birth: 02 January 1957, place of birth: Lons le Saunier (39)

Of French nationality,

Appointed by the Ordinary General Assembly, dated 06 June 2005, for a duration ending with conclusion by the general assembly upon the financial statements as of 31 December 2010.

GLOSSARY

AFSSA	Means *Agence française de sécurité sanitaire des aliments* - French Food Safety Agency.
AMM (Autorisation de Mise sur le Marché)	Means marketing authorization. The AMM is the authorization issued for a medicine to be marketed. When intending to offer a medicine for sale, pharmaceutical laboratories must submit a file to the competent authority of the country concerned: national agency (such as the AFSSA - French Food Safety Agency, the DGM - Belgian General Directorate for Medicines), European agency (EMEA-European Agency for the Evaluation of Medicinal Products) or the Food and Drug Administration (FDA) in the United States.
AFEF-MEDEF Corporate Governance Code	The Corporate Governance Code for listed companies takes over the entire set of recommendations prepared by the working groups of the *Association Française des Entreprises Privées* (AFEP) - Association of French Private-sector Companies - and of the *Mouvement des Entreprises de France* (MEDEF) - French business confederation - stating certain principles for proper functioning and transparency, as necessary for improving company management and image before investors and the public. This set of recommendations, constituted as the AFEP-MEDEF Code, may be designated by listed companies as their reference code in compliance with the law dated 03 July 2008.
BPF	The *Bonnes Pratiques de Fabrication pharmaceutiques* - Pharmaceutical Good Manufacturing Practice - includes the entire set of rules to be applied for error prevention during medicine manufacturing.
BPL	*Bonnes Pratiques de Laboratoire* - Good Laboratory Practice
Business Development	Concerns the activities of acquisition or assignment of molecules, products or technologies, as well as obtaining or granting licenses to partners and setting up of distribution contracts.
CEESA	Means *Centre Européen d'Étude de la Santé Animale* - European Animal Health Study Centre.
Veterinary Delegate	Representative, generally salaried employee, of the laboratory before the customers, with scientific and commercial mission and competence.
Dietary	Qualifier used in relation to any substance that may be deemed as being food or part of food and that presents properties beneficial for health. Vétoquinol uses the above term to qualify non-medicated products, sometimes called nutriceuticals in certain countries.
Net Financial Debt (EFN)	Designates the balance between financial debt, on the one hand, from cash and cash equivalents (cash in hand) and financial investments, on the other hand. It represents the creditor or debtor position of the undertaking in relation to third parties and outside the operating cycle.
EMEA	European Agency for the Evaluation of Medicinal Products.
ERP	Enterprise Resource Planning is aimed to provide better uniformity of the corporate information system by means of a unique tool, capable of covering a large range of management areas (production, acquisitions, stocks, sales, accounting…).
EUROSTAT	Eurostat (official name: Statistical Office of the European Communities) is a General Directorate of the European Commission in charge with statistical information at Community level. Its role is to draw up official statistics of the European Union, mainly by collecting, harmonizing and unifying the data published by national statistical institutes of Member States of the EU (European Union), of candidate countries for accession and of EFTA (European Free Trade Association) member countries.
FDA	The Food and Drug Administration is the American administration of foodstuffs and medicines. This body holds competence, among others, to authorize marketing of drugs in the United States of America.
Gearing	Equity-debt ratio (ratio between net financial debt and equity capital) indicates the level of company indebtedness.
Group	Designates the group made of company Vétoquinol SA and its affiliates.

IECA	The angiotensin-converting enzyme inhibitors (IEC or IECA) represent a group of medicines used for curing arterial hypertension and heart failure, as well as for preventing kidney and heart disease.
IFAH	International Federation for Animal Health (IFAH) is a federation representing manufacturers of veterinary medicines, vaccines and other animal health products in developed and developing countries throughout the 5 continents.
LMR	For livestock, Europe demands that Maximum Residue Levels ("LMR") are determined, as corresponding to a maximum quantity of active residues likely to occur that entails no effects upon consumer health.
Veterinary medicine	Designates any substance or compound presented as exerting remedial or preventing action in respect of animal disease.
OIE	*Office International des Épizooties* - World Organization for Animal Health. OIE is an intergovernmental organization in charge with improvement of animal health worldwide.
Pharmacokinetics	The aim of pharmacokinetics is to study the fate, within a living organism, of an active principle contained in a medicine. It comprises 4 phases, which develop simultaneously: absorption, distribution, metabolism and elimination of the active principle. Determination of pharmacokinetic parameters of an active principle provides information necessary for enabling choice of the methods of administration and for adapting dosages for its future usage.
Pharmacodynamics	The aim of pharmacodynamics is to describe, quantify and explain the entire range of effects produced by a medicine in a living organism.
Drug safety monitoring	The aim of animal health drug safety monitoring is to monitor the side effects attributable to veterinary medicines, mainly their undesired effects upon animals and human beings, and to provide a scientific evaluation of the information gathered.
Non-medicated products	Include foods and nutritional supplements, hygiene products, disinfectants and insecticides for livestock buildings, diagnostic products, sutures, materials…
ROCE	Return On Capital Employed. ROCE is equal to the ratio between the operating result after taxes and the economic assets.
Company	Designates company Vétoquinol SA.
Vetnosis	Is a firm specializing in research of the animal health market. It provides in particular information on the size of various markets, estimations of their future evolution, as well as research studies on the main international competitors. Vetnosis was formed in January 2008 through the management buy-out of the animal health business of Wood Mackenzie (referred to in this document).
VICH	A trilateral (Europe, Japan and USA) program aimed at harmonizing technical requirements for veterinary product registration.
Animal Production Technique	Designates the whole range of breeding techniques aimed at improving animal productivity, in light of both their performances (speed, strength…) and their products (meat, milk…).

3. SELECTED FINANCIAL INFORMATION

The historical financial information selected by the company and presented here below for the fiscal years concluded as of 31 December 2009, 2008 and 2007 has been extracted from the consolidated accounts of the fiscal year concluded as of 31/12/2009, prepared as per the IFRS rules. Such information must be read in parallel with the financial statements presented under chapter 20 of this reference document.

3.1. PREAMBLE RELATED TO THE FINANCIAL CRISIS

We have reviewed our evaluation methods, our key hypotheses, our exposure to risks and our main estimations in respect of the international financial crisis for the entire Group and there has been no major impact of the latter on the Group consolidated accounts and financial position.

3.2. GROUP INDEBTEDNESS

Group indebtedness is low and the gearing is less than 10% of equity, which is well below the conventional ratios. Indebtedness has resulted from acceleration and intensification of external growth operations carried out by the Group in 2008 and 2009, following a consolidation phase.

Thousand euro	31 Dec 2009	31 Dec 2008	31 Dec 2007
Net Financial Debt	14,645	11,404	-471
Equity part of the Group	154,918	137,028	127,845
Gearing (%)	9.5%	8.3%	-0.4%

3.3. CASH FLOW TABLE

The Group cash flow resulting from operations is largely in surplus, the Group thus experiencing no liquidity problems.

Thousand euro	31 Dec 2009	31 Dec 2008	31 Dec 2007
Net cash flow from operating activities	40,046	23,396	38,930
Cash flow from investing activities	-35,145	-26,310	-8,673
Cash flow from financing activities	17,582	-11,075	-8,264
Effects of foreign exchange rate fluctuations	-360	-1,094	-893
Net cash flow	22,123	-15,082	21,100

3.4. CONSOLIDATED BALANCE SHEET

The Group presents a solid balance sheet, with considerable equity capital and a significant growth trend.

Thousand euro	31 Dec 2009	31 Dec 2008	31 Dec 2007
Total non-current assets	135,710	109,458	101,134
Total current assets	147,956	126,973	128,812
TOTAL ASSETS	283,666	236,431	229,946
Group Equity	154,918	137,028	127,845
Minority interests	28	26	26
Total non-current liabilities	42,405	36,491	37,746
Total current liabilities	86,315	62,886	64,328
TOTAL EQUITY AND LIABILITIES	283,666	236,431	229,946

3.5. CONSOLIDATED INCOME STATEMENT

Between 2007 and 2009, the Group experienced an increase in its turnover of over 8%, despite the economic downturn. Current operating income, which has been definitely decreasing for the past two years, was affected by a strengthening of the marketing and commercial teams, by certain acquisitions which have not yet reached the same level of profitability as for the other Group affiliates and by financing of new R&D projects.

Thousand euro	31 Dec 2009	31 Dec 2008	31 Dec 2007
Revenue	252,214	234,395	233,364
Current operating income (ROC)	28,925	27,587	30,725
% of turnover	11.5%	11.8%	13.2%
Net consolidated income for the year	18,214	18,569	18,649
% of turnover	7.2%	7.9%	8.0,%

3.6. FURTHER INFORMATION

The R&D expenditure recorded under the 2009 fiscal year amounts to 19.5 thousand euro, i.e.: 7.7% of the turnover (2008: 16.8 thousand euro, i.e.: 7.2% of the turnover; 2007: 15.3 thousand euro, i.e.: 6.6% of the turnover).

4. RISK FACTORS

Investors are invited to take into account all the information included in this reference document, including the risks described under this chapter. This chapter presents the risks deemed by the Company, on the date of this reference document, as likely to have an unfavorable significant effect upon the Company, its activity, its financial position, its earnings or its development. However, the Company may not exclude the possibility of other risks becoming manifest in the future and having a significant unfavorable effect upon the Company, its activity, its financial position, its earnings or its development.

4.1. RISKS AND RISK MANAGEMENT POLICIES

The Group shows permanent willingness to improve its instruments for preventing risks and for reducing impact of incurred losses.

Within this context, a mission for assessment of the impact of operational risks has been entrusted, in 2008, to the company Sageris, on the basis of a risk mapping which had been drafted in 2006.

The analysis encompassed events which potentially could generate:

- damage to property,
- activity discontinuance,
- damage to third parties,
- injury to brand image,

especially by reason of:

- accident,
- operation,
- third party action,

which are identified as strong risks and likely:

- to limit the company capacity to generate the projected cash-flows and/or
- to impact on the Group image.

The Group pays particular attention to the management of legal risks, which are analyzed and managed by the Financial and Legal Department. The latter has established various instruments for reporting and indicator survey and carried out periodical legal audits on the Group entities.

The Group equally provided for internal rules at legal level; these rules mainly refer to the procedure to be observed in case of entering into contracts.

In addition, the Group organizes training events for raising awareness of its collaborators in respect of legal risk management and of regulated respect for the environment.

4.2. RISKS RELATED TO THE GROUP ACTIVITY

The Company, which began to operate in 1933 in Lure (Haute-Saône), develops, produces and markets veterinary medicines and non-medicated products exclusively dedicated to animal health. As of 31 December 2009, the Group employed 1,524 persons, as compared to 1,412 in 2008.

4.2.1. Dependency on human health for development of new molecules

The Group operates within a highly competitive market, where the capacity to develop and market innovative products represents a key factor for success. Given its proximity and certain similitude with the human health market, the animal health market has historically benefitted from transfers of technologies and molecules originating from the human health sector, which were further adapted to the specific conditions of the veterinary market. However, this source of new products tends to be reduced by reason of (i) lower incidence of discovery of new molecules likely to become medicine and (ii) reluctance of the human pharmaceutical industry to authorize use of some of their molecules in animal health. It is consequently difficult for the Group, as for all undertakings in the pharmaceutical sector, to have access to this source.

In this context and similarly to the other actors in the sector, the Group cannot guarantee to find molecules and/or products to satisfy the scientific, technical and strategic criteria it has set. However, in order to confine this risk and to enrich its product portfolio, the Group follows an innovating strategy by dedicating significant means to the following activities:

- Innovation management, for identifying and classifying the most forward-looking technologies, molecules and services;
- R&D, for developing innovative Galenic formulations starting from molecules launched to the public domain and supporting existing products;
- Business Development, for identifying the opportunities for molecule or product license or acquisition agreements with third party companies.

4.2.2. Dependency on third parties for ensuring success of the Research and Development projects

Like all companies carrying on activities in the animal health sector, the Group concludes collaboration agreements with third parties in order to enrich its Research and Development portfolio. The Group particularly depends on the technology and know-how of third parties for the following activities:

- research, synthesis and screening of new molecules against therapeutic targets established by the Group;
- implementation of new dispensing technologies for medicine administration.

The Group's success also depends on the choice of partners and their performances in the execution of their obligations, within the framework of concluded agreements.

To the extent that the Group is not able to maintain or conclude such agreements, it should take responsibility to ensure internally the development of future products, in whole or in part. Such situation could limit or delay other research and development programs.

For the purpose of limiting this risk, the Group has developed a large network of industrial and academic partners maintained by solid and perennial relationships.

4.2.3. Risks related to the progress of future products

The Group R&D currently has available a portfolio made of approximately twenty projects in a more or less advanced stage of development. Several years may elapse between the beginning of development and the final marketing. During all this period and at any moment, projects may be delayed or suspended, especially for the following reasons:

- limited effectiveness or occurrence of undesired effects which exceed the therapeutic benefits;
- failure of clinical tests, as corresponding to the relevant technical specifications;
- refusal by the authorities to issue the authorizations allowing performance of clinical tests;
- unreasonably high manufacturing costs for the new products becoming apparent during the industrial transposition phase;
- certain evolutions of the legal framework or stricter legislation in relation to a therapeutic class or an active principle family;
- a change in the competitive environment.

Should such risks become manifest, this could have an unfavorable impact upon the Group activity, financial position or earnings. However, the Group estimates that internally-developed competencies, its organizational structure, procedures and strategy should allow it to limit such risks in the future.

In the past, such risks have not become manifest in a sufficiently significant manner as to affect Group performance.

4.2.4. Specific risks related to obtaining and maintaining a marketing authorization ("AMM")

The Group must obtain and maintain the authorizations necessary for marketing its veterinary medicines, i.e. the AMM's. Hence, depending on the markets concerned, the Group interlocutors are the regulatory authorities of the various countries of the European Union, United States, Japan, Canada, as well as of other countries. Submission of a file for AMM does not necessarily mean also obtaining it. Each authority may impose its own requirements, including those related to the need to perform complementary local clinical studies and may delay or refuse to grant the authorization applied for, even if the product has been already authorized in another country.

For the AMM's relating to livestock (meant for human consumption), Europe requires determination of the LMR, which enables establishing the waiting time, a lapse to be observed between animal treatment and possible consumption, so as to guarantee absence of any impact on the health of consumers.

The procedure for authorization of a new veterinary medicine is complex and lengthy in the main markets of the Group. The timeframe necessary for obtaining the necessary authorization varies in each country, each territory (27 countries represented in Europe within a unique authority: EMEA), but is not less than six months, starting from the date of the application.

Once the AMM has been obtained, maintaining it, as well as ensuring continual conformity of files for complying with new regulations (file renewal, variations, harmonization) represents a significant part of the R&D activities of the Group.

Besides, the Group is subject to rigorous inspections by the regulatory authorities in the testing field (Good Laboratory Practice – BPL), as well as in the field of manufacturing, labeling, distribution and sales of its products (Good Manufacturing Practice – BPF).

It must be noted that, given its anticipation capacities, together with its know-how, the Group has not been confronted with any definitive denial of an AMM grant. Besides, the Group successfully passed various inspections by competent authorities, thus proving proper control of the quality system and conformity of its installations and procedures to international regulations.

After obtaining the initial marketing authorization, a marketed product is subject to permanent survey through drug safety monitoring.

The main object of veterinary drug safety monitoring is the survey of side effects attributable to medicines. It provides a scientific evaluation of the information gathered.

It includes:

- signaling of undesirable effects of veterinary medicines to health authorities,
- gathering of available information that could prove useful for evaluation of the risks and benefits of this medicine, namely:
  - insufficient efficiency of a veterinary medicine as compared to expected levels,
  - possible risks to the environment,
  - validity of waiting time concerning it.
- registration, evaluation and operation of the data mentioned under 1 and 2 and carrying out research studies and works regarding security of use of veterinary medicines.

It is important to note that the products presenting significant and unexpected side effects may make the object of a modification of the AMM wording and may even go as far as withdrawal from the market.

Inside the Group, a specific structure is responsible for drug-safety monitoring. This structure, which has been established at an early stage by the company, issues a monthly report and an annual assessment by product. Besides, the drug-safety monitoring job and system inside the Group have been successfully audited by the various competent authorities.

Since 2007, three AMM's have been withdrawn in France, without any significant impact on the turnover, such withdrawals having been anticipated by the Group. Also, the Group voluntarily decided to abandon certain AMM's under the pharmaceutical file regularization procedure, without any significant impact on the turnover, given that the products in question were hardly or not at all marketed in France and worldwide.

4.2.5. Risks related to stricter regulation in the field of the use of antibiotics in veterinary medicine

Development of antibiotic resistance is an important issue in terms of public health, which equally concerns human and animal health. Nevertheless, antibiotics preserve a major importance in treatment of bacterial infections in human and veterinary medicine, for livestock and pets. The use of antibiotics in veterinary medicine is subject to regulations formulated at various levels: international (Codex, OIE), regional (European) and national. Prescription and use of antibiotics belong to and are particularly monitored under the Public Health Code, to take just the example of France.

Various measures are taken and regularly reviewed, with a view to limiting bacterial resistance to antibiotics and to rationalizing the use of these substances. We bear in mind the prohibition, at the end of 2005, in all Member States of the European Union, of the use of antibiotics for preventive purposes in the form of additives in the foodstuffs meant for livestock, so as to improve performance of their animal production technique. This measure has had no effect on the Group, which basically markets antibiotics for remedial purposes.

The use of antibiotics for livestock is regulated by AMM's, which define the waiting time and is subject to a strict observance of veterinarian prescription. The waiting time, established by authorities for consumer protection, indicates the time period during which food products resulting from treated animals (meat, milk and eggs) may not be marketed for human consumption.

Taking into account this regulatory context and despite an intensive statutory monitoring activity, the Group may not exclude a possibly stricter process for obtaining AMM's, and/or a certain limitation as to the use of such substances in antibacterial activity. Given the above, the position of the Group, which is outstanding on this market and focuses on remedial antibiotics, should allow for a limiting of this risk and its consequences upon its own activity, financial position or earnings.

On the other hand, the Group has been spreading, for several years, among its veterinary customers, a message in favor of reasonable use of antibiotics and is always committed to prioritizing the need to comply accurately with recommended dosages and treatment duration.

4.2.6. Dependency with regard to Marbocyl® product line

In the Group's portfolio, products based on marbofloxacin, grouped together under brand name Marbocyl®, represent about 15% of the Group's consolidated turnover from 2009. Marbofloxacin is an anti-infective of the fluoroquinolone group. The Group devotes a quantity of its research, development and marketing efforts to this line. Due to this product line's significant proportion within the consolidated turnover and its importance to the Group's recent and future developments, the Group is exposed to the following risks:

- development of competing products;
- expiration of marbofloxacin's patent in September 2007 in most European countries;
- a drug based on marbofloxacin has been registered in Europe since the end of 2009;
- the filing of claims in connection with quality defects or side effects related to this product, as this can happen for any medicine;
- the adoption of adverse regulatory decisions on a national, European and/or international level as to the use of anti-infectives in animal health and, in particular, on products of the fluoroquinolone group;
- an end to the search for intellectual property rights tied to marbofloxacin, the active ingredient in Marbocyl®, these rights being the subject of an exclusive license agreement granted by the company Pfizer.

If the Group were to face one of these risks, it could adversely impact its activity, financial situation or results. Numerous elements can, however, relativize the risks previously described. They are detailed below.

Since the commercial launch of Marbocyl® in 1995, the Group has continued to expand the line. New formulations have been perfected, based on the needs expressed by clients, allowing for different modes of delivery for the product: oral, injection and topical. Use of Marbocyl® has been extended to various species of animals: bovines, pigs, dogs and cats, and the number of registered uses is increasing regularly. By multiplying original and distinctive developments, the Group has created true competitive advantages, while limiting competitive risk.

The Group is also pursuing substantial Research and Development efforts in the field of anti-infectives, in order to increase the usability of marbofloxacin.

The Group is continually seeking to reduce the cost of Marbocyl®, while conserving impeccable quality in its products.

These various strategies, combined with (i) the limited size of the market covered and (ii) the difficulty in registering quinolones, suggest that the Group's position in the field of anti-infectives is relatively stable.

Moreover, nearly 9 years' worth of pharmacovigilance data on Marbocyl® have not revealed any single side effect.

Finally, although it has taken the necessary measures to protect its interests, the Group cannot guarantee its ability to continue to benefit from intellectual property rights tied to the manufacturing of Marbocyl®. This risk is weak, however, the Group having maintained a regular relationship with Pfizer for many years within the context of a contract between the two parties.

4.2.7. Vendor risks

Overall, the Group uses numerous products or services for its activities for which several identical alternatives are available from other vendors. More specifically, with regard to the supplying of the active ingredients necessary for various stages of the manufacturing of its products, the Group has access to multiple manufacturers selected according to rigorous criteria. Moreover, no single supplier, taken individually, represents a significant part of its purchases. This strategy limits the risk of a break in the supply chain and ensures the continuation of the Group's activity. The Group does not expect to run any major dependency risks relating to any of its current suppliers, including for the production of Marbocyl® or other significant products.

4.2.8. Customer risks - distribution

Today, the Group distributes its products in over one hundred countries worldwide by relying on its subsidiaries in 23 countries and a network of 140 partner distributors. Moreover, in the major countries in Europe and North America, the Group mainly distributes its products through wholesale distributors from whom veterinarians receive supplies. In these cases, the Group relies on a team of veterinary (techno-commercial) delegates assigned to geographic sectors and, in some countries, also specialized by species. This team takes on the role of making scientific and medical presentations about the products to veterinarians, and ensures that the clients' questions, expectations and needs are passed on. Regardless of country, business practices are governed, from a general standpoint, by commercial contracts.

4.2.9. Industrial and environmental risks

The Group's activities and, in particular, the production sites it operates in Europe and Canada are regulated under the terms of the applicable environmental, hygiene and safety legislature. The Group feels that it is in compliance with laws and regulations concerning the environment, hygiene and safety of its sites worldwide.

However, because of the inherent uncertainties in treatment of environmental problems and the strengthening of applicable regulatory norms in these areas, the Group cannot ignore the potential necessity for additional expenditures as such. Nevertheless, this spending should remain modest given that the Group implements low-risk industrial processes.

4.2.9.1 Fire

The Lure site represents the Group's largest production site based on the number of product lines, the nature of the products and the quantities produced. The well-maintained site has several buildings separated by several dozen meters. In the production and storage areas, there are two distinct buildings. The current means of protecting the buildings are: a fire detection system, an automatic sprinkler system (ESFR) in the finished product storage area (800 m³ of reserve water), a smoke ejection system, and fireproof walls and doors.

At the heart of the Group, production capabilities exist that could be used as replacement solutions. The outsourcing market also offers the possibility of technological substitution for all of the site's production processes. Even here, however, the difficulty lies in the need to validate the process that would be involved in new production. It therefore appears that the expected period of delay in production from the Lure site could reach 12 months, but all has been implemented today to enable continued business activity in the event of damage to the Lure production site.

4.2.10. Risks related to non-renewal of some building permits (GMP)

The Group's manufacturing sites are subject to inspections and approvals by competent national authorities. They must conform to Good Manufacturing Practices (GMP). The term GMP is used internationally to describe a set of principles and procedures that drug manufacturers must follow. In France, for example, the AFSSA, which includes l'Agence Nationale du Médicament Vétérinaire, performs inspections of industrial sites and conducts product controls. In the United States, the FDA regulates and governs the testing, authorization, manufacturing, labeling and packaging of drugs destined for sale on U.S. territory, regardless of where they were produced. Consequently, products imported into the American market that originate from manufacturing sites outside of the United States must be approved, product by product, by the FDA, and are subject to periodical inspections by this administration. This is the case for the Group's plant, located in Princeville (Canada), which is also controlled by the local authority: Health Canada. The Group currently operates five production sites subject to GMP, and that comply with these standards: the Lure and Tarare sites in France, the Polish and Italian sites in Europe and the Princeville site in Canada. The Group makes every effort to ensure that these sites respect GMP regulations inherent to their locations and markets. The Group cannot, however, ensure that internal or external events do not lead to negative inspection reports, which would have the consequence of incurring compliance expenditures or temporarily suspending the activities of one or several sites. In this case, the Group would be likely to face some difficulties in providing sufficient quantities of one or more products to one or several markets. This risk has never materialized.

4.3. RISKS TIED TO THE GROUP STRATEGY

4.3.1. Risks related to retention of key personnel

The Group relies on certain essential executives and scientists, whose simultaneous departure could temporarily affect the Group's performance.

In France, the Group's headquarters at Lure (Haute-Saône) and the relative distance of major employment centers could prove to be a disincentive for the attraction and retention of executives. This is one reason for which, in 2007, the Group decided to transfer its international marketing, Department for Business Development, Department for Innovation and Project Department to Paris, all while pledging its desire to keep its headquarters in Franche-Compté.

On another note, the corporate culture, its modes of human resource management, and the gradual migration of the Group's Management from one generation to another within the proprietary family are each important factors in the stability of the executives.

Abroad, and particularly in selecting its targets in the acquisition of companies, the Group is very vigilant with the quality and sustainability of the Management teams in place.

In 2009, the Group began an organized process of detecting and managing potentials, which will eventually involve all levels and areas of the company.

4.3.2. Risks associated with development of the Group's international activity and integration of acquisitions

The active policy for external acquisitions, followed for several years, has resulted in geographical expansion of the Group via installation of subsidiaries, the acquiring of companies or the acquiring of its distributors. In the future, the Group plans to continue this geographic expansion, with focus on three strategic areas: Europe, North America and Asia. The risk due to non-mastery of growth through acquisitions should not be ignored, especially since a certain number of important points must be addressed in the acquisition processes:

- the assumption, or non-assumption, of the target company's liabilities;
- the possible rationalization of production tools;
- synergy between product lines;
- synergy at the level of R&D activities;
- the presence, or lack, of a network of veterinary representatives;
- potential problems related to the integration of management.

Uncontrolled integration may have adverse effects on its activity, financial situation or results.

To date, the Group has successfully managed its various acquisitions:

- in 2001, the European group Chassot, which represented 40% of the Group's turnover at the moment of acquisition. This acquisition succeeded in demonstrating the Group's ability to integrate teams, manufacturing sites, sales networks, and varied and meaningful activities;
- that of IGI in 2002 allowed the Group to strengthen its presence within the pet market in the United States;
- the integration in 2007 of the American company, Vet Solutions;
- Ascor Chimici in 2008 and the Animal Health Division at Wockhardt Limited in 2009.

4.3.3. Risks related to the random aspect of international policies on agricultural subsidies

A significant part of the Group's business is conducted with breeders that can benefit, at least in industrialized countries, from agricultural subsidies and/or grants assigned by national, community or international authorities. The allocation of these grants can, notably, intercede to:

- bolster prices for meat and dairy products by guaranteeing a minimum income to farmers and producers;
- support the market by organizing surplus disposal mechanisms;
- balance markets through export refunds.

There is a gradual advancement towards a tightening of eligibility criteria and stabilization, or even towards a decrease in subsidies/grants allocated by the European Union. A major overhaul of the system, which is guaranteed only until 2013, was launched in 2003. In this vein, several adjustment paths have been foreseen and tested, such as putting a cap on direct aid, introduction of co-financing systems for Member/European States or even the elimination of export subsidies.

In this context, it is currently impossible to assess the eventual consequences for farmers, but decreases in herd sizes could occur. If this should happen, it could have unfavorable consequences on the Group's activity, financial situation or results. Nevertheless, the Group's excellent geographic and product diversification should mitigate these potential changes.

It should be noted that the Group has an active standby in this domain to anticipate any change in policy that might occur over the mid-/long-term. In addition, the balanced distribution of the Group's activities between pets and commercial animals can ultimately minimize the impact of such changes.

4.4. LEGAL AND TAX RISKS

4.4.1. Legal risks

In the context of its normal business activities, Vétoquinol and its subsidiaries are involved in litigation related operations. All of these cases are evaluated systematically by the Legal Department with the help of external counsel.

These cases give rise to provisions where circumstances make it necessary. The amount of reserves dedicated to litigation amounted to 0.8 M€ at the end of 2009 (0.8 M€ in 2008). These disputes can be considered insignificant: they are for the most part related to disruptions in contractual commitments, intellectual and industrial property issues and industrial tribunal cases.

In the past 12 months, there have been no other governmental, judicial or arbitrator's decisions, including all proceedings of which the company has knowledge, pending or threatening, which could cause or have had significant effects on the Group's profitability or financial situation.

4.4.2. Risks related to trademarks, intellectual property and industrial property

Economic agents seeking to obtain profits illegally can forge trademarks, patents, and products; some countries in which the Group operates offer minor protection of intellectual and industrial property.

4.4.3. Insurance

The Group protects all of its assets globally, as well as the resulting operations, through a policy of active risk and insurance management. For each type of insurance, a "Master" policy is issued in France, supplemented by local policies subscribed to by most subsidiaries ("centrally integrated" assembly type). In the case of insufficient coverage of a subsidiary, the Master policy will bridge the gap, to the upper level of its own guarantees. Note that for certain subsidiaries, complete insurance policies, independent from the Master policy, are purchased directly from France.

All Group companies benefit from a uniform standard of protection for both (i) accidental operating damages and resulting losses and (ii) for the defendants in any third party lawsuit.

This centralized policy, aside from the scale economies that it has or could generate, also allows lasting relationships to be built between the Group and its insurers, so that the latter agree to maintain their guarantees once compensation has been provided.

For the implementation of this policy, the Group has relied on the broker coordinator Gras Savoye and the Willis international network. The Group has subscribed to five types of policies:

4.4.3.1 Damage insurance and business interruption

Insurer	Zurich and ACE Europe
Guarantee	All risks including machine breakdown, electrical and electronic damages and resulting business losses. • Buildings and equipment covered based on replacement value, and merchandise based on purchase price. • The Master policy will bridge the gap with local policies.
Insurance amount in direct damages	France: 99,116 K€ Abroad: 80,844 K€
Operating losses guarantee	The operating losses guarantee applies for indemnity periods varying from 3 to 18 months based on country and represents an aggregate sum of 170,304,000 Euros for the Group as a whole; for example: 153,322 K€ and 18 months for Vétoquinol SA 20,731 K€ and 9 months for Vétoquinol Prolab (Canada) 13,970 K€ and 12 months for Vétoquinol Biowet (Poland)
Main limitations and sub-limits	Contractual limitation of damages: 150 M€ Sub-limits on specific guarantees, per claim: • attacks, France: 49 M€ • machine breakdown: 5 M€ • theft: 200 K€ • automatic investment coverage: 5 M€ • goods during construction: 1 M€ • transport: 2 M€ • costs and losses: 5 M€ • claims from neighbors and third parties: 2 M€ • liabilities: 2 M€ • additional extra costs: 1 M€ • supplier delay: 10 M€ • customer delay: 2 M€ • natural events: 2 M€ • difference in Condition (DIC)/Difference in Limits (DIL): 2 M€
Deductibles	Master policy: • direct damages: from 10 to 50 K€ • operating losses: 3 to 5 days (with a minimum of 30 K€, except delays from client, supplier and Lure = 50 K€) • simple risks: - direct damage: 2 K€ – operating losses: 3 days

4.4.3.2 Operation and product liability insurance

Insurer	HDI Gerling and its local correspondents for local policies in each subsidiary
Guarantee	• operational liability • product liability after delivery The Master policy will bridge the gap with local policies.
Amount of coverage	**Operational liability:** • all bodily injury, material damage and consequential financial loss per claim: 7.5 M€ including: - bodily injury suffered by staff as a result of employer negligence or work-related illness per claim and per policy year: 3.8 M€ - non-consecutive consequential losses per claim: 500 K€ - damage to entrusted property and their consecutive consequential losses per claim: 200 K€ - accidental environmental damage per claim and per insurance year: 1.5 M€ **Product liability:** • All bodily injury, material damage and consequential financial loss per claim and per insurance year: 11 M€ • including: - non-consecutive consequential losses including removal and reinstallation costs per claim and per insurance year: 2.5 M€ - withdrawal fees incurred by the insured per claim and per insurance year: 2 M€ **Arbitration and litigation:** • fees and honoraria per claim and per case of 150 K€ Threshold: 762 Euros
Deductibles	Operational and product liability: • all damages except bodily injury: 1,500 Euros • except bodily injury resulting from gross negligence by the victim with a maximum of 100 K€ per claim: 15 K€ Liability after delivery: from 3 to 200 K€

4.4.3.3 Liability insurance for officers

Insurer	Chubb
Amount	A policy in France with worldwide applicability, covering personal liability of agents, in fact or in law, while they are personally implicated in acts of corporate management
Limits of coverage	All damages taken per claim per year: 8 M€
Extension of coverage to the corporation	• in the case of any market claim • in the case of a fault that is non-separable from an executive, limited to 50% of the reference coverage
Sub-limits	Defense costs incurred due to claims arising from environmental damage: 460 K€
Deductibles	None for individuals Non-separable fault: 15% of total claim amount
Additional coverage	• coverage of claims relating to work (individual) • coverage of claims against heirs, legal representation and spouses • coverage of offices held in the group's external entities, held at less than 50% • coverage of the corporation's director • coverage of representation costs / defense costs

4.4.3.4 Cargo insurance

Insurer	CHARTIS
Amount	Master policy issued in France with worldwide applicability (except Cuba, North Korea and Iraq) The Master policy bridges the gap with local policies issued in Mexico, Switzerland and Canada
Limits of coverage by certified copy	2.5 M€ for public courier 500 K€ in own account Payment of freight in case of failure by payer
Deductibles	500 Euros (except specific local deductibles)
Coverage	"All risks" including loading and unloading by any means of transport

4.4.3.5 Travel assistance insurance

Insurer	Europe Assistance
Coverage	Employee business travel

At the date of registration of the current reference document, the Group believes it has insurance coverage suited to its worldwide operations. The Group does not foresee any particular difficulties in keeping suitable insurance coverage in the future, subject to availability and market conditions.

4.4.4. Risks related to tax audit liabilities

The Company's most recent tax audit dates back to 2005. During the past four years, on all tax audits performed within the Group, no significant reassessment has been performed - reassessment within the Group were below 0.1 M€. Nevertheless, the Group cannot provide a 100% guarantee that subsequent tax audits will not give rise to reassessment. To date, there are no other ongoing tax audits in the Group.

4.5. FINANCIAL RISKS

4.5.1. Currency risk

Refer to chapter 20: Consolidated accounts - paragraph 20.1.4.1.

4.5.2. Interest rate risk

Refer to chapter 20: Consolidated accounts - paragraph 20.1.4.2.

4.5.3. Liquidity risk

Refer to chapter 20: Consolidated accounts - paragraph 20.1.4.3.

4.5.4. Credit risk

Refer to chapter 20: Consolidated accounts - paragraph 20.1.4.4.

5. INFORMATION ABOUT THE COMPANY

5.1. COMPANY HISTORY AND GROWTH

The Group's history starts in 1933 when Joseph Frenchin, Doctor in Pharmacy, creates a range of veterinary medications that are added to his human medicine, made in 1932, in the back of his pharmacy in Lure (Haute-Saône). In 1956, the human medication is sold, and the laboratory becomes exclusively devoted to animal health. 1962 saw the arrival of his son Étienne, now CEO, and the creation of a private limited company: Vétoquinol SA. Due to strong growth, in 1964 all business is transferred near Lure: Magny-Vernois, the Group's headquarters to this day.

In 1977, Vétoquinol establishes its first location abroad, Vetam BV in the Netherlands.

In 1980, Vétoquinol builds its first unit dedicated to Research and Development.

Starting in the early 1980s, Vétoquinol gradually fills out its international network by establishing a network of distributors in Europe (Scandinavia, Portugal, Italy, Greece, Austria, Switzerland), West Africa, South Africa, the Middle East and Asian countries such as Iran, South Korea, Thailand as well as in New Zealand and Australia. Today, Vétoquinol's commercial network consists of 140 distributors and covers more than 100 countries.

In 1984, Vétoquinol expands to Ireland.

In 1985, the Group pursues its development by acquiring the French society IBA (Institut de Biologie Animale), specializing in diagnostics and biologics.

In 1987, Vétoquinol launches Tolfine® / Tolfédine®, an anti-inflammatory that within months becomes leader in the French market. The Group expands to Belgium by acquiring its distributor, Psyphac.

In the nineties, the Group sets the goal of accelerating the internationalization of its sales. Two subsidiaries are created on the American continent: Vétoquinol North America in Canada in 1990, which acquires two companies from this country (Multivet and MVE) and Vétoquinol Mexico in 1992. For Europe, two acquisitions are made in 1991: in Spain (Antibioticos Pharma Vet, renamed Vétoquinol Especialidades Veterinarias) and in the United Kingdom (Univet, renamed Vétoquinol UK).

To enhance its development in France, the Group arms itself with new sterile facilities for the production of injectables in 1991.

In 1994, the acquisition of Immunovet in the United States allows the Group to enter the American market, under the name of Vétoquinol USA Inc.

After 5 years of internal scientific work, in 1995 the Group's research skills allow the launch of an innovative anti-infective, Marbocyl®, based in marbofloxacin, first in the form of tablets for pets and subsequently in the form of an injectable solution for commercial animals. New medications based in this active ingredient are regularly placed on the market: palatable tablets and new injectable products. Within three years Marbocyl® becomes a reference in Europe and the Group's "flagship" product.

A new subsidiary, Vétoquinol GmbH, is created in Germany in 1998 following the acquisition of Meca, subsidiary of the English group Grampian Pharmaceuticals.

Over the past ten years, external growth has intensified, with an acquisition in Canada (J. Webster), the significant acquisition of the Swiss Group Chassot, located in Europe, the acquisition of Korean (Semyung Vet) and Scandinavian (Viavet) distributors, two American companies (veterinary division of IGI Inc, plus VetSolutions), an Italian company (Ascor Chimici) in 2008 and an Indian company in 2009 (Veterinary division of Wockhardt).

Over this period, a sales office is established in Shanghai, the launching of new products particularly suited to client needs is pursued, and in particular: Prilium® (cardiology - pets), Clavaseptin® and Marbocyl S® (anti-infective - pets), Alfaxan® (anesthetic), Dolpac® (anti-parasitic - pets), Flexadin®, Vetprofen® and Rimifin® (pain-inflammation - pets) and Rubénal® (cardiology/nephrology - pets).

In 2006, the Vétoquinol Group is introduced in Bourse, on Euronext Paris.

In 2008, the Group celebrates its 75th anniversary.

5.2. INVESTMENTS

5.2.1. Main investments made over the last three years

In thousands of Euros	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Acquisition of intangible assets	-2,302	-3,593	-1,588
Acquisition of fixed assets	-5,369	-5,274	-6,850
Acquisition of assets available for sale	0	0	0
Acquisition of other financial assets			
Proceeds of asset disposal	208	68	160
Refunds / other financial assets	8	-67	-395
Variations in treasury tied to grouping of businesses	-27,690	-17,443	0
Treasury flow from investment activities	**-35,145**	**-26,310**	**-8,673**

5.2.1.1 Intangible assets

Intangible assets mainly include expenditures related to informational programs as well as the acquisition of operation licenses and patents. Under IAS 38, research costs are recorded as expenses and internal development costs are recorded as intangible assets only if all six criteria defined by IAS 38 are satisfied. Due to risks and uncertainties related to regulatory authorizations and the R&D process, the criteria are deemed unmet before obtaining authorization for marketing of the medications.

On the other hand, the amounts paid in return for concessions and operating licenses, marketing of molecules, and scientific proceedings or information are recorded as intangible assets on the balance sheet. These payments are usually made when starting a research project and throughout its process, until marketing authorization is obtained.

During the year 2008, the Group was very active, notably including:

- two extension agreements signed, the first with Kibow Biotech, for the exclusive worldwide distribution of Azodyl® (cardiology/nephrology) and a second with Jurox Pty, for the expansion of Alfaxan®'s (anesthetic and pain-inflammation) distribution to the whole of Europe;
- the acquisition of Canadian Vetcom 1979 Inc.'s ophthalmic product portfolio, which covers 65% of the Canadian market for these products for 1.9 M€;
- implementation of the ERP Group continued with the launch of the ERP Group in the U.S.A. and in Spain.

The year 2009 saw the start of ERP in Poland (a major industrial site with more than 122 new users).

5.2.1.2 Tangible investments

Tangible investments were characterized in 2007 by the finalization of investments in the production capacity of Lure (France) and Gorzow (Poland) in order to enable the Group to better streamline manufacturing. A renovation of production buildings in Poland also occurred during the 2007-2008 period. In 2008 and 2009, tangible investments consisted mainly of material renewal acquisitions, as well as new production and/or renovation capacities (Princeville industrial site in Canada in 2009). Thus, the "Revolution" project in Canada enabled the renovation of the site's powder Workshops in order to be better able to accommodate new products.

5.2.1.3 Treasury variations tied to business groupings

Since July 2, 2008, The Group has had a new subsidiary in Sweden to cover the three Scandinavian countries: Sweden, Denmark and Norway. The acquisition was completed in two phases:

-on January 28, 2008, the Group increased its shareholding in Viavet Scandinavia AB's capital to reach 34%,

-on July 2, 2008, the Group took full participation in this entity by acquiring the remaining capital. The total purchase price amounted to 1.34 M€. The entire acquisition was financed with capital from reserves.

In 2008, the Group signed a contract to acquire 100% of the shares in Ascor Chimici, which took effect on December 1st 2008. This acquisition allowed significant strengthening in the Italian market. The Group now has a solid foundation from which it can expand its market share in Italy.

Ascor Chimici, founded in 1969, achieved a turnover of 19.8 million Euros in 2009 and employs 63 people. The company, based near Forli where its headquarters and production site are found, manufactures and markets antibiotic medications for pigs, bovines and poultry as well as pre-mixed medications.

On August 20, 2009, the Group completed the purchase of assets within the Division Santé Animale of Wockhardt Limited, based in Bombay (India). This new subsidiary will contribute to the Group's development in Asia. This acquisition makes the Company the 6th largest player in the Indian animal health market.

The Indian market, with an annual growth of over 8%, is estimated at more than 350 million USD. India is the world's largest producer of milk, representing more than 50% of our market dedicated to cattle. This acquisition, in line with the company's strategic direction, will enable strong synergies with the Group's expertise.

The total purchase price amounts to approximately 28 million Euros. The acquisition was financed primarily by a new loan taken out in January 2009.

Given the nature of the operation, further information could be obtained during the finalization of the acquisition price during a 12-month period from the date of acquisition, and may lead to a review of some elements of the setting of the purchase price of the Division Santé Animale of Wockhardt Limited.

In thousands of Euros	2009	2008
Total value of Scandinavian stock acquired		1,341
Total value of Italian stock acquired	8	13,365
Total value of the assets for Division Santé Animale of Wockhardt acquired	28,645	
Total value of stock/assets acquired	**28,653**	**14,713**
Variation in treasury upon entrance into agreement (stocks acquired)	-	2,706
Conversion differences between closing rate and average rate	-963	24
Total	**27,690**	**17,443**
Value entered in the TFT: changes in treasury tied to business groupings	**27,690**	**17,443**

5.2.2. Main investments planned or under contract

The main projects planned concern:

- The aim to deploy ERP in the Group, which will see the integration of India as well as a new current 2010 version;
- The aim to improve the Lure production site to increase its production capacity of dry products (essentially tablets);
- Set up a Business Intelligence system on the base of the Group's ERP.

6. OVERVIEW OF ACTIVITIES

6.1. GROUP PRESENTATION

6.1.1.1 General presentation

The Group develops, produces and markets veterinary medicine and non-medical products dedicated exclusively to animal health. As of 31 December 2009, the Group employed 1,524 people, as compared to 615 in 2000. Vétoquinol, as a family business, relies on strong values which contribute to its performance: audacity, authenticity, obligation, team spirit, openness and performance. Another medium of success, i.e. rigorous management and control principles, ensures efficient and controlled functioning:

Group policies, delegation of obligations and signatures, monthly performance indicators, internal audits, (financial, legal, social).

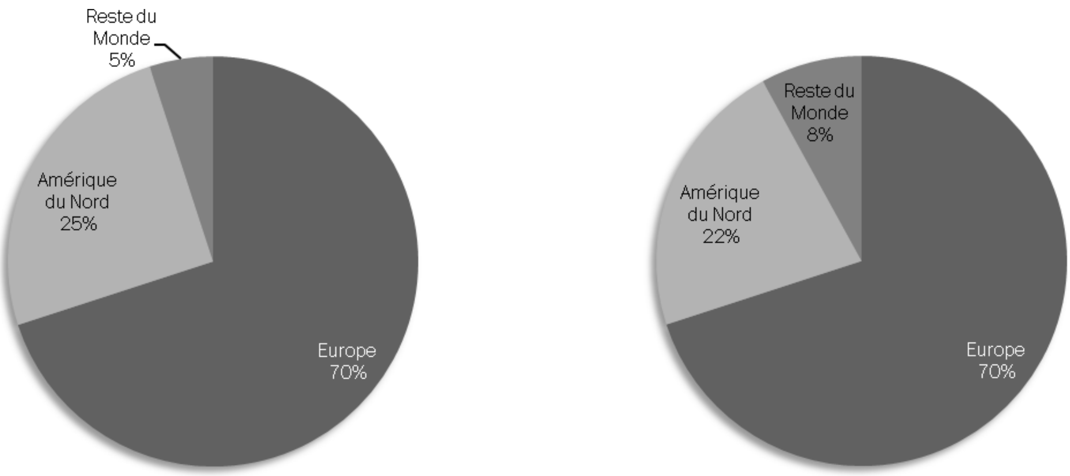
The Group's products are marketed in 115 countries, 23 where the Group is directly present and via subsidiaries, all 100%-controlled.

MAKING THE GROUP WORLDWIDE IN 2009

Historically set up in France, Vétoquinol derives 20% of its sales there, half of what it derived there 12 years earlier. This evolution is due to the desire for geographical expansion led by the Group since the early '80s. The Group, relying on its long tradition of quality with its clients (veterinary surgeons), benefits from a significant commercial base in its long-standing market and in its other main markets.

SALES BY GEOGRAPHICAL DIVISION

2008 2009

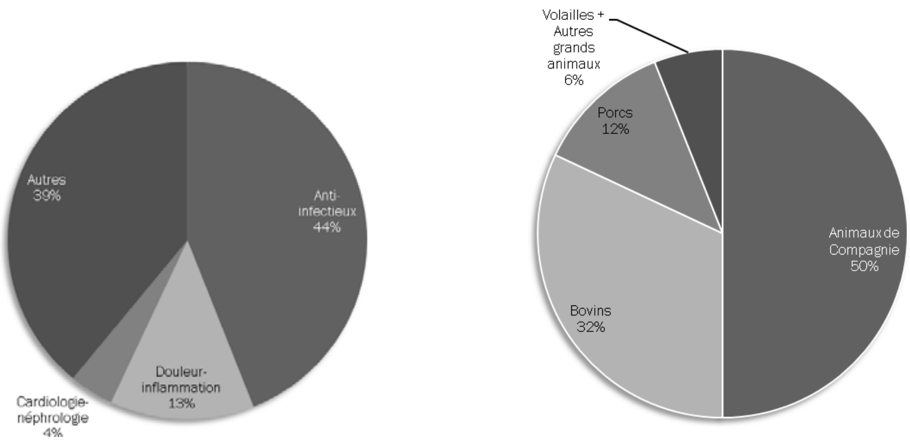


Source: Vétoquinol DATA 2008 & 2009

The Group currently markets over 700 products, amongst which are numerous leading or recognized products such as Aurizon®, Epiphen®, Ipakitine®, Marbocyl®, Propalin®, Tolfédine®, Tolfine®, Clavaseptin®, Vetprofen®, etc. Present in the large range of curative treatments, the Group has recognized expertise in the therapeutic fields of anti-infectives, pain/inflammation and cardio- and nephrology treatment. It benefits moreover from a balanced portfolio between livestock and pets, indispensable for presenting a wide range to veterinary surgeons.

BREAKDOWN OF SALES 2009

By therapeutic divisions **By species**



Source: Vétoquinol data exercise 2009

It is noteworthy that this large geographical presence, as well as the balanced division of sales per species and per therapeutic division, has allowed the Group to work smoothly in the past despite various epidemics:

Bovine Spongiform Encephalopathy in Europe and in North America, bird flu, swine flu, etc.

The Group benefits from an excellent reputation and has a significant market share, notably in France, Poland, Great Britain and Canada. To illustrate, the Group is the European leader in anti-infectives for pets. Moreover, it has approximately 8% of the market share for antibiotics for livestock in Western Europe.

Besides the beacon brand Vétoquinol, the Group has some specific brands which are recognized in their respective markets: Tomlyn and Evsco in the USA and Equistro for the horse range. The Group is present in the pet and livestock markets in all European countries and in Canada. In the USA, the Group has decided to focus firstly, on the pet market, which is already significant and profitable enough to raise significant funds at Group level.

Like most of the players in the animal health market, the Group makes and markets relatively few products which are covered by a patent but, above all, products whose main assets have fallen into the public domain. Compound or formulation innovation (due to the Group's knowledge and research efforts) represents differentiating elements and strong competitive advantages.

It is worth highlighting that the Group is an active member of the national, regional and worldwide authorities representing the profession. In particular, Vétoquinol sits on the Board of IFAH International, where the main veterinary laboratories are represented.

6.1.2. Strategy

Vétoquinol is dedicated exclusively to animal health, aiming to become one of the main worldwide laboratories in the field. For this, the group devotes all it efforts to improving animal health; no departmental arbitration over the development of new molecules dedicated to human health. The Group focuses exclusively on veterinary surgeons, animals and their owners. Relying on healthy financial management, strong control over the development, production and marketing processes as well as solid expertise in certain therapeutic classes, the Group has the following strategy:

- *Controlled and profitable growth.* The Group has always pursued manageable, profitable growth, coherent with the family's business values. Their external growth has thus been regular, measured and staged in order to allow the rapid registration of financial performance to Group standards. The effect of this choice, at financial level, meant the definition of financial objectives and rigorous processes for reporting and performance follow-up. At operational level, the Group chose strategic market segments: strong areas, territories and species for which it has a pro-active strategy. Indeed the Group is managed with great financial rigor which leads to its results. On an operational level, it has a portfolio of products balanced between pets and livestock which desensitizes it greatly to the epidemics which could affect an animal species;

- *A strengthening of its positions in the segments of pets, cattle and swine* where the Group anticipates more significant growth than in other segments. Moreover, these three segments represent 84% of the market. In industrialized countries, spending on pets is constantly rising due to an aging population and greater interest in households for the well-being and health of their pets. Moreover, opportunities appear in the area of livestock, where the Group wishes to profit - from an increasing world population and growth in the demand for animal protein;

- A strategy of growth in the fields of targeted therapeutic activities. The Group has chosen as development priorities, (also named strong areas), the treatment of infectious illnesses, pain and inflammation management and the treatment of cardiac and renal pathologies*:*

  - Anti-infectives, due to the accumulated knowledge, which has led to historically-recognized competence and the importance of the market to which it responds;
  - Pain-inflammation for which the Group has acquired a significant reputation with the development and marketing of Tolfenamic acid;
  - Cardiology-nephrology, which corresponds to a growing trend in the pet market and where growth perspectives are significant.

- *Conquering market share in North America and Asia, while consolidating its European position.* The Group wants to benefit from strong growth in Asian countries. Thus, it has recently created a subsidiary in India by buying Santé Animale from Wockhardt. Vétoquinol is now the 6th player in this market with strong potential. Previously, the Group set itself up in Korea (by means of a subsidiary) as well as in China (by means of an office) in Shanghai. In parallel, the Group would like to consolidate its positions in Europe and in North America, which represent the top two veterinarian markets by size. In Europe, it has a network of subsidiaries which covers the main countries. In Northern America, the Group has a network of important delegates in the US and Canadian markets.

6.1.3. Description of the Group's main products

The Group targets three fields of strong and differential expertise: anti-infectives, pain-inflammation and cardiology-nephrology. It offers product ranges relevant to the animal health market:

- MARKET LEADER for ANTI-INFECTIVES

A creator of innovative antibiotics, the Company is the European leader in anti-infectives for pets and number 3 for injectable medicine for livestock. The Group has several beacon brands. Marbocyl®, its top-selling antibiotic, is classed in the top 5 of anti-infectives in the European market. Intended for the treatment of dog and cat otitis, Aurizon® (a unique fluoroquinolone used locally) and Oridermyl®, are also some of the market leaders. More recently, Clavaseptin® (palatable antibiotic) and Enisyl® strengthen the Group's position.

- PAIN-INFLAMMATION: AN ETHICAL ISSUE

The Company has developed a complete range of products aiming to prevent and ease pain:

  - Alfaxan®, an anesthetic especially conceived for pets;
  - Tolfédine® (cats and dogs) and Tolfine® (livestock) non steroid anti-inflammatories;
  - A range of alimentary complements for managing osteoarthritis including Flexadin® and Caniviton®.

By contributing to the animal's well-being, the Group responds to both an ethical and therapeutic issue, pain having pernicious effects on health.

- RECOGNIZED EXPERTISE IN CARDIOLOGY – NEPHROLOGY

Heart and kidney deficiencies are chronic illnesses which become more frequent in (respectively) elderly dogs and cats. A pioneer in this field and the first laboratory to propose such a wide range, the company develops innovative therapeutic solutions. Prilium® is the only oral treatment for canine cardiac deficiency. For the treatment of renal deficiencies, there are the innovative Rubénal®, Ipakitine® and Azodyl®.

6.1.4. Marketing and distribution

The Group markets its products worldwide, both through its 21 subsidiaries and via distributors, thanks to its network of 140 partners present in 115 countries. The Group is organized in three territories:

- European Division;
- The Americas Division
- Asia- Pacific Division (rest of world).

In each country, the subsidiary reports to its Area Director and has its own sales force, a marketing team and, equally, a statutory team. Each Area Director is in charge of the activities in his or her area both in terms of managing partnerships and with regard to relations with local distributors within the framework of the Group's strategies and policies. The 3 Area Directors are members of the Board of Group Management. The Group has more than 313 veterinary delegates in its 21 subsidiaries. The entire sales force, marketing teams and support services make up 400 people in total.

The Group has a qualified sales force which is regularly made up of veterinary experts (notably in strategic areas) and specialists in medical sales. In its commercial approach, the Group is characterized by great rigor and a will to support its veterinary partnerships. The Group invests a great deal in scientific training of veterinary surgeons, under the label, « Vétoquinol Academia»; the Group offers its clients training at a high scientific level, given by recognized experts. The subjects dealt with since 2007 have been linked to infectious diseases, cardiology, neurology and surgery. For example, since 2002, more than 2000 practitioners worldwide have taken part in various «Vétoquinol Academia» events.

In 2009, the Group reunited its worldwide experts of cardiology and nephrology for a new approach to renal and cardiac pathologies: the kidney-heart axis, whereby, in addition to scientific presentations at the highest levels, discussion forums on clinical cases were held to spread best-practice principles to practitioners in 2010. More globally, the Group has a long-term commercial policy and focuses on the quality of relations between its veterinary delegates and the client, listening to the clients and giving them the correct response.

6.1.5. Group competitive advantages

- One of the rare «pure players»

As opposed to most contributors in the animal health market who are also involved with human health, the Group is dedicated exclusively to veterinary activity. This specialization gives it a significant advantage over its competitors, often international pharmaceutical groups who favor their human division, loathe to provide the necessary means to research new galenic formulation or applications. The regulatory environment of veterinary pharmaceutical laboratories forces them to develop clear and pro-active strategies to remain competitive. This particular context has created some favorable conditions for a « pure player » like Vétoquinol to increase its market share, notably thanks to buy-back of activities or products.

- A balanced profile

The Group has a very balanced risk profile on all levels. At the end of 2009, its sales were shared equally between livestock and pets (including horses). On a geographical level, the Group covers the main areas of consumption in mature markets like Western Europe and North America and in those with strong potential for growth such as Eastern Europe and Asia.

- A leading position in numerous market segments

The Group has positioned itself indispensably in specialized segments of the market. Thus Marbocyl®, an anti-infective developed by the Group, is considered in the profession to be the best medicine in its category in Europe. Similarly, Aurizon® and Oridermyl® have become benchmarks for treating canine otitis, Tolfédine® for pain management, Tolfine® for inflammation and Propalin® for incontinence etc.

- A promising R&D portfolio

In most cases, development in the field of animal health concerns new compound formulation or improvements to molecules developed by human laboratories and agrochemists who give the operation to veterinary laboratories. The risk of abandoning a project during its development is therefore considerably less than in the development of medicine for humans.
The Group's R&D portfolio currently contains approximately twenty projects, notably on innovative compound formulations which should generate significant sales volumes and reinforce the growth of the Group's market share. Moreover, the Group is currently negotiating a license agreement on molecules which are not yet developed for animal health in order to sustain its R&D portfolio.

- A clear, applied strategy which works

For 10 years, the Company has known how to build and implement an audacious and differentiating strategy with many decisive and rather original choices (focusing on 3 areas for example), which has allowed it to record levels of growth and profitability accordingly.

- Controlled *savoir-faire* in acquiring companies

Since 1977, (the year that the subsidiary in the Netherlands was created), the Group's development strategy has leaned heavily on external growth, The Group's management has always had a targeted acquisitions policy which favors commercial and industrial synergies rather than a simple increase in turnover. The Group could thus extend its international network, become stronger in certain therapeutic areas, absorb its research costs and still present a profile of balanced risk. The Group has recently shown its capacity to integrate new entities with the successful acquisition of its Scandinavian distributor, d'Ascor Chimici in Italy in 2008 and the Division Santé Animale de Wockhardt in India in 2009.

6.2. MAIN MARKETS

6.2.1. Recent evolution of the animal health market

Worldwide animal health market

	2005	2006	2007	2008
Turnover in millions of US Dollars	14,915	16,065	17,900	19,190
Annual variation in %	8.8%	7.7%	11.4%	7.2%
Annual variation in volume in %*	2.9%	3.3%	4.7%	2.8%

** Except effects of currency trading and price*
Source: Vetnosis

The animal health market increased by 7.2% in 2008 in nominal values, i.e. a volume growth of 2.8%, after taking into account price increases and the effect of the exchange rate.

In millions of US Dollars	2005	2006	2007	2008
North America	5,100	5,600	6,095	6,310
Latin America	1,695	1,870	2,080	2,260
Western Europe	4,580	4,850	5,670	6,235
Eastern Europe	685	735	815	890
Asia	2,420	2,555	2,740	2,960
Rest of world	435	455	535	535
Total	**14,915**	**16,065**	**17,900**	**19,190**

In %	2005	2006	2007	2008
North America	34.2%	34.9%	34.1%	32.9%
Latin America	11.4%	11.6%	11.6%	11.8%
Western Europe	30.7%	30.2%	31.7%	32.5%
Eastern Europe	4.6%	4.6%	4.6%	4.6%
Asia	16.2%	15.9%	15.3%	15.4%
Rest of world	2.9 %	2.8%	2.8%	2.8%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0 %**

Source: Vetnosis

As regards species, the animal health market is divided into two large groups: livestock (cattle, swine, poultry…) and pets (dogs, cats …). These two branches are distinct as they have different rationales from a market point of view: the livestock branch has a large volume driven by economic concerns whilst the pet branch represents a weaker market but with a higher added value and larger growth. This latter is less prone to sharp market variations (health crises), being linked to the evolution of owners' buying power.

In millions of US Dollars	2005	2006	2007	2008
Cattle	4,060	4,370	4,750	5,135
Sheep	760	770	830	920
Swine	2,430	2,585	2,915	3,135
Poultry	1,675	1,730	1,935	2,065
Pets	5,990	6,610	7,470	7,935
Total	**14,915**	**16,065**	**17,900**	**19,190**

In %	2005	2006	2007	2008
Cattle	27.2%	27.2%	26.5%	26.8%
Sheep	5.1%	4.8%	4.6%	4.8%
Swine	16.3%	16.1%	16.3%	16.3%
Poultry	11.2%	10.8%	10.8%	10.8%
Pets	40.2%	41.1%	41.7%	41.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Vetnosis

The pet market grew by 6.2% in value between 2007 and 2008, but the most rapid progression of several segments of livestock (cattle, sheep and swine) meant that the market share for pets regressed slightly. This relative stagnation of the pet market must not hide the regular progression in value of this segment. However, the exchange rate slightly masks the trends. In the years to come, we expect a market led by:

- America, Asia and Europe;
- Pets;
- Vaccines and new therapies for pets.

6.2.2. Perspectives on the animal health market

According to Vetnosis, after a slight rise in 2009, the market should grow in 2010 to reach over 19 billion dollars, i.e. a growth of approximately 2% per year after correction for variances from higher prices and currency effects. The main trends should reflect the following in the coming years:

- Joint development of generic medicine and technological innovation;
- Growth in the worldwide demand for animal proteins;
- Random influence of regional illnesses being able to temporarily affect the production and consumption of animal, meat (bird flu, swine flu, foot and mouth disease etc.);
- Aiming for greater food safety;
- Improvement of animals' well-being;
- Implementation of stronger statutory constraints, even in less developed countries, in order to favor exportation of their products of animal origin.

The Group has been able to foresee these trends and be prepared, as seen previously. Vaccines and new therapies for pets should see a volume growth above that of the market (between 2-3% a year). Having older pets should stimulate, for example, the sale of veterinary medicine for the treatment of cardiovascular and renal illnesses as well as for pain management. The market for anti-infectives should see a volume growth close to that of the market (approximately 1% a year). This trend, for livestock, can be explained by:

- The statutory limitation of reasonable use of curative treatment to avoid any form of bio-resistance which should favor players such as Vétoquinol;
- Limited appearance of new molecules, the innovation focusing essentially on new formulations, which are one of the groups' strong points;
- Strict evolution of regulation, which should limit the development of generic medicine;
- The growth of the number of livestock in America and Asia.

Asia and America should, in the same period, see a higher growth than that of the market (over 2% per year), whereas Europe would see less growth but which is still over 1%. The market for ovine products, in which the Group is not very active, is the only one which has reduced, as opposed to the development of the market of products for cattle (meat and milk), swine and poultry (growth of over 1% a year). The greatest development concerns pet products (over 2.5% a year).

6.2.3. Competition

At the end of 2009, Vétoquinol became the 11th worldwide contributor to animal health but two significant mergers are underway:

- Merck (Intervet-Schering-Plough)/ Sanofi-Aventis (Merial),
- Pfizer / Wyeth (Fort Dodge).

	2008		2009	
In millions of US Dollars	Sales	Rank	Sales	Rank
Intervet/Schering Plough	2,973	1	2,716	1
Pfizer	2,769	2	2,703	2
Merial	2,643	3	2,554	3
Bayer	1,284	4	1,245	4
Elanco	1,093	5	1,207	5
Novartis	1,044	7	1,045	6
Boehringer Ingelheim	683	8	845	7
Fort Dodge	1,088	6	823	8
Virbac	623	9	622	9
CEVA	531	10	548	10
Alpharma	360	11	359	11
Vétoquinol	343	12	351	12
Phibro	201	13	239	13
Janssen	175	14	170	14

Source: Vetnosis

The animal health market is a very fragmented market, taking into account the high number of species and pathologies. To illustrate this fact, a CEESA study lists over 4,200 products in Western Europe.

- Vétoquinol growth comparison in 2009
  (Without the effect of currency trading), per region

	Vétoquinol	Market
Europe	+6.5%	+0.9%
North America	+5.2%	+4.1%
Asia	nd	nd

Ceesa Data, CM Q4 2009

Vétoquinol performed better both in the American market and in Europe. This is explained by the development of our activity in the USA and by the resistance to our products in a European market in recession. Moreover, the Italian firm Ascor Chimici, acquired in 2008, contributed to good European performance. The Group's strongest growth has been recorded in products for pets, notably in cardio-nephrology and in anti-infectives.

The Group's turnover has however been mostly assured by areas with weaker growth:

medicine for livestock in general and "Other medicine" for pets.

The sales of medicine for horses have remained relatively stable, thanks to the Equistro brand.

6.2.4. Particularities of the European market

6.2.4.1 Evolution of the number of animals

Livestock in Europe is decreasing, with a more noticeable loss in cattle and a stabilization in swine. The main causes are the difficulties of breeders exposed to different sanitary crises and to the reduction of meat consumption.

Cattle livestock (in thousands):

Cattle livestock	2000	2005	2008
UE15	80,032	76,210	75,536
Germany	14,568	12,919	12,988
France	20,089	18,930	19,366
UK	10,878	10,545	9,910

Source: Eurostat 2009 – Annual data in December, in thousands

Swine livestock (in thousands):

Swine livestock	2000	2005	2008
UE15	122,196	122,235	122,994
Germany	25,767	26,989	26,719
France	15,168	15,123	14,796
UK	5,948	4,726	4,550

Source: Eurostat 2009 - Annual data surveyed in December, in thousands

On the contrary, the number of pets is rising (except for dogs where the number is falling) and this is coupled with an increase in the use of vets, and with people being more concerned about their pets' well-being and health. One notes that the rate of provision of medical care for cats is still weak (less than 50% in Europe as opposed to 70% in North America for dogs).

Population of cats and dogs (in thousands):

	Dogs	Cats	Source
Germany	5,300	7,900	IVH
France	7,800	10,700	FACCO
UK	7,300	7,200	PFMA
USA	77,500	93,600	APPMA

IVH (Industrieverband Heimtierbedarf) -
FACCO/ TNS Sofres -
PFMA (Pet Food Manufacturers Association) -
APPMA (American Pet Products Association) –

6.2.4.2 Evolution of veterinary expenditure

Sales of veterinary medicine and non-medical products to veterinary surgeons in the last five years have increased, in particular for pets and, consequently, their relative weight in total expenditure has increased. The following tables illustrate this trend in the 3 main European markets since the start of 2000. Despite the reduction of livestock as mentioned in paragraph 6.2.4.1, one can see that veterinary expenditure in Europe has continued to increase for livestock and still represents the largest market share of veterinary medicine.

For France:

Market in Euros	2005	2006	2007	2008	2009 (MAT Q3)
Pets	265,776,622	282,147,619	321,433,603	324,086,891	318,719,570
Livestock	420,487,419	419,533,652	432,088,696	475,414,047	445,826,739
Other and multi species	43,904,652	43,369,404	45,327,859	43,209,396	41,029,595
Material	5,936,886	5,937,055	5,954,199	6,353,361	6,441,817
Total	**736,105,579**	**750,987,730**	**804,804,357**	**849,063,695**	**812,017,721**

For Germany:

Market in Euros	2005	2006	2007	2008	2009 (MAT Q3)
Pets	198,031,444	200,214,703	221,261,271	228,215,579	233,188,547
Livestock	217,810,099	228,868,676	242,077,187	265,511,109	274,059,815
Other and multi species	22,174,616	22,653,024	23,870,230	23,740,806	23,699,942
Material	2,114,477	1,490,716	1,579,954	1,583,775	1,835,236
Total	**440,130,636**	**453,227,119**	**488,788,642**	**519,051,269**	**532,783,540**

For the UK:

Market in Euros	2005	2006	2007	2008	2009 (MAT Q3)
Pets	231,725,689	245,691,935	276,676,489	287,623,970	301,032,693
Livestock	177,735,999	184,111,634	203,895,673	238,988,363	234,005,713
Other and multi species	12,378,035	12,761,848	13,636,850	13,958,458	13,916,293
Material	2,590,443	2,499,437	2,312,246	2,471,781	2,650,256
Total	**424,430 ,66**	**445,064,854**	**496,521,258**	**543,042,572**	**551,604,955**

Source: Statistics CEESA Western Europe. Net turnover of laboratories in Euros (except Feed)
The representativeness of CEESA statistics as related to the real market is the following:
France (87%), Germany (84%) and UK (94%).

6.2.4.3 Distribution channels for veterinary products

The distribution channels for veterinary products vary by country but, very often, the veterinary practitioner turns out to be a major player in this distribution. In most European countries, publicity of veterinary products directed at the final consumer or the breeder is forbidden. Here, for example, are the specifications of the main markets in Europe:

In France, marketing veterinary medicine is done in three stages:
The manufacturer sells directly to wholesalers / distributors which are spread over the territory. The latter re-sell the products to eligible parties - veterinary surgeons, pharmacists or groups of registered breeders;
The final consumer buys the products directly from the veterinary surgeons (approximately 9,300 at the end of 2008) which comprises over 91% of sales, representing from 22 to 47% of a veterinarian's turnover depending on the structure of their activity as opposed to 3% for pharmacists and 6% for registered groups.

There are 6 main wholesaler-distributors in France. This number has reduced due to mergers and could fall further medium-term. The manufacturer gives a discount to wholesaler-distributors; this integrates logistical costs, storage costs and the wholesalers' margin. The relation between the manufacturer-wholesaler-distributor has been controlled by the LME Law since 2009.

In Germany, veterinary surgeons (approximately 11,400 at the end of 2009) buy their products directly from the producers and sell them to owners and breeders. Wholesalers exist but have a more limited role than in most countries. 95% of sales to the final consumer are made by veterinary surgeons, as opposed to 5% by pharmacies. Of these 95%, 85% are bought directly by the vet from the manufacturer and 10% through a wholesaler. The manufacturer gives vets discounts depending on the level of annual purchases he or she makes.

In the UK, the distribution of products is essentially by wholesaler-distributors who supply vets; the rest is done by cooperative firms and specialized shops depending on the status of the medicine. Concentration of wholesaler-distributors is stronger than in the rest of Europe: 3 wholesaler-distributors in all of Great Britain. More and more women are becoming veterinary surgeons. The classic model of the young vet who becomes a partner after several years is disappearing. Vets work in large organizations with over 100 practices. As in France, depending on volumes and negotiations, the selling price to vets can fluctuate. Similarly, margins are greater for medicine destined to pets.

Other countries

In Belgium, pharmaceutical companies cannot have commercial links with veterinary practices and are only authorized to sell to registered wholesaler-distributors and to pharmacists. This legislation was put in place to avoid overconsumption of medicine.
In the Netherlands, distribution can be done directly to the veterinary surgeon or via a wholesaler–distributor. Apart from direct sales by the laboratory to the vet, the AUV group (a veterinary cooperative) has a quasi-monopoly on the distribution of veterinary medicine.

6.2.5. Details of the US market

The U.S. is the biggest market in the world and the American pet market is one of Vétoquinol's strategic targets

(In 2008, the U.S. pet market was approximately 3 billion US dollars).

6.2.5.1 Estimation of the number of animals in the United States

Cats: 82 million.
Dogs: 72 million.
Vétoquinol addresses the pet market through its subsidiary Vétoquinol USA, based in Fort Worth, Texas. The livestock market is not part of corporate objectives with sales to large pork and poultry integrators being handled directly from Canada, where the subsidiary has a range based on factory farming and FDA-approved production facilities. This highly competitive market is mainly price-driven.

6.2.5.2 American pet market characteristics

There are approximately 26,000 veterinary clinics throughout the U.S., employing 42,000 veterinarians and a significant number of employees (vet nurses, technicians, assistants and administrative staff). On average, an American clinic employs 2.4 technicians and 50 clinics have a full time manager who handles total staff management, purchasing, etc.

The market share of corporate clinics is growing and the largest veterinary company, the Banfield Group, now has over 1,000 clinics. In general, the freedom given to vets employed by these groups is less and purchasing is often done centrally.

The OTC channel consists of many small pet-shops (over 9,000) and sections in supermarkets, but is best developed by pet superstores, which are basically supermarkets for pets.

The two leaders in this segment are PetSmart (980 supermarkets) and Petco (1,000 stores).

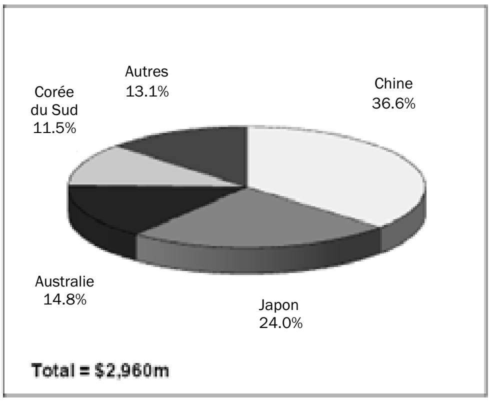
Sales of animal health and hygiene products via the OTC channel are estimated at about two billion dollars.

Sales to these channels are made directly, with major merchandising follow-up handled locally. In the United States, Vétoquinol has a brand and a network of representatives specifically for this sales channel.

6.2.6. Asia-Pacific Market

6.2.6.1 Features of the Asia-Pacific market

Although we refer to it as the Asian market, it is not a single market, but a number of separate markets. The Asian market is the third regional market in the world after the markets in North America and Europe.

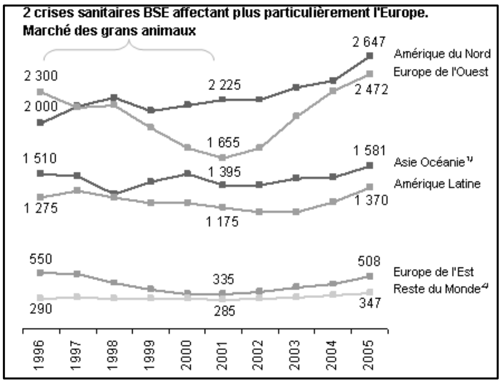


Source: Vetnosis

A market dominated by four major Asian markets (with China, Japan, Australia and South Korea) accounting for 86.9% excluding India. The regional market grew by 8% in 2008. The maturity of the Asian markets varies greatly, which means they need to be grouped by level of development:

- The developed markets (Japan, Australia, New Zealand, Singapore and South Korea) are typically very highly regulated, which is a barrier to entry. The lead-time to registration is often long and requires top-quality documentation. These markets are less price-sensitive;
- Emerging markets (China, India, Indonesia, Thailand, Malaysia and Taiwan) where regulation varies but is still in place and sometimes is being increased. Price remains a key factor for success, as we are often in competition with local producers who do not necessarily meet the same regulatory criteria. These markets have a steadily-growing livestock market. Local competition remains dominant;
- Developing markets (the Philippines, Vietnam, Sri Lanka, Bangladesh) where regulation varies and tends to be protective, but, given the strong price sensitivity, there is little room left for international stakeholders.

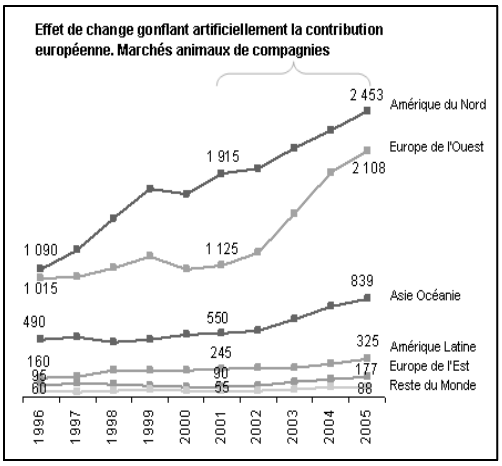
Vétoquinol is active in these markets, either directly through its subsidiaries, including South Korea and India or via an extensive network of quality distributors in most countries in the area. The pattern of Asian markets is similar to that of the Western world, excluding Japan. Its proximity to these markets means Vétoquinol can pursue its strategic focus both on the basis of species and therapeutic class. It suggests that an increase in terms of development can be envisaged in future years.



Source: Vetnosis

6.2.6.1.1 Livestock Markets:

The Asian market is stable. It should be noted that despite the stability of the segment, due to regular health crises, the medication rate remains well below that of Western markets, with the exception of the Japanese market which is in the top three countries having the highest cost of care per animal, particularly for cattle and pigs. This shows the potential yet to be tapped for other countries in the region. Vétoquinol markets its livestock range through its South Korean subsidiary and through its distributor network. Vétoquinol has currently teamed with a major player in Japan to get approval for an important drug.



6.2.6.1.2 Pets:

Unlike the market for livestock, the pet market continues to grow. It has almost doubled in 10 years, from USD 490 million to 839 million USD. Excluding Japan, which ranks seventh in the rate of medicalization, other markets are at a very low level. But considering the development of these countries and their adoption of Western lifestyles, growth looks very promising. Vétoquinol has a wide pet range through its South Korean subsidiary, as well as through its distributors.

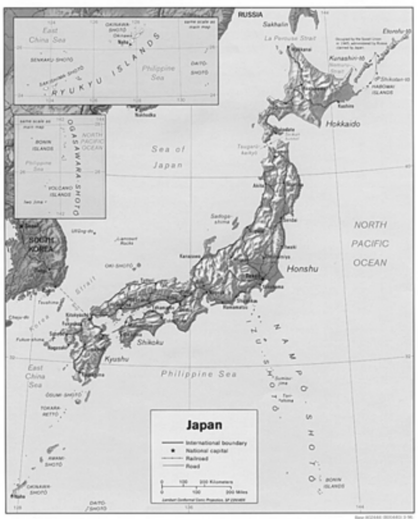
Source: Vetnosis

6.2.6.2 Not one market, but several

China

In some Asian markets, the best approach is to acquire a local partner to sell an existing product portfolio which can be run alongside the Group's own products. This is the case in China. In low-cost markets such acquisitions, by bringing in local industry know-how, give a definite competitive edge. Vétoquinol opted for this solution to gain access to the livestock market. Moreover, the range that the Group has developed over many years will complement the acquisition and cater to a premium market that is concerned with stock care improvement.

China will experience strong growth in pets, particularly in relation to Western lifestyles which are on the increase. Also, given the prevalence of the single-child family, the empty nest syndrome leaves an emotional gap that can be filled by a pet. This is especially the case in the major Chinese cities.



Japan

The market is high quality with potential in both livestock and pets. On the other hand, the Japanese market is characterized by the local desire to allow in only exceptional products, thus limiting competition. It is a market which has very specific regulatory requirements and requires either a physical presence or an alliance with a suitably powerful player to undertake credible marketing of products. Vétoquinol chose a leading player to launch its flagship product. The registration process is underway. Vétoquinol also uses local partners to market its American cats and dogs range.

South Korea

The market is open to the external trade, but there are also many local players, making it look very fragmented. Over time however, this would suggest a consolidation in the number of players. The top ten players, both local and international, have only 48% of market share compared to worldwide consolidation where the top 10 players account for over 80% of the market. Vétoquinol has acquired a commercial entity to begin to build a beachhead in order to strengthen all market segments.

India

This is a rapidly developing market, particularly with regard to its openness to foreign investment in the veterinary medicines sector; and also with respect to its population growth, with a strong middle class emerging. The Indian market is typified by the desire primarily to develop generics, in order to meet its customers' price expectations. So an innovative, patented product can stay marginalized and is often considered "Premium" until the arrival of generics which build the product on a price basis. The solution is the acquisition of a well-known local player who will sell an existing portfolio of products into which Vétoquinol Group products can be integrated. This will enable Vétoquinol to increase its market share, which is currently 5%, being in fact at sixth place in this market.

Estimated number of animals in certains countries:

2008

Population (in thousands))	India	China	Japan	New Zealand	Australia
Cattle	281,400	106,123	4,390	9,777	28,580
Sheep	190,726	389,687	42	39,628	98,784
Pigs	14,075	462,640	9,760	356	2,181
Poultry	570,194	5,621,430	286,745	19,249	76,745

Source: Vetnosis

6.3. THE GROUP'S INDUSTRIAL PROCESS

The Group does not synthesize the active ingredients in its medicines. Its production facilities focus on processing raw materials such as active ingredients, excipients, packaging items, etc into finished products; storage and shipping. In 2009, Vétoquinol manufactured more than 22 million boxes, or 10,000 tons of product, in various forms:

- sterile injectable liquids;
- oral liquids;
- powders and granules;
- pastes and creams;
- tablets;
- medicated pre-mixes.

The Group currently has five units in manufacturing production:

- Lure (France): veterinary drugs and non-medicated products for the worldwide market. It produces sterile liquid injectables, liquids and non-sterile creams, tablets, granules and powders;

- Gorzow (Poland): veterinary medicines and non-medicated products for Central and Eastern Europe. It produces sterile and non-sterile injectable liquids, granules, powders, tablets and liquid insecticides

- Princeville (Canada) veterinary drugs and non-medicated products for North America. It produces liquids and pastes as well as powders containing penicillin;

- Tarare (France): non-medicines for the European market. It produces powders, granules, liquids and pastes;

- Forli (Italy): veterinary medicines and non-medicinal products for the domestic market, but also for export (mainly North Africa, Central Europe and Asia). These are mainly pre-mixed forms of powders, granules and liquids exclusively for livestock.

All the Group's European sites have GMP approval, except the Tarare site which produces only non-medicines. The site at Princeville Canada is FDA approved. From 2008 onwards, the EU required medicinal products to be traceable, which was enabled by an agreement between governments, manufacturers and distributors. Data Matrix coding is now in place. The Group outsources about 20% of its production throughout the world, with 85 companies and 500 products. Outsourcing is used:

- where Vétoquinol does not have the technology, such as freeze-drying;
- if outside pricing appears be more competitive, particularly for marginal forms;
- for capacity requirements;
- by subsidiaries in countries with no production capacity to expand their product range in a consistent manner.

In addition, the Group distributes products belonging to other laboratories, which are also regularly monitored and audited. In the interests of efficiency and quality control, all production sites report to the Chief of Manufacturing and Quality, based at Lure. A systematic quality approach has been implemented for all production lines, which proves how important we consider human resources to be for this purpose: for every 2 people in production, there is one monitoring quality - either by assurance or control. Quality control includes:

- control of raw materials and packaging items;
- control of finished product;
- water, air and environmental compliance.

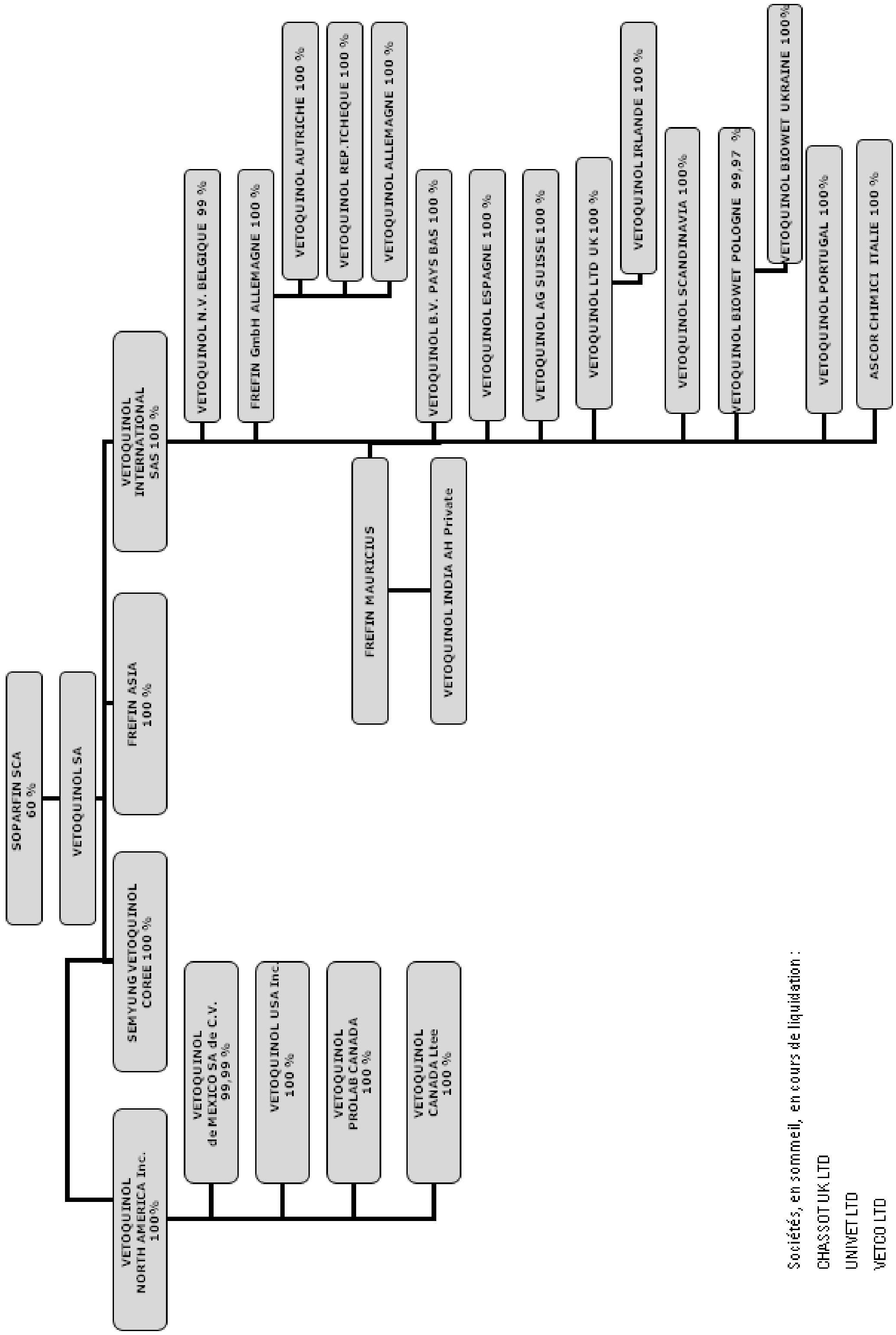
Quality assurance ensures compliance with pharmaceutical standards (GMP and FDA) and the setting of effective systems for plant and equipment, personnel and organization, premises and flows, both quantitatively and qualitatively.

The Group has an improvement margin in its industrial processes, which enables it to keep costs down. In the last two years of the current 5-year plan for 2008-2012, results have already been achieved in following main projects:

- Supply Chain Management to control inventory, costs of logistics and distribution and further improving levels of service;
- implementing a policy in Group Purchasing to optimize the area of inventoried and non-inventoried purchases;
- worldwide quality management to reduce substandard product within the Group, but also from suppliers and subcontractors;
- optimizing worldwide production by improving effectiveness and utilization of resources (staff, materials, workplaces, and optimize investment ...);
- centralizing the management of subcontracting and distributed products to better manage these important activities, in terms of efficiency and cost;
- streamlining the product range, thus improving industrial efficiency without compromising commercial performance.

The use and continuous optimization of ERP and other investments mentioned above, should facilitate the fulfillment of the plan.

7. ORGANIZATIONAL CHART



Note: Refer also to page 124 - consolidation

8. FACILITIES, FACTORIES & PLANT

8.1. GROUP FACILITIES AND PLANT

8.1.1. Sites in France (Lure, Tarare and Paris)

The Company owns the Lure site in Magny-Vernois, which covers an area of almost 15 ha, including nearly 23,000 m² of gross floor area with almost 35,000 m² of developed area. It provides for the company's head office, industrial activities, R&D, logistics and Group functions.

The experimental farm

Experimental is built on a 10 ha lot. The Tarare site covers some 10,000 m² with two built areas totaling 4,000 m². It operates under a leasing agreement which expires in July 2011, with the option to purchase at a nominal price at that time.

In addition, the Company has a commercial lease on office premises in Paris (31 rue des Jeuneurs), that houses the Management Team France and some Group functions.

8.1.2. Sites in Poland (Gorzow, Klodawa)

Vétoquinol Biowet Sp z.o.o. owns three sites in the Gorzow Wielkopolski district:

- two production sites and warehousing in Gorzow itself of 48,000 m², one of which houses management and laboratories;
- warehousing in Klodawa, of approximately 6,000 m².

8.1.3. Princeville Site (Canada)

Vétoquinol Prolab Inc. owns the plant at Princeville. The site has 20,000 m² of land and 6,000 m² of developed premises, including laboratories, workshops, warehouses and offices).

8.1.4. Forli Site (Italy)

Vétoquinol Italy leases the site from the former owner of the company it acquired (Ascor Chimici) and owns all the fittings, workshops and plant. The total building area is 8,000 m², with 4,200 m² used in production.

8.1.5. Subsidiaries' Sites

The Group provides facilities for all its subsidiaries' offices and warehousing.

Vétoquinol sales subsidiaries abroad are generally in leased premises.

8.2. ENVIRONMENTAL CONSTRAINTS

8.2.1. Sites in France (Lure and Tarare)

- Classified facilities

The facility at Lure is subject to the regulations for classified facilities pursuant to an order, and is subject to the double system by permit and declaration. This order was modified to take into account the site's extension made in 2006. The Lure site is subject to regular inspections by the

DRIRE department, the latest of which was conducted in October 2009. The DRIRE did not discover any particular breach, other than with the electrical switching of the drainage network isolation system. The Company indicates that all corrective action has been taken. The site is not affected by the provisions of Seveso II. Although, in absolute terms, all drugs and their active ingredients may pose environmental risks, the drugs produced by the Group do not pose any specific risks over and above those normally found in a human- and veterinary-medicines business.

- Environmental Protection

The measures taken by the Group for the protection of the environment are appropriate specifically in the sorting of waste, catchment monitoring and water consumption, prevention of pollution of groundwater and surface water, prevention of drinking water pollution, control measures for noise and power consumption.

- Tarare site

The Tarare site is not subject to the provisions for classified facilities. The products manufactured at this site incur no environmental risks. Only a few raw materials - such as flammable plant extracts, minerals or vitamins can be dangerous under certain conditions but are present on site only in small quantities. Major investments in the security of the premises have been made in the last two years.

8.2.2. Princeville site (Canada)

Canada manages environmental issues in conjunction with local authorities. Recent inspections have been positive and with no formal requirements being imposed.

8.2.3. Gorzow site (Poland)

Gorzow manages environmental issues in conjunction with the local authorities. Inspections over the last three years have been positive and have not generated any remedial notices.

8.2.4. Forli site (Italy)

The Forli site is not subject to the provisions for classified facilities, but must nevertheless comply with local environment regulations for air pollution, wastewater and waste management, etc. The last inspection conducted by the authorities did not reveal any compliance issues, and no recent major incidents have been reported.

9. REPORT OF INCOME AND FINANCIAL ACCOUNTS

Refer to Group Management Report attached to this document - Chapter 27

10. TREASURY OPERATIONS AND CAPITAL

Refer to Group Management Report attached to this document - Chapter 27

11. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

11.1. RESEARCH & DEVELOPMENT

11.1.1. Presentation on the overall R&D process

The process of developing a molecule or new compound through to approval by regulators may take up to eight or ten years and is typically divided into four distinct phases:

- Research. This phase's primary objective is to identify new biological targets involved in pathological processes. Once these targets have been identified and characterized in detail, they are tested on a large number of molecules (the screening stage) to measure their pharmacological activity. In this long and hazardous process where tens of thousands of compounds can be tested, the Group will select a small number of molecules ("hits") which will then be chemically optimized to improve their effectiveness *in vitro* and become drug candidates capable of continuing the process;
- Pre-clinical proof of concept. At this stage, the objective is to undertake an assessment of drug candidates on healthy animals in a controlled environment, based on doses administered and to establish a preliminary pharmacokinetic and pharmacodynamic profile (absorption, distribution, metabolism, elimination) for the target animal. These results verify the margin of safety (product safety) and tolerance of the product and confirm the optimal dosage pattern and treatment regimen to ensure maximum efficiency and impact with minimal side effects. In animal health, these pre-clinical studies correspond to phases I and II of human medical drug development.
- Development of the manufacturing process. This stage is to develop a production method leading to the proper formulation of the drug candidate and to develop all the necessary future processes for its industrialization. This phase includes developing the methods used to test product stability and the consistency of its quality later on.
- Clinical trials. These tests, performed on unhealthy animals, are the final stage of studies undertaken before submitting an application for authorization to put the drug on the market. They correspond to Phase III in human medicine. They aim to verify the effectiveness of a drug and are typically conducted in animal populations (of between 200 and 300) larger than those during the pre-clinical stage, and their aim is to confirm these data. The tests are carried out directly with veterinary clinic partners. There are specialist firms to whom these trials are outsourced on behalf of animal health companies.

In the case of medicines for livestock, where products like meat, milk and eggs will be consumed by humans, residue studies should be conducted to determine the time that must elapse between the end of treatment of the animal and its slaughter or the sale of its products (eggs and milk). Finally, in order to market a veterinary drug, 'authorization to market' (French = 'AMM') must be obtained. Once the 'authorization to market' has been filed, the application, together with all the information obtained during development, is evaluated by the scientific authorities (Health and/or Agriculture), with the aims of verifying the quality, safety for the user, the consumer, the environment and the target species as well as the effectiveness of the veterinary medical product itself. In Europe for example, in order to obtain marketing authorization, the applicant must use one of three procedures laid down by European regulation:

- the centralized procedure, which is compulsory for medicines derived from biotechnology and optional for innovative products or a new chemical molecule;
- the so-called "mutual recognition or decentralized" procedure if it wants to market the same drug in more than one Member State;
- Finally, the national procedure is the only one for drugs marketed in a single Member State or where it is a Reference Member State in the mutual recognition process.

11.1.2. Vétoquinol Group R&D Strategy

The Group's R&D activity has two main objectives:

- increasing turnover and profitability by (i) bringing to market innovative and quality products, streamlining administration, increasing efficiency and safety in relation to products already on the market and (ii) supporting all marketed products that are important for the Group;
- by growing the recognition of the Group and its scientific skills through publishing in recognized scientific journals; and by communicating at scientific events and establishing a network of scientific experts.

A strategic focus determined

R&D contributes to the selection of strong therapeutic areas and target species on the basis of thorough analysis. This means that R&D, increases its scientific knowledge in those areas. R&D conducts research programs aiming to introduce innovation and therapeutic product development programs focused primarily on the Groups' three areas of expertise: pain & inflammation, anti-infectives, cardiology and nephrology. The Group remains true to its origins in not hesitating to explore new opportunities in other prospective areas of disease where its technological expertise and its marketing skills can make a difference. Thanks to the diverse skills of these professionals, the Group can develop and register innovative products based on new chemical entities and biotech molecules and innovative products based on improving existing medicines and generics. Special attention is paid to managing product life cycle by developing new formulations, dosages and methods of administration, expanding indications as well as registration in new geographical areas. These programs are also supplemented by an active policy of partnering with state agencies such as the INRA, INSERM, etc. or with the private sector, both in the research component and in development issues such as developing new formulations, the application of technology and innovative drug delivery.

11.1.3. How Vétoquinol organizes its R&D

The Group's R&D division was set up over 20 years ago to meet the needs of new products and is in constant evolution to ensure a sustained process of product improvement. It currently consists of over one hundred employees, including 35 executive scientists. In order to meet the Group's strategic need for innovation, in 2008 Vétoquinol established a Department of Innovation, with scientists assigned to discover fruitful avenues for unique solutions and real interfaces with various sectors of pharmaceutical development (R&D, industrial, marketing, sales).

The group spends about 7.7% of its turnover on R&D, slightly more than 19.5 million Euros in 2009. 70% of the R&D budget is allocated to developing new projects; the remaining 30% is used to support marketed products. This division is mainly localized onsite at the head office in Lure, with the recent addition of three International Development Units in Canada, Poland and Italy, to support our local products.

Finally, our project team is a valuable complement to the organization and significantly reduces development lead-time, providing a further strong focus and clarity to the range of R&D projects and workload management. To date, these teams have been instrumental in the filing for registration of a large number of European applications, displaying skills levels which are sustained by a strong international network of outside professionals including internationally-recognized pharmacologists, toxicologists and pharmacokinetic experts, as well as clinical experts and scientific leaders in key strategic areas. The Group has gained the confidence of this network of experts by the ethical values and scientific credibility on which the Group has been built. Vétoquinol's good reputation is also enhanced by its policy of publication and presentations at international scientific conferences.

Because of the heavy constraints imposed on veterinary drug development by environmental regulation, the Group's R&D division took the decision to bring directly on-board the appropriate regulatory affairs skills. These specialists participate in the whole development process with the intention:
1) of giving advice on strategic development and
2) for data integration to enable rapid compilation of the application for registration.

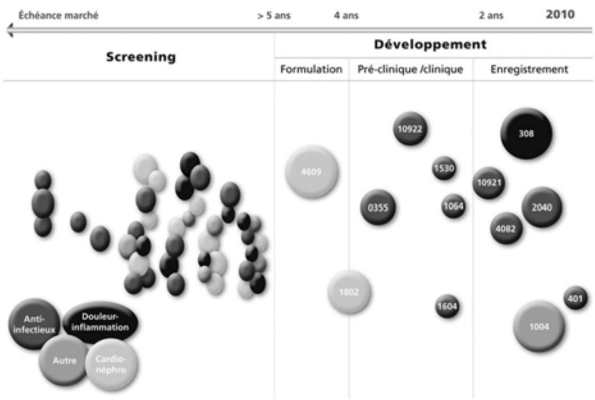
As with other scientific areas, the Regulatory Affairs Department has also built up a network of experts in the drug agencies which facilitates the authorization process. Their work is backed up by decentralized technical regulation specialists in each subsidiary.

In parallel, two departments contribute to the responsiveness of exchanges between scientists:
Quality Assurance, which audits the development process on an ongoing basis, thereby ensuring the required level of GLP, GCP and GMP; and Monitoring, which centralizes the gathering and dissemination of technical and competitive information to the teams.

11.1.4. General description of current programs

Given the market developments in Animal Health and the increasing medicalization of the pet market, R&D priorities have also experienced change. The group, which was originally a company almost exclusively dedicated to livestock, now directs a large part of its research effort to pets. Thus, its areas of research include:

- Anti-Infectives: In 2008, this product category represented approximately 15% of the total Animal Health market of approximately 2.9 billion USD (source: Vetnosis). The Group continues to work to expand its range around marbofloxacin and has launched ambitious research programs to develop new anti-infectives for both livestock and pets. Projects currently in progress will come to market over a period ranging to 2014;
- Pain and inflammation treatment: the Group is developing projects to address the treatment of chronic musculoskeletal disease and for the management of acute or chronic pain. Significant projects are nearing the end of their development phase and should be on the market by 2011;
- Nephrology and cardiology: in this area, the Group strives to develop products for the treatment of heart failure and renal failure, and for pets. Current projects in this area may be on the market by 2011 (both ethical products and nutritional supplements) and new programs have also been launched with new chemical entities.



Around twenty projects are under development, of which some 80% are in one of the Group's three areas of strength. One project is defined in the following way: any medicine (including any ethical product either with registration or with regulatory variation) or any non-medical product (nutritional supplement) which could lead to a new product or a modification of an existing product. So draft projects and pre-projects (which are a lot more numerous) are therefore excluded from this count. In the field of anti-infectives, among the research and development projects, three products are capable of achieving a turnover potential of more than 5 million Euros per year, based on sales estimates at seven years post-entry to market). Thus, the Group is developing anti-infective drugs to the highest standards, making every effort to minimize the risks of antibiotic resistance, etc, while guaranteeing maximum efficiency.

- The Group is working on a single treatment anti-infective to cover the major diseases in pigs, which represent more than half the use of antibiotics in pigs;
- The Group continues to optimize the life cycle of marbofloxacin in cattle through different marbofloxacin projects, alone or in combination;
- The Group will shortly market products based on molecules recognized in the treatment of infectious diseases in livestock;
- The Group wishes to continue the success story of Clavaseptin®, and is evaluating how best to implement this.

In the area of pain and inflammation, the Group would like to mention a project involving the development of an agent with anti-inflammatory properties, which can be indicated for the treatment of acute and chronic pain affecting pets. Initial registration could be obtained before 2011.

Finally, in the field of cardiology and nephrology we have two development programs which may each generate a turnover of more than 3 million Euros per year: both projects are currently under development and aim to treat two major diseases prevalent in pets around the world. Initial marketing should begin in 2015. In addition, the Group is not averse to developing some drugs outside of its key areas when opportunities arise. Thus after the launch of Dolpac®, the Group is extending the product life cycle life of the product, with progress expected in the next two years. Similarly, the Group has invested in the life cycle of Zentonil®, with the launch underway of two new products in 2010: Zentonil® Plus and Zentonil® Advanced.

11.1.5. Intellectual Property Strategy (IP) and Product Protection

In the veterinary products business, the term IP may cover the product itself together with its original molecule, the formulation of the product or even the process of obtaining the product. Intellectual property is at the core all that is important to the Group and its strategy in this area has evolved significantly over recent years. We can distinguish two phases in its evolution:

- Prior to 2002: the Group mainly had development programs based on royalty-free molecules and on the licensed products of other companies. Our strategy for protecting intellectual property was therefore based on (i) verification of IP rights when acquiring products or molecules under license and / or (ii) on the patenting of formulation. It should also be noted that obtaining MA for these products is also a good protection against potential copycats. Thus an MA for a new active ingredient, enables the holder to be protected for 10 years with respect to the data generated;
- After 2002: in addition to applying the policy cited above and with the establishment of an upstream research unit which developed either its own programs or in partnership, it became important for the Group to strengthen its protection over its original molecules. This was achieved initially by patenting in France then extending internationally using the PCT process (Patent Corporation Treaty), which is the mutual recognition at international level of national patents.

Alongside these developments, the Group set up an internal division specifically for handling patents and launched in tandem a policy of raising patent awareness in its research teams. The Group also works closely with Intellectual Property consulting firms that specialize in the field of animal health. The Group calls upon the expertise of these firms particularly in the drafting phase of patent applications as well as when defending existing patent rights.

11.2. OUTSOURCING CONTRACTS

The Group has entered into contracts whereby it outsources analytical and testing work and even outsources the manufacture of certain products. When outsourcing manufacturing, partnership agreements are drawn up in the form of commercial contracts and quality contracts, whereby contractors must meet cost targets, as well as service and quality rates for the products they manufacture. In addition, the Group is also contracted by other companies who outsource their pharmaceutical manufacturing for which they hold the MA and which is to be marketed under their own brands. This type of custom processing is currently under-developed

11.3. PATENT PORTFOLIO

MAJOR VÉTOQUINOL PATENTS REGISTERED IN FRANCE FROM 2005

Title	Filing date in France
An orally administered drug comprising an anti-inflammatory	January 24, 2005
A new method for obtaining a powder of rapidly-dissolving imidapril	March 7, 2005
A composition comprising an anti-infective compound type pyrido (3,2,1-IJ) benzoxadiazine	January 24, 2006
A method for masking the bitterness of an extract of rhubarb	October 25, 2007
New derivatives of 7-substituted 3-carboxy-oxadiazino-quinolones, their preparation and their application as anti-bacterials	February 29, 2008
New 9-substituted derivatives with 5-carboxy-oxadiazino-quinolones, their preparation and their application as anti-bacterials (registered in France via Europe)	July 9, 2008

11.4. BRANDS

Trademarks and logos are protected as appropriate by one or more registrations at national, Community or world levels, which cover most countries where the Group does business. As a result, the Group holds a broad portfolio of brands such as Aurizon®, Azodyl®, Equistro®, Marbocyl®, Propalin®, Rubenal®, Tolfedine®, Tolfine®, etc. Tomlyn® and of course the brand Vétoquinol® itself, which is registered worldwide.

The Group remains highly vigilant in defending its trademarks and logos. Infringement proceedings are initiated to assert and enforce its rights. Brands that are not subject to renewal at expiry date are products that are no longer marketed.

12. TREND INFORMATION

Vétoquinol's growth last year was relatively significant. For the record, the year 2001, with the integration of Chassot, marked a major turning point in the Group's growth. This commitment to growth has persisted, and transformed Vétoquinol into a true Group, which has expanded across several continents. Managing such an order of growth requires a shift in structuring, organization and tooling, including progressively introducing management software, integrated CRM (Customer Relationship Management) and DRP (Distribution Resource Planning), which should bring many benefits to the Group as mentioned above, in terms of competitiveness, corporate culture and transmission of know-how. These tools are part of a general development plan which should bear fruit in the years to come and enable savings in terms of:

- manufacturing costs;
- sales costs (including distribution);
- and increased business efficiency.

Currently, the integration of the Italian subsidiary, acquired in late 2008, and the Indian subsidiary, acquired in August 2009, continue according to plan. Major programs are run regularly to maintain high levels of skill and management and to motivate the Group's employees, in a uniform and consistent way, across all the countries where we have a presence. The human dimension remains in effect the Group's main asset as well as being its primary competitive advantage. This should be maintained and adapted in the context of the strong growth that Vétoquinol intends to continue.

Finally, research is regularly conducted with our expert partners to sustain external growth, especially on the continents of North America and Asia, which represent significant existing or potential markets, and therefore goldmines for further growth. Although we must remain cautious in terms of business forecasts, given that the current market for animal health is still in recovery, the excellent business responsiveness shown by Vétoquinol should continue to make an impact in 2010 and beyond.

13. FORECASTS OR EARNINGS ESTIMATES

The Group does not intend to forecast or estimate a profit.

14. CORPORATE GOVERNANCE

The CEO is responsible for overall management. The Board decided on 10 December 2009, that this function would be separated from that of Chairman of the Board as of 1 April 2010. The Board of Directors, presided by its Chairman, determines the direction of the business of the Company and ensures its implementation. The Chairman of the Board of Directors organizes and directs the work of the Board and reports to the general meeting. She/he is responsible for ensuring the smooth functioning of the company's divisions and, in particular, that the managers are able to fulfill their mission.

Pursuant to Act No. 2008-649 of July 3, 2008, by decision dated December 8, 2008, the Board decided to adopt as its Model Code the Code of Corporate Governance for listed companies as published by the AFEP-MEDEF in December 2008.

14.1. COMPOSITION OF THE BODIES OF CORPORATE MANAGEMENT AND GOVERNANCE

14.1.1. The Board of Directors

14.1.1.1 The Board of Directors

The Board of Directors of the Company consists of at least three and no more than twelve members, who are appointed by the Annual General Meeting. Each director must own at least two shares in the Company. If, on the day of his/her appointment, a Board member does not hold the required number of shares or if, during his/her term of office, ceases to be a shareholder, he/she is then considered to have resigned if this situation is not rectified within three months. If a vacancy arises by death or resignation of one or more members, the Board may make interim appointments between two general meetings. Should the number of directors fall below the legal minimum, the remaining Directors shall immediately convene an ordinary general meeting in order to restore the Board to its full complement. Any appointments made by the Board are subject to confirmation at the following ordinary general meeting. In the absence of ratification, the deliberations and actions taken by the Board shall no longer be valid. Any Board member appointed to replace another shall hold office only during the time of the remaining term of his/her predecessor. The term of office for Board members is set at six years. The duties of a Board member shall cease at the end of the Annual General Meeting of shareholders held regarding the accounts of the past year in the year in which that member's term of office expires. Retiring members are eligible for reappointment. However, the number of individual members and permanent corporate representatives aged more than 80 years old, at the end of each Annual General Meeting held to approve the company's accounts, shall not exceed one third (rounded, if appropriate, to the next highest whole number) of the number of members in office.

14.1.1.2 The Chairman of the Board of Directors

The Board elects from among its members a Chairman who must be an individual person, or risk voiding the appointment. The Board also determines the Chairman's remuneration. The Chairman is appointed for a term not exceeding his/her term as director. He/she may be re-elected. The Board of Directors may remove him/her at any time. In case of temporary incapacity or death of the Chairman, the Board of Directors may delegate a Board member to fill that office. This delegation is given for a limited time. It is renewable. In case of death, it shall run up until the election of a new Chairman. The Board of Directors, presided by its Chairman, determines the direction of the business of the Company and ensures its implementation. The Chairman of the Board of Directors organizes and directs the work of the Board and reports to the general meeting. He/she is responsible for ensuring the smooth functioning of the company's divisions and in particular, that the managers are able to fulfill their mission.

14.1.1.3 Composition of the Board of Directors

The Board of Directors, on the day of the establishment of this reference document, is composed of eight members, including two who qualify as independent directors, Mr. Philippe Arnold and Mr. Louis Champel. These members are considered independent in line with the AFEP-MEDEF recommendations on company governance, insofar as they comply with the following standards:

- not being an employee or agent of the Company or of a company belonging to its wider group and not having been such in the five years preceding his appointment to the Company;
- not being a representative of a company in which the Company directly or indirectly holds a Board membership or as an employee designated as such or a corporate officer of the Company (whether currently or within the last five years) which holds a Board membership;
- not being himself, or being linked directly or indirectly to a customer, supplier, investment banker or funding banker:
  - which is of significance to the Company or its affiliates,
  - or for which the Company or its group represents a significant proportion of its business.
- not having any close family ties with a corporate officer;
- not having been a bookkeeper, chartered accountant, auditor, or adviser to the Company in any capacity whatsoever during the five previous years;
- not having been a director of the Company for more than twelve years and
- having no legal relationship with any shareholder owning, directly or indirectly, more than 10% of the capital or voting rights of the Company.

As at the day of the drawing up of the reference document, the articles of association do not provide for the appointment of censors.

Last name and first name or business name of the Member	Term of Office	Function in the company
Mr Étienne Frechin	1st appointment as a director: Articles of Incorporation of the Company dated July 2, 1962 Appointment as Director General in 1968 - Resignation from office Dec. 10, 2009, with effect from March 31, 2010 Appointment as Chairman of the Board of Directors in 1980 Term expires Annual General Meeting to be held in the year 2011 and to approve the accounts for the year ended December 31, 2010	Chairman of the Board of Directors and Managing Director
Mr Matthieu Frechin, son of M. Étienne Frechin	1st appointment Annual General Meeting of May 22, 2006 as Administrator Board of Directors of August 21, 2006 as Chief Operating Officer Board of Directors of December 10, 2009 as Director General with effect from 1 April 2010 Term expires AGM to be held in the year 2014 to approve the accounts for the year ended December 31, 2011	Deputy CEO Member of the Board of Directors
Mr Jean Charles Frechin, brother of M. Étienne Frechin	1st appointment Annual General Meeting of December 27, 1971 Term expires AGM to be held in the year 2013 and to approve the accounts for the year ended December 31, 2012	Member of the Board of Directors
Mrs Marie Claude Valentin-Frechin, sister of Étienne Frechin	1st appointment Annual General Meeting of December 27, 1971 Term expires AGM to be held in 2013 and to approve the accounts of the financial year ended December 31, 2012	Member of the Board of Directors
Mrs Martine Frechin, wife of M. Étienne Frechin	1st appointment Annual General Meeting of May 26, 2004 Term expires AGM to be held in 2010 and to approve the accounts for the year ended December 31, 2009	Member of the Board of Directors

Last name and first name or business name of the Member	Term of Office	Function in the company
Mr François Frechin, brother of M. Étienne Frechin	1st appointment Annual General Meeting of December 5, 1975 Term expires AGM to be held in the year 2011 and to approve the accounts for the year ended December 31, 2010	Member of the Board of Directors
Mr Philippe Arnold	1st appointment Board of June 4, 2007. Ratification at the Annual General Meeting on May 19 2008. Term of office AGM to be held in the year 2015 and to approve the accounts for the year ended December 31, 2014	Member of the Board of Directors Independent Director
Mr Louis Champel	1st appointment Co-opted by the Board of Directors of August 27 2009 To be ratified by the next AGM Term expires at the AGM to be held in 2012 for approval of the accounts for the year ended 31 December, 2011	Member of the Board of Directors Independent Director

Full name or business name of the Member	Date of first appointment	Term of Office expires	Main Function in the company	Primary Function outside the company	Directorships held and functions performed in any company during the previous 5 years
Mr Étienne Frechin	July 2, 1962	December 31, 2010	Board Chair and CEO		
	December 19, 2007	Indeterminate length			Permanent representative of Vétoquinol SA , Principal shareholder in Vétoquinol International
	March 26, 1997	Indeterminate length			Managing Partner of Demabel SARL, the manager of Soparfin SCA
		Indeterminate length			Manager of SCI Vergerot
	April 21, 2004	Indeterminate length			President of SAS R & D Pharmagal
				Advisor on Foreign Trade for Franche-Comte	
				Member of Directory of the Franche-Comte Regional Development Agency	
				Network Member of Business Network Franche-Comte	
Mr Matthieu Frechin, son of M. Étienne Frechin	May 22, 2006	December 31, 2013	Deputy CEO Board Member		
	October 31, 1997	December 31, 2014			Member SOPARFIN SCA Monitoring Board
Mr Jean Charles Frechin, brother of M. Étienne Frechin	December 27, 1971	December 31, 2012	Board Member		
					Manager St John Ltd(70)
					Manager St. Charles (70)
					Manager of SCI St Desle (70)
					Manager of SCI St Paul (70)
Mrs Marie Claude Valentin-Frechin, sister of Étienne Frechin	December 27, 1971	December 31, 2012	Board Member		
					Manager of SCI Sykina (75 Paris)

Full name or business name of the Member	Date of first appointment	Term of Office expires	Main Function in the company	Primary Function outside the company	Directorships held and functions performed in any company during the previous 5 years
Mrs Martine Frechin, wife of Mr Étienne Frechin	May 26, 2004	December 31, 2009	Board Member		
	October 31, 1997	December 31, 2004			Board Chair monitoring Soparfin SCA
	March 26, 1997	Indefinite term			Associate Manager Demabel Ltd.
Mr François Frechin, brother of Mr Étienne Frechin	December 5, 1975	December 31, 2010	Board Member		
					Manager of SCI Vero (21)
					Manager of SCI Frejour (21)
Mr Philippe Arnold	June 4, 2007	December 31, 2014	Board Member Independent Director		
Mr Louis Champel	August 27, 2009	December 31, 2014	Board Member Independent Director		
					Sole Director (CEO) of Lyon 3 Valorisation Ltd
Mr Dominique Henryon	1 December 1998	31 December 2013	Deputy CEO		
				Board Member of IFAH (International Federation of Animal Health)	
				Member of Finance Committee Vesoul (70) Chamber of Commerce (CCI)	
					Manager of SCI Isabella (64)
					Manager of SCI Butter Sweet (22)
					Manager of the ISD Ltd (13)
Mr Alain Masson	April 4, 2008	December 31, 2013	Deputy CEO Pharmacist Manager		

The Group did not fully comply with the recommendations included in the AFEP-MEDEF governance code for listed companies. Two directors are independent in terms of the Code, which makes 25% instead of the recommended 33%.

14.1.1.4 Background of the Members of the Board of Directors

To the Company's knowledge, during the past five years, no member of the Board of Directors of the Company:

- has been convicted of fraud or has had any official public sanction pronounced against him /her by the statutory or regulatory authorities;
- has been involved in a bankruptcy, receivership or liquidation as a manager or company agent;

has been prevented from acting as a member of a board, managerial or monitoring body or participating in the management of a issuer.

Mr Etienne Frechin

Etienne Frechin was born in 1938 and has been Chairman of Vétoquinol since 1980. Self-taught, he has previously held various positions within the Company:

- Production Manager from 1963 to 1968;
- Director-General since 1968.

He is also:

- Managing Partner of Demabel sarl, the shareholding company of Soparfin SCA, the family holding company for Vétoquinol which is held by his children. Demabel holds 2,475 shares in Soparfin SCA and is its general partner;
- Managing Director of SCI Vergerot, the Frechin family assets company that has no connection with Vétoquinol;
- Chairman of SAS RD Pharmagal of which Soparfin holds 1% of the capital;
- Permanent Representative of Vétoquinol SA
- the corporate shareholder and President of Vétoquinol International SAS.

He also holds several directorships in the Company's subsidiaries:

VÉTOQUINOL N.V. Kontichsesteenweg 42 2630 AARTSELAAR BELGIUM	President
VÉTOQUINOL B.V. Postbus 3191 5203 DD's-Hertogenbosch NETHERLANDS	Manager
VÉTOQUINOL UK Ltd. Vétoquinol House-Great Slade Buckingham Industrial Park BUCKINGHAM - MK18 1PA UK	Manager
VÉTOQUINOL IRELAND Ltd 10 Lad Lane Lower Beggot Street DUBLIN 2 IRELAND	Manager
VÉTOQUINOL ESPECIALIDADES VETERINARIAS, S.A. Carretera de Fuencarral km 15 700 Portal 3 - piso 2º, puerta 5 – 28108 - ALCONBENDAS (Madrid) SPAIN	President
VÉTOQUINOL UNIPESSOAL LDA Rua Consiglieri Pedroso N° 123 – Edificio H QUELUZ DE BAIXO 2730-056 BARCARENA PORTUGAL	Manager
ASCOR CHIMICI s.r.l. Via Piana, 265 47032 BERTINORO (FC) ITALY	President
VÉTOQUINOL N.-A. Inc. 2000 Chemin Georges LAVALTRIE, Québec J5T 3S5 CANADA	President
VÉTOQUINOL PROLAB Inc. 700 rue St Henri PRINCEVILLE, Québec, G6L4X1 CANADA	Director
VÉTOQUINOL CANADA Inc. 2000 Chemin Georges LAVALTRIE, Québec J5T 3S5 CANADA	Director
VÉTOQUINOL DE MEXICO S.A. de C.V. Mariano Escobedo # 748 5º Piso Int. 2 Col. Nueva Anzures Delegación Miguel Hidalgo México, D.F. C.P. 03100 MEXIQUE	President
VÉTOQUINOL ÖSTERREICH GmbH Zehetnergasse 24 1140 WIEN AUSTRIA	Manager

VÉTOQUINOL S.R.O.	Manager
Zamecnicka 411	
28802 NYMBURK	
CZECH REPUBLIC	
VÉTOQUINOL BIOWET Sp Z.o.o.	Manager
ul. Kosynierow	
Gdynskich 13-14 st.	
66 400 GORZOW Wlpk.	
POLAND	
VÉTOQUINOL AG	President
Business Building	
Worblentalstrasse 32	
3063 ITTIGEN	
SWITZERLAND	
FREFIN HOLDING GmbH	Manager
Parkstrasse 10	
88212 Ravensburg	
GERMANY	
VÉTOQUINOL GmbH	Manager
Parkstrasse 10	
88212 Ravensburg	
GERMANY	
VÉTOQUINOL SCANDINAVIA AB	Manager
Torggatan 2 - Box 9 –	
SE-265 21 ASTORP	
SWEDEN	
VÉTOQUINOL USA Inc.	President
4250 N. Sylvania	
FORT WORTH TX 76137	
USA	
SEMYUNG VÉTOQUINOL Co Ltd.	Manager
909-3, Whajung-dong Dukyang-ku	
Koyang-city Kyungki-do - 412 270	
SOUTH KOREA	
VETOQUINOL INDIA - Animal Health Private Limited 801, Sigma, 8th floor	Manager
Hiranandani Business Park Technology Street - Powai Mumbai 400 076	
INDIA	
FREFIN ASIA Ltd	Administrator
7/F, Bonham Center	
79-85 Bonham Strend	
Shung War	
HONG KONG	
FREFIN MAURICIUS Ltd	Mauritius
5th Floor, London Centre	
34 Rémy Ollier Street	
PORT LOUIS	
MAURICIUS	

Mr Etienne Frechin also serves as Representative of:

- Foreign Trade Advisor of Franche-Comte
- Member of the Board of the Regional Development Agency of Franche-Comte
- Member of the Business Network of Franche-Comte.

He is Chairman of the Executive Committee of Vétoquinol and also a member of Group Management Committee.

Jean-Charles Frechin

Jean-Charles Frechin was born in 1945 and is the brother of Etienne Frechin.
Doctor of Pharmacy degree from the Faculty of Pharmacy, Besancon (1970), he is also a graduate of Strasbourg University (General and Applied Immunology). He took over the family pharmacy in Lure in 1974 and is now retired.
Director of the Company since 1971 and manager of the following companies:
SARL Saint John (70) and St. Charles (70) (LLC family business);
SCI St. Desle (70) and St Paul (70).
He is also a member of the Audit Committee and the Remuneration Committee of Vétoquinol SA.

Marie-Claude-Valentin Frechin

Marie-Claude Valentin Frechin was born in 1931 and is the sister of Mr. Etienne Frechin. She has been a director of Vétoquinol SA since 1971 and also manages the family partnership named SYKINA (75 Paris).

Martine Frechin

Ms. Martine Frechin was born in 1939 and is the wife of Etienne Frechin. She chairs the Supervisory Board of SCA Scopartin and is an associate manager of Demabel SARL. Mme Martine Frechin has been a director of Vétoquinol SA since 2004.

François Frechin

François Frechin was born in 1933 and is the brother of Etienne Frechin. Doctor of Pharmacy and a graduate of the Faculty of Pharmacy, Nancy (1959), with a degree in Serology, Faculty of Medicine of Paris (1962) and holder of a certificate of Industrial Pharmacy (1960), now retired. Mr. François Frechin manages the Veroes and Frejour partnerships, which are domiciled in Dijon and are shareholders in Vétoquinol SA. François Frechin has been a director of Vétoquinol SA since 1975.

Matthieu Frechin
Mr. Matthieu Frechin was born in 1969 and is the son of Etienne Frechin. Doctor of Pharmacy and a graduate of the Faculty of Pharmacy at Nancy (1995) and a DEA in industrial systems engineering, specializing in marketing. Matthieu Frechin has been a director of Vétoquinol SA since 2006. He was appointed Deputy Chief Executive of the Company by a resolution of the Board of Directors dated August 21, 2006. He is currently Head of Strategy and the Vétoquinol Development Group and was appointed CEO, replacing Mr Etienne Frechin, December 10, 2009 with effect from 1 April 2010.
Directorships:

- Member of the Board of Directors Vétoquinol. SA
- Member of the Supervisory Board of Soparfin SCA the holding company for the Vétoquinol Group.

Mr Philip Arnold
Born in 1941, Philip Arnold has been an independent director since June 4, 2007. A graduate of HEC and CPA, Philip Arnold, was an executive at BNP, now retired. He is Chairman of the Audit Committee and the Remuneration Committee of Vétoquinol SA.

Louis Champel
Born in 1944, Louis Champel has been an independent director since August 27, 2009. A graduate of the IEP (Political Science - Paris), he began his career at Rhone-Poulenc in 1970, Team head responsible for Asia, then CEO of the pharmaceutical subsidiary of the Group's Indonesian business, then as Director General of the subsidiary Rhodia-Merieux in Brazil and CEO of Rhone Merieux France. In 1997, he was instrumental in setting up Merial and became its CEO. In 2002, having been an advisor to Aventis, he became CEO of Lyon 3 Valorisation SA (as "LV3 Conseil"). He is also a member of the Audit Committee and the Remuneration Committee of Vétoquinol SA.

14.1.1.5 Appointment and dismissal of the Chief Executive Senior

Management of the Company comes under the responsibility, either of the President of the Board of Directors or of another person appointed by the Board and bearing the title Chief Executive Officer. The Board of Directors chooses between these two ways of exercising Senior Management. The shareholders and third parties are informed of this choice in accordance with the provisions in force. When the Senior Management of the company is assumed by the Chairman of the Board of Directors, the provisions relating to the Chief Executive shall apply to him/her. The position of Chief Executive may be revoked at any time by the Board of Directors. If dismissal is decided upon without just cause, it may give rise to damages, except where the Chairman of the Board of Directors has assumed Senior Management. The age limit for a Chief Executive is 80 years old and he/she shall leave office after the first Annual General Meeting following the date of that birthday.

14.1.1.6 Deputy Chief Executives

On recommendation by the Chief Executive, the Board may appoint one or more individuals to be responsible for assisting the Chief Executive. They have the title of Deputy Chief Executive. The maximum number of Deputy Chief Executives is fixed at four. By agreement with the Chief Executive, the Board determines the extent and duration of the powers granted to the Deputy Chief Executives. In respect of third parties, the Deputy Chief Executives have the same powers as the Chief Executive. Upon the recommendation of the Chief Executive, Deputy Chief Executives may be removed at any time by the Board of Directors. In the event of termination or incapacity of the Chief Executive, unless the Board decides otherwise, any Deputy Chief Executives shall retain their functions and powers until the appointment of a new Chief Executive.

14.1.1.7 Management and Governance Structure

By decision by the Board of Directors on December 10 2009, the functions of Chairman and Chief Executive Officer which were previously held by Mr. Etienne Frechin, will be separated from 1 April 2010. At that time, the Senior Management of the Company will be assumed by Mr. Matthieu Frechin, as appointed by the Board of Directors on December 10, 2009, with effect from 1 April 2010. Matthieu Frechin's term of office as Chief Executive expires at the end of the AGM to be held in 2014 that approves the accounts for the year ended December 31, 2013.

From 1 April 2010, Mr Etienne Frechin will hold the sole function of Chairman of the Company's Board of Directors. Mr Matthieu Frechin is assisted by two Deputy Chief Executives: Mr. Dominique Henryon and Alain Masson. The appointment of Mr. Dominique Henryon as Deputy Chief Executive was confirmed at the Board meeting of 10 December 2009. His term will end after the Annual General Meeting called to approve the accounts for the year ended December 31 2013.

Alain Masson was appointed Deputy Chief Executive at the meeting of the Board of Directors on April 4, 2008. His term of office, as confirmed at the Board of Directors meeting of 10 December 2009 will expire at the end of the Annual General Meeting called to approve the accounts for the year ended 31 December 2013. Mr Masson is an employee of Vétoquinol SA, and also their official pharmacist in charge.

14.1.1.8 Specific constraints related to the company's business activity

Pursuant to Article L.5142-1 of the Public Health Code, the manufacture, importation, export and wholesale distribution of veterinary drugs, and the manufacture, importation and distribution of medicines involved in clinical trials, as well as their use, may only be conducted in facilities governed by the provisions of the Code of Public Health. Any company within the scope of the above shall be either owned by a pharmacist, or a veterinarian or by a company whose management or the Executive of which involves a pharmacist or veterinarian. Any such company may be wholly or partly managed under lease to a different company. The latter should be either owned by a pharmacist or a veterinarian or have a pharmacist or veterinarian involved in the Executive or its manager.

Pharmacists or veterinarians in charge as above are referred to as "official pharmacists or veterinarians." They are personally responsible for compliance with the provisions of Book II, Part IV, entitled "Occupational Health" of the Code of Public Health and of Book I Part V, entitled "Health Products" of the Code of Public Health as it relates to their business, without prejudice, where applicable, to the liability of the company. The official pharmacist or a veterinarian must ensure compliance at all of the company's pharmaceutical sites with the provisions of Book I Part V entitled "Health Products" of the Code of Public Health under the authority of the official pharmacist or veterinarian for the company. If the company's official pharmacist or veterinarian is employed at one of the pharmaceutical sites, then an acting official pharmacist or a veterinarian need not be appointed there. Official pharmacists and veterinarians and acting official pharmacists or veterinarians must provide proof of their appropriate practical experience.

14.1.1.9 Official pharmacists

Under the current legislation and statutes of the Company, the term of office of the official pharmacist for Vétoquinol SA, Mr. Alain Masson, was decided at the meeting of the Board of Directors on 4 April 2008. His term, which was confirmed by the Board of Directors on December 10, 2009, will expire at the end of the Annual General Meeting called to approve the accounts for the year ending December 31, 2013. The term of the acting official pharmacist, Mr. Mattieu Daussy, was decided at the meeting of the Board of Directors of September 17, 2007. The term of the acting official pharmacist, Jean-Roch Ledouble, was decided at the meeting of the Board of Directors of April 4, 2008. The official pharmacists and acting official pharmacists perform their duties for both head office and the site at

Lure on the following basis:

- Alain Masson, is the official pharmacist and in his absence, Mr Mattieu Daussy, is acting official pharmacist;
- In the absence of both Mr. Alain Masson and Mr Mattieu Daussy, Jean-Roch Ledouble, is acting official pharmacist.

14.1.1.10 Biographical data for Deputy Chief Executives and Official Pharmacist

Matthieu Frechin
Born in 1969, Matthieu Frechin is a Pharmacy graduate with a major in Industrial and a Master of Engineering in industrial systems, specializing in marketing. Mr Frechin began his professional career in the marketing department at Pfizer Cardiovascular. He then joined Sanofi, who posted him to Moscow, Russia as part of a PNHC, where he was in charge of developing the marketing department. Upon his return from Moscow, he was appointed head of the Research "portfolio" in the Strategy Division. In September 1998, he left Sanofi to complete his training at Servier Laboratories as International Product Manager. He joined Vétoquinol April 2, 2001 where he served in the office of the Chief Executive. While there, Matthieu Frechin was in charge of marketing the canine products range in the France sales division at Paris. On 1 December 2001, he was appointed Head of Sales for the pet range.

In September 2004, Mr. Matthieu Frechin was appointed Group Director - Strategy and Development. He was appointed Deputy Chief Executive of the Company by decision of the Board of Directors dated August 21, 2006. At the suggestion of his father, the Board of Directors meeting of 10 December 2009 appointed him CEO, with effect from 1 April 2010, when Mr Etienne Frechin resigned. He has been a member of the Executive Committee of the Company since its inception in September 2004. He is also a member of the Group Management Committee.

Mr. Dominique Henryon
Dominique Henryon was born in 1951 and is a graduate of L'Ecole Centrale de Paris (1974) and holds an MBA from Stanford (1976). He began his career at Arthur D. Little as Executive Advisor. He then joined the IDI Group (Institute of Industrial Development) as Chargé de Mission for 4 years and was involved in setting up Finovelec, a venture capitalist, in his 2 years as CEO. Then he was appointed Head of Strategy of the Hutchinson Group, and later manager of Babyrelax its subsidiary, subsequently joining Jaeger Regulation as their CEO. After a period of 5 years as CEO at Laphal Laboratories, Dominique Henryon joined Vétoquinol in January 1999 as Group Deputy Chief Executive. He has been a member of the Executive Committee at Vétoquinol since its inception in September 2004. He is also Head of the Group Management Team. He is a member of the Board of the IFAH (International Federation of Animal Health) and a member of the APM club (Association for the Advancement of Management) in Haute-Saone.

Alain Masson
Alain Masson was born in 1962 and is Head of Group Quality. He was appointed Deputy CEO and official pharmacist of Vétoquinol SA at the Board Meeting of April 4, 2008. He holds a Doctor of Pharmacy degree from the Faculty of Pharmacy Besançon (25) (1985), and obtained a postgraduate degree in Industrial Pharmacy majoring in cosmetology, Lyon (1986). He began his career in the pharmaceutical industry in 1988 at Vétoquinol Laboratories, as head of quality control. He has held the positions of Quality Assurance manager, Head of Quality and Group Industrial Quality Manager, France. Since 2008, he has been in charge of the Group's overall Quality at industrial sites, at the distribution subsidiaries and the R&D centers. He is vice-chair of GMP IFAH Europe.

14.1.2. Executive and directors' conflicts of interest

To the best of the Company's knowledge, executives and directors in the Company are not in any conflict of interest with the Company. In order to identify and prevent any potential conflict of interest, a set of house rules was drawn up by the Board of Directors n September 18, 2006. Its most recent version is dated August 27, 2009 and it requires members of the Board of Directors or its specialized Committees to inform the Board promptly of any situation of conflict of interest (even potential) and to abstain from voting on any related motions.

15. OFFICERS' INTERESTS AND REMUNERATION

15.1. REMUNERATION OF EACH CORPORATE OFFICER

At its meeting of May 12, 2009, the Board approved the recommendations of the Remuneration Committee's report dated May 12, 2009, concerning the Company management's current remuneration packages. It set the amount of compensation to be granted to executives on both the fixed and the variable portions of their package. As a result of the Board meeting the officers' salaries were increased as follows:

- CEO - Etienne Frechin: 2%;
- Group Deputy CEO - Dominique Henryon: 3.50%;
- Group Head of Quality - Alain Masson 3% allowance, official pharmacist increased to 1,320 Euros per month;
- Group Deputy CEO - Strategy and Development - Mattieu Frechin: 4%.

These increases took effect retroactively from 1 January 2009.

Bonuses on 2009 targets are:

- Chief Executive Officer - Etienne Frechin: 238,000 (50% on Revenue 50% on ROCE);
- Group Deputy CEO - Dominique Henryon: 130,590 euro (50% on Revenue, 50% on ROCE);
- Group Deputy CEO - Strategy and Development - Mattieu Frechin: 51,750 Euros.

A system was set up for reducing the bonus for non-achievement of objectives, or for paying extra if exceeding them (Revenue and Group ROCE).

15.1.1. Summary table of remuneration, options and shares granted to each executive director

Etienne Frechin, CEO	Year 2008	Year 2009
Compensation due for the year (detailed in Table 2)	340,740	502,206
Valuation of options granted during the year (detailed in Table 4)	0	0
Valuation of performance shares granted during the year (detailed in Table 6)	0	0
TOTAL	340,740	502,206

Matthieu Frechin, Deputy CEO	Year 2008	Year 2009
Compensation due for the year (detailed in Table 2)	167,155	201,655
Valuation of options granted during the year (detailed in Table 4)	0	0
Valuation of performance shares granted during the year (detailed in Table 6)	0	0
TOTAL	167,155	201,655

Dominique Henryon, Deputy CEO	Year 2008	Year 2009
Compensation due for the year (detailed in Table 2)	378,680	478,654
Valuation of options granted during the year (detailed in Table 4)	0	0
Valuation of performance shares granted during the year (detailed in Table 6)	0	0
TOTAL	378,680	478,654

Alain Masson, Deputy CEO	Year 2008	Year 2009
Compensation due for the year (detailed in Table 2)	104,007	131,279
Valuation of options granted during the year (detailed in Table 4)	0	0
Valuation of performance shares granted during the year (detailed in Table 6)	0	0
TOTAL	104,007	131,279

Bernard Boisramé, Deputy CEO	Year 2008	Year 2009
Compensation due for the year (detailed in Table 2)	138,377	0
Valuation of options granted during the year (detailed in Table 4)	0	0
Valuation of performance shares granted during the year (detailed in Table 6)	0	0
TOTAL	138,377	0

15.1.2. Table summary of earnings of each executive director

Compensation shown in the tables below is on a gross basis before tax.

Etienne Frechin,	Fiscal 2008		Fiscal 2009	
CEO	Amount due	Amount paid	Amount due	Amount paid
Fixed remuneration (1)	196,790	196,790	200,781	200,781
Variable compensation	138,750	208,000	296,400	138,750
Pay outstanding	-	-	-	-
Attendance	5,200	5,200	5,025	5,025
Benefits in kind	company vehicle			
TOTAL	340,740	409,990	502,206	344,556

Matthieu Frechin,	Fiscal 2008		Fiscal 2009	
Deputy CEO	Amount due	Amount paid	Amount due	Amount paid
Fixed remuneration (1)	112,801	112,801	112,176	112,176
Variable compensation	29,150	34,200	64,450	29,150
Pay outstanding	20,004	20,004	20,004	20,004
Attendance	5,200	5,200	5,025	5,025
Benefits in kind	company vehicle + meal vouchers + participation + incentives			
TOTAL	167,155	172,205	201,655	166,355

Dominique Henryon,	Fiscal 2008		Fiscal 2009	
Deputy CEO	Amount due	Amount paid	Amount due	Amount paid
Fixed remuneration (1)	305,120	305,120	316,004	316,004
Variable compensation	73,560	159,431	162,650	73,560
Pay outstanding	-	-	-	-
Attendance	-	-	-	-
Benefits in kind	company vehicle + tickets restaurant			
TOTAL	378,680	464,551	478,654	389,564

Alain Masson,	Year 2008		01/04/2008 Exercise since 2009	
Deputy CEO	Amount due	Amount paid	Amount due	Montant versés
Fixed remuneration (1)	72,263	72,263	99,647	99,647
Variable compensation	20,944	14,667	15,792	20,944
Pay outstanding	10,800	10,800	15,840	15,840
Attendance	-	-	-	-
Benefits in kind	company vehicle + meal vouchers + investments + incentive			
TOTAL	104,007	97,730	131,279	136,431

Bernard Boisramé,	year 2008		year 2009 until June 2008	
Deputy CEO	Amount due	Amount paid	Amount due	Amount paid
Fixed remuneration (1)	133,605	133,605	-	-
Variable compensation	-	12,025	-	-
Pay outstanding	4,772	4,772	-	-
Attendance	-	-	-	-
Benefits in kind	company vehicle + meal vouchers + investments			
TOTAL	138,377	150,402	-	-

15.1.3. Table of attendance fees and other remuneration received by non-executive officers

Non executive corporate officers fiscal year	2008	2009
M. Jean Charles Frechin		
Attendance	5,200	5,025
Other remuneration	Nil	Nil
Mme Marie Claude Valentin-Frechin		
Attendance	5,200	5,025
Other remuneration	Nil	Nil
Mme Martine Frechin		
Attendance	5,200	5,025
Other remuneration	Nil	Nil
M. François Frechin		
Attendance	5,200	5,025
Other remuneration	Nil	Nil
M. Philippe Arnold		
Attendance	2,600	6,025
Other remuneration	Nil	Nil
M. Jacques François Martin**		
Attendance	5,200	7,025
Other remuneration	Nil	Nil
Banexi Capital Partners, represented* by Mr. Franck Boget		
Attendance	2,600	0
Other remuneration	Nil	Nil
3i represented* by Mr Denis Ribon		
Attendance	2,600	0
Other remuneration	Nil	Nil
TOTAL		

** No longer part of the Board of Directors at the end of fiscal 2008*
*** Replaced by Mr Louis Champel from August 2009.*

15.1.4. Stock options or purchases granted during the year to each executive director

During fiscal 2009, no options or warrants to purchase shares were granted to the Company's executive directors.

15.1.5. Stock options or purchases granted during the year to each corporate executive

During fiscal 2009, no options or warrants to purchase shares were granted to the Company's executive directors.

15.1.6. Performance bonus stock attributable to each corporate officer

During fiscal 2009, no stock, performance or free, has been assigned by the General Assembly.

15.1.7. Performance bonus stock attributable to each corporate officer

Performance bonus stock attributable to each corporate officer	No. and date of the plan	Number of shares attributableduring year	Terms of acquisition
Matthieu Frechin	No. 1 dated 04/06/2007	6,000	Plan No. 1 Free stock allocation not based on performance criteria because it was agreed before the adoption of the recommendations of the AFEP-MEDEF report of October 2008.
Dominique Henryon	No. 1 dated 04/06/2007	9,000	
Alain Masson	No. 1 dated 04/06/2007	400	
TOTAL			

15.1.8. Past allocations of stock options or stock

Information on stock options or stock	Plan n°4	Plan n°5
Date Board	19/09/2003	04/06/2007
Total number of shares to be subscribed or purchased	5,220	33,800
Options / share ratio	1 option per 10 shares	1 option for 1 share
Number subscribable or purchasable by corporate officers:		
Etienne Frechin		
Matthieu Frechin	0	0
Dominique Henryon	0	0
Alain Masson	0	0
Bernard Boisramé	0	600
	0	0
Start date for exercise of options	15/09/2005	15/09/2009
Expiry	18/03/2009	06/12/2011
Purchase Price	49,30 €	25,33 €
Terms of the exercise	From 15/09/2005 to 15/10/2005 From 15/09/2006 to 15/10/2006 From 15/09/2007 to 15/10/2007	From 15/09/2009 to 15/10/2009 And to 15/09/2010 15/10/2010
Number of shares subscribed to 31/12/2009	26,880	0
The cumulative number of stock options or stock canceled or lapsed	25,320	4,700

15.1.9. Subscription or purchase options permitted for the first ten employees who are not corporate officers

Subscription or purchase options of stocks permitted to the ten salaried employees who are not corporate officers appointees and stock options exercised by them	Total number of options granted / of stock subscribed or purchased	Weighted average cost of the stocks purchased	Plan no.4	Plan no.5
Options permitted, during the financial year, by the issuer and all companies included in the options attribution, to the ten employees of the issuer and of all companies included, of which the number of options thus allowed is the highest (full disclosure)	0	0	0	0
Options held by the issuer and the companies previously referenced, canceled during the financial year by the ten employees of the issuer and those companies, of which the number of options thus purchased or subscribed is the highest (full disclosure).	2,300	4.9 €	1 option for 10 stocks	0

15.1.10. Employment Contract and Corporate Powers

Lead Directors and Officers	Employment Contract		Retirement Plan		integration benefits or compensations due or likely to be due for termination or change of duties		Compensation related to a non-compete clause	
	Yes	No	Yes	No	Yes	No	Yes	No
Etienne Frechin President-General Manager		X		X		X		X
Matthieu Frechin General Manager (1)	X (1)			X		X		X

(1) appointed on December 10, 2009 with effective date of April 1, 2010. As of this date, there shall be no more employment contracts.

16. OPERATION OF THE ADMINISTRATIVE DEPARTMENTS AND COMPANY MANAGEMENT

16.1. OPERATION OF THE BOARD OF DIRECTORS

16.1.1. Meeting of the Board of Directors

The Board of Directors meets as often as required in the best interest of the Company and at least four times a year. The meeting is called by the President and held either at the corporate headquarters or at an entirely different location, as indicated in the notice. Furthermore, if the Board has not met in more than two months, the directors that constitute at least one-third of the board members can request that the President call for a meeting on a specific order of business. In case the President fails to do so, the General Manager can him/herself proceed to host the meeting and to set the agenda of the meeting. The directors are notified and requested to attend via any available means including verbally, and no decisions can be made on the agenda until the time of the meeting. A director can sign a proxy form in favor of another director to represent him/her during deliberations of the Board of Directors and for in his/her place on one, various, or all the issues included in the agenda; the Board has sole authority to deem the proxy form valid, which must be in written form (letter, faxed copy, electronic delivery). Each director attending the meeting can represent only one other director.

To establish a quorum and a majority vote, the Board includes those directors who participate in the meeting of the Board via videoconference or other means of telecommunications in compliance with the conditions defined by decree, with the exception of adoption of the following decisions:

- choice of method of exercising General Management (dissociated or non dissociated);
- nomination, compensation, removal of the President, of the General Manager and of the Assistant General Managers;
- decisions regarding financial statements (annual) and consolidated financial statements (semi-annual and annual); establishing a management report and a report on the management of the Group.

16.1.2. Quorum and majority

In order for the Board's decisions to be valid, the presence of at least half of the current directors shall be required and considered sufficient. Attendance is recorded in a log, which is signed by those directors participating in each meeting of the Board of Directors. Decisions are reached by a majority verbal vote of the members attending in person and by proxy. In the instance that the Board comprises only three members, decisions can be made by two directors in attendance who are in agreement. In cases of a split vote, the word of the President of the meeting is decisive.

Board deliberations are documented in meeting minutes which are, together with copies or excerpts to be released for legal or other purposes, drawn up and signed as required by law. The individuals authorized to certify legal compliance of the copies and excerpts of the meeting minutes and deliberations may do so as determined by current law.

16.1.3. Function of the Board of Directors

The Board of Directors determines the orientation of the Company's activities and oversees their execution. Subject to the powers expressly granted to the shareholders and within the limits of the purpose of their office, it dedicates itself to all issues determining the good operation of the Company and, through its deliberations, it rules on items that concern the Company. The Board of Directors proceeds to control and verify whatever it deems appropriate. The President or General Manager of the Company is required to ensure delivery to each director of all the documents the director needs to accomplish his/her mission.

The Board of Directors can decide on the creation of committees given the task to research the issues that they themselves or their President submit through a formal request to be examined. The Board determines the make-up and attributes of the committees. The committees have consulting powers and they exercise their activity under the responsibility of the Board of Directors. The Board of Directors sets, case by case, the level of compensation committee members shall receive.

16.1.4. Internal Rules

On September 18, 2006, the Board of Directors adopted its internal rules, following up on the recommendations included in the public report dated October 2003 and issued by AFEP and MEDEF titled, "Running the activities of side companies" ("Afep - Medef Report"). The internal rules that came into force on the day of their adoption and their standards, which require the creation of committees, will be progressively applied within a reasonable time frame applicable to the adoption of these new standards. The rules were last revised on August 27, 2009. The internal rules describe the organization and operation of the Board of Directors and its committees. The internal rules call for the possibility to hold Board of Director meetings by videoconference or any other mean of telecommunications within the conditions set forth by the decree with the exception of the nature of certain decisions. The internal rules establish the methods by which the Board of Directors shall proceed to evaluate its own ethical standards and procedures (notably in matters regarding the stock market) applicable to the members of the Board and, as needed, to their permanent representatives as well as to the committee members.

During its meeting on December 10, 2009, the Board of Directors discussed the quality of work during the financial year then ended as well as some measures adopted to control the various risks tied to our profession. Its operation was likewise discussed. However, considering the fact that the Board of Directors is run clearly in a familiar way, this item has not yet been properly evaluated but it requires some thinking to bring about a method for the future.

16.2. OPERATION OF THE BOARD OF DIRECTORS

16.2.1. Powers of the Board of Directors

The Chief Executive Officer (CEO) is invested with the broadest powers to act in every circumstance in the name of the Company. He/she exercises these powers within the bounds of the company objectives and subject to the powers that the law expressly attributes to the shareholders and the Board of Directors. The CEO represents the Company as he interacts with third party representatives. The Company is also bound by those actions performed by the CEO that are not relevant to the company's objectives, unless it is proven that the third-party representative knew that the action fell outside the bounds of these objectives or that he/she could not ignore this fact given the circumstances, although it should be clarified that simply publishing the bylaws does not constitute sufficient proof.

16.2.2. Bylaws Limitations

None

16.2.3. Limitations set by the Board of Directors

None

16.3. THE COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors is assisted in its work by an Audit Committee, a Compensation Committee and a Strategy Committee. The committees can personally proceed or hire outside consultants, who will be paid by the company to perform any preliminary studies that relate to the issues to be discussed. Hiring an outside consultant is subject to obtaining prior authorization of the Board of Directors. Internal regulations have been established for each of the committees. These regulations specifically define the committees' competences and operational procedures.

16.3.1. The Audit Committee

The Board of Directors set up an Audit Committee at its meeting on 4 April 2008. The task of this committee is to advise the Board of Directors on semi-annual and annual corporate and consolidated financial statements of Vétoquinol SA. The financial statements submitted to the Board of Directors must include full disclosure. More precisely, the objectives of the Audit Committee include:

- understanding the independent auditors, the financial directors, and cash, internal audit or management control accountants. The hearings are held in the presence of the management. Management provides advice on the service organization of the head internal auditor or management control and he receives his work schedule;
- examining the accounts in general and reviewing the accounting principles applied. The review of the accounts must be accompanied by a note from the Financial Director;
- examining the scope of action of the independent auditors;
- acquiring knowledge of the annual or semi-annual reports projects;
- examining the bounds of the consolidated companies and the reasons why some companies do not fall within those bounds;
- examining the risk and material off-balance sheet commitments;
- examining all financial, accounting and risk management issues.

For this purpose, the committee meets at least twice a year, preferably upon review of the semi-annual and annual accounts by the Board of Directors and, from time to time, whenever there is a need to examine particularly important issues. During 2009, it gathered twice (100% of members were in attendance) and it gave verbal recommendations to the Board of Directors, in addition to the meetings on March 13 and December 10, 2009.

On the date this reference document was introduced, the Audit Committee comprised three individuals:

- M. Philippe Arnold, independent member;
- M. Louis Champel, independent member;
- M. Jean-Charles Frechin, member.

16.3.2. The Compensation Committee

The Compensation Committee was instituted by the terms of the meeting of the Board of Directors held on April 9, 2004 with the purpose of examining the compensation of the corporate officers of the Company and, as needed, of the employees of the member companies of the Group. More precisely, the Compensation Committee's mission is:

- to propose compensation for the corporate officers, to determine, as needed, the variable part of their
- compensation based on annual and mid-term evaluation of individual performance, in accordance with Group strategy;
- to propose, as needed, in favor of the corporate officers and employees of the Company or its subsidiaries, the implementation of stock subscription or purchase plans, employer-sponsored savings programs or bonus share programs;
- to propose that individual corporate officers and employees of the Company or its subsidiaries be named beneficiaries of options, warrants, bonds or other marketable securities or be given the right, immediate or deferred, to participate in the capital of the Company or its subsidiaries;
- to examine benefits of any nature, for example, with regard to retirement, those enjoyed by corporate

- officers and management of the Company and its subsidiaries or sub-subsidiaries;
- to propose the distribution of directors' fees, notably with regard to the responsibilities taken on by the
- directors and their regular attendance at the Board and in special committees. The amount of directors'
- fees must be adapted to the amount of time that each director devotes to his/her functions;
- to examine the capital increase programs reserved for employees;
- to draft a complete, detailed report on the compensation of the corporate officers listed in the management report. This report must specifically address the calculation methods of the variable compensations, bonus awards criteria, individual compensation detailed for each corporate officer as well as the individual and total amount of directors' fees paid out.

The Compensation Committee meets every year and it conveys its recommendations to the Board of Directors in the form of reports. At the time of submittal of the present reference document, the Compensation Committee comprises three individuals:
- Mr. Philippe Arnold, independent member;
- Mr. Louis Champel, independent member;
- Mr. Jean-Charles Frechin, member.

16.3.3. The Strategy Committee

The Strategy Committee was established on September 18, 2006. Its primary role is to issue recommendations for the Board of Directors in the following areas:
- examining the Group's strategy and general policy;
- reviewing external development opportunities;
- studying the evolution and perspectives of the Group's activities both on national and international scale;
- reviewing the international expansion projects;
- reviewing both company and managers' strategies that could be implemented, notably with regard to investments.

The committee met on July 8-9, 2009 (100% of members were in attendance). Following the Board of Directors meeting held on August 27, 2009, new norms were introduced by this Committee to take effect in 2010. The committee currently comprises the following individuals:
- President, Mr. Etienne Frechin;
- CEO, Mr. Matthieu Frechin;
- Group Senior Executive Vice President, Mr. Dominique Henryon;
- two independent members - Mr. Louis Champel and Mr. Philippe Arnold.

16.4. INTERNAL CONTROL

16.4.1. Report on the conditions of preparation and organization of the Committee's work and internal control procedure set up by the Company

Please refer to the President's Report on corporate governance and the internal control appended to chapter 16 – paragraph 16.5.

16.4.2. Conditions of work preparation and organization of the Board of Directors

Makeup of the Board of Directors
On the date of submission of the present reference report, the Board of Directors included a total of eight members. The list of the Company members, including any roles and duties performed in other companies is shown in § 14.1.1.3. of the present reference document.

Frequency of Meetings
During financial year 2009, the Board of Directors met four (4) times: on March 13, May 12, August 27 and December 10. The Directors, committee members and independent auditors were regularly called to attend. The Board of Directors includes a total of 8 members. All the meetings were presided over by Mr. Étienne Frechin. The rate of director participation to these meetings was respectively 100%, 100%, 63% and 88%. The analysis of the evolution of sales as well as Company and Group results is systematically presented at every meeting. The main issues on the agenda of the various meetings were as follows:

- March 13:
  approval of the 2009 accounts;
  posting of the results;
  authorizations and delegations of competence to be granted to the Board of Directors;
  Compensation of the Group's Senior Executive Vice President.
- May 12:
  Managers' Compensation; resignation of one director;
  renewal of one mandate for Senior Executive Vice President;
  observation of one capital increase.
- August 27:
  approval of the accounts from the first semester of 2009;
  appointment of one director;
  revision of a section of internal rules
- December 10:
  introduction and approval of the budget for financial year 2010;
  organization of governance;
  objectives of the Board of Directors;
  convertible bonds.

Directors summoned to attend
The directors were summoned to attend those meetings via uncertified mail or verbally, in compliance with statutory provisions. In compliance with the provisions of article L.225-238 of the French Labor Code, the independent auditors are summoned to the meetings of the Board of Directors to examine and close the intermediary as well the annual accounts. In compliance with the provisions of the French Labor Code, representatives from the Works Council are also summoned to these meetings.

Preparation and organization of the activities of the Board of Directors
The activities of the Board of Directors are planned and organized in compliance with current regulations and standards of good governance.

Venue of the Meetings
The meetings of the Board of Directors are generally held at the Company's corporate headquarters. Within the scope of statutory provisions, it is admissible to use videoconferencing as well as any other means of telecommunications within the conditions set by decree, in compliance with article L.225-37paragraph 3 of the French Commercial Code.

Throughout the course of the financial year just ended, the Board of Directors has never used videoconferencing or other means of telecommunication.

Board of Directors' meeting minutes are generated and transmitted without delay to all directors. They are routinely transcribed into the meeting logbook.

16.5. PRESIDENT'S REPORT ON CORPORATE GOVERNANCE AND INTERNAL CONTROL

In compliance with articles L. 225-37, L 225-68 and L226-10-1 of the French Commercial Code, Mr. Étienne Frechin, President & CEO of the Group, makes use of the present report to illustrate "internal control procedures and risk management as well as the makeup, state of preparations and organization of Board activities." This report is comprised of two separate sections:

- section containing the report on corporate governance;
- section containing the report on internal control.

The present report concerns all member companies of the Group that fall within the scope of consolidation, in compliance with the guidelines published by AMF on relative average and small value. This report was submitted to the Board of Directors on March 11, 2010 and was approved.

16.5.1. SECTION OF THE REPORT ON CORPORATE GOVERNANCE

On December 8, 2008, the Board of Directors adopted, as a reference code, the corporate governance code of side companies created by AFEP- MEDEF.

16.5.1.1 Organization and operation of the Board of Directors

Please refer to chapters 14 and 16 of the present reference document.

16.5.1.2 Frequency of the meetings of the Board of Directors

Please refer to paragraph 16.4.2 of the present reference document.

16.5.1.3 Organization and operation of the specialized committees

Please refer to chapter 16.3 of the present reference document.

16.5.1.4 Evaluation of Board activities

Please refer to chapter 16.4.2 of the present reference document.

16.5.1.5 Limitations applied to the powers of the Chief Executive Officer

Please refer to chapter 16.2.1 of the present reference document.

16.5.1.6 Wages and benefits of corporate officers

Please refer to chapter 15.1 of the present reference document.

16.5.1.7 Terms and conditions for participation in the general shareholder's meeting

Each Vétoquinol shareholder, regardless of the number of shares he/she owns, can participate and vote at the general shareholders' meeting. Ownership of each share conveys the right to vote. To learn all the ways shareholders can participate to the general shareholder's meeting, both directly and indirectly (vote by mail), please visit our website and consult the bylaws or contact the company directly.

16.5.1.8 Procedures and risk management

Please refer to chapter 4 "Risk Factors," featured inside the present reference document.

16.5.2. Management process of the accounting and financial organization

16.5.2.1 Principles and key issues of analysis

Management of the accounting and financial organization approved and monitored by the Head Office is guaranteed by the Finance Department. The establishment of consolidated accounts through a group-wide ERP system and of a dedicated consolidation software (Magnitude), ensures consistency in the published consolidated accounting and financial data.

16.5.2.1.1 General Setup

The Group is set up in a way that allows it to produce monthly and financial data, which it needs to manage its activities based on a set calendar. Within the framework of annual release of consolidated accounts, the missions of the various parties that cooperate to allow for the release of the annual consolidated accounts are clearly identified in a document of which they also receive a copy. The basic financial data (income statement, balance sheet, cash flow statement and statement of change in consolidated equity of the Group) are closed monthly at J+10 (business days) following a scheduled and precise closing process of the accounts. The information chain converging to create data scoreboards is based on a unique reporting/consolidation tool – Magnitude – which allows consistency and increased security of the accounting data, notably by means of automatic connections with the ERP of the Group (JD Edwards). The accounting rules comply with IFRS regulations, the options and hypotheses that permit the preparation of the financial statements are proposed by the Finance Department and then confirmed by the Head Office and/or the Audit Committee.

16.5.2.1.2 Management of Resources

The resources needed for the good operation of the accounting functions are regularly reviewed by the Head Office to ensure that the skills on hand meet the level of growing complexity of the operations to be processed.

16.5.2.1.3 Applied accounting regulations

The Group applies IFRS regulations to process the consolidated accounts and it ensures, through active vigilance, that any changes made to the regulations – increasingly more frequent – are correctly understood and applied.

Complex operations (e.g.: business combinations, Goodwill annual depreciation test, assignment of the purchase price…) are processed exclusively by the Group's consolidation unit, linked to the Financial Department in compliance with IFRS regulations, and validated by the Head Office and/or the Audit Committee.

The Group owns 24 subsidiaries abroad. Processing basic information following local accounting guidelines is sometimes different from the process required by IFRS regulations. To overcome this problem, the Group re-processes the operations applying IFRS regulations within its consolidation unit. The different possible options are validated by the Head Office and/or the Audit Committee.

16.5.2.1.4 Mastering accounting regulations

The processing and production of accounting and financial data, both at a consolidation level and at the level of each Group subsidiary, is mastered. The subsidiaries close their corporate accounts under the supervision of the CEO and the subsidiary's Financial Director, following detailed planning and in compliance with the deadlines set forth by the Group. Those accounts are later analyzed in detail by the Financial Department, which in turn submits them to the Head Office:

- analytic reviews revues and a comparison against budget and the previous year are performed by the Management Control Department and the Financial Control Department;
- subsidiary performance reviews are performed every month between the Senior Executive Vice President and the Financial Director on one side, and the Territory Director, the Subsidiary Manager and its financial executive on the other side. These accounts are, for the most part, later submitted for approval by Group independent auditors and/or local auditors semi-annually or annually;
- lastly, a Group performance review, led by the Management Control Director, allows for monthly account analyses together with the entire Group Management Committee. The following postings (stocks, clients, intangible assets, revenue accounting…) undergo regular checks by the Accounting and Financial Departments to ensure that all the depreciations and/or adjustments were properly accounted.

16.5.2.1.5 Organization and security of the IT systems

The Group makes an effort to implement, throughout its network of subsidiaries, a set of information systems whose backbone is a common ERP (JD Edwards). On December 31, 2009, 12 subsidiaries of the Group – representing more than 73% of the Group's CA – use, on the two bases of information, common processes. The parameters of this information system provide assurance to the Group with regard to the organization and security of its information systems. In the other subsidiaries, other information systems have been given similar parameters (e.g. Navision in Germany…). The ERP has been developed for the purpose to meet needs of security, reliability and availability all aimed to guarantee pertinence of the accounting and financial data. The accounting data of each of the subsidiaries is then integrated into the consolidation reporting software of the Group which is comprised of the tool Magnitude. The organization and operation of the entire information system are subject to specific regulations with regard to system access and validation of the closing processes and procedures. The Company is in a position to meet the specific requirements of the French tax authorities, both in terms of conservation of processed data and documentation.

16.5.2.2 Role of the Head Office

16.5.2.2.1 Organization, skills and means

The organization, skills and means through which the Head Office ensures that the internal accounting and financial control systems plan effectively aims at producing reliable information while projecting a faithful snapshot of the results and the company's financial situation. The organization and scope of the accounting and financial functions are regularly reviewed to ensure adequacy of the means (personnel and tools…) and the needs of a gradually more advanced internal control.

16.5.2.2.2 Management and control

The Head Office has encouraged the implementation of a management plan that aims to analyze and master the primary identifiable risks that have a potential impact on the processing of published accounting and financial information. The reporting of each company of the Group allows for establishing a monthly "Scoreboard." This document combines and consolidates all accounting and financial data in accordance with IFRS regulations, notably:

- analysis of the monthly results of the operation of each economic unit with the breakdown of the various charges by type and cost center;
- analysis of the industrial results of the production sites. All this data is subject to monthly and cumulative comparisons with the previous financial year and budget forecasts;
- monthly monitoring of the main postings of the balance sheet of each company, notably those concerning the progression from needs to working capital, with an analysis of the discrepancies as compared to forecasts;
- monthly monitoring of cash debt;
- detailed sales analysis by type, by geographical area, by classes of products and by strategic sectors.

The Magnitude software contains only one set of data and it allows producing the reporting and monthly consolidation data in compliance with IFRS regulations, all aimed at guaranteeing a homogeneous and coherent ensemble. Thus, the data presented in the published reports are identical to those reviewed every month by the Head Office. Following the same principle, the budget of each subsidiary and the Group are presented by the Finance Department, then validated by the Head Office and lastly approved by the Board of Directors.

Within the various structures set in place to manage the good operation of the Group, the Board of Directors, in cooperation with the Finance Departments verifies the accounting principles used and any impact they may have on the presentation of the financial status. Within the scope of the internal audit, the Head Office defines, annually, which subsidiaries are selected for an in-depth audit (corporate, legal or financial), performed by internal teams or by outside providers. In 2009, five legal audits were performed: Great Britain, Spain and our three subsidiaries in Canada.
Three accounting and financial audits took place in 2009: Italy, USA and Poland. These audits revealed no significant dysfunctions.

16.5.2.2.3 Preparation for closure the accounts

The Head Office ensures that the Finance Department has defined and implemented an accounting recording system of the major operations (recent example in 2009: acquisition of our subsidiary Vétoquinol India) and all the entities are integrated into the scope of consolidation. It ensures the implementation of closing procedures for certain accounts considered sensitive or conceivably so (evaluation of intangible assets, revenue accounting process…) and validates the forecasts and hypotheses made by the Finance Department. The Head Office reviews and validates the accounts – including the additional notes – established by the Finance Department. In view of that, modifications of the accounting principles (some in 2009) are highlighted – and the Board of Directors and/or the Audit Committee have been made aware of this. The annual accounts include the management report, which includes the major comments and analyses needed to well understand said financial status. Lastly, the Head Office defines the financial communications strategy and it validates the different press releases.

16.5.2.2.4 Considerations on the jobs of the independent auditors

As they represent the person responsible for establishing the accounts and implement internal accounting and financial control systems, the Head Office switches to independent auditors (CAC). The Head Office ensures that the CAC has reviewed the currently-held accounting principles and the accounting options that have a significant impact on the presentation of the financial status. Lastly, the Head Office obtains information from the CAC concerning the scope of their intervention and of their conclusions concerning their work.

16.5.2.3 Role of the Board of Directors and/or of the Audit Committee

16.5.2.3.1 Checks and Verifications

The Board of Directors is informed of major factors that could be susceptible to call operational continuity into question; the following information is transmitted to them: budget for the following year, best estimate of the year-end closed accounts, spreadsheets tables required by Law dated March 1, 1984, investment projects, etc. The Board of Directors is assisted in its work by an Audit Committee – please refer to chapter 16.3.1 of the present reference document. Within the scope of fraud prevention, the Group has implemented a Good Business Practices Guide to help avoid, whenever possible, fraud and dishonest acts against the Group and/or its partners and shareholders. The rules contained in the Good Business Practices Guide define what Vétoquinol expects from each of its employees, regardless of his/her employment level, so that everyone abides by the law and the Vétoquinol ethics both in terms of behavior towards the competition, clients and suppliers and to protect Vétoquinol assets and avoid any risk of fraud and corruption attributable to Vétoquinol.

16.5.2.3.2 Closing the accounts

The Board of Directors closes the annual accounts and reviews the semi-annual accounts on the basis of the report performed by the Audit Committee. The accounts for which it must speak are presented to it by the Finance Department as well as the various estimates and/or options retained to reach those accounts. The Independent Auditors present their work and conclusions as well as any recommendations.

16.5.2.3.3 Relations with Independent Auditors

The Audit Committee and the Board of Directors receive the assurance of the Independent Auditors that they have access to all the data they need to perform their duties. The Audit Committee and the Board of Directors ensure that the CAC have reviewed the adopted accounting principles and all accounting options that have a significant impact on the presentation of the financial status. Lastly, upon closing of the accounts by the Board, the Independent Auditors have gone sufficiently far in their work – as a general rule, finished – to be able to provide the Board with any significant remarks.

16.5.3. Procedure applied to process the published accounting and financial information

In order to ensure transparent reports that convey a faithful snapshot of the status of the company, the Group continuously converts its accounting and financial procedures, notably focusing on internal controls related to input , recording and reconciliation of accounting moneys and operations by applying appropriate accounting principles.

16.5.3.1 Quality Criteria

This overhaul of the accounting data generating processes usually focuses on the atomized data collection and submission of the data in a manner that:

- reduces the delay in being able to access the information;
- reduces production costs;
- reduces error during the compilation of said data and production of financial status reports;
- reinforces the Department's view of subsidiary activities and provides data for the scoreboard in terms of financial results and risk evaluation.

The continuous improvement of internal control in terms of financial reporting goes through the establishment of a common frame of reference that formalizes the entire set of rules. These rules must be expressed as a function of defined risk factors upstream from the regulatory scope, but also of procedures in place, of specific occupations and businesses. This approach must extend all the way to the integration of the control framework with existing information systems and human activities. The existence of said framework, particularly of a formal frame of reference and monitoring system, contributes to the feasibility and pertinence of the internal and external audits such as those required by law. The Group's information system allows us to guide operational procedures and businesses management processes and analyze and measure their effectiveness and relevance. Importantly, the information system often constitutes the only concrete and auditable "trace" of actual operation.

16.5.3.2 Identification of the risks which affect published financial and accounting information

The quality of published accounting and financial information also depends on risks inherent to accounting processes prior to the accounting process and during processes of the settlement of accounts. The aim of the Financial Department is to minimize these different risks in order to publish regular and accurate financial information in financial statements. To do this, the assertions contained in the financial statements are the affirmations of the Department, explicit or not, and are reflected in the financial statements, as follows:

- Exhaustiveness of information: all transactions and events, assets, liabilities and participations, which should have been posted, have been recorded in the right accounting year. All the information attached which should appear in the financial statements has been done so.
- Existence and validity: Assets, liabilities and participations exist. Transactions (as well as events which have been recorded or mentioned in the Appendix) are valid; they are controlled by the Group and are recorded in the right accounting year.
- Accuracy: The amounts and other data relative to transactions and events have been correctly recorded in the appropriate accounting documents.
- Fair value: assets, liabilities and participations are recorded in the financial statements according to their appropriate values and changes in fair value have been correctly recorded.
- Debentures and dues: the liabilities represent the debentures of the entity as well as the dues on the asset which the entity has or controls.
- Presentation: the financial information and the information in the Appendix is correctly presented and described, clearly expressed, mentioned honestly in the Appendix, according to the appropriate amounts.

The accounting processes are organized in accordance with firms' major processes: sales, purchasing, production and stock, fixed assets etc. These organized and documented tools work towards dealing with the different operational flows and render accounting data consistent. The process of settlement of accounts is formalized in a monthly report and published financial information is passed to a ledger by the Accounting and Financial Departments of the Group, the Head Office and the Board.

16.5.3.3 Principles and key analytical points

16.5.3.3.1 Investments and Divestments. Research and Development

The processes of investment are subject to organized and documented processes which include the following authorizations:

- Authorization of the annual budget given by the Board;
- Authorization by the Finance Department;
- Authorization by Head Office.

The Department of Strategy and Development develops the projects and the Financial Department monitors R&D projects which are underway. Every month, they set up progress reports for each of these projects and monitor cost in line with the yearly budget. Under IAS 38, the costs for Research are accounted for as expenses and development costs are accounted for as intangible assets providing that the six criteria defined by IAS 38 norms are satisfied. Because of the risks and uncertainties linked to the processes of Research and Development and statutory authorizations, assets are not recognized until the product has gone to market. On the other hand, income from granting licenses to implement and market molecules, and procedures or information of a scientific nature are recorded on the balance sheet as intangible assets. These entries are generally recorded at the start of a research project and during its progress until an "Authorization to be put on the market" has been obtained.

16.5.3.3.2 Intangible and tangible assets and Goodwill

The processes implemented by the Group ensure that:

- Tangible and intangible fixed assets exist, belong to the Group, and are used in the business. Elements which must be recorded as assets are indeed done so:

transfers and other movements are all posted as well as any depreciation that has accumulated.

- Amounts are exact and do not include costs to be expensed.
- Changes in fair value and presentation are correct and in accordance with IFRS.

Moreover, and in accordance with IAS 36 guidance, assets which have an undetermined use and are not depreciated are subject to at least an annual test of impairment by external specialists to ensure fair value is not lower than book value.

In order to calculate depreciation, assets are grouped into cash-generating units which represent the lowest level of independent cash flow.

The legal protection of intangible assets is subject to regular monitoring in order to secure resources which the Group can obtain from these assets, in particular: protection of brands, names, patents…

16.5.3.3.3 Financial assets

The Group does not hold financial assets apart from the securities of its subsidiaries which are eliminated during the consolidation process. However, all the operations on securities (acquisitions, transfers, price additions, securitization of assets and liabilities) as well as firm contracts (promises and other financial tools) are subject to particular monitoring by the Finance and Legal Department with regard to accounting and/or their mention in the Appendix of accounts and are previously authorized by Head Office and/or the Board.

Granting loans to subsidiaries is subject to an organized process, authorized by the Board in accordance with statutory conventions. All products and/or costs linked to these accounts receivable are evaluated and posted on a monthly basis, then eliminated when consolidated.

16.5.3.3.4 Purchases/ Suppliers and related products

The buying processes are organized and formalized by procedures applicable for all parties concerned. Suppliers' orders are given out after authorization by those responsible and tasks are divided between entry, authorization, reception, recording the orders and paying suppliers. Invoices are reconciled to orders both at unit price level and at the level of quantity. Any discrepancies are subject to monitoring and particular processing. Advances on invoices are paid solely on justification and these amounts are analyzed monthly by accounting services during monthly settlements. During account settlement, different processes ensure that:

- All costs from purchasing goods or services are correctly accounted for.
- The principle for accounting for costs is correctly applied and in line with applicable IFRS guidance.
- Cut-off is done correctly.
- Suppliers' accounts are made up of unpaid purchases and other debts of suppliers who have supplied goods or services.
- All sums payable are correctly accounted for.

It is however impossible for the Group to guarantee that fraud cannot occur.

16.5.3.3.5 Cost prices/Stocks and outstanding debt

The processes of calculating cost prices, stock management, stock values and the monitoring and registering of eventual depreciation are organized and formalized within a framework of procedures applicable to all concerned, following current norms. Each month, the Industrial and Quality Department writes a report for the Group's industrial sites which mentions the main indicators and production ratios (industrial result, number of hours of production, number of batches manufactured, refused batches etc); these are all reconciled in the accounting and financial data in order to ensure their relevance. Cash receipts and payments are recorded on a daily basis in the Information System in order to ensure that separation is done correctly. Reconciliations are regularly done between physical and recorded inventories and a physical inventory is made at least once a year. All stock movements (scrap, destruction, sale of obsolete stock) are authorized by the people in charge and an analysis is carried out by the Group's Finance Department and/or the financial and accounting services of the subsidiaries.

Margins are analyzed per product or range of products and any significant differences are investigated. Finally, in the process of settlement of accounts, different closings for flow and/or controls are carried out in order to ensure that the stock is correctly classified, exists, belongs to the company and is accounted for.

16.5.3.3.6 Income from ordinary activities/clients and related income

Income from ordinary activities corresponds to the goods and services sold in the usual course of the Group's activities. The revenue is made up of the sale of goods to third parties, deduction made for commercial discounts allowed to the final client as well as financial discounts after eliminating intergroup sales. The accounting processes of revenue mean that the turnover from the sale of goods is posted when all the following conditions have been satisfied:

- the company has transferred the significant risks and advantages inherent to the ownership of goods to the buyer;
- the company is no longer involved in the management, as this now falls to the owner in control of the goods handed over;
- the amount of income associated to the transaction will go to the company;
- costs outstanding or to be incurred for the transaction can be calculated in an accurate manner.

The Group has put in place a particular monitoring system of these processes based largely on the information system in order to ensure that all the products are posted correctly and that the accounting principle is correctly applied and in accordance with current accounting guidelines. The separation of the financial year is done via this accounting process and checked and validated during the process of settlement of accounts. The account settlement process also allows us to check that:

- clients' accounts reflect non-recovered sales which belong to the Group;

- all recovery of debts is correctly posted;
- assets and other credit are justified and correctly calculated.
- Provision for doubtful debts is correctly evaluated and judged to be sufficient.

16.5.3.3.7 Cash and financial tools

The processes of financing and recording cash flow are subject to organized and monitored procedures: opening accounts and/or granting overdrafts is authorized by the Group Treasury Department (these have been previously validated by Head Office).

The Group's financial statements and/or the provisional cash flow tables allow the Group to ensure that it can guarantee its deadlines and effectively manage its financing needs. Cash operations are posted regularly and all expenses are supported by justifications (these have been previously accepted by people in charge). Guarantees received or data on loans and borrowing are clearly identified and posted and/or included in the Appendix of the accounts. Financial authorizations put in place by the Group allow payment limits to be sent to the Directors of Subsidiaries and/or Finance Directors. Finally, when drafting the financial settlement:

- Banking reconciliations are carried out and materialized on a monthly basis;
- Borrowing and assimilated debts, including interest, are posted and correctly calculated. They correspond to the Group's liabilities; these amounts are reconciled with contractual data;
- Funds and borrowing in other currencies are correctly evaluated.

16.5.3.3.8 Benefits granted to personnel

The Human Resources Department makes a list of all new appointments and departures in salary categories. This Department also supervises all salary raises and increases in the workforce as well as any modification of social benefits. "Pay" activities are subject to procedures and adapted to the organization. Functions for recording and calculating salaries exist in most of the Group's subsidiaries. Accounting recording is controlled by the Finance Department and reconciled to documents which concern pay.

The Group's Accounting rules mention the process of granting shares and options to directors and employees. During the process of account settlement, staff accounts and social costs are subject to a monthly examination and justification. Inventories, tools for evaluation and provisions for paid holidays and bonuses (as well as matters of retirement etc) also exist. The Group is aided by actuaries when evaluating staff retirement and other benefits given to employees.

16.5.3.3.9 Taxes and related products

A Fiscal check is put in place in each subsidiary in order to be consistent with the latest statutory demands. Processing, preparation and deposit of fiscal documents is done. Taxes and duties are paid correctly and on time. There are different tools available to monitor the Group's differing fiscal position. Taxable profit and accounting profit are reconciled.

16.5.3.3.10 Capital management

Processes linked to capital management are managed by the Legal department attached to the Group's Finance Department. These operations were previously authorized by Head Office and/or the Board. The collective group (subsidiaries and the Group) is managed directly by the Group's Legal Department and Head Office. Granting stock-options and/or free shares is monitored and the necessary information for preparing accounts is handed in on a monthly basis.

16.5.3.3.11 Provisions and financial commitments

The Group provides information on its commitments in the applicable accounting principles.

The Group periodically reviews its commitments and risks and determines if they should be subject to provisions or as attached information. The Group posts a provision as soon as there is a legal or implicit commitment and when it is likely that this commitment will provide funds for the benefit of a third party (with nothing expected in return) at least equivalent to the former and when a correct estimation of the amount can be made.

16.5.3.3.12 Consolidation

There are processes in place which aim for:
- Consolidation to be up-to-date and documented;
- Accordance with accounting rules and principles which are consistent among the integrated companies;
- Reciprocal operations are identified and eliminated, particularly financial operations and internal profit (stock margins, dividends, profits from transfers, purchases/sales of products);
- Consolidation notes are recorded and monitored in a specific ledger;
- Permanent checking is done on subsidiaries' percentage variations and participation so that appropriate processing can be set up at the time of account settlement (area of consolidation, modification of the consolidation method).

Controlling the processes of settling accounts means:
- Consistent accounting principles are applied;
- Reconciling accounts integrated in the consolidation with subsidiaries' social accounts;
- Analyzing and explaining the variations between the situation at opening and closing as well as variations in the cash flow table.

16.5.3.3.13 Management information required for publishing financial accounting

The Software *Magnitude* has only one area of data and allows monthly reporting and information to be taken from IFRS guidance whilst guaranteeing a consistent and coherent whole. Thus, the data presented in published financial statements is identical to that examined every month by Head Office.

16.5.3.3.14 Management of external financial information

There are people in charge of this and a process to identify and process the commitments of the financial market. A schedule exists which summarizes the Group's periodical commitments (as regards accounting and financial communication) and this schedule details the nature and redemption of each periodical commitment.

There is a process to monitor commitments of financial information. The Group's processes enable it to follow significant events and operations which took place in different accounting periods and to check this information before it is publicized.

17. STAFF

17.1. STRATEGY

In 2009, in an unfavorable economic environment, the Group prudently froze headcount but continued to replace those who left. The growth of its workforce therefore essentially comes from acquisitions. In 2010, we plan to strengthen marketing functions to prepare for future product launches.

17.1.1. Development of the Group

2008 saw the arrival of our new Italian colleagues, following the acquisition in December 2007. In 2009, 140 Indian employees joined the Group. The Italian team is essentially dedicated to administration and production: the commercial network, following Italian tradition (in almost all industries) is made up of independent agents (who are exclusive or sales representatives acting for several firms). India's workers focus on Sales and Marketing; all Production is given locally to approximately ten subcontractors. The turnover rate is very high in India, particularly in commercial functions. This will have a negative impact on the Group's turnover. Preliminary actions have been made in India to attempt to get the rate back to a better level. There is a plan to strengthen the Indian team in 2010, creating support functions similar to intergroup support to August 2009.

17.1.2. Recruitment and remuneration

The Company has a remuneration policy based on market surveys taking into account all aspects of remuneration. The Group's forte resides in its family values, its business culture, its development projects (especially at international level), its ambitions and its wide areas of responsibility. The subsidiaries are located in areas which provide a good quality of life and this is an appreciated benefit. All executives benefit from a variable remuneration policy based on individual performance. For several years, a very interesting remuneration system has been put in place for senior management.

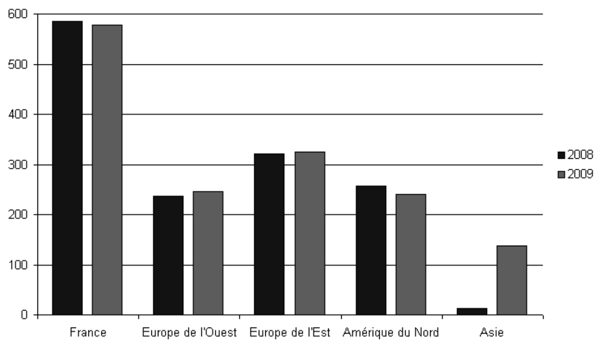
17.2. DESCRIPTION OF THE WORKFORCE

17.2.1. Evolution of the workforce

As at 31 December 2009, the Group employed 1,524 people as compared to 1 412 people at the end of December 2008. The Group continues to grow at a steady and controlled level: the Workforce is rising by 7.9%, essentially due to the integration of the new Indian subsidiary. On a constant level, the workforce remains stable.

Workforce	France	Western Europe	Eastern Europe	North America	Rest of the world	Consolidated Total
Total 2009	578	245	324	240	137	1,524
Total 2008	585	237	322	256	12	1,412
Evolution	-7	8	2	-16	125	112
	-1%	*3%*	*1%*	*-7%*	*91%*	*8%*

17.2.2. Breakdown by geographical area



17.2.3. Breakdown of workforce by profession in the Group[1]

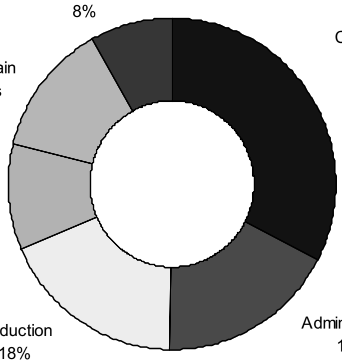
	2008	2009	Evolution
Commercial & marketing	368	497	35%
Administration	265	268	1%
Production	297	281	-5%
Quality	156	155	-1%
Supply chain & purchasing	195	199	2%
Scientific	131	124	-5%
Total	**1,412**	**1,524**	**8%**

[1] Vétoquinol has modified the division of its workforce into professions. Because of this, the comparison with data presented in the 2008 Annual Report is not possible. For this reason, 2008 data is reallocated into new categories.

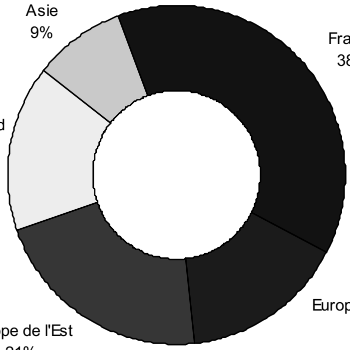
The strong growth of the commercial workforce is explained by the acquisition of the Indian entity, made up essentially of commercial staff. The reduction in the production workforce is explained by two factors: the Canadian unit of production responded to the economic condition by letting some technicians go and not replacing all the production operators; in France, certain production operators have still not been replaced.

In the scientific department, the disparity can be explained by the fact many staff left during the course of the year and these, as of 31 December 2009, have not been replaced. The target structure of the Group remains the same. The slowdown of the economy led the Group to limit the workforce's expansion.

17.2.4. Breakdown by profession



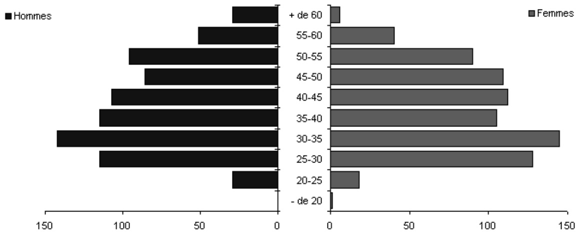
17.2.5. Breakdown of workforce by geographical area and gender



Due to the integration of the new Indian subsidiary, the area of Asia is growing significantly. Nevertheless, over three quarters of the workforce remain based in Europe (75%), notably in France (38%).

Workforce	France	Western Europe	Eastern Europe	North America	Rest of the world	Consolidated Total
Women	345	95	187	121	6	754
	60%	*39%*	*58%*	*50%*	*4%*	*49%*
Men	233	150	137	119	131	770
	40%	*61%*	*42%*	*50%*	*96%*	*51%*
Evolution	578	245	324	240	137	1,524
	38%	*16%*	*21%*	*16%*	*9%*	*100%*

17.2.6. Pyramid of ages per gender in the Group



The pyramid of ages is relatively balanced: 20% of the workforces are less than 30 years old and 20% are over 50. The average length of service within the Group is 9.8 years. The Group shows an almost perfect balance between men and women,

17.2.7. Breakdown per social/professional category

	2009	%
Executive management	45	3%
Executive	349	23%
Sales force	313	21%
Technician, employee	530	35%
Worker	287	19%
Total	**1,524**	**100%**

One sees a relatively balanced division between the different categories, the category of technicians being however a little more represented due to the pharmaceutical activity of production and R&D which need numerous R&D technicians as well as Quality and administrative technicians.

17.3. SOCIAL INFORMATION

17.3.1. Representation of personnel

Employee representation is ensured within the company by the Board, by a Hygiene, Safety and Work Conditions committee and by delegates from personnel. As well as at the site of Vétoquinol Prolab in Canada whereby the existence of a Union led to legal obligation, a union was set up in the Polish subsidiary in 2007, and, since 2009, there has also been a Union representative in France.

17.3.2. Hygiene, safety and working conditions

The Company's policy in this field focuses mainly on respecting the legislation of hygiene and safety, as well as preventive measures. The efforts within the Company focus notably on:

- Accident prevention with the introduction of tools to evaluate work positions and reduce risk as well as a pro-active approach for all new investment;
- Staff Training on risks
- Communication;
- Individual Responsibility

Work accidents which occurred in the last few years have not had serious consequences.

17.3.2.1 The Group's work policy

The work policy aims mainly to have competent and motivated personnel to ensure in an optimal way the various responsibilities and missions of the Group professions. As the Group has made the strategic choice to work as an integrated international Group, with interdependent entities and functions, policies and common Human Resources policies have been equally developed and implemented. In this framework, all the employees of the Group are henceforth evaluated on identical criteria via, for example, a unique system of reference of competences and behavior which the 6 Group values offer. These 6 values are also used as a filter mechanism when recruiting future colleagues.

17.4. HOLDINGS AND THE COMPANY'S PROFIT SHARING SCHEME

17.4.1. Holdings

The Company applies an exceptional option to the legal system as regards holdings (amendment n° 2, 29 June 2007). This special reserve of holding is equal to 5% of the Company's operating results.

17.4.2. Profit Sharing

Profit sharing was set up in the Company in 1987 in order to link the staff to the Company's success and to the benefits of its operations. The last profit sharing agreement (which is applied to the calendar years 2008, 2009 and 2010), was concluded on 27th June 2008. A ceiling is applied (beyond 2.5 times the annual ceiling of Social Security, the salary no longer generates profit sharing). It is stipulated that the amount of the special reserve for profit sharing and of the global budget for profit sharing in the same financial year cannot exceed 10% of gross salaries. Employees can opt for immediate payment of all the holding and profit share or to invest in the Company's Savings Plan which is managed by Société Générale Gestion (S2G).

17.4.3. Business savings plan within the Company

There is a business savings plan within the company, set up in 1989 by S2G and which allows employees to invest their savings (shares, interest and voluntary deposits) in four (4) Common placement funds:

- Arcancia Sécurité
- Arcancia Audace
- Arcancia Label Équilibre et Solidaire
- Vétoquinol Diversifié

This plan is supervised by a Surveillance committee made up of members representing the Company and its employees.

17.5. OPTIONS OF SUBSCRIPTION AND PURCHASE OF SHARES

Refer to chapter 21 for complementary information (Paragraph 21.3.4.) and to the consolidated accounts

18. MAIN SHAREHOLDERS

18.1. PARTNERSHIPS OF VÉTOQUINOL SA

Partnerships	As at 31/12/2009		As at 31/12/2008		As at 31/12/2007	
	Number of shares held	% of capital	Number of shares held	% of capital	Number of shares held	% of capital
Soparfin SCA[2]	6,778,393	60.02%	6,328,393	56.05%	6,219,361	55.09%
Étienne Frechin Family	583,600	5.17%	977,600	8.66%	977,600	8.66%
Subtotal Etienne Frechin Family Group	**7,361,993**	**65.19%**	**7,305,993**	**64.71%**	**7,196,961**	**63.74%**
FCPE	70,710	0.63%	70,457	0.62%	75,207	0.67%
Public	3,803,188	33.68%	3,827,341	33.90%	3,971,864	35.18%
Self owned	56,741	0.50%	86,541	0.77%	46,300	0.41%
TOTAL	**11,292,632**	**100.00%**	**11,290,332**	**100.00%**	**11,290,332**	**100.00%**

To the firm's knowledge, there is no other shareholder who has more than 5% of the capital or right to vote.

As at 31/12/2007, 3i and Banexi funds held 857,476 of the Groups' shares between them, i.e. 7.59%.

18.2. DIVISION OF VÉTOQUINOL RIGHT TO VOTE

A double right to vote was established by the Extraordinary General Assembly 7 July 2006. For more detail, refer to chapter 21.2.3 page 150.

Actionnaires	As of 31/12/2009		As of 31/12/2008		As of 31/12/2007	
	Shareholders'	rights to vote	% of right to vote	Right to vote	% of right to vote	Rights to vote
Soparfin SCA	12,997,754	67.94%	12,246,539	63.23%	12,137,507	60.78%
Étienne Frechin Family	1,161,200	6.07%	1,955,200	10.10%	1,955,200	9.79%
Subtotal Etienne Frechin Family Group	**14,158,954**	**74.01%**	**14,201,739**	**73.23%**	**14,092,707**	**70.57%**
FCPE	70,710	0.37%	70,457	0.37%	75,207	0.38%
Public	4,902,105	25.62%	5,096,267	26.31%	5,800,903	29.05%
Self owned	0	0.00%	0	0.00%	0	0.00%
TOTAL	**19,131,769**	**100.00%**	**19,368,463**	**100.00%**	**19,968,817**	**100.00%**

18.3. INFORMATION ON PACTS AND PARTNERSHIP CONVENTIONS

Please refer to chapter 21.4.2 of the current reference document on page 157. The measures which have been considered in order to ensure that control is not managed in an abusive way are the following:

- Presence of two independent administrators on the Board
- Presence of two independent administrators on the Strategic Committee
- Presence of two independent administrators in the Auditing Committee
- Presence of two independent administrators in the Remuneration Committee

With these specific measures, the firm considers that there is no risk of abusive control.

18.4. SHAREHOLDINGS OF MEMBERS OF THE BOARD AND MANAGEMENT AS OF 31 DECEMBER 2009

NAME	unrestricted ownership	Usufruct	Ownership without usufruct	TOTAL (*)	%	Application for options
Mr. Étienne Frechin	11,886	78,684		11,886	0.11%	NA
Mr. Matthieu Frechin	133,280		13,000	146,280	1.30%	NA
Mr. François Frechin	105,558			105,558	0.93%	NA
Mr. Jean-Charles Frechin	121,150	80,000		201,150	1.78%	NA
Mrs Marie-Claude Valentin-Frechin	91,710			91,710	0.81%	NA
Mr. Martine Frechin	510			510	0.00%	NA
Mr. Philippe Arnold	2			2	0.00%	NA
Mr. Louis Champel	100			100	0.00%	NA
Mr. Dominique Henryon	69,850			69,850	0.62%	NA
Mr. Alain Masson	1,600			1,600	0.01%	600
TOTAL NUMBER OF SHARES MAKING UP THE SHARE CAPITAL				11,292,632		

(*) Unrestricted ownership + ownership without usufruct

For statutory information on the right to vote, please refer to Chapter 21: Complementary information

18.4.1.1 Declaration of crossing the threshold

At the time of registering this present document, the Company was informed of a threshold being crossed:

- On 8 June 2009, the holding Soparfin declared it had individually crossed the threshold of 2/3 of rights to vote and holds, individually, on that date 6,778,393 Vétoquinol shares, representing 12,947,754 rights to vote, i.e. 60.02% of the capital and 67.81% of the rights to vote of this company.

19. OPERATIONS OF A SIMILAR NATURE

19.1. STATUTORY CONVENTIONS

No new statutory convention has been authorized since 31 December 2009. Refer to chapter 33 for statutory conventions related to 2009.

19.2. OTHER OPERATIONS

26 March 2009, Étienne Frechin, Chief Executive Officer of Vétoquinol SA and representative of the Company Demabel SARL, Manager of Soparfin SCA, signed a contract with Soparfin SCA in which he gave Soparfin SCA, 400,000 shares from Vétoquinol SA. Apart from this operation, there is no other option of this nature.

20. FINANCIAL CONDITIONS

20.1. CONSOLIDATED ACCOUNTS

CONSOLIDATED INCOME STATEMENT FOR THE YEAR 2008

In thousands of Euros	Notes	31/12/2009	31/12/2008	31/12/2007
Purchases consumed	20.1.8	252,214	234,395	233,364
Other purchases and external charges		(85,810)	(75,558)	(77,333)
Personnel costs	20.1.10	(55,225)	(51,905)	(52,520)
Taxes and duties	20.1.11	(70,061)	(68,348)	(62,129)
Depreciation, amortization and impairment of non-current assets		(4,795)	(3,890)	(4,282)
Provisions and write-backs	20.1.20 / 20.1.21	(11,068)	(10,289)	(10,046)
Other operating income and expenses		(817)	(588)	1,328
Purchases consumed	20.1.13	4,843	4,460	3,089
Other purchases and external charges	20.1.13	(356)	(691)	(746)
Operating profit from continuing operations		**28,925**	**27,587**	**30,725**
Other income and expenses	20.1.14	0	0	(1,107)
Operating profit		**28,925**	**27,587**	**29,619**
Net finance costs	20.1.16	-4,204	-3,592	-3,643
Other financial income and expenses	20.1.16	235	651	252
Cost of net financial debt	20.1.16	**-3,970**	**-2,941**	**-3,391**
Other financial income	20.1.16	2,920	2,808	922
Other financial costs	20.1.16	(2,921)	(3,002)	(2,035)
Financial result		**(3,971)**	**(3,135)**	**(4,504)**
Pre-tax profit		**24,954**	**24,452**	**25,115**
Income taxes		(6,741)	(5,882)	(6,466)
Consolidated net profit		**18,214**	**18,569**	**18,649**
Recurring:				
Net profit – attributable to parent company shareholders		18,207	18,564	18,642
Net profit – minority interests		7	5	7
Exchange variance from foreign operations		2,702	(5,564)	(1,456)
Actuarial gains and losses, net of taxes		17	123	224
Other global income, net of taxes				
Total global result for the period		**20,933**	**13,129**	**17,417**
Recurring:				
To company shareholders		20,926	13,124	17,410
To minority interests		7	5	7
Earnings per share (in euro)	20.1.18	1.61	1.64	1.65
Diluted earnings per share (in euro)	20.1.17	1.67	1.67	1.66

CONSOLIDATED BALANCE SHEET FOR THE YEAR 2008

In thousands of Euros	Notes	31/12/2009	31/12/2008	31/12/2007
ASSETS				
Goodwill	20.1.19	58,317	33,565	25,405
Other intangible assets	20.1.20	29,735	26,408	25,988
Tangible assets	20.1.21	41,598	42,553	44,068
Financial assets available for sale	20.1.22	0	0	0
Other financial assets	20.1.23	431	422	426
Deferred tax assets	20.1.17	5,630	6,511	5,246
Total non-current assets		**135,710**	**109,458**	**101,134**
Inventories	20.1.25	39,955	43,024	39,308
Trade receivables and related accounts*	20.1.26	53,686	52,551	47,644
Current income tax receivables		4,677	3,558	429
Cash and cash equivalents	20.1.26	1,549	1,995	1,096
Total non-current assets	20.1.27	48,089	25,845	40,336
Total current assets		**147,956**	**126,973**	**128,812**
Total assets		**283,666**	**236,431**	**229,946**
EQUITY				
Share capital and share premium	20.1.28	60,831	60,820	60,821
Reserves		75,880	57,645	48,382
Net profit for the period		18,207	18,564	18,642
Equity attributable to parent company shareholders		**154,918**	**137,028**	**127,845**
Minority interests		28	26	26
Total equity		**154,946**	**137,054**	**127,871**
LIABILITIES				
Non-current financial liabilities	20.1.29	34,786	30,233	32,709
Deferred tax liabilities	20.1.17	2,062	1,235	1,137
Provisions for employee benefits	20.1.30	4,156	3,900	2,718
Other current provisions	20.1.31	636	790	779
Other long-term liabilities		113	0	0
Accountable advances from	20.1.32	652	332	402
Total non-current liabilities		**42,405**	**36,491**	**37,746**
Suppliers and other creditors	20.1.33	53,786	51,093	54,030
Tax liabilities		4,651	4,728	3,252
Current financial debts	20.1.29	27,116	6,534	6,754
Other provisions	20.1.31	331	118	12
Other current liabilities	20.5.33	250	264	281
Conditional State aid (of less than 1 year)	20.1.32	180	150	0
Total current liabilities		**86,315**	**62,886**	**64,328**
Total debts		**128,720**	**99,377**	**102,074**
TOTAL EQUITY AND LIABILITIES		283,666	236,431	229,946

CASH FLOW STATEMENT FOR THE YEAR 2009

In thousands of Euros	Notes	31/12/2009	31/12/2008	31/12/2007
Consolidated net profit		**18,214**	**18,569**	**18,649**
Elimination of non-cash items				
Depreciation, amortization and impairment		11,289	10,404	10,042
Badwill				
Income taxes*	20.5.17	6,741	5,882	6,466
Interest expense		4,184	3,468	3,496
Provisions for employee benefits		114	119	105
Impairment of financial assets available for sale				
Gains on disposals of assets (net of taxes)		-191	-86	34
Other items with no impact on cash flow		0	0	-1
Income and expenses in connection with the share-based payments		160	237	285
Cash generated by		**40,511**	**38,594**	**39,075**
Income tax paid		-7,000	-7,015	-3,474
Change in working capital requirements*		6,535	-8,182	3,329
Cash operating income		**40,046**	**23,396**	**38,930**
Purchase of intangible assets		-2,302	-3,593	-1,588
Purchase of tangible assets		-5,369	-5,274	-6,850
Purchase of assets available for sale		0	0	0
Purchase of other financial assets				
Income from sale of assets		208	68	160
Loan repayments / income from other financial assets		8	-67	-395
Acquisition of subsidiaries, net of cash required	20.5.7.4	-27,690	-17,443	0
Net cash flow used by investments		**-35,145**	**-26,310**	**-8,673**
Proceeds from capital increase		11	-0	57
Net (purchase)/disposal of treasury stock		0	-906	-1,320
Issuance of borrowings and other financial liabilities		25,773	441	2,376
Repayment of financial liabilities		-3,313	-6,085	-5,065
Interest paid		-1,862	-1,494	-1,715
Dividends paid to parent company shareholders	20.5.28.5	-3,022	-3,025	-2,593
Dividends paid to minority interests		-5	-6	-5
Investment grants and accountable advances				
Other cash flows related to financing				
Net cash flow from/(used by) financing		**17,582**	**-11,075**	**-8,264**
Impact of changes in exchange rates		-360	-1,094	-893
Net change in cash		**22,123**	**-15,082**	**21,100**
Cash and cash equivalents at beginning of period		**21,225**	**36,307**	**15,204**
Change in cash and cash equivalents		22,123	-15,082	21,100
CASH AND CASH EQUIVALENTS AT CLOSE OF PERIOD	20.1.27	**43,348**	**21,225**	**36,307**

STATEMENT OF CHANGE IN CONSOLIDATED EQUITY

In thousands of Euros	Share capital and share premium	Foreign currency translati on reserve	Actuarial gains	Change in FV of AFS	Other reserves	Total reserves	Net profit for the period	Total equity	Minority interests
Balance at 31/12/2006	**60,763**	**2,884**	**-91**	**31,744**	**34,537**	**15,824**	**111,124**	**24**	**111,148**
Results			224		224	18,642	18,865	7	18,873
Other elements of the total net result of taxes		-1,456			-1,456		-1,456		-1,456
Appropriation of net profit				15,824	15,824	-15,824	0		0
Stock options exercised	57						57		57
Treasury shares				-1,366	-1,366		-1,366		-1,366
Dividends paid by the parent company				-2,593	-2,593		-2,593	-5	-2,598
Others	0			3,214	3,214		3,213		3,213
Balance at 31/12/2007	**60,820**	**1,428**	**133**	**46,823**	**48,383**	**18,642**	**127,845**	**26**	**127,871**
Results			123		123	18,564	18,687	5	18,692
Other elements of the total net result of taxes		-5,564		0	-5,564		-5,564		-5,564
Appropriation of net profit				18,642	18,642	-18,642	0		0
Stock options exercised									
Treasury shares				-1,073	-1,073		-1,073		
Dividends paid by the parent company				-3,025	-3,025		-3,025	-6	-3,030
Others				157	157		157		157
Balance at 31/12/2008	**60,820**	**-4,136**	**256**	**61,524**	**57,645**	**18,564**	**137,028**	**25**	**137,053**
Results			17		17	18,207	18,224	7	18,231
Other elements of the total net result of taxes		2,702			2,702		2,702		2,702
Allocation of profit				18,564	18,564	-18,564	0		0
Stock options exercised	11						11		
Allocation of net profit				44	44		44		
Dividends paid by the parent company				-3,022	-3,022		-3,022	-5	-3,027
Others				-69	-69		-69		-69
Balance at 31/12/2009	**60,831**	**-1,434**	**274**	**77,040**	**75,880**	**18,207**	**154,918**	**28**	**154,946**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2009

20.1.1. General overview

Vétoquinol is an independent veterinary pharmaceutical laboratory founded in 1933, focusing on livestock and companion animals. Dedicating exclusively to animal health, this family-owned business is the world's 11th largest laboratory, generating almost 80% of its revenues internationally.

Its operations range from research to the production and marketing of pharmaceuticals and dietary products. Focused on curing, Vétoquinol is an expert in three therapeutic domains: anti-infectives, pain and inflammation, and cardiology/nephrology.

Currently the group distributes its products in more than hundred countries in Europe, North America, and Asia through its subsidiaries in 23 countries and a network of 140 distribution partners. The company employees 1,524 people throughout the world.

The parent company, Vétoquinol, is a French joint-stock company (société anonyme) with registered offices in Magny Vernois, 34 rue du Chêne Saint Anne, 70204 Lure Cedex, France.

Vétoquinol S.A., the parent company, is a subsidiary of the company Soparfin.

The consolidated accounts of the Vétoquinol Group were approved by the Board of Directors on 11 March 2010.The accounts have been submitted for approval by the next annual general meeting which will take place on 7 May 2010.

20.1.2. Other information

20.1.2.1 New loan

To finance its external growth, Vétoquinol signed in January 2009 with two banks a loan covenant for a 25 million Euros medium-term loan.

This operation is subject to financial covenant clauses (debt ratio, profitability ratio) that Vétoquinol is committed to respecting. During 2009, the Group met its financial obligations.

This loan allowed the financing of a major portion of The Indian acquisition through its equity-bearing subsidiary Vétoquinol International,

20.1.2.2 Acquisition in India

The acquisition of the Animal Health Division of Wockhardt Limited, based in Bombay (India), completed on Aug. 20, 2009 through its subsidiary Vétoquinol International, will contribute to Vétoquinol's international development. The acquisition makes Vétoquinol the sixth largest player in the Indian market for animal health.

The market, with an annual growth of over 8% per year, is estimated at more than 350 million U.S. dollars. India is the world's largest milk-producer; 50% of the animal health market is dedicated to bovine care. This acquisition is in line with Vétoquinol strategy and will enable synergies with of the Group's significant know-how.

20.1.2.3 Bond

In December 2009, the Soparfin company decided not to convert Tranche A of the bond purchased in 2006 from 3i and Banexi.

Thus, in addition to paying the nominal € 10 million and interest of 5%, Vétoquinol will pay a non-conversion premium of 5.8 M€ on February 28, 2010. Vétoquinol cash position can cover this payment.

On Block B, no decision has yet been taken.

20.1.2.4 Financial crisis

We have reviewed our valuation methods, our key assumptions, our risk exposure, and our main estimates regarding the international financial crisis for the entire Group, and it has not had a major impact on Vétoquinol's consolidated accounts and the Group's financial position.

20.1.3. Accounting Principles

20.1.3.1 General principles and accounting standards

The consolidated financial statements for the year ended December 31, 2009 are prepared in accordance with International Accounting Standards as issued by IASB and approved by the European Union December 31, 2009. International standards include the IAS (International Accounting Standards), IFRS (International Financial Reporting Standards) and interpretations (SIC and IFRIC).These consolidated financial statements were prepared on a historical cost basis, except for financial assets available for sale, which are stated at fair value through equity, and for financial assets and liabilities stated at fair value through profit or loss (including derivatives).

In preparing these consolidated financial statements in accordance with IFRS, Group management was required to use basic accounting estimates described in note 20.1.6.

The main accounting methods used in preparing these consolidated financial statements are set forth below. These methods are identical to those used by the Group on 31 December 2008, with the exception of standards, interpretations and amendments adopted by the European Union and applicable for periods starting from 1 January 2009. These standards, interpretations and amendments have had no impact on Group accounts, with the exception of:

- The amendment to IAS 1 "Presentation of Financial Condition": The Group presents all own capital variants relative to the Company owners exclusively in the statement of changes to equity while changes in capital that do not concern the owners are also presented in the statement of comprehensive income.

- The comparative information has been restated to conform with the amended standard IFRS 8 "Operating segments" that replaces IAS 14 "Segment information": Standard IFRS 8 defines an operating segment as a component of the Group engaged in activities from which it is likely to derive income or incur expenses, including income and expenses related to transactions with other components of the Group. The application of this standard brings no significant change to the Group's segment communications. Comparative segment information has been restated in accordance with the provisions of IFRS 8. Other changes applying at year's end 31/12/2009, without impact on the Group accounts are:

Revised IAS 23 "Borrowing Costs" which removes the possibility of counting as expenses the costs of borrowing incurred during the construction period of qualifying assets. This amendment has no impact on Group accounts (no loan has been incorporated in asset costs in fiscal 2009).

Amendments to IFRS 7, "Improving information provided on financial instruments;"

Amendments to IAS 39 and IFRIC 9 "Embedded Derivatives;"

Amendments to IFRS 1, and IAS 27 Cost of interest in a subsidiary, an entity controlled by an associate or jointly;

Amendments to IAS 32 and IAS 1 Financial Instruments redeemable at the option of the holder and Obligations following liquidation;

Amendments in force on 1 January 2009 from annual improvements (2006-2009) of the IFRS;

IFRIC 14 'IAS 19 - The Limit on assets under defined benefit plans, the requirements of minimum funding and their interaction;

IFRIC 11 'IFRS 2 - Group and Treasury Share Transactions intragroup;"

IFRIC 13 "Customer loyalty programs for customers;"

Amendment to IFRS 2 "Share-based Payment" concerning the conditions for acquiring rights and cancellation of a payment agreement based on shares of the entity or the other party.

In order to provide better information to readers of the accounts, the company has adopted, in some cases in the 2008 financial statements, a classification different from that of the previous year. In order to allow comparability of figures from one year with those of another, the figures shown in the column for the period 2007 have been reclassified according to the options chosen for 2008. These reclassifications are identified by * in the financial statements and have no impact on net earnings, which remain unchanged from those presented last year.

Thus, in order to conform more closely to international standards, the Group has reclassified the financial statements for December 2007 and 2008 as "Other and operating expenses "CIR (Research Tax credit), which was previously presented in "Income tax expense.' This reclassification is identified by an (*) in the Financial condition report and has no effect on net income, which remains unchanged.

In 2008 the amount of CIR totals 2,913 K€ cons 1,541 K€ in 2007.

20.1.3.1.1 Standards, interpretations and amendments standards already published, not yet in force:

The Group has decided not to apply in advance standards adopted by the European Union in 2009 and whose application is not mandatory:

Amended IAS 27 Consolidated Financial Statements and individual "and IFRS 3 revised Combinations

Business, which apply to the Group from 1 January 2010 onward;

IFRIC 12 "Concession services"

IFRS 1 First-time adoption of international standards

Financial Reporting revised version, which does not affect the Group's accounts;

Amendment to IAS 32 'Ranking of emissions rights"

The amendments to IAS 39 "Items eligible for Hedging

The amendments relating to IFRS 5 Non-current Assets held for sale and discontinued operations" and

IFRS 1 First-time adoption of international standards for Financial Information described in the (2006-2008) Annual improvements to international standards which apply, on a mandatory basis, effective January 1, 2010;

IFRIC 15 'Agreements for the Construction of real estate, no effect on the Group;

IFRIC 16 'Hedges on net investment in a foreign activity"

IFRIC 17 "Distributions in kind to shareholders"

IFRIC 18 "Transfers of assets by customers.

The Group believes that the other standards and interpretations not yet in force will have no material impact on its consolidated accounts. In addition, the Group does not expect approval by the European Union of the following texts before 2010:

IAS 24 revised "Information on related parties;"

Annual Improvements (2007-2009) to IFRS;

Amendments to IFRS 1 Complementary exemptions for early adopters;

Amendments to IFRS 2 "intra-group transactions which based on equity patyment which are settled in cash;

Amendments to IFRIC 14 "Prepayments of minimum funding requirements;

IFRIC 19, "Termination of Financial Liabilities of equity instruments.

Finally, under the proposed revision of IAS 39, IASB adopted in November 2009 a new IFRS 9 norm: "Financial Instruments - Phase 1 Classification and evaluation. As this has not been adopted by Europe and, following the regulations currently in place, this standard is not applicable prior to the year ended December 31, 2009.

The potential impact of all these standards, amendments and interpretations is under evaluation.

20.1.3.2 Consolidation and business combinations

20.1.3.2.1 Scope of consolidation

The consolidated accounts include those of Vétoquinol SA and its subsidiaries in which the company has, directly or indirectly, majority voting rights. Together, they form the Vétoquinol Group.

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

A company is included in the scope of consolidation as of the date on which the Group acquires effective control of it, and deconsolidated as of the date on which that effective control ceases.

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is equal to the aggregate of the fair value of the assets given, the liabilities incurred or assumed and the equity instruments issued by the acquirer at the acquisition date, plus any costs directly attributable to the business combination. The identifiable assets acquired, and the identifiable liabilities and contingent liabilities assumed in a business combination are initially recognized at their fair value at the acquisition date, whatever the proportion held by minority interests. The excess of the acquisition cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill (F.19).

The interests of minority shareholders are presented in the balance sheet as a category of equity. Their share of net consolidated net profit is presented separately in the income statement.

All intra-Group balances and transactions, including gains and losses, as well as dividends, are eliminated on consolidation. The Group is composed solely of Vétoquinol SA and its subsidiaries. It has no joint-ventures or associates.

The scope of Group companies is presented in note F.41 "Group companies".

20.1.3.3 Business combinations

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

The acquisition cost is equal to the aggregate of the fair value of the assets given, the liabilities incurred or assumed and the equity instruments issued by the acquirer at the acquisition date, plus any costs directly attributable to the business combination. If the business combination agreement calls for an adjustment in the acquisition price depending on future events, the Group includes the amount of this adjustment in the cost of the business combination at the acquisition date if this adjustment is probable and can be reliably measured.

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

20.1.3.4 Foreign currency translation

20.1.3.4.1 Functional currency and presentation currency

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

20.1.3.4.2 Contingent assets and liabilities

At the Group companies, transactions in foreign currencies are converted into the functional currency at the exchange rate prevailing at the moment that they are executed. Foreign currency monetary items are translated on the balance sheet at closing exchange rates.

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

Any resulting unrealized translation gains or losses are recognized through profit or loss, except for:

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

20.1.3.4.3 Translation of the financial statements of Group companies

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

- assets and liabilities are translated at the closing for each balance sheet at the date of that balance sheet;

- income and expenses are translated at the average yearly rate or at the exchange rate in force at the date of transaction in the case of significant transactions;
- all resulting exchange differences are recognized as a separate component of equity.

On the deconsolidation of a foreign operation, the cumulative translation adjustments originally recorded in equity are recognized through profit or loss under gains or losses on deconsolidation, except for those translation adjustments recognized prior to 1 January 2004 and charged against consolidated reserves as part of the changeover of Group accounting to IFRS.

20.1.3.5 Revenue recognition

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

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

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

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

20.1.3.6 Segment information – IRFS 8

The first and only level of segment information is the geographical region.

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

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

- France
- Rest of Western Europe
- Eastern Europe
- North America
- Rest of World

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

- nature of the products: most of the therapeutic segments are common to both companion animals and production animals (e.g. antibiotics, anti-parasitics, etc.);
- the same production lines are used for both segments and there is no significant differentiation in terms of sourcing;
- the only distinction is between the ethical sector (veterinarians) and the OTC market (general public);
- distribution channels: the main distribution channels depend more heavily on the country than on the business segment. In some cases, the same sales forces may be used for both business segments;
- regulatory environment: exactly the same bodies are responsible for marketing authorization in both segments.

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

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

20.1.3.7 Earnings per share

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

The calculation of net diluted earnings per share includes share equivalents with a potentially dilutive effect but excludes those share equivalents that do not have a potentially dilutive effect. The figures for diluted earnings per share are based on the assumption that maximum dilution will occur. This assumption makes it possible to calculate the maximum difference in relation to basic earnings per share that would be obtained if all dilutive instruments were exercised, without expressing an opinion on the likelihood of dilution.

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

20.1.3.8 Employee benefits

20.1.3.8.1 Pension and other post-employment benefit obligations

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

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

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

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

Actuarial gains and losses arising on adjustments due to revised actuarial assumptions and to experience are recognized directly in equity in the consolidated statement of income and expenses for the period in which they occur.

20.1.3.8.2 Share-based payment

Five stock option plans have been available to employees since June 1999.Vétoquinol is under no obligation to buy back its own shares.

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

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

A bonus shares allocation plan has been put in place (see Note Erreur ! Source du renvoi introuvable..

20.1.3.9 Leases

20.1.3.9.1 Operating leases

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

20.1.3.9.2 Finance leases

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

20.1.3.10 Intangible assets

20.1.3.10.1 Goodwill

Goodwill represents the excess of the cost of acquiring a subsidiary over the Group’s interest in the net fair value of the subsidiary’s identifiable net assets at the acquisition date. Under IAS 36, goodwill is allocated to cash-generating units for purposes of impairment testing described in note 20.1.3.12. Goodwill is tested annually for impairment and recognized at cost, less any accumulated impairment losses. Impairment losses may not be reversed.

20.1.3.10.2 Research & development costs

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

In contrast, costs related to license and distribution rights for drugs, processes and information of a scientific nature are recognized on the balance sheet as intangible assets. Such sums are typically paid in the starting phase and in the course of a research project, until marketing authorization has been obtained. Those amounts are amortized over periods ranging from five to 12 years.

20.1.3.10.3 Other intangible assets

Intangible assets are stated in the balance sheet at historical cost and systematically amortized over their estimated useful lives, except for the Equistro trademark, which has an indefinite useful life; an impairment test is conducted annually to determine whether the assets should be written-down.

The same amortization periods are used throughout the entire Group

Categories	Method	Period
Licenses and patents	Straight-line	5-10 years
Software	Straight-line	1-5 years
Trademarks	Straight-line	7-10 years
Other	Straight-line	10 years

20.1.3.11 Tangible assets

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

Categories	Method	Period
Buildings	Straight-line	15-40 years
Fixtures	Straight-line	10-20 years
Production equipment	Straight-line	6 2/3-10 years
Vehicles	Straight-line	5 years
Office equipment	Straight-line	5 years
R&D equipment	Straight-line	5 years
Furniture	Straight-line	8-10 years
Other tangible assets	Straight-line	5 years

20.1.3.12 Impairment of assets

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

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. To measure impairment, assets are grouped together in cash-generating units (CGUs), i.e. the smallest identifiable The CGUs defined for Vétoquinol are the following countries: USA, Canada, France, UK, Belgium, Switzerland, Czech Republic, Austria, Poland, Ireland, Germany, Italy and Scandinavia. Non-financial assets (other than goodwill) that have incurred impairment losses are reviewed for possible reversal of those losses at each annual or interim closing. Impairment losses are first charged against goodwill. The balance is allocated to the assets of the CGU.

20.1.3.13 Financial assets available for sale

Financial assets available for sale chiefly include non-consolidated equity investments, which are measured in the balance sheet at fair value. Changes in fair value are recorded in equity. If an objective indication of a loss of value exists on a financial asset (notably a significant and long-term decrease in the value of the asset) then a provision for irreversible impairment is recognized through profit or loss. Changes in fair value recognized in equity are "recycled" to the income statement when the specific assets are derecognized or disposed of.

Financial assets available for sale chiefly include non-consolidated equity investments, which are measured in the balance sheet at fair value. Changes in fair value are recorded in equity. If an objective indication of a loss of value exists on a financial asset (notably a significant and long-term decrease in the value of the asset) then a provision for irreversible impairment is recognized through profit or loss. Changes in fair value recognized in equity are "recycled" to the income statement when the specific assets are derecognized or disposed of.

20.1.3.14 Other financial assets

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

20.1.3.15 Derivative instruments

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 sole purpose of hedging risk.

The main currency hedge instruments used are the purchase of currency options or forward contracts on the British pound expiring in less than one year. To hedge interest rate exposure, the Group uses primarily vanilla swaps and caps.

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

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

- with a fair value hedge, any change in the fair value of the derivative is recorded in the income statement, as is any change in the fair value of the hedged item.

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

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

Note 20.1.4.1 below gives quantitative explanations of how these instruments are used.

20.1.3.16 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. The cost of work in progress and of finished goods in storage includes raw materials, direct labor and a proportion of variable and fixed production overheads based on normal operating capacity.

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

20.1.3.17 Trade receivables and related accounts

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

There is practically no credit risk on the trade receivables held by the Group. Any impairment provisions recorded concern essentially customers whose receivables are past due.

20.1.3.18 Cash and cash equivalents

Cash includes bank deposits, short-term investments and cash equivalents, and is measured at its amortized cost.

20.1.3.19 Financial liabilities

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

Borrowings are recognized initially at fair value, less any allocable transaction costs. They are subsequently stated at amortized cost using the effective interest method.

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

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

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

Interest is expensed as incurred.

20.1.3.20 Deferred taxes

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

No deferred tax liabilities were recorded at the time of initial accounting for goodwill.

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

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

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

With regard to French companies, following the abolition of business tax and its replacement by the ETC and CVAE since 2010, the group is currently evaluating the effects of these new taxes on their fiscal and social situation, but decides to consider CVAE within the scope of IAS 12. This decision will lead us to enter this tax on the line "tax on profits" in the 2010 consolidated income statement.

The value of deferred tax liabilities to be recorded on the closing of the 2009 accounts, as a corollary to accounting for CVAE in taxes on profits starting in 2010, has not yet been evaluated. As a result, the group has not recorded deferred tax as such in closing the 2009 accounts. However, in view of the first simulation exercises, the impact would appear to be insignificant.

20.1.3.21 Provisions

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

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

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

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

20.1.3.22 Non-current assets held for sale and discontinued operations

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

20.1.3.23 Government grants

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

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

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

20.1.3.24 Distribution of dividends

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

20.1.4. Financial risk management

20.1.4.1 Currency risk

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

Accordingly, its subsidiaries are not significantly exposed to currency risk. Foreign currency movements are centralized at the Vétoquinol SA level, and hedging instruments are put in place to offer protection against the risk. The term on these instruments is always less than one year, and at the year-end closing date, there are no outstanding hedges. For this reason, the provisions of IAS 39 pertaining to accounting for such instruments have not been found to be applicable to 31 December 2009 nor to the last two years. Where Vétoquinol would have realized gains and losses on these instruments, these would be accounted for in the financial results.

As described above, practically the only currency risk to which Vétoquinol is exposed by the operations of its subsidiaries is in the consolidated income statement. On the basis of the 2009 financial statements, and taking only the non-French subsidiaries, a 10% rise in the value of the euro against all other currencies would have lowered consolidated revenues by € 10.0 million (2008: 10,0 M€ 2007: 10.3 M€) and a decrease in consolidated operating profit of € 0.9 million (2008: € 1.0 million, 2007: 1.0 million €).

Conversely, a decline of the euro by 10% against other currencies would have generated an increase in turnover of € 12.3 million (2008: 12.3 M€ 2007: 12.6 M€) and an increase in consolidated operating profit of € 1.1 million (2008: € 1.2 million: 2007: € 1.2 million).

Currency risk of Vétoquinol SA Because of its sales in foreign currencies, Vétoquinol SA is exposed to currency risk between the date these sales are invoiced and the date payment is received.

Based on the pivot rates with which the budget was prepared and/or the exchange rates used for invoicing, forecasts of collections and actual or forecast exchange rates, Vétoquinol SA hedges either a portion or all of its inflows in foreign currencies using traditional bank products.

Foreign exchange gains or losses and the net result of hedging transactions are recognized in net financial profit. Group procedures do not authorize speculative transactions. Most of these transactions are entered into and closed during the year, over very short periods, and therefore there are no outstanding items on the balance sheet at the period ends.

Analysis of Group's exposure to currency risk (IFRS 7), based on the following notional amounts:

In thousands of Euros	Euros	CAD	CHF	USD	GBP	ZPN	Other currencies	Total
31/12/2009								
Trade receivables and related accounts	27,837	5,973	672	5,038	2,598	2,127	3,602	47,846
Impairment of trade receivables	- 1,372	- 67	- 33		- 8	- 126	- 70	- 1,675
NET TRADE RECEIVABLES	**26,465**	**5,906**	**639**	**5,038**	**2,590**	**2,001**	**3,532**	**46,171**
Prepayments	225			132		21	4	382
Prepaid expenses	710	226	17	1		190	86	1,228
Receivable from government agencies	4,461	132	0		427	527	110	5,658
Other operating receivables	442			301	107	6	9	864
Miscellaneous receivables	650	16	25	34	6	203	7	940
Provisions							- 9	- 9
TOTAL OTHER RECEIVABLES	**6,487**	**373**	**43**	**467**	**540**	**946**	**207**	**9,064**
Trade payables and related accounts	29,912	6,470	902	5,868	4,938	1,108	4,839	54,036
NET TRADE PAYABLES AND RELATED ACCOUNTS	**29,912**	**6,470**	**902**	**5,868**	**4,938**	**1,108**	**4,839**	**54,036**
TOTAL GROSS BALANCE SHEET EXPOSURE	**3,041**	**- 190**	**- 220**	**- 363**	**- 1,807**	**1,839**	**- 1,101**	**1,198**

In thousands of Euros	Euros	CAD	CHF	USD	GBP	ZPN	Other currencies	Total
31/12/2008								
Trade receivables and related accounts	29,634	5,531	648	6,518	2,403	2 133	1,424	48,290
Impairment of trade receivables	- 896	- 30	- 30	- 11	- 21	- 161	- 35	- 1,185
NET TRADE RECEIVABLES	28,738	5,500	618	6,507	2,382	1 972	1,388	47,106
Prepayments	206					5	13	23
Prepaid expenses	995	164	28	20		49	479	1,735
Receivable from government agencies	3,838	162	1			192	20	4,212
Other operating receivables	369		0		89		8	467
Miscellaneous receivables	471	24	33	43	7	181	52	811
Provisions							- 8	- 8
TOTAL OTHER RECEIVABLES	5,879	350	61	63	96	426	564	7,440
Trade payables and related accounts	38,344	4,682	755	3,400	2,021	1 689	466	51,357
NET TRADE PAYABLES AND RELATED ACCOUNTS	38,344	4,682	755	3,400	2,021	1 689	466	51,357
TOTAL GROSS BALANCE SHEET EXPOSURE	- 3,727	1,169	- 77	3,171	457	709	1,486	3,189

In thousands of Euros	Euros	CAD	CHF	USD	GBP	ZPN	Other currencies	Total
31/12/2007								
Trade receivables and related accounts	22,577	7,426	493	6,359	2,413	3,203	1,004	43,475
Impairment of trade receivables	- 781	- 1	- 24	- 113	- 28	- 163	- 20	- 1,129
NET TRADE RECEIVABLES	21,797	7,425	470	6,246	2,385	3,040	984	42,346
Prepayments	593					6	3	601
Prepaid expenses	349	236	30	6	68	59	53	801
Receivable from government agencies	2,426	228	26		1,198	190	9	4,077
Other operating receivables	200		1				11	212
Miscellaneous receivables	473	12	22		67	132	6	713
Provisions							- 11	- 11
TOTAL OTHER RECEIVABLES	4,041	477	79	6	1,332	387	71	6,393
Trade payables and related accounts	37,255	7,114	651	2,195	4,575	2,195	327	54,311
NET TRADE PAYABLES AND RELATED ACCOUNTS	37,255	7,114	651	2,195	4,575	2,195	327	54,311
TOTAL GROSS BALANCE SHEET EXPOSURE	- 11,417	788	- 102	4,057	- 858	1,232	728	- 5,572

20.1.4.2 Interest rate risk

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

The Group's exposure to interest rate risk is very low, and basically only two lines on the balance sheet are concerned: financial liabilities and cash.

Over 92% of the Group's debt at 31 December 2009 (including bank overdraft facilities and convertible bonds) bore interest at a fixed rate (86% at 31 December 2008 and 83% at 31 December 2007). Floating rate commitments represented a total of 4.7 million Euros at 31 December 2009 (0.4 million Euros at 31 December 2008 and 5.7 million Euros at 31 December 2007). To hedge these floating rate commitments and optimize its financing costs, the Group may, as it has in the past, choose to enter into fixed-rate interest rate swaps.

On the basis of accounts at the end of 2009, an increase of 100 basis points in interest rates would have resulted in an increase in profit of 98 K€ (2008: 72 K€; 2007: 73 K€).

20.1.4.3 Liquidity Risk

The Group's cash - excluding bank overdrafts - amounts to € 48.1 million as of December 31, 2009 (2008: 25,8 M€ 2007: € 40.3 million), consists of cash and Monetary Fund and mutual funds treated as cash equivalents with major banking networks amounting to some € 25.2 million (2008: € 8.4 million, 2007: € 17.5m). During 2009, the Group generated a cash flow before cost of net financial debt and tax of € 40.5 million vs. € 38.6 million the previous year.

To finance its external growth, Vétoquinol signed a credit agreement with two banks in January 2009 on a medium-term loan of € 25 million. This loan was used primarily to finance the Indian acquisition. This loan is subject to financial-obligation clauses (debt ratio, profitability ratio) that Vétoquinol is committed to respect. Throughout 2009, the Group has fulfilled its financial obligations. The decrease in cash over the year 2008 (€ 15.1 million) is related primarily to the acquisitions of Ascor Chimici and Viavet Scandinavia AB. The financial crisis has not led to loss of value of cash positions held by Vétoquinol

In the light of its financial position at 31 December 2009, the Group does not believe that it is exposed to any liquidity risk. At 31 December 2009, the Group's cash balances were largely sufficient to honor all of its short-term debt maturities. The Group had a 14.6 million Euros in net financial debt at 31 December 2009, compared with 11.4 million Euros of net financial debt at 31 December 2008 (2007: -0.5 M€).

Each Group subsidiary is responsible for collection of its own trade receivables and cash balances. The Group Finance Department uses a cash forecast derived from the annual budget to provide continuous reporting of the cash movements of the subsidiaries, in order to establish the Group's net cash positions as precisely as possible and maintain the Group's ability to honor its financial commitments.

20.1.4.4 Credit risk

Credit risk is the risk of the Group's incurring a financial loss in the event that a customer or counter party on a financial instrument does not honor its contractual obligations. The only credit risk to which the Group is exposed is that of its trade receivables.

In fact, with regard to investments, the Group limits its exposure to credit risk by investing only in secured, liquid instruments. Given the characteristics of money market mutual funds chosen, management does not expect counterparty default.

The Group's exposure to credit risk is impacted primarily by the individual characteristics of its customers. The Group markets its products in some 115 countries, through a proprietary network of 140 distributors.

In certain geographical regions, a certain concentration of wholesalers and/or central purchasing agencies, accompanied by a renegotiation of contracts, could result in a revision of the Group's margins. This risk, however, appears to be limited, as the Group is sufficiently large and diversified both geographically and by product to resist any such pressures. For example, the Group's largest wholesale distributor represented approximately 10.1% of consolidated total revenues in 2009 (2008: 10.3%).

Any customers that do not meet the Group's requirements in terms of solvency are allowed to conduct business with the Group only by paying in advance.

All sales of assets are covered by an ownership reserve clause that provides the Group with a guarantee in the event of default. The Group does not request any specific guarantee on its trade receivables and related accounts.

At 31 December 2009, the carrying amount of the Group's financial assets represented a maximum exposure to credit risk of 57.0 million Euros (2008: 55.0 M€).

20.1.5. Management of share capital

The Group's policy is to maintain a strong capital base, in order to preserve the confidence of Vétoquinol's investors and creditors and the market, and to support the future expansion of its operations. The Executive Committee monitors the number and diversity of the Group's shareholders, its return on equity and the dividends paid to holders of its common shares. The Group has committed to a pay–out of no more than 15% of the net profit for the year.

In comparison, the weighted average interest rate on interest-bearing borrowings (excluding the bond) ranged from 2.9% to 3.0% in 2009 (2008: 4.0% to 4.5%; 2007: 4.0% / 4.5%).

The Group occasionally purchases its own shares on the market. The amounts of these purchases depend on market prices. These shares are used primarily in connection with the stock option and bonus share programmers. The Executive Committee makes all purchase and sale decisions on a case-by-case basis. The Group does not have a formal share buyback program.

Apart from these occasional practices, the Group has a liquidity contract (see note 20.1.28).

During the fiscal year, the Group did not alter its capital management policy. Neither the Company nor its subsidiaries are subject to any external laws or regulations that impose specific external requirements with regard to their capital.

20.1.6. Information on judgments and estimates

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

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

20.1.7. Business combinations effected during the year

In the course of fiscal 2009, a single change to the business combination took place; two occurred in 2008.

There were no business combinations in 2007.

20.1.7.1 Business recombination occurring in 2009 – Acquisition of Wockhardt Limited's division of Animal Health

20.1.7.1.1 Overview and description of the operation

On August 20, 2009, the Vétoquinol Group completed its acquisition of the assets of Wockhardt Limited's Animal Health Division, based in Bombay (India). This new subsidiary will contribute to Vétoquinol Group's international development. This acquisition makes Vétoquinol the 6th market participant by size in the Indian market for animal health. The Indian market, with annual growth of over 8%, is estimated at more than 350 million U.S. dollars.

India is the world's largest producer of milk and over 50% of the animal health care market is dedicated to cattle. This acquisition, in line with Vétoquinol's strategy, will enable synergies with the Group's know-how. The total acquisition price amounted to 1,900 million Indian rupees, or about 28 million Euros. The acquisition was financed partly by new debt raised in January 2009.

Given the nature of the transaction, additional information may be obtained through the finalization of the purchase price during the period of 12 months from the date of the Wockhardt Limited Animal Health Division's acquisition that will lead us to revise certain elements of the allocation of the purchase price.

In thousands of Euros	
Asset acquisition of Wockhardt Limited's Animal Health Care Division	28,645
Total acquired asset value of Wockhardt Limited's Animal Health Care Division	**28,645**
Fair value of acquired assets and liabilities - already identified on 31/12/2009	2,983
Goodwill on the closing date 31/12/09	**25,662**

20.1.7.2 Business combinations occurring in 2008 - Acquisition of Ascor Chimici

20.1.7.2.1 Overview and description of the operation

Vétoquinol signed a contract, which took effect 1 December 2008, to acquire a 100% stake in Ascor Chimici. This acquisition will significantly strengthen Vétoquinol in the Italian market. The Group now has a solid base on its own and will further expand its market share in Italy.

Ascor Chimici, founded in 1969, had a turnover of 19.8 million Euros in 2009 and employs 63 people. The company, with group headquarters and production based near Forli, manufactures and markets antibiotic drugs for pigs, cattle and poultry, as well as medicated premixes.

20.1.7.2.2 Determination of Ascor Chimici goodwill

In thousands of Euros	
Acquisition of Italian stock on 28 November 2008	13,373
Total value of Italian stock	**13,373**
Fair value of acquired assets and liabilities	6,908
Goodwill	**6,465**

20.1.7.3 Business combination in 2008 – Acquisition of ViaVet Scandinavia AB

20.1.7.3.1 General overview and transaction description

Since 2 July 2008, Vétoquinol has had a new subsidiary in Sweden to cover the three Scandinavian countries – Sweden, Denmark, and Norway.

The acquisition took place in two stages: first, on 28 January, the Group increased its equity investment in ViaVet Scandinavia AB to around 34%.

Then, on 2 July 2008, the Group gained full ownership of this company, acquiring the remaining share capital.

The total acquisition price amounted to 1.34 million Euros. The entire acquisition was self-financed

20.1.7.3.2 Calculation of goodwill on ViaVet Scandinavia AB

In thousands of Euros	
Acquisition Scandinavian shares 28 January 2008	396
Acquisition Scandinavian shares 25 June 2008	945
Total Scandinavian shares	1,341
Fair value of assets and liabilities acquired	173
Goodwill	**1,167**
Conversion adjustment	-153
Goodwill on the closing date – 31/12/2009	**1,014**

20.1.7.4 Reconciliation of acquisition cost with the disbursement mentioned in the TFT

In thousands of Euros	2009	2008
Acquisition cost of Scandinavian stock		1,341
Acquisition cost of Italian stock	8	13,365
Acquisition cost of Wockhardt Animal Health Division assets	28,645	
Total value of acquired securities and assets	**28,653**	**14,713**
Net cash book entry (acquired stock)	-	2 706
Conversion adjustment between closing rate and average	-963	24
Total	27,690	17,443
Value entered in the TFT: changes to cash resulting from restatement of the business combinations	27,690	17,443

20.1.8. SECTEURS OPÉRATIONNELS – IFRS 8

In 2007 to 2009, all revenues came from the sale of veterinary products.

20.1.8.1 Segment earnings for 2009

In thousands of Euros By asset location	France	Rest of Western Europe	Eastern Europe	North America	Rest of World	Consolidated total
Income	102,102	102,025	28,559	71,053	5,251	308,990
Inter-segment income	-35,701	-735	-7,755	-12,586	0	-56,777
Total external income	**66,401**	**101,290**	**20,805**	**58,467**	**5,251**	**252,214**
Current operating profit	**11,611**	**11,974**	**3,149**	**2,124**	**68**	**28,925**
Other products and charges	0	0	0	0	0	0
Other products and operational charges						
Operating profit	**11,611**	**11,974**	**3,149**	**2,124**	**68**	**28,925**
Net financial charges						-3,971
Before-tax profit						**24,954**
Tax on profits						-6,741
Net profit						**18,214**

The Vétoquinol Group monitors sales by location or by market (geographical area).

In thousands of Euros **By region**	**France**	**Rest of Western Europe**	**Eastern Europe**	**North America**	**Rest of World**	**Consolidated total**
Income	53,847	138,714	24,356	72,067	20,006	308,990
Inter-segment income	-2,430	-34,985	-3,538	-15,288	-536	-56,777
Total external income	**51,417**	**103,729**	**20,818**	**56,778**	**19,471**	**252,214**

20.1.8.2 Résultat des secteurs opérationnels de l'exercice 2008

In thousands of Euros **By asset location**	**France**	**Western Europe (excl. France)**	**Eastern Europe**	**North America**	**Rest of world**	**Consolidated total**
Income	104,181	86,102	31,723	75,656	1,136	298,798
Inter-segment income	-38,600	-784	-9,215	-15,804	0	-64,403
Total external income	**65,581**	**85,318**	**22,508**	**59,852**	**1,136**	**234,395**
Current operating profit	**8,480**	**12,988**	**3,150**	**2,950**	**19**	**27,587**
Other products and charges	0	0	0	0	0	0
Other products and operational charges						
Operating profit	**8,480**	**12,988**	**3,150**	**2,950**	**19**	**27,587**
Net financial charges						-3,135
Before-tax profit						**24,452**
Tax on profits						-5,882
Net profit						**18,569**

The Vétoquinol Group monitors sales by location or by market (geographical area).

In thousands of Euros **By geographical area**	**France**	**Western Europe (excl. France)**	**Eastern Europe**	**North America**	**Rest of world**	**Consolidated total**
Income	54,598	130,149	26,139	74,957	12,954	298,798
Inter-segment income	-3,098	-39,561	-3,503	-17,359	-882	-64,403
Total external income	**51,500**	**90,588**	**22,636**	**57,598**	**12,072**	**234,395**

20.1.8.3 2007 results from operating segments

In thousands of Euros **By asset location**	**France**	**Western Europe (excl. France)**	**Eastern Europe**	**North America**	**Rest of world**	**Consolidated total**
Income	103,481	82,068	30,856	76,387	1,582	294,374
Inter-segment income	-37,962	-711	-7,296	-15,041	0	-61,009
Total external income	**65,519**	**81,357**	**23,560**	**61,346**	**1,582**	**233,364**
Current operating profit	**11,812**	**12,935**	**3,592**	**2,211**	**175**	**30,725**
Other products and charges	-1,107	0	0	0	0	-1,107
Other products and operational charges						
Operating profit	**10,706**	**12,935**	**3,592**	**2,211**	**175**	**29,619**
Net financial charges						-4,504
Before-tax profit						**25,115**
Tax on profits						-6,466
Net profit						**18,649**

The Vétoquinol Group monitors sales by location or by market (geographical area).

In thousands of Euros By geographical area	France	Western Europe (excl. France)	Eastern Europe	North America	Rest of world	Consolidated total
Income	53,235	126,505	26,563	64,739	12,298	283,340
Inter-segment income	-2,456	-38,244	-3,183	-5,537	-557	-49,976
Total external income	**50,779**	**88,261**	**23,381**	**59,202**	**11,741**	**233,364**

20.1.8.4 Analysis of other segment non-cash items included in profit or loss

In thousands of Euros	France	Western Europe (excl. France)	Eastern Europe	North America	Rest of world	Consolidated total
31/12/2009						
Depreciation and amortization	-5,786	-1,127	-1,264	-2,669	-222	-11,068
Provisions and write-backs	-744	261	93	-410	-17	-817
Expenses on grants of stock options	-36				0	-36
Expenses on grants of bonus shares	-124				0	-124
31/12/2008					0	
Depreciation and amortization	-5,807	-658	-1,364	-2,453	-8	-10,289
Provisions and write-backs	-565	54	-165	89	0	-588
Expenses on grants of stock options	-28				0	-28
Expenses on grants of bonus shares	-209				0	-209
31/12/2007					0	
Depreciation and amortization	-5,500	-695	-1,261	-2,579	-11	-10,046
Provisions and write-backs	964	274	32	-4	62	1,328
Expenses on grants of stock options	-31				0	-31
Expenses on grants of bonus shares	-354				0	-354

No impairment was recorded directly to equity in 2007 to 2009.

20.1.8.5 Analysis of assets, liabilities and investments by segment

In thousands of Euros	France	Rest of Western Europe	Eastern Europe	North America	Rest of World	Consolidated total
31/12/2009						
Assets	197,195	31,824	14,771	35,982	3,895	283,666
Liabilities	83,146	8,498	3,126	29,897	4,053	128,720
Acquisition of assets	3,700	408	990	2,101	2	7,201
Acquisition of assets attributable to business combinations	0	0	0	0	2,892	2,892
31/12/2008						
Assets	157,793	28,728	13,248	35,908	754	236,431
Liabilities	48,310	15,727	2,856	31,508	977	99,377
Acquisition of assets	3,835	518	765	3,962	2	9,082
Acquisition of assets attributable to business combinations	0	1,804	0	0	0	1,804
31/12/2007						
Assets	145,119	29,608	16,035	38,607	576	229,946
Liabilities	44,250	17,639	5,988	33,835	362	102,074
Acquisition of assets	4,936	954	806	888	0	7,584
Acquisition of assets attributable to business combinations	0	0	0	0	0	0

20.1.9. Research & Development Costs

Research and development costs incurred and expensed in 2008 amounted to 19.5 million Euros or 7.7% of revenues (2008: 16.8 million Euros or 7.2% of revenues; 2007: 15.3 million Euros or 6.6% of revenues).

20.1.10. Other purchases and external charges

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
General subcontracting	2,197	2,353	2,035
Lease and rental payments	5,482	5,124	4,316
Maintenance	3,062	2,796	2,869
Insurance	1,158	1,047	1,175
Analyses and research	1,352	1,521	1,328
Non-employee personnel	1,220	1,685	1,096
Fees and commissions paid to intermediaries	12,690	9,448	11,485
Advertising, publications, public relations	8,795	8,317	8,352
Transport of goods and group transportation of personnel	5,517	6,086	6,129
Business travel and entertainment	6,261	6,245	6,108
Postage and telecommunications expenses	1,475	1,388	1,295
Royalties on concessions, patents, licenses, trademarks, etc.	4,436	4,071	4,416
Other external services	1,136	1,219	1,366
Miscellaneous	446	606	548
TOTAL	55,225	51,905	52,520

20.1.11. Personnel costs

In thousands of Euros	31/12/2009	31/12/2008 (**)	31/12/2007 (**)
Wages and salaries	51,900	50,189	44,387
Payroll taxes (*)	17,129	17,136	16,803
Termination benefits	587	577	533
Employee benefits – cost of services rendered (note 20.1.30)	278	210	122
Post-employment benefits - actuarial gains and losses through profit or loss	7	0	0
Expenses on grants of stock options	36	28	31
Expenses on grants of bonus shares	124	209	254
TOTAL EMPLOYEE BENEFITS	70,061	68,348	62,129

(*)The cost of defined contribution pension plans is included in total payroll taxes. (**) Data comparable to 2009.

20.1.12. Share-based payment

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

	Plan 4	Plan 5
Date plan was opened	19/09/2003	04/06/2007
Time vesting – acquisition of rights	from 15/09/2005 to 15/10/2005 from 15/09/2006 to 15/10/2006 from 15/09/2007 to 15/10/2007	from 15/09/2009 to 15/10/2009 and from 15/10/2010 to 15/10/2010
Number of options granted	5,220	33,800
Exercise price	49.30	25.33
Expiration dates	18/03/2009	6/12/2011
Report of options/shares	1 option for 10 shares	1 option for 1 share
Performance conditions	N/A	N/A
OPTIONS OUTSTANDING AT 31/12/2009	0	29,100

The Group has elected not to apply IFRS for the two plans set into action and granted before November 7, 2002 (Plan 1, 2 and 3).

The number of options in plan 4 has changed as follows:

	2009		2008		2007	
	Exercise price	Number of options	Exercise price	Number of options	Exercise price	Number of options
At 1 January	49.30	230	49.30	230	49.30	1,440
Granted						
Cancelled					49.30	50
Expired						
Exercised	49.30	230			49.30	1,160
AT 31 DECEMBER	49.30	0	49.30	230	49.30	230

In 2009, the 230 options exercised gave rise to the issue of 11,600 shares, each with a par value of 2.50 Euros (2007: options exercised that gave rise to the issue of 11,600 shares, each with a par value of 2.50 Euros).

The number of options in plan 5 has changed as follows:

	2009		2008		2007	
	Exercise price	Number of options	Exercise price	Number of options	Exercise price	Number of options
At 1 January	25.33	30,300	25.33	32,600		
Granted					25.33	33,800
Cancelled	25.33	1,200	25.33	2,300	25.33	1,200
Expired						
Exercised						
AT 31 DECEMBER	25.33	29,100	25.33	30,300	25.33	32,600

The accounting charge applied in the consolidated accounts at year-end 2009 amounted to 36 K€ (2008: 28 K€; 2007: 31 K€).

With regard to the plan to award free shares (see note 20.1.28.2), the impact of applying IFRS 2 is 124 K€ (2008: 209 K€, 2007: 254 K€) through the end of December. The valuation of bonus shares is generally based on the date of issuance minus the present value of dividends foregone during the acquisition of rights (Black-Scholes valuation model).

20.1.13. Other operating income and expenses

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Operating grants	10	0	26
Investment grants transferred to net profit for the period	28	28	28
Transfer of charges	0	0	0
Net gain on deconsolidation of assets	208	68	160
Research Tax Credit (RTC)*	2,975	2,913	1,541
Other income	1,622	1,452	1,335
Other revenue	4,843	4,460	3,089
Book values of transferred assets	-41	-89	-167
Other expenses	-315	-601	-579
Other expenses	-356	-691	-746
Total	4,487	3,770	2,343

(*) Reclassification of 2007 RTC

Analysis of other income:

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Fees and royalties	52	19	53
Port fees rebilled to customers	306	260	391
Indemnities	182	139	60
Sale of marketing authorizations	0	0	100
Claim reimbursement	225	166	215
Other	857	867	516
Total	1,622	1,452	1,335

20.1.14. Other income and expenses

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Other operating income	0	0	0
Indemnities for breach of contract	0	0	-1,107
Other expenses	0	0	-1,107
TOTAL	0	0	-1,107

20.1.15. Leases

20.1.15.1 Finance leases – Lessee

The Group's only finance leases pertain to the leasing of buildings. The related leases contain clauses that call for adjustments to rent payable calculated on the basis of changes in the French cost of construction index.

The property, plant and equipment that pertain to finance leases are listed in Note 20.1.21, and the corresponding financial liability is discussed in Note 20.1.29.

Commitments on non-cancellable finance leases

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Less than 1 year	128	126	124
1 to 5 years	205	304	386
More than 5 years	0	29	72
Minimum payments	332	458	582
Future finance charges	-31	-48	-70
Present value of payments on finance leases	302	410	512
Less than 1 year	123	121	119
1 to 5 years	179	267	340
More than 5 years		22	54
TOTAL MINIMUM FUTURE PAYMENTS	302	410	512

20.1.15.2 Operating leases – Lessee

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

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

Commitments on non-cancellable operating leases

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Less than 1 year	4,083	4,050	3,451
1 to 5 years	6,129	7,511	6,417
More than 5 years	394	557	1,160
Total minimum payments	10,606	12,117	11,029
Total minimum future subleasing revenues to receive			

Operating lease expenses for the period

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Minimum payments recognized	5,439	5,124	4,316
Conditional rents			
Subleasing revenues recognized			

20.1.16. Financial results

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Bond interest	-1,000	-1,000	-1,000
Non-conversion premium	-2,207	-1,989	-1,792
Interest on other loans or overdrafts	-980	-582	-826
	-17	-21	-25
Interest on financial leases	-4,204	-3,592	-3,643
Gross cost of debt	24	128	150
Interest income from cash and cash equivalents	213	523	102
Income from sale of cash equivalents	237	651	252
Income from cash and cash equivalents	-3,968	-2,941	-3,391

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Exchange gains	2,626	2,477	658
Other income	294	331	264
Other financial income	2,920	2,808	922
Financial charges on employee benefits	-114	-119	-105
Exchange losses	-2,790	-2,859	-1,880
Other charges	-17	-24	-50
Other financial charges	-2,921	-3,002	-2,035
Other financial income and charges	-1	-194	-1,113

Net financial profit is attributable to assets and liabilities recognized at amortized cost.

20.1.17. Income taxes

In 2009, the tax rate used to calculate deferred taxes for French companies was 34.43% (2008: 34.43%; 2007: 34.43%).

Analysis of income tax expense:

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Current tax expense*	-5,769	-6,679	-8,024
Deferred tax income on temporary differences	-971	796	1,558
TOTAL	-6,741	-5,882	-6,466

(*)Reclassification of 2007 RTC – The reclassification was done charging operating profit tax.

Reconciliation of theoretical tax at the statutory tax rate in France to the effective tax:

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Consolidated net profit	**18,214**	**18,569**	**18,649**
Restatement of RTC*	2,975	2,913	1,541
Income taxes*	-6,741	-5,882	-6,466
Pre-tax profit, RTC restated	**21,979**	**21,539**	**23,574**
Theoretical tax at 34.43% (2007: 34.43%)	**7,567**	**7,416**	**8,117**
Non-deductible expenses and non-taxable income	-41	616	107
Impact of change in tax rate	-1	-12	-4
Losses carried forward	452	-221	-462
Tax difference on foreign affiliates	-1,161	-1,576	-1,358
Impact of reduced rate	-4	-173	278
Tax credit*	-27	-27	-57
Miscellaneous	-45	-141	-155
Effective tax*	**6,741**	**5,882**	**6,466**
Effective tax rate*	**30.67%**	**27.31%**	**27.43%**

(*)The restatement of 2007 RTC generated a change in the presentation of the above table.

Analysis of movements in deferred tax assets during the period:

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
At 1 January	**6,511**	**5,246**	**2,642**
Recognized through profit or loss	-997	790	1,537
Recognized in equity	98	80	650
Changes in consolidation	0	283	
Reclassification	27	180	435
Translation adjustments	-10	-69	-19
At 31 December	**5,630**	**6,511**	**5,246**

Analysis of movements in deferred tax liabilities during the period:

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
At 1 January	**1,235**	**1,137**	**2,746**
Recognized through profit or loss	-25	-6	-21
Recognized in equity	764	-1	-2,035
Reclassification	27	180	435
Translation adjustments	61	-75	11
AT 31 December	**2,062**	**1,235**	**1,137**

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

Analysis of net deferred taxes by type:

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Non-conversion premium on the convertible bonds	1,957	3,153	2,469
Trademarks	-1,607	-823	-726
Component-based approach (net)	-673	-859	-949
Other temporary differences (net)	1,291	1,375	1,441
Internal margin on inventories	1,447	1,819	1,556
Internal capital gain on deconsolidation of non-current assets	-2	-2	-30
Restatement of finance leases	-84	-67	-51
Employee benefits	766	695	667
Tax losses carried forward	1,072	620	391
Regulated provisions	-710	-637	-658
Other (net)	111		
TOTAL	**3,568**	**5,276**	**4,109**
Of which: Deferred tax assets	5,630	6,511	5,246
Deferred tax liabilities	-2,062	-1,235	-1,137

At 31 December 2009 just as at 31 December 2008, there were no longer any tax losses carried forward not activated among deferred tax assets (450 thousand Euros at 31 December 2007).

20.1.18. Earnings per share

20.1.18.1 Basic earnings per share

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

	31/12/2009	31/12/2008	31/12/2007
Net profit attributable to holders of common shares (thousands of Euros)	18,207	18,564	18,642
Weighted average number of common shares	11,292,147	11,290,332	11,280,552
BASIC EARNINGS PER SHARE (IN EUROS PER SHARE)	**1.61**	**1.64**	**1.65**

20.1.18.2 Diluted earnings per share

Diluted earnings per share are calculated by adjusting the net profit attributable to holders of common shares and the weighted average number of shares outstanding during the period for the impact of all common shares that have a potentially dilutive effect. Potentially dilutive instruments include notably stock options, stock warrants and bonds convertible into shares issued by Vétoquinol. Without taking a position on the probability of such dilution, determining the maximum degree of dilution reveals the maximum impact on earnings per share that would result if all potentially dilutive instruments were exercised.

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

Soparfin SCA expressed its intention to the Vétoquinol Group not to convert its Tranche A of the bond; as a result, the diluting effect on earnings per share was no longer included in the year 2009.

As the bonus shares outstanding at year-end 2008 have been distributed for the year 2009, there are no more dilutive free shares related to this initiative for 2009.

	31/12/2009	31/12/2008	31/12/2007
Net profit attributable to holders of common shares (thousands of Euros)	18,207	18,564	18,642
Expenses on grants of stock options	36	28	31
Expenses on grants of bonus shares	124	209	254
Interest expense savings net of taxes (tax rate = 34.43%) on the convertible bonds issue	1,379	1,960	1,830
Profit used to calculate diluted profit (thousand Euros)	**19,746**	**20,761**	**20,757**
Weighted average number of shares outstanding during the period	11,292,147	11,290,332	11,280,552
Treasury stock at the end of the period (direct holding)	(56,741)	(86,541)	(46,300)
Treasury stock at the end of the period (liquidity agreement)	(6,574)	(9,357)	(2,387)
Weighted average number of shares outstanding restated over the period	**11,228,832**	**11,194,434**	**11,231,865**
Potential dilutive effect:			
Dilutive effect of stock options	29,100	32,600	34,900
Dilutive effect of bonus share grants	0	29,800	33,000
Dilutive effect of convertible bonds (tranche A)	0	589,280	589,280
Dilutive effect of convertible bonds (tranche B)	589,270	589,270	589,270
Dilutive effect of convertible bonds	**618,370**	**1,240,950**	**1,246,450**
Potential dilutive effect of financial instruments outstanding	**11,847,202**	**12,435,384**	**12,478,315**
Diluted net profit per share (in Euros per share)	1.67	1.67	1.66

20.1.19. Goodwill

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
At 1 January			
Net value	33,565	25,405	26,233
Carrying amount at beginning of period	**33,565**	**25,405**	**26,233**
Acquisitions	24,807	8,841	0
Impairment losses recognized through profit or loss	0	0	0
Allocation of goodwill	-1,185	0	0
Translation adjustments, net	1,130	-681	-828
At 31 December			
Net value	58,317	33,565	25,405
Carrying amount at end of period	**58,317**	**33,565**	**25,405**

20.1.19.1 Impairment tests

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

The CGUs defined for the Vétoquinol Group consist of the following countries: USA, Canada, France, UK, Belgium, Switzerland, Czech Republic, Austria, Poland, Ireland, Germany, Italy, and Scandinavia.

Analysis of goodwill allocated to the various CGUs:

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Vétoquinol Biowet Poland	2,322	2,295	2,652
Chassot Gmbh Germany	1,705	1,705	1,705
Chassot UK *	396	369	480
Vetco Ireland *	421	421	421
Vétoquinol Switzerland	760	759	681
Vétoquinol Austria	772	772	772
Vétoquinol Czech Republic	908	894	903
Vétoquinol USA	10,597	10,969	10,370
Vétoquinol Belgium	500	500	500
Vétoquinol Italy	6,465	7,643	0
Vétoquinol Scandinavia	1,075	1,014	0
Vétoquinol Asia	32	33	0
Vétoquinol India**	25,662	0	0
Vétoquinol SA France	2,051	2,051	2,051
Vétoquinol Canada	4,652	4,140	4,870
TOTAL	**58,317**	**33,565**	**25,405**

** These two subsidiaries are in the process of being dissolved. They will not be in our purview in 2010.*

*** For Vétoquinol India, the amount of goodwill in Euro, converted at today's rate of acquisition, amounted to 24,807 K€; to end of December 2009, the amount of goodwill converted at the closing rate increased to 25,662 K€.*

All differences in value between the two years are attributable solely to translation adjustments on goodwill denominated in the foreign currencies of the subsidiaries acquired prior to 2008.

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

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

- revenue growth rate of 3% to 5%, depending on country;
- perpetual growth rate of 1.5% to 3%, depending on country;
- pre-tax discount rate of 9.1% in 2009 (9.6 % in 2008; 8.6% in 2007).

Based on these tests, no impairment loss has been recorded since 2007, neither of tangible nor intangible goodwill. Similarly, an impairment test was conducted on the Equistro brand, an intangible asset with an indefinite life, assuming a sales growth rate of from 1.5% to infinity. On the basis of this test, no impairment was found. Sensitivity analysis performed by retaining the minimum instead of the central value and varying the discount rate of + / - 1% and the rate of growth at infinity of + / - 0.5% provide no evidence of negative adjustments.

20.1.20. Intangible assets

In thousands of Euros	Concessions, licenses and patents	Software	Trademarks	Other	Total
At 1 January 2007					
Gross value	10,893	9,022	8,863	14,106	42,884
Accumulated amortization	-5,548	-5,082	0	-2,984	-13,614
Net value	**5,344**	**3,941**	**8,863**	**11,122**	**29,270**
Acquisitions	457	1,129	0	2	1,588
Acquisition through recombination of businesses	0	0	0	0	0
Change to the method of consolidation	0	0	0	0	0
Deconsolidations	0	0	0	-10	-10
Reclassifications	6	0	0	0	5
Amortization	-969	-1,491	0	-1,291	-3,752
Deconsolidation	0	0	0	0	0
Translation adjustments, net	-49	16	0	-1,080	-1,113
At 31 December 2007					
Gross value	9,921	10,299	8,863	12,685	41,768
Accumulated amortization	-5,132	-6,705	0	-3,942	-15,780
Net value	**4,788**	**3,594**	**8,863**	**8,743**	**25,988**
Acquisitions	690	1,164	0	1,919	3,773
Acquisitions of business combinations	282	0	53	0	335
Transfers	0	0	0	0	0
Reclassifications	0	0	0	0	0
Reclassifications	1	70	0	0	71
Amortization of endowments	-1,123	-1,514	-1	-1,191	-3,829
Deconsolidation	0	0	0	0	0
Translation adjustments, net	-62	-147	0	279	70
As of 31 December 2008					
Gross value	11,710	11,195	8,953	15,139	46,998
Accumulated amortization	-7,134	-8,028	-38	-5,389	-20,590
Net value	**4,576**	**3,167**	**8,915**	**9,750**	**26,408**
Acquisitions	793	1,383	0	0	2,176
Acquisitions via business combination	0	0	0	2,883	2,883
Change to the method of consolidation	0	0	0	0	0
Transfers	0	0	0	0	0
Reclassifications	-86	-180	-70	2,862	2,526
Amortization of endowments	-1,165	-1,326	0	-1,887	-4,378
Deconsolidation	0	0	0	0	0
Net exchange rate differences	-16	54	0	82	120
as of 31 December 2009					
Gross book value	11,530	12,560	8,929	20,783	53,802
Accumulated depreciation	-7,427	-9,462	-84	-7,092	-24,066
Net value	**4,102**	**3,097**	**8,845**	**13,691**	**29,735**

Intangible fixed assets include the Equistro trademark for 8.863 million Euros, which has an indeterminate useful life and, as such, is not amortized.

The "other" column at 31 December 2009 primarily consists of the following items:

- the customer lists of Vet Solutions (USA) for 5.333 million Euros (2008: 6.309 million Euros);

- the customer lists of IGI (USA) for 1.099 million Euros (2008: 1.609 million Euros);

- ophthalmic products purchased for Vetcom (Canada) for 1.76 million Euros (acquisition made in 2008).

- goods valued at 2,501 thousand Euros under MDA relating tom the acquisition of Ascor Chimici,

- a non-competition contract clause valued at 2,983 thousand Euros at closing rates following the acquisition of Wockhardt's Animal Health Division.

20.1.21. Tangible assets

In thousands of Euros	Land	Buildings	Plant and equipment	Other tangible assets	Tangible assets in progress, advances, and prepayments	Total
At 1 January 2007						
Gross value	1,979	51,185	30,836	10,654	1,591	96,244
Accumulated depreciation	-521	-24,355	-19,775	-7,611		-52,262
Carrying amount	1,459	26,830	11,060	3,043	1,591	43,983
Additions	29	2,185	1,275	689	1,819	5,997
Acquisitions via business re-combination	0	0	0	0	0	0
Change to the method of consolidation	0	0	0	0	0	0
Deconsolidations	0	0	-46	-111	0	-157
Depreciation and amortization	-41	-2,907	-2,242	-1,104	0	-6,294
Translation adjustments, net	34	276	180	23	33	546
Deconsolidations	0	0	0	0	0	0
Reclassifications	10	1,044	833	183	-2,076	-5
At 31 December 2007						
Gross value	2,053	54,882	32,476	10,386	1,367	101,163
Accumulated depreciation	-562	-27,454	-21,416	-7,663		-57,095
Carrying amount	1,491	27,427	11,060	2,723	1,367	44,068
Additions	41	686	2,360	711	1,510	5,309
Acquisitions of business combinations	0	411	972	86	0	1,469
Change to the method of consolidation	0	0	0	0	0	0
Deconsolidations	0	-57	-3	-29	0	-89
Depreciation and amortization	-45	-2,965	-2,435	-1,014	0	-6,460
Translation adjustments, net	-80	-727	-510	-202	-137	-1,656
Deconsolidation	0	0	0	0	0	0
Reclassifications	0	257	823	90	-1,259	-89

At 31 December 2008						
Gross value	2,013	53,991	37,298	10,073	1,481	104,856
Accumulated depreciation	-607	-28,959	-25,031	-7,706		-62,303
Carrying amount	**1,407**	**25,032**	**12,267**	**2,366**	**1,481**	**42,553**
Increases	0	739	1,141	463	2,681	5,024
Acquisitions via business re-combination	0	0	0	9	0	9
Change to the method of consolidation	0	0	0	0	0	0
Transfers	0	-1	-23	-18	0	-41
Depreciation of endowments	-41	-3,026	-2,541	-1,082	0	-6,690
Exchange differences, net	25	301	237	100	68	731
deconsolidation	0	0	0	0	0	0
Reclassifications	0	1,467	951	449	-3,158	-291
As of December 31, 2009						
Gross book value	2,039	56,572	39,046	11,081	1,072	109,809
Accumulated depreciation	-648	-32,059	-27,014	-8,490		-68,211
Net value	**1,390**	**24,513**	**12,032**	**2,591**	**1,072**	**41,598**

20.1.21.1 Finance leases

Tangible assets include the following financially leased elements:

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Land			
Gross value	101	101	101
Carrying amount	**101**	**101**	**101**
Buildings			
Gross value	10,027	10,027	10,027
Accumulated depreciation	-9,356	-9,271	-9,185
Carrying amount	**671**	**756**	**842**
Other tangible assets			
Gross value	264	235	
Accumulated depreciation	-80	-33	
Net book value	**184**	**202**	**0**
Total			
Gross value	10,392	10,363	10,128
Accumulated depreciation	-9,436	-9,303	-9,185
Carrying amount	**956**	**1,060**	**943**

The amount committed for the acquisition of tangible assets is listed in note **Erreur ! Source du renvoi introuvable.**.

20.1.22. Financial assets available for sale

In thousands of Euros	Total
1 January 2007	4
Acquisitions	
Deconsolidations	-3
Foreign exchange gain (loss)	
31/12/2007	1
Acquisitions	
Deconsolidations	-1
Foreign exchange gain	
31/12/2008	0
Acquisitions	
Deconsolidations	
Foreign exchange gain	
31/12/2009	0

20.1.23. Other financial assets

In thousands of Euros	Loans	Deposits and collateralized guarantees	Other	Total
1 January 2007	3	67	270	340
Acquisitions		90		90
Changes in consolidation				0
Deconsolidation			-6	-6
Foreign exchange gain			2	2
31/12/2007	3	157	266	426
Acquisitions		79	27	106
Changes in consolidation		66		66
Deconsolidation		-59	-108	-167
Foreign exchange gain			-9	-9
31/12/2008	3	243	176	422
Acquisitions			53	53
Changes in consolidation			24	24
Deconsolidation			-72	-72
Foreign exchange gain			4	4
31/12/2009	3	243	185	431

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

20.1.24. Derivative instruments

20.1.24.1 Derivative instruments

As mentioned in note 0, the Group occasionally makes use of derivative instruments, and solely for the purpose of reducing the Group's exposure to currency risk or interest rate risk.

At 31 December 2009, the Group had no derivatives. At 31 December 2007, the fair value of currency derivatives was 5.5 thousand Euros (2008: 0 K€; 2007: 14 K€), for a notional amount of 688 thousand Euros (2008: 0 K€; 2007: 640 K€).

As of December 31, 2009, there was a rate SWAP in place on a new loan underwritten for the month of January 2010, while on December 31, 2008 and 2007, there was no rate SWAP in place. The fair value of this SWAP is - 322 K€.

In thousands of Euros	31/12/2007			31/12/2008			31/12/2007		
	Face value	Positive fair value	Negative fair value	Face value	Positive fair value	Negative fair value	Face value	Positive fair value	Negative fair value
Forward currency contract	688		-6				638	14	
Over-the-counter currency options									
Currency derivatives	688		-6				638	14	
Interest rate swaps	23,125		-322						
Interest rate options									
Interest rate derivatives	23,125		-322						

20.1.25. Inventories

20.1.25.1 Analysis of inventories by type

In thousands of Euros	31/12/2009			31/12/2008			31/12/2008		
	Gross value	Impair ment	Carrying amount	Gross value	Impair ment	Carrying amount	Gross value	Impair ment	Carrying amount
Raw materials & consumables	12,382	-1,023	11,359	13,306	-1,016	12,290	12,547	-810	11,737
Other supplies	0		0	0		0	0		0
Work-in-progress	3,332	-338	2,994	3,022	-183	2,839	2,737	-166	2,570
Semi-finished and finished goods	18,980	-816	18,164	20,219	-281	19,939	17,812	-500	17,312
Goods purchased for resale	7,595	-157	7,438	8,079	-124	7,955	7,790	-102	7,688
TOTAL	42,289	-2,333	39,955	44,628	-1,604	43,024	40,886	-1,578	39,308

20.1.25.2 Analysis of inventory impairment

Analysis of inventory impairment	31/12/2006	Additions	Write-backs	Translation adjustment	31/12/2007
Raw materials & consumables	833	133	-163	7	810
Work-in-progress	60	135	-33	4	166
Semi-finished and finished goods	671	32	-216	13	500
Goods purchased for resale	207	5	-94	-16	102
Total	1,771	304	-506	9	1,578

In thousands of Euros	31/12/2007	Additions	Reclassifications and change in consolidation	Write-backs	Translation adjustment	31/12/2008
Raw materials & consumables	810	205	77	-58	-18	1,016
Work-in-progress	166	109	60	-137	-16	183
Semi-finished and finished goods	500	99	-185	-103	-31	281
Goods purchased for resale	102	36	6	-23	4	124
TOTAL	1,578	449	-41	-321	-61	1,604

In thousands of Euros	31/12/2008	Additions	Write-backs	Translation adjustment	31/12/2009
Raw materials & consumables	1,016	364	-360	3	1,023
Work-in-progress	183	362	-203	-4	338
Semi-finished and finished goods	281	657	-155	34	816
Goods purchased for resale	124	115	-80	-3	157
TOTAL	1,604	1,498	-799	30	2,333

20.1.26. Trade receivables and related accounts

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Trade receivables and related accounts	47,846	48,290	43,475
Impairment of trade receivables	-1,675	-1,185	-1,129
Net trade receivables	46,171	47,106	42,346
Prepayments	382	223	601
Claims against the State*	5,658	4,212	4,077
Receivable from government agencies*	864	467	212
Other operating receivables	620	551	418
Miscellaneous receivables	-9	-8	-11
Provisions	7,515	5,445	5,298
Other receivables	53,686	52,551	47,644
Prepaid expenses	1,228	1,735	801
Loans and guarantees	320	260	295
Other	0	0	0
Total other current assets	1,549	1,995	1,096

(*) 2007 CIR reclassification

All trade receivables and related accounts are due in less than one year.

20.1.27. Cash and cash equivalents

In thousands of Euros	31/12/2008	31/12/2008	31/12/20078
Marketable securities	25,220	8,379	17,458
Cash	22,869	17,466	22,878
TOTAL CASH	48,089	25,845	40,336

The total cash recognized in the cash flow statement includes:

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Total cash and cash equivalents	48,089	25,845	40,336
Bank overdrafts (note 20.1.29)	-4,741	-4,620	-4,030
TFT cash and cash equivalents	43,348	21,225	36,307

20.1.28. Share capital and share premium

In thousands of Euros	Number of shares	Common shares	Share premium	Total
At 31 December 2006	**11,278,732**	**28,197**	**32,566**	**60,763**
Stock option plan – options exercised	11,600	29	28	57
At 31 December 2007	**11,290,332**	**28,226**	**32,594**	**60,820**
Stock option plan – options exercised	0	0	0	0
At 31 December 2008	**11,290,332**	**28,226**	**32,594**	**60,820**
Stock option plan – options exercised	2,300	6	5	11
At 31 December 2009	**11,292,632**	**28,232**	**32,699**	**60,831**

At 31 December 2009, the 28 231 580 Euros (2008: 28,225,830 €) in share capital consisted of 11,292,632 shares (2008: 11,290,332 actions), each with a par value of 2.5 Euros.

20.1.28.1 Liquidity agreement – Treasury stock

At their Annual General Meeting held on 12 May 2008, the shareholders passed the ninth resolution, authorizing the Board of Directors to carry out a program involving the buyback of the Company's own shares, in accordance with the terms and conditions of Articles L.225-209 et seq. of the French Commercial Code, European Regulation 2273/2003 dated 22 December 2003, and the General Regulations of the French Financial Markets Authority (Autorité des Marches Financiers, or AMF). This resolution annuls and replaces the previously granted authorization under the seventh resolution of the Annual General Meeting of 19 may 2008.

The number of shares that the Company may acquire under the terms of the aforementioned share buyback program may not exceed 10% of the shares comprising share capital at any given time.

The maximum unit purchase price for the shares is 33 Euros and the total authorized for these buybacks may not exceed 38 million Euros

The share buyback program was authorized for a period of eighteen months, starting from the date of the Annual General Meeting that delivered this authorization, which means that it will run through 12 November 2009.

The main objectives of the buyback program are:

a) promotion of the share's market and liquidity by a provider of investment services through a liquidity agreement in accordance with the AFEI code of ethics recognized by the AMF;

b) the purchase of shares for the purpose of saving and further discount in payment or in exchange for external growth transactions to the extent allowed by the AMF;

c) the granting of shares to employees and/or company directors and officers (under the conditions as per the procedures prescribed by law); in detail, in the framework of a stock options plan, both the granting of bonus shares and the company investment plan.

d) the granting of shares to owners of securities providing access to the company's capital at the time of the exercise of the rights attached to such securities, in compliance with regulations in force.

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

In order to set this contract in place, 200,000 Euros were allocated to a liquidity account, and 50,000 Euros were added in 2008. At 31 December 2009, Vétoquinol held 6,574 (end of December 2008: 9,357) of its own shares under the terms of the liquidity agreement.

20.1.28.2 Granting of bonus shares

In its twelfth resolution, the Combined Extraordinary and Ordinary General Meeting of 9 October 2006 authorized the Board of Directors, for a period of at most 26 months, to grant bonus shares of the Company's stock, either already existing or to be issued, in one or more transactions, to employees of the Company and all related companies within the meaning of Article L.225-197-2 of the French Commercial Code, or to certain categories of employees, as well as to any corporate directors and officers, as legally defined.

On 4 June 2007, the Board of Directors voted unanimously that all bonus share grants are to be carried out with existing shares that Vétoquinol will have previously purchased in the market under the share buyback program approved by the Annual General Meeting of shareholders in accordance with the provisions of Article L.225-209 of the French Commercial Code. The details of the bonus share program are as follows:

The bonus shares granted to all beneficiaries will become vested after a two-year vesting period starting on the day they are granted by the Board of Directors.

Each beneficiary will be the owner of any Vétoquinol shares granted him once said shares have been recorded in a special registered account that the beneficiary will open in the books kept by Vétoquinol's registrar.

Beneficiaries will be notified of this registration within thirty days.

Any beneficiary may sell or otherwise transfer his bonus shares only following a two-year lockup period starting on the day the shares become fully vested.

The Board of Directors decided to make the definitive granting of the bonus shares conditional upon the presence of the beneficiary within Vétoquinol or its subsidiaries.

No beneficiary may receive the Vétoquinol shares he was granted if he holds more than 10% (ten percent) of Vétoquinol share capital at that date.

The shares granted may not correspond to more than 0.3% of the company's capital on the day of the Board of Directors' decision.

Under this program, 33,800 bonus shares have been granted to Vétoquinol employees, directors and officers. At 31 December 2008, only 29,800 of the 33,800 bonus shares originally granted remained, following departures from the Group.

On June 4 2009, 29,800 bonus shares were finally given to 25 Group employees.

20.1.28.3 Stock options

The Combined Extraordinary and Ordinary General Meeting of 9 October 2006 authorized the Board of Directors to grant options to purchase the Company's stock to all or some of the directors and officers referred to in Article L. 225-185 paragraph 4 of the French Commercial Code, or to members of the personnel of the Company and any related companies or groups within the meaning of Article L. 225-180 of the French Commercial Code.

On 4 June 2007, the Board of Directors voted unanimously to grant 33,800 Vétoquinol stock options. The details are as follows.

- The purchase price was set at 25.33 Euros. This price corresponds to the average share price for the 20 trading days preceding the Board of Directors meeting, less a 5% discount. Beneficiaries must pay the Company 100% of the purchase price of the shares on the day the option is exercised.
- The options may be exercised within a period of four years and six months. The options granted may be exercised after a two-year lockup period starting on the day the Board of Directors authorized the plan, i.e. 4 June 2007, in amounts that are not to exceed the following maxima and only during the periods listed below:
  - 50% between 15 September 2009 and 15 October 2009;
  - 100% between 15 September 2010 and 15 October 2010;

The options may be exercised, in full or in part, at any time between the fourth anniversary of the start of the plan and the date on which the plan expires, i.e. between 5 June 2011 and 5 December 2011.The options will expire at the end of this four year and six month period, i.e. on 6 December 2011.

The shares issued will provide their holders with full rights as of the first day of the financial year during which they were subscribed, as long as they were subscribed no later than 31 December of that year. They will grant their holder the right to receive dividends starting only with the dividend paid attributable to the year during which the option was exercised. Except for that reserve, as soon as they are issued they will in all other respects be considered entirely indistinguishable from all pre-existing shares.

The shares purchased will be recorded in registered form in the name of the beneficiary. They may be freely sold or otherwise transferred following a four-year lockup period starting on the day the Board of Directors authorized the plan, i.e. 5 June 2011. Any shares obtained through the exercise of options starting 15 September 2009 will consequently be subject to a contractual lockup period lasting until the fourth anniversary of the setting up of the plan, i.e. 5 June 2011 (no sale is permitted).

20.1.28.4 Treasury stock

On 30 November 2007, Vétoquinol purchased a block of 46,300 shares at 28.50 Euros per share on Euro next to be used in connection with the stock option plans and bonus share grants authorized by the Board of Directors on 4 June 2007.

In 2008, Vétoquinol continued to buy its own shares. At 31 December 2008, it held 86,541 shares, paying 2.263 million Euros.

At the end of 2009, Vétoquinol holds 56,741 of its own shares, totaling € 1,552 K after the final allocation of 29,800 on June 4, 2009.

At 31 December 2008, Vétoquinol held treasury stock (including the liquidity agreement) for a total amount of 2,439 thousand Euros (1.384 million Euros in 2007).

20.1.28.5 Distribution of dividends

The Annual General Meeting of 12 May 2009 approved the distribution of dividends attributable to 2008, amounting to 3,048,389.64 Euros, i.e. 0.27 Euros per share (2008: 3,048,389.64 € attributable to 2007, i.e. 0.27 €/share).

At the time the dividend was paid, Vétoquinol held certain of its own shares: the dividends attributable to these shares were not paid, and were allocated to retained earnings. The total dividend paid amounted to 3,022,044.12 Euros (2008: 3,024,537 €; 2007: 2,593,200 €).

20.1.29. Financial liabilities

Analysis of current and non-current financial liabilities:

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Convertible bond	15,683	29,158	27,170
Borrowings and other financial liabilities	18,564	550	5,127
Borrowings on finance leases (note F.15)	538	525	412
Total non-current financial liabilities	**34,786**	**30,233**	**32,709**
Convertible bond	15,683	0	0
Borrowings and other financial liabilities	6,381	1,805	2,621
Borrowings on finance leases (note F.15)	311	109	103
Bank overdrafts	4,741	4,620	4,030
Total current financial liabilities	**27,116**	**6,534**	**6,754**
Total financial liabilities	**61,902**	**36,766**	**39,463**

Financial liabilities are as follows:

In thousands of Euros	Total	< 1 year	1 - 5 years	> 5 years
At 31 December 2007				
Convertible bond	27,170		27,170	
Borrowings and other financial liabilities	7,749	4,698	3,051	0
Borrowings on finance leases	515	103	344	68
Bank overdrafts	4,030	4,030	0	0
Total financial liabilities	**39,463**	**8,830**	**30,565**	**68**
As of 31 December 2008				
Convertible bond	29,158		29,158	
Borrowings and other financial liabilities	2,354	1,805	550	
Borrowings on finance leases	633	163	443	28
Bank overdrafts	4,620	4,620		
TOTAL FINANCIAL LIABILITIES	**36,766**	**6,588**	**30,151**	**28**
As of 31 December 2009				
Convertible bond	31,366	15,683	15,683	
Various loans and financial liabilities	24,946	6,381	18,564	
Borrowing related to financial leases	849	311	538	
Overdrafts	4,741	4,741		
Total debt	**61,902**	**27,116**	**34,786**	**0**

20.1.29.1 Details of the convertible bond issue

At their Combined Extraordinary and Ordinary General Meeting of 27 February 2003, the shareholders of Vétoquinol SA approved a 19,999,993.50 euro bond issue, consisting of 117,855 bonds with a face value of 169.70 Euros each and convertible into common shares of Vétoquinol SA with the following terms and conditions:

- issue in two tranches, currently held by Soparfin :
  - tranche A: 58,928 bonds;
  - tranche B: 58,927 bonds;
- term of the bond:
  - tranche A: 7 years;
  - tranche B: 8 years;
- interest: 4% p.a. the first year, 5% p.a. thereafter;
- non-conversion premium.

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

Soparfin has announced its intention not to convert tranche A of the bond.

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

Following the 10-for-1 stock split approved by the Annual General Meeting of 7 July 2006, the conversion ratio is now one convertible bond for 10 Vétoquinol SA shares.

The value of the convertible bonds recorded on the balance sheet excludes 180 thousand Euros classified in equity. The fair value of the interest expense recognized in 2009 was 2.207 thousand Euros (2008: 1,989 K€; 2007: 1,792 K€).

Soparfin decided in December 2009 not to convert Tranche A of the bond rebought in 2006 from 3i and Banexi. Thus, in addition to the nominal € 10 million and interest of 5%, Vétoquinol will pay a non-conversion premium of 5.8 million on € February 28, 2010.

Breakdown by main currencies and rate type is as follows:

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Fixed rate	188	221	0
Floating rate	0	0	2,076
CAD	**188**	**221**	**2,076**
Fixed rate	358		
PLN	**358**	**0**	**0**
Fixed rate on bonds	32,968	29,158	27,170
Fixed rate and floating swapped to fixed	23,125	2,367	2,551
Floating rate	522	400	3,636
EUR	**56,615**	**31,925**	**33,357**
Fixed rate	56,639	31,746	29,721
Floating rate	522	400	5,712
Total (all currencies)	**57,161**	**32,146**	**35,433**
Bank overdrafts	4,741	4,620	4,030
TOTAL	**61,902**	**36,766**	**39,463**

20.1.29.2 Collateral given as guarantee

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

Of the loans still outstanding at year-end 31 December 2008, the Group has agreed to pledge mortgage assets held as collateral, upon first request of the bank, to guarantee all outstanding sums. At 31 December 2008, the outstanding balance was 600 thousand Euros, from an initial commitment of 6.202 million Euros and a remaining balance due of 1.2 million Euros at 31 December 2007.

On December 31, 2009, the loan was fully repaid and the collateral granted as security retracted.

20.1.29.3 Credit lines

On 31 December 2009, the Group had total open lines of bank credit in different currencies amounting to the equivalent of 31,521 million Euros (2008: 25,106 K€; 2007: 25,754 K€).These credit lines were used for around €4.741 million at 31 December 2009 (2008: 4,620 K€; 2007: 4,030 K€).

20.1.29.4 Liquidity risk

In the light of its available cash balances at 31 December 2009, the Group does not have any liquidity risk. The Group expects to incur a total of 1.6 million Euros in interest expense in 2010 and 1.0 million Euros in 2011.

Following Soparfin's request in 2009 not to convert tranche A of the bond issue, Vétoquinol will be obliged to pay the non-conversion premium of € 5.9 million on February 28, 2010.

Contractual cash flows include the notional amounts of its financial liabilities and the non-discounted value of its contractual interest payments.

In thousands of Euros	Carrying amount	Contractual cash flows	Analysis of contractual cash flows		
			< 1 year	1-5 years	> 5 years
At 31 December 2007					
Convertible bond	27,170	29,836	1,000	28,836	0
Borrowings and other financial liabilities	7,749	8,239	4,950	3,289	0
Borrowings on finance leases	515	582	124	386	72
Bank overdrafts	4,030	4,030	4,030	0	0
Trade payables	23,842	23,842	23,842		
Payables to suppliers of non-current assets	902	902	902		
Other operating liabilities	10,974	10,974	10,974		
TOTAL FINANCIAL LIABILITIES	75,180	78,404	45,822	32,511	72

In thousands of Euros	Carrying amount	Contractual cash flows	Analysis of contractual cash flows		
			< 1 year	1-5 years	> 5 years
At 31 December 2008					
Convertible bond	29,158	30,825	1,000	29,825	0
Borrowings and other financial liabilities	2,354	2,388	1,839	550	0
Borrowings on finance leases	633	714	193	493	29
Bank overdrafts	4,620	4,620	4,620	0	0
Trade payables	22,338	22,338	22,338		
Payables to suppliers of non-current assets	1,072	1,072	1,072		
Other operating liabilities	10,311	10,311	10,311		
TOTAL FINANCIAL LIABILITIES	70,488	72,269	41,373	30,867	29

In thousands of Euros	Carrying amount	Contractual cash flows	Analysis of contractual cash flows		
			< 1 year	1-5 years	> 5 years
At 31 December 2008					
Convertible bond	31,366	32,033	16,266	15,766	0
Borrowings and other financial liabilities	24,946	25,915	6,966	18,949	0
Borrowings on finance leases	849	903	335	568	0
Bank overdrafts	4,741	4,741	4,741	0	0
Trade payables	23,622	23,622	23,622		
Payables to suppliers of non-current assets	598	598	598		
Other operating liabilities	10,361	10,361	10,361		
TOTAL FINANCIAL LIABILITIES	96,484	98,173	62,890	35,283	0

20.1.30. Provisions for employee benefits

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Provision for termination benefits	3,433	3,495	2,219
Provision for long service medals	556	280	277
Provision for term savings account	179	126	223
Total	4,168	3,900	2,718

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

20.1.30.1 Termination benefits

A system of termination benefits has been set in place for Vétoquinol employees in France, Poland, Austria, and Italy. In France, employees qualify for termination benefits under the national collective bargaining agreement for the production and sale of pharmaceutical, parapharmaceutical and veterinary products.

- Analysis of changes in the liability:

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Carrying amount at 1 January	3,495	2,219	2,527
Expenses through profit or loss	314	385	215
Actuarial gains (losses) recorded in equity	-27	-139	-275
Paid contributions	-88	-88	-265
Translation adjustments	-9	-50	16
New liabilities associated with the acquisition of new businesses	-252		
Carrying amount at 31 December	0	1,168	
	3,433	3,495	2,219

- Amounts expensed during the period::

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Cost of services rendered during the period	200	279	122
Financial cost	114	106	94
Past service cost			
Total	314	385	215

- Principal actuarial assumptions:

	31/12/2009	31/12/2008	31/12/2007
Discount rate	4.91%	5.76%	5.48%
Rate of salary increase	[2.5% - 5%]	[2.5% - 5%]	[2.5% - 5%]
Payroll taxes rate	45%		
Mortality table	TF-TH 2000-2002		
Turnover rate	Based on age range		

20.1.30.2 Service medals

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

- Analysis of changes in the liability:

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Carrying amount at 1 January	280	277	289
Expenses through profit or loss	25	40	33
Actuarial gains (losses) recorded in equity		-32	-44
Paid contributions	-14	-6	-2
Translation adjustments	252		
Translation adjustments	14		
New liabilities associated with the acquisition of new businesses			
Carrying amount at 31 December	556	280	277

- Amounts expensed during the period:

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Cost of services rendered during the period	25	27	21
Financial cost		13	12
Actuarial gains (losses)			
TOTAL	25	40	33

- Principal actuarial assumptions:

	31/12/2009	31/12/2008	31/12/2007
Discount rate	4.25%	5.71%	5.48%
Rate of increase of long service medals and bonuses		0.6% à 0.9%	
Payroll taxes rate	45%		
Mortality table	TF-TH 2000-2002		
Turnover rate	Based on age range		

20.1.30.3 Other employee benefits

The Group also provisions for other employee benefits, these provisions concerned exclusively the employee term savings account.

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Carrying amount at 1 January	126	223	169
Expenses through profit or loss*	54	-97	54
Carrying amount at 31 December	179	126	223

**Of these liabilities, expenses through profit or loss are comprised entirely of the cost of services rendered*

20.1.30.4 Pension obligations

- Defined benefit plans: the Group has no defined benefit plans.
- Defined contribution plans: The expenses associated with the defined contribution pension plans are discussed in 20.5.11

20.1.31. Other provisions

In thousands of Euros	Provision for litigation	Other provisions	Total
At 31 December 2006	560	256	815
Additional provisions and increases	706	5	711
Amounts used	-487	-249	-735
Write-backs of amounts not used			0
Provisions due to company acquisitions	0	0	0
Translation adjustments	0	0	0
At 31 December 2007	779	12	791
Additional provisions and increases	620	0	620
Amounts used	-609	-12	-621
Write-backs of amounts not used			0
Provisions due to company acquisitions	0	118	118
Translation adjustments	0	0	0
At 31 December 2008	790	118	908
Additional provisions and increases	523	0	523
Amounts used	-464	0	-464
Write-backs of amounts not used			0
Provisions due to company acquisitions	0	0	0
Translation adjustments	0	0	0
At 31 December 2009	849	118	967

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Current	331	118	12
Non-current	636	790	779
TOTAL	967	908	791

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

At 31 December 2009, the provisions for litigation included 636 thousand Euros for breach of contract cases (2008: 790 K€; 2007: 779 K€).

20.1.32. Government grants

The Vétoquinol Group has received accountable advances from the government. At 31 December 2009, these advances included 832 thousand Euros in advances received from OSEO and ANVAR [French government agencies] (2008: 482 K€; 2007: 402 K€).

The Vétoquinol Group also receives investment and operating grants. They are recorded in deferred income and taken into income each year (see note 20.1.13)

20.1.33. Trade and other payables

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Trade payables	23,622	22,338	23,842
Payables to suppliers of non-current assets	598	1,072	902
Tax and social security liabilities	19,208	17,055	18,302
Other operating liabilities	10,352	10,311	10,974
Other miscellaneous liabilities	6	317	10
Total suppliers and others	53,786	51,093	54,030
Deferred yields	250	264	281
Total other current liabilities	250	264	281

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

20.1.34. Assets and liabilities by accounting category – IAS 39

The fair value of derivatives is measured using valuations provided by bank counter parties.

The fair value of financial liabilities other than derivatives is taken as the present value of all future cash flows generated by principal and interest payments, discounted at the market rate of interest at the balance sheet date. The market interest rate on the debt component of the convertible bonds is calculated using the market interest rate on similar liabilities with no conversion option. It should be recalled that derivative instruments are not recognized in view of their low fair value.

Positions in cash and cash equivalents are recorded at amortized cost as the products and interests are regularly found in P & L. For example, the difference between the valuation at amortized cost and fair value at December 31, 2009 is 3 K€ (2008: 24 K€; 2007: 45 K€).

In thousands of Euros 2009	Assets/liabilities at fair value through profit or loss	Assets/liabilities at amortized cost	Non-financial instruments**	Total carrying amount	Fair value
Other equity investments		0		0	0
Other non-current assets (loans and advances)		431		431	431
Trade receivables and related accounts		55,235		55,235	55,235
Cash and cash equivalents		48,089		48,089	48,092
Derivatives				0	0
Financial assets 2009		103,755	0	103,755	103,758
Bonds		31,366		31,366	32,959
Short/long-term borrowings and other financial liabilities		45,370	849	46,219	45,212
Derivatives				0	3
Trade payables		23,622		23,622	23,622
Payables to suppliers of non-current assets		598		598	598
Other operating liabilities		10,352		10,352	10,352
Financial liabilities 2009		111,308	849	112,158	112,747

In thousands of Euros 2008	Assets/liabilities at fair value through profit or loss	Assets/liabilities at amortized cost	Non-financial instruments**	Total carrying amount	Fair value
Other equity investments		0		0	0
Other non-current assets (loans and advances)		422		422	422
Trade receivables and related accounts		54,546		54,546	54,546
Cash and cash equivalents		25,845		25,845	25,869
Derivatives				0	0
Financial assets 2008		80,813	0	80,813	80,837
Bonds		29,158		29,158	31,319
Short/long-term borrowings and other financial liabilities		6,975	633	7,608	7,593
Derivatives				0	0
Trade payables		22,338		22,338	22,338
Payables to suppliers of non-current assets		1,072		1,072	1,072
Other operating liabilities		10,311		10,311	10,311
Financial liabilities 2008		69,854	633	70,488	72,633

In thousands of Euros 2008	Assets/liabilities at fair value through profit or loss	Assets/liabilities at amortized cost	Non-financial instruments**	Total carrying amount	Fair value
Other equity investments		1		1	1
Other non-current assets (loans and advances)		426		426	426
Trade receivables and related accounts*		48,739		48,739	48,739
Cash and cash equivalents		40,336		40,336	40,381
Derivatives				0	14
Financial assets 2007		89,502	0	89,502	89,561
Bonds		27,170		27,170	29,985
Short/long-term borrowings and other financial liabilities		11,778	515	12,293	12,247
Derivatives				0	0
Trade payables		23,842		23,842	23,842
Payables to suppliers of non-current assets		902		902	902
Other operating liabilities		10,974		10,974	10,974
Financial liabilities 2007		74,665	515	75,180	77,949

(*) Reclassification of 2007 RTC
(**) Non-financial instruments consist solely of finance leases.

20.1.35. Dividends per share

Dividends paid in 2009 amounted to 3,022,044 Euros (3,024,569 Euros in 2008), i.e. 0.27 Euros per share.

At the next Annual General Meeting, scheduled for 7 May 2010, the Company's shareholders will be asked to approve a 0.29 Euros per share dividend pay-out, up to 7.4% (2008: €0.27 per share).

20.1.36. Staff

2008 staff by department and by geographical area	France	Rest of Western Europe	Eastern Europe	North America	Rest of World	Consolidated total
Sales & Marketing	95	130	49	97	126	497
Administrative & Management	141	33	55	33	6	268
Production	112	24	104	41	0	281
Quality	69	8	50	28		155
Purchasing & Logistics	78	37	49	31	4	199
Research & Development	83	13	17	10	1	124
Total staff 2009	578	245	324	240	137	1,524
Total staff 2008	585	237	322	256	12	1,412
Total staff 2007	554	177	319	240	11	1,301

20.1.37. Off-balance sheet commitments

20.1.37.1 Guarantees given

In thousands of Euros	31/12/ 2009	31/12/ 2008	31/12/ 2007
Guarantees and deposits	89	89	291
Mortgages and collateral	18,532	19,132	18,502
TOTAL	18,620	19,220	18,793

In Canada, the advances (described in note Erreur ! Source du renvoi introuvable.) are guaranteed by a second lien in the amount of 31,500 thousand Canadian dollars at 31 December 2009, the equivalent of 20,822 million Euros at the closing exchange rate 2008 (31,500 thousand Canadian dollars, i.e. 18,532 million Euros at the closing rate in 2008), on all receivables, inventories and intellectual property in the possessions of Vétoquinol Canada and its parent, Vétoquinol SA.

20.1.37.2 Guarantees received

In thousands of Euros	31/12/ 2009	31/12/ 2008	31/12/ 2007
Guarantees and deposits	4,443	5,418	7,783
Liability guarantees	4,360	2,161	7,911
TOTAL	8,803	7,578	15,693

Societe Generale provided a guarantee on 125 thousand Euros in remaining finance lease payments at 31 December 2009 (124 thousand Euros in 2008).

In Canada, the Group obtained authorized bank advances for a maximum of 10 million Canadian dollars, 6,610 million Euros at the closing rate for 2009

(2008: 10 million Canadian dollars or 5.883 million Euro at year-end 2008) on a consolidated basis, which may be used in the form of bank loans with interest set at the lending institution's preferential rate plus 0.375%. On this line of credit, a total of 2,660 million Canadian dollars had been drawn down at 31 December 2009, i.e. 1,759 million Euros (2008: 2,223 thousand Canadian dollars, i.e. 1,308 thousand Euros; 2007: 3,820 thousand Canadian dollars, i.e. 2,644 thousand Euros)

In connection with the agreement to purchase the US assets of Vet Solutions, the sellers of Vet Solutions Management, Vet Solutions Inc, D. Schildgen, S. Dowling, M. Drew and K. Koch granted the usual liability guarantee on the assets sold to Vétoquinol USA. This guarantee is for two years as of 29 December 2006 (except for the environmental, labor and tax aspects) and may not be called if the callable amount under this guarantee is less than 200 thousand US dollars. The amount granted as compensation under this guarantee may not exceed 50% of the acquisition price, i.e. 11.5 million US dollars (7.812 million Euros at the closing rate for 2007).

This guarantee has not been called.

In connection with the acquisition of the shares of the South Korean company Semyung Vet, the former shareholders granted Vétoquinol a liability guarantee counter-guaranteed by a first demand bank guarantee for around 35 million Euros for Mr. Joe (bank guarantee expires on 14 January 2008), and for around 79 million Korean won for the group of shareholders (bank guarantee expires on 30 March 2008), i.e. 57 thousand Euros at the closing rate for 2007.

As of 31 December 2009, this guarantee has not been called.

In connection with the acquisition of the shares in the Scandinavian company Viavet Scandinavia AB, the former shareholders granted Vétoquinol a liability guarantee. This guarantee is for two years from the end of the first fiscal year to 31 December 2010 and may not be called if the callable amount under this guarantee is less than 100 thousand Swedish koruna (9,200 Euros at the closing rate for 2008).The amount granted as compensation under this guarantee may not exceed 50% of the acquisition price, i.e. 13.165 million Swedish koruna (1.211 million Euros at the closing rate for 2008).

In connection with the acquisition of the shares in the Italian company Ascor Chimici, the former shareholders granted Vétoquinol a liability guarantee. This guarantee is for two years starting from 24 November 2008 and it may not be called if the callable amount under this guarantee is less than 500 thousand Euros. The amount granted as compensation under this guarantee may not exceed 1.5 million Euros.

During the acquisition of Wockhardt Limited's animal health division, the former shareholders granted Vétoquinol a passive guarantee. This guarantee is valid for 12 months from the date of acquisition until 20 August 2010, and may not be called if the amount to call under the guarantee exceeds 650 thousand rupees (9,696 Euro at year-end 2009). The amount of compensation under this warranty will not exceed 150 million Indian rupees (2,237 thousand Euro at year-end 2009).

20.1.37.3 Commitments related to investments in non-current assets

At the balance sheet date, Vétoquinol had contracted the following investments in non-current assets that had not yet been recorded in the financial statements:

In thousands of Euros	31/12/ 2009	31/12/ 2008	31/12/ 2007
Intangible assets			
Tangible assets	1,360	839	749
TOTAL	1,360	839	749

20.1.37.4 Commitments related to operating leases

Commitments related to operating leases are discussed in note 20.1.15.

20.1.38. Contingent assets and liabilities

Vétoquinol is plaintiff in a commercial dispute related to the breach of a distribution agreement. The initial claim was for 968 thousand Euros. In a decision dated 8 February 2007, the commercial court found in favor of Vetoquinol, in the amount of 232 thousand Euros. Vetoquinol's had sought to obtain a 690 thousand Euros customer indemnity, but this was denied. Vétoquinol was, however, requested to assume 43 thousand Euros in costs for the salaries of the sales representatives. The defendant appealed the judgment on 19 October 2007.The appeal decision awarded the sum of 210 thousand Euros in favor of Vetoquinol.

During 2009, following on insolvency proceedings against the defendant company, Vétoquinol received a final settlement of 80 K€.

Vétoquinol is defendant in a commercial dispute related to the breach of a distribution agreement. No provision for the contingent liability had been set aside at 31 December 2007 because the potential obligation was not substantial and could not be assessed with a sufficient degree of reliability. The court found in favor of Vétoquinol in 2007, and the Company will not be required to indemnify the plaintiff.

The decision to appeal, taken on October 2009, forced the other party's payment of 101 K€. The deadline for appeal in a higher court has not yet expired.

20.1.39. Information on related parties

20.1.39.1 Compensation paid to key executive personnel

In thousands of Euros	31/12/2009	31/12/2008	31/12/2007
Short-term benefits	1,070	1,339	1,071
Post-employment benefits	0	0	0
TOTAL	1,070	1,339	1,071

The key executives of the Vétoquinol Group are: Etienne Frechin (Chairman and CEO), Dominique Henryon (COO), and Matthieu Frechin (SEVP – Strategy and New Business Development). Bernard Boisrame (SEVP - Chief Pharmacist) left the Group and was replaced as Chief Pharmacist by Alain Masson.

20.1.39.2 Transactions with related parties

None.

20.1.40. Subsequent events

None.

GROUP COMPANIES

Companies	Registered office	% held at 31/12/2009	% held at 31/12/2008	% held at 31/12/2007
Vétoquinol SA	Magny-Vernois – 70204 LURE Cedex – France	100.00%	100.00%	100.00%
Vétoquinol N.-A. Inc.	2000 Chemin Georges – LAVALTRIE – Québec J5T 3S5 CANADA	100.00%	100.00%	100.00%
Vétoquinol Prolab Inc.	700 Rue St Henri - PRINCEVILLE G6L4X1 – CANADA	100.00%	100.00%	100.00%
Vétoquinol Canada Inc.	2000 Chemin Georges – LAVALTRIE – Québec J5T 3S5 CANADA	100.00%	100.00%	100.00%
Vétoquinol USA Inc.	4250 N. Sylvania - FORT WORTH TX 76137 - États-Unis	100.00%	100.00%	100.00%
Vétoquinol de Mexico S.A. de C.V	Mariano Escobedo # 748 5° Piso - Col. Nueva Anzures - Delegation Miguel Hidalgo - Mexico,	100.00%	100.00%	100.00%
Vétoquinol Espagne	Carretera de Fuencarral, km 15,700 - Edificio Europa I, Portal 3, 2° piso, puerta 5, - 28108	100.00%	100.00%	100.00%
Vétoquinol Unipessoal LDA	Rua Consiglieri Pedroso – n° 123 – Edificio H – Queluz de Baixo – 2730-056 BARCARENA –	100.00%	100.00%	100.00%
Vétoquinol UK Ltd	Great Slade - Buckingham Industrial Park – ROYAUME UNI	100.00%	100.00%	100.00%
Vétoquinol Ireland Ltd	10 Lad Lane - Lower Beggot Street - DUBLIN 2 – IRLANDE	100.00%	100.00%	100.00%
Vétoquinol NV	Kontichsesteenweg 42 - 263 AARTSELAAR – BELGIQUE	99,00%	99,00%	99,00%
Vétoquinol BV	Postbud 3191 - 5203 DD'S-Hertogenbosch - PAYS-BAS	100.00%	100.00%	100.00%
Vétoquinol International	Magny-Vernois – 70204 LURE Cédex – France	100.00%	100.00%	-
Frefin GmbH	Parkstrasse 10 - 88212 RAVENSBURG – ALLEMAGNE	100.00%	100,00%	100.00%
Vétoquinol Vervaltungs GmbH	Parkstrasse 10 - 88212 RAVENSBURG – ALLEMAGNE	0,00%	0,00%	100.00%
Vétoquinol GmbH (ex : Chassot GmbH)	Parkstrasse 10 - 88212 RAVENSBURG – ALLEMAGNE	100.00%	100.00%	100.00%
Vétoquinol Biowet Pologne	UL. Kosynierow Gdynskich 13/14 St - 66-400 GORZOW WKLP – POLOGNE	100.00%	100.00%	100.00%
Chassot UK	Cougar Lane Naul Co DUBLIN	100.00%	100.00%	100.00%
Vetco Ireland	Cougar Lane Naul Co DUBLIN	100.00%	100.00%	100.00%
Vétoquinol Biowet Ukraine	U I Rogaliewa 18 – DNIEPROPIETROVSK – UKRAINE	100.00%	100.00%	95.00%
Vétoquinol AG Suisse	Business Building – Worblentalstrasse 32 - SUISSE	100.00%	100.00%	100.00%
Vétoquinol s.r.o République tchèque	Zamenicka 411 - 28802 NYMBURK – RÉPUBLIQUE TCHÈQUE	100.00%	100.00%	100.00%
Vétoquinol Autriche	Zehetnergasse 24 - A 11-40 WIEN – AUTRICHE	100.00%	100.00%	100.00%
Ascor Chimici S.r.l.	Via Piana 265 – BERTINORO (FO) – ITALIE	100.00%	100.00%	100.00%
Vétoquinol Scandinavia AB	Box 9 – 265 21 ASTORP – SUÉDE	100.00%	100.00%	100.00%
Frefin Mauritius Ltd.	London Centre - 34 Remy Ollier Street - PORT LOUIS - REPUBLIC OF MAURITIUS	100.00%	0%	0%
Vétoquinol India Ltd.	801, Sigma, 8th floor - Hiranandani Business Park - Technology Street, - Powai, - MUMBAI	100.00%	0%	0%
Frefin Asia Ltd.	Boham Centre – 79-85 Boham Strand – SHEUNG WAN – HONG KONG	100.00%	100.00%	100.00%
Semyung Vétoquinol Corée Ltd.	909-3, Whajung-dong Dukyang-Ku - KOYANG-CITY KYUNGKI-DO 41 270 - COREE DU SUD	100.00%	100.00%	100.00%

20.2. ACCOUNTS OF VÉTOQUINOL SA

BALANCE SHEET – ASSETS

Values in Euros	GROSS 2009	Depreciation, amortization and impairment 2009	NET 2009	NET 2008
Uncalled capital				
Start-up costs				
Research and development costs				
Licenses, patents and similar rights	12,819	9,288	3,531	3,953
Goodwill	1,606	1,276	330	487
Other intangible assets				
Advances and prepayments on intangible assets	834		834	244
Land	1,269	511	758	799
Buildings	35,635	17,462	18,173	19,808
Plant and equipment	26,159	18,990	7,169	7,834
Other property, plant and equipment	3,915	3,287	628	594
Non-current assets in progress	179		179	9
Advances and prepayments	407		407	472
Other equity investment	105,161	31	105,130	76,155
Loans and advances to subsidiaries and affiliates	14,702		14,702	17,778
Other investments				
Loans	2		2	2
Other financial assets	353		353	323
TOTAL NON-CURRENT ASSETS	203,040	50,844	152,196	128,458
Raw materials	6,167	846	5,321	5,136
Work in process - goods	3,192	338	2,853	2,622
Semi-finished and finished goods	5,655	231	5,424	7,032
Goods purchased for resale	1,149	43	1,106	1,687
Advances and prepayments paid	225		225	206
Trade receivables and related accounts	25,758	335	25,423	24,227
Other receivables	5,913		5,913	4,860
Marketable securities	20,703	151	20,552	9,356
Cash	8,791		8,791	5,357
Prepaid expenses	588		588	856
TOTAL CURRENT ASSETS	78,140	1,945	76,196	61,338
Deferred charges				
Bond redemption premiums				
Unrealized foreign currency translation losses	835		835	1,583
TOTAL ASSETS	282,015	52,789	229,226	191,379

BALANCE SHEET – LIABILITIES AND EQUITY

Values in Euros	31 December 2009	31 December 2008
Share capital	28,232	28,226
Share premium	32,600	32,594
Asset revaluation reserve		
Legal reserve	2,944	2,944
Statutory or contractual reserves		
Regulated reserves		
Other reserves	50,900	39,431
Retained earnings	3,238	3,143
Net profit for the period	5,588	14,586
Investment grants		
Regulated provisions	4,490	4,825
EQUITY	127,990	125,748
Proceeds from issues of preference shares		
Accountable advances	832	483
OTHER EQUITY	832	483
Provisions for risks	1,671	2,374
Provisions for charges	371	991
PROVISIONS	2,042	3,364
Convertible bonds	25,683	20,000
Other bonds		
Bank borrowing and financial liabilities	24,390	2,581
Other borrowings and financial liabilities	17,267	8,003
Advances and prepayments received on outstanding orders		
Trade payables and related accounts	10,567	10,539
Tax and benefits liabilities	11,233	10,933
Payable to suppliers of non-current assets and related accounts	554	902
Other liabilities	8,278	8,773
Deferred income	3	
TOTAL LIABILITIES	97,973	61,732
Unrealized foreign currency translation gains	388	52
TOTAL EQUITY AND LIABILITIES	229,226	191,379

INCOME STATEMENT

Value in Euros	31 December 2009	31 December 2008
Sale of goods purchased for resale	8,754	9,921
Production sold - - goods	93,349	94,260
Net revenues	102,102	104,181
Changes in inventories	-903	1,421
Operating grants	10	
Recoveries of depreciation, amortization and impairment	807	441
Other operating income	5,450	4,482
Total operating income	107,466	110,525
Purchase of goods purchased for resale	4,134	5,223
Changes in inventories (goods purchased for resale)	544	108
Puchases of raw materials and other supplies	16,374	17,296
Changes in inventories (raw materials and other supplies)	- 295	257
Other puchases and external charges	29,539	31,302
Taxes and duties	3,705	3,527
Wages and salaries	23,991	24,184
Payroll taxes	12,106	12,620
Depreciation, amortization and impairment of non-current assets	5,861	5,876
Additions to provisions for current assets	991	386
Additions to provisions for risks and charges	559	623
Other expenses	2,125	2,393
Total operating expenses	99,636	103,793
Operating profit	7,830	6,731
Financial income from equity investments	114	7,833
Other interest and similar income	1,225	1,080
Recoveries of provisions and amortization of deferred charges	1,086	3,333
Foreign exchange gains	1,805	715
Net gains on disposals of marketable securities	202	520
Total financial income	4,431	13,481
Amortization and provisions for financial assets	0	535
Interest and similar expenses	7,397	1,135
Foreign exchange losses	1,918	1,404
Total financial expenses	9,315	3,074
Net financial profit	-4,885	10,407
Pre-tax profit	2,946	17,139
Non-recurring income from revenue transactions	49	13
Non-recurring income from capital transactions	1,108	7
Recoveries of provisions and amortization of deferred charges	1,596	1,807
Total non-recurring income	2,753	1,828
Non-recurring expenses on revenue transactions	888	651
Non-recurring expenses from capital transactions	55	3,401
Non-recurring additions to depreciation, amortization and provisions	591	622
Total non-recurring expenses	1,535	4,674
Net non-recurring income (expense)	1,218	-2,846
Employee profit-sharing	392	448
Income taxes	-1,817	-742
NET PROFIT	5,588	14,586

SCHEDULE OF CASH FLOWS

In thousands of Euros	31 December 2009	31 December 2008*
Total net profit	**5,588**	**14,586**
Elimination of depreciation, amortization and impairment, and provisions	3,866	2,444
Elimination of change in deferred or unrealized taxes	0	0
Elimination of gains and losses on sales	- 1,063	3,431
Cash flow	**8,391**	**20,461**
Dividends received from associates	0	0
Impact of change in working capital requirements	5,339	-2,219
Net cash flow from (used by) operations	**13,731**	**18,242**
Total investments	-34,864	-26,088
Total proceeds from asset disposals	6,369	971
Net change in short-term investments	849	-944
Net cash flow from (used by) investing activities	**-27,646**	**-26,061**
Dividends paid	-3,022	-3,025
Increases (decreases) in capital	11	
Issuance of borrowings (including accrued interest)	32,132	1,035
Repayments on borrowings	-3,660	-1,757
Net cash flow from (used by) financing activities	**25,461**	**-3,746**
Impact of changes in exchange rates		
Impact of changes in accounting principles		
Change in cash and cash equivalents	**11,546**	**-11,565**
Cash and cash equivalents at 1 January	8,174	19,739
Cash and cash equivalents at 1 December	19,719	8,174
Change in cash and cash equivalents (at end of period)	**11,546**	**-11,565**

**Reclassification over 2008 of cash pooling accounts in passive cash at the TFT level - the BFR line has been revised as well as the closing cash online.*

TABLE OF CHANGES IN EQUITY

Total in thousands of Euros and in Euros per share		31 December 2009	31 December 2008
Accounting profit	Thousands of €	5,588	14,586
Earnings per share	€	0.49	1.29
Movements in equity	Thousands of €	-324	-313
Proposed dividend	Thousands of €	3,275	3,048
Proposed dividend per share	€	0.29	0.27

	in thousands of Euros	31 December 2009	31 December 2008
A			
1.	Equity at 31 December 2007 before appropriation	111,162	101,261
2.	Share of 2007 net profit appropriated to equity by the AGM	14,586	13,240
A 3.	Equity at 1 January 2008	125,748	114,501
B	Contributions received with retroactive effect to 1 January 2008		
1.	Changes in share capital		
2.	Changes in other items		
C	(= A3 + B) Equity at 1 January 2008 after retroactive contributions	125,748	114,501
D	Movements during the period:		
1.	Changes in share capital	11	
2.	Changes in share premium, reserves and retained earnings		
3.	Distribution of dividends out of net profit for the period	-3,022	-3,025
4.	Distribution of exceptional dividends		
5.	Net profit for the period	5,588	14,586
6.	Changes in equity-related “provisions”		
7.	Contra-entry to asset re-valuations		
8.	Changes in regulated provisions and equipment grants	- 335	-313
9.	Changes in regulated provisions resulting from a change of method		
10.	Other movements		
E	Equity on 31 December 2008 before AGM (= C ± D)	127,990	125,749
F	TOTAL MOVEMENTS IN EQUITY DURING THE PERIOD (= E - C)	2,242	11,248
G	of which: due to changes in structure during the period	11	
H	MOVEMENTS IN EQUITY DURING THE PERIOD BEFORE CHANGES IN STRUCTURE (F - G)	2,231	11,248

ANNUAL PROFIT

In thousands of Euros	31 December 2009	31 December 2008
Total assets	229,226	191,379
Total revenue	114,650	125,834
Total expenses	109,062	111,248
Annual profit	5,588	14,586

NOTES TO THE ANNUAL FINANCIAL REPORT

20.2.1. SIGNIFICANT EVENTS

20.2.1.1 New Loan

To finance external growth, Vétoquinol signed a credit agreement in January 2009 with two banks for a medium-term loan of € 25 million. This transaction is subject to financial obligation clauses (debt ratio, profitability ratio) to which Vétoquinol is committed. During 2009, the Group has met its financial obligations. This loan was used partially to finance the acquisition and participation of the equity-bearing Indian subsidiary into the Vétoquinol International Group.

20.2.1.2 Acquisition in India

On August 20, 2009, the Group completed the purchase of assets of Wockhardt Limited's Animal Health Division, based in Bombay (India). This new subsidiary will contribute to the Group's development in Asia. This acquisition places Vétoquinol in the position of 6th largest market participant in the Indian animal health market.

The Indian market, with an annual growth of over 8%, is estimated at more than 350 million USD. India is the world's largest producer of milk, representing more than 50% of our market dedicated to cattle. This acquisition, in line with the company's strategic direction, will enable strong synergies with the Group's expertise.

20.2.1.3 Bond

In December 2009, Soparfin decided not to convert tranche A of the bond bought in 2006 from 3i and Banexi. To meet this liability, Vétoquinol will post a pro rata non-conversion premium of up to € 5.7 million in its financial results.

Thus, in addition to the nominal 10 M€ and 5% interest, Vétoquinol will pay a non-conversion premium of 5.8 million € on February 28, 2010. No decision has yet been made about tranche B. As a result, the value of the non-conversion premium has not been provisioned as of December 31, 2009.

20.2.1.4 Financial Crisis

In view of the financial crisis, we have revised our assessment methods, our key assumptions, our exposure and primary estimates for Vétoquinol SA and its subsidiaries; this has had no major impact on Vétoquinol SA accounts or on the financial situation of the company.

20.2.2. Accounting principles

20.2.2.1 General principles and valuation methods

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

- going concern
- consistency of accounting methods,
- matching of period income and expense.

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

20.2.2.1.1 Change in accounting method

None.

20.2.2.2 Auditors' fees

Refer to the Appendix table in this document of reference.

20.2.2.3 Intangible Assets and Property, Plant and Equipment

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

Category	Years
Goodwill	10 yrs
Patents and licenses	5 to 8 yrs
Computer software	1 to 5 yrs
Buildings	25 yrs
Structure	15 yrs
Construction – heating/electricity/check roofing	10 yrs
Office and R&D equipment	5 yrs
Production equipment	5 to 10 yrs
Furniture, fixtures and plan	10 yrs

20.2.2.4 Research and Development costs

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

20.2.2.5 Equity and other long-term investments

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

20.2.2.6 Inventories

Raw materials and packaging items are presented at their weighted average cost. The cost of finished goods includes materials, direct and indirect production costs and depreciation of production equipment. A provision for impairment is recognized for items that do not turnover rapidly and for items whose sell-by date to close to their probable date of sale.

20.2.2.7 Trade receivables and related accounts

Receivables are stated at their nominal value and are not represented by negotiable instruments. They are depreciated by means of a provision to reflect the degree of difficulty of recovery which is likely to result. Receivables older than 180 days and less than 360 days are provisioned at 50%; beyond 360 days, claims are provisioned at 100%.

20.2.2.8 Transactions denominated in foreign currencies

Revenues and expenses denominated in foreign currencies are translate using the exchange rate on the date of the transaction. Foreign currency liabilities, receivables and cash items are translated on the balance sheet at closing exchange rates.

Any difference arising on translation of liabilities and receivables at closing exchange rates is recorded in the balance sheet under “Translation adjustment”. A provision for financial risk is recognized to cover any unrealized foreign exchange losses. Any differences arising on current accounts in foreign currencies (such as CHF, GBP, USD and CAD) rerecorded as foreign exchange gains or losses.

20.2.2.9 Marketable securities

Marketable securities are carried at cost. If their recoverable amount is less than cost, a provision for impairment equal to the difference is recognized.

20.2.2.10 Financial instruments

As regards foreign exchange instruments, these contracts are essentially buying options on the pound sterling with expirations of less than one year. Regarding interest risk, these are hedging contracts (SWAPs), and swap limits (CAP). At each closing, market value is considered the fair value of these instruments.

On December 31, 2009, as at the end of 2008, there were hedging contracts in place while there were no unmatured foreign exchange contracts. The fair value is 5.5 K€ (2008: 0 K€), for a notional 694 K€ (2008: € 0). On December 31, 2009, there is an interest rate swap in progress while on December 31, 2008, there were no SWAPs. The fair value of the swap rate is - 322 K€.

20.2.2.11 Retirement commitments

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

Costs related to departures during the period are expensed as incurred. Future obligations are recognized in off-balance sheet commitments and calculated on an individual basis in accordance with the recommendations set forth by the International Accounting Standards Board (IASB) in IAS 19. They are discounted to present value using the projected unit credit method, which attributes benefits to prior periods of service.

20.2.2.12 Accrued expenses and accrued income

All expenses incurred by the Company at the balance sheet date are recognized as liabilities.

20.2.2.13 Consolidation

The Company, Vétoquinol SA, is fully consolidated in the financial statements of the Soparfin SCA Group, whose headquarters are located at 31 rue des Jeûneurs, 75002 Paris. Vétoquinol SA is the head of the consolidated, publicly listed Vétoquinol sub-group.

20.2.3. Non-current assets

In thousands of Euros	Gross value at 1 January 2009	Revaluations in 2009	Additions in 2009
Start-up and research and development costs			
Other intangible assets	13,713		1,853
Total intangible assets	**13,713**		**1,853**
Land	1,269		
Buildings on own property	20,997		
Buildings on other property			
General facilities and building fixtures	13,886		883
Technical facilities, production equipment and machinery	25,726		1,016
General facilities, fixtures and fittings	300		
Vehicles	76		12
Office equipment, computer hardware and furniture	3,586		76
Reusable and other packaging			
Property, plant and equipment in progress	9		176
Advances and prepayments	472		389
Total property, plant and equipment	**66,320**		**2,552**
Investments in associates			
Other equity investments	93,964		30,806
Loans and advances to subsidiaries and affiliates			
Other investments			
Loans and other financial assets	345		11
Total non-current financial assets	**94,309**		**30,817**
TOTAL NON-CURRENT ASSETS	**174,342**		**35,221**

In thousands of Euros	Transfers in 2009	Disposals in 2009	Gross value at 31 December 2009
Start-up and research and development costs			
Other intangible assets	244	62	15,259
Total intangible assets	244	62	15,259
Land			1,269
Buildings on own property		13	20,984
Buildings on other property			
General facilities and building fixtures		118	14,652
Plant, production equipment and machinery		583	26,159
General facilities, fixtures and fittings		22	278
Vehicles		6	82
Office equipment, computer hardware and furniture		106	3,556
Reusable and other packaging			
Property, plant and equipment in progress	6		179
Advances and prepayments	454		407
Total property, plant and equipment	460	849	67,563
Investments in associates			
Other equity investments		4,908	119,863
Loans and advances to subsidiaries and affiliates			
Other investments			
Loans and other financial assets			356
Total non-current financial assets		4,908	120,218
TOTAL NON-CURRENT ASSET	704	5,819	203,040

20.2.4. Depreciation and amortization

Balances and movements for the period in thousands of Euros	Accumulated depreciation and amortization at 1 January 2009	Additions	Decreases	Accumulated depreciation and amortization at 31 December 2009
Start-up and research and development costs				
Other intangible assets	9,029	1,597	63	10,563
Total intangible assets	9,029	1,597	63	10,563
Land	470	41		511
Buildings on own property	7,004	1,347	13	8,337
Buildings on other property				
General facilities and building fixtures	8,266	976	117	9,125
Plant, production equipment and machinery	17,892	1,668	571	18,990
General facilities, fixtures and fittings	194	18	22	190
Vehicles	39	10	6	43
Office equipment, computer hardware and furniture	2,940	204	90	3,054
Reusable and other packaging				
Total property, plant and equipment	36,805	4,264	819	40,250
TOTAL NON-CURRENT ASSETS	45,834	5,861	881	50,813

20.2.5. Finance leases

Non-current assets under finance leases in thousands of Euros	Capitalized cost	Depreciation and amortization for the period	Accumulated depreciation and amortization	Carrying amount
Land	101			101
Buildings	1,708	85	1,036	669
Plant, equipment and machinery				
Other property, plant and equipment				
Non-current assets in progress				
TOTAL	1,809	85	1,036	770

Finance lease liabilities in thousands of Euros	Payments for the period	Cumulative lease	Payments due < 1 year	Payments due to pay from 1 to 5 yrs	remaining to to pay > 5 yrs	remaining to purchase	Finance lease liabilities in thousands of Euros
Land							
Buildings	126	1,402	128	205		332	1
Plant, equipment and machinery							
Other property, plant and equipment							
Non-current assets in progress							
TOTAL	126	1,402	128	205		332	1

Comment:
Finance leases in 2009 (as in 2008)
One building plus land (No. 1) on the Tarare site
One building plus land (No. 2) on the Tarare site

20.2.6. Goodwill

Goodwill is amortized over a 10-year period. At December 31, 2009, the gross value of goodwill amounted to 1,606 thousand Euros, including primarily 1,570 thousand Euros from the acquisition of IPA from the Chassot Group in 2002. At 31 December 2009, the carrying amount of goodwill was 330 thousand Euros (2008: 487 K€).

20.2.7. Related parties and affiliates

Entries	Subsidiaries total in thousands of Euros		Total in thousands of Euros for companies in which the Company has a participating interest	
	31 December 2009	31 December 2008	31 December 2009	31 December 2008
Non-current financial assets				
Advances and prepayments on non-current assets				
Equity investments	105,130	76,156	31	31
Loans and advances to subsidiaries and affiliates	14,702	17,778		
Loans				
Receivables				
Advances and prepayments paid on orders				
Trade receivables and related accounts	13,316	10,985		
Other receivables	608	1,034		
Unpaid capital				
Liabilities				
Convertible bonds	26,516	20,000		
Other bonds				
Bank borrowings and financial liabilities				
Other borrowings and financial liabilities	17,244	8,003		
Advances and prepayments received on outstanding orders				
Trade payables and related accounts	851	627		
Other liabilities				
Financial items				
Financial income from equity investments	114	7,833		
Other financial income	937	839		
Financial expenses	6,695	1,000		
Exceptional items				
Proceeds from sales of securities	957			

The establishment of centralized cash pooling at Group Vétoquinol generated an increase in accounts payable to our affiliates. This impact is materialized on the line ' miscellaneous loans" in the amount of 17 million € (2008: 8 M€).

20.2.8. List of subsidiaries and affiliates

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

Figures in this table are in thousands.

Companies	Currencies	Equity in currencies	Other components of equity in foreign currencies	Equity in Euros	Other components of equity in Euros	Share of of equity held (%)
Subsidiaries (Over 50%)						
Frefin Asia	HKD	0.1	-4,666	0	-422	100
Vétoquinol International	Euros	75,886	9,632	75,886	9,632	100
Semyung Vétoquinol Corée	WON	520,000	621,343	312	373	100
Vétoquinol North America	CAD	35,650	1,606	23,566	1,061	100
Participations (entre 10 et 50%)						
Autres participations						

Companies	Gross value of shares held	Carrying amount of shares held	Outstanding loans and advances granted by the Company	Guarantees and sureties granted by the Company	Profit (loss) for the previous period	Revenues (excl. tax) for the previous period	Dividends received by the company during the period
Subsidiaries (Over 50%)							
Frefin Asia	31	31			-1	0	0
Vétoquinol International	75,886	75,886			8,993	0	0
Semyung Vétoquinol Corée	1,018	1,018			-33	1,141	114
Vétoquinol North America	28,195	28,195	14,702		-43	0	0
Participations (entre 10 et 50 %)							
Autres participations							

With regard to Vétoquinol International, we note an increase in securities of 29 M€ in 2009, with 9 M€ yet to pay

20.2.9. Maturities of receivables and liabilities

RECEIVABLES in thousands of Euros	Gross amount	< 1 year	> 1 year
Loans and advances to subsidiaries and affiliates	14,702	2,215	12,487
Loans (1) (2)	2		2
Other financial assets	353		353
Provisions for doubtful accounts	465		465
Other trade receivables	25,293	25,293	
Loans of securities			
Employee-related receivables	74	74	
Social security and other benefits agencies			
Income taxes	4,038	4,038	
Value-added tax	641	641	
Taxes and duties			
Other			
Group and associates (2)	608	608	
Miscellaneous debtors	776	776	
Prepaid expenses	588	588	
TOTAL	47,541	34,363	13,178
(1) Loads granted during the period	*1,806*		
(1) Repayments received during the period	*5,603*		
(2) Loans and advances granted to associates (individuals)			

RECEIVABLES in thousands of Euros	Gross amount	< 1 year	1-5 years	> 5 years
Convertible bonds	25,683	15,683	10,000	
Other convertible borrowings (1)				
Bank borrowings and financial liabilities – current portion	116	116		
Bank borrowings and financial liabilities – non-current portion	24,274	6,149	18,125	
Other borrowings and financial liabilities (1) (2)				
Trade payables and related accounts	10,567	10,567		
Employee-related receivables	5,812	5,812		
Social security and other benefits agencies	4,152	4,152		
Income taxes				
Value-added tax	638	638		
Guaranteed bonds				
Other taxes and duties	630	630		
Payable to suppliers of non-current assets and related accounts	553	553		
Group and associates (2)	17,267	17,267		
Other liabilities	8,278	8,278		
Securities borrowed				
Deferred income	3	3		
TOTAL	97,973	69,848	28,125	
(1) New borrowings during the period	*25,000*			
(1) Borrowings repaid during the period (excluding current interest charges)	*2,675*			
(2) Borrowings and liabilities due to associates	*17,267*			

20.2.10. Prepaid expenses and deferred income

TYPE OF EXPENSES in thousands of Euros	31 December 2009	31 December 2008
Operating expenses		
Purchases		
Finance leases		
Property Rentals	92	91
Insurance		
Other expenses	496	765
Total operating expenses	588	855
None		
TOTAL FINANCIAL EXPENSES		
None	0	0
TOTAL NON-RECURRING EXPENSES		
Total prepaid expenses		
Operating expenses	0	0
Purchases	588	855

TYPE OF INCOME in thousands of Euros	31 December 2009	31 December 2008
Produits d'exploitation :		
None		
TOTAL OPERATING INCOME	0	0
None		
TOTAL FINANCIAL INCOME		
Extraordinary income	0	0
Non-recurring income:		
TOTAL NON-RECURRING INCOME	3	0
Total deferred income	3	0
None	3	0

20.2.11. ACCRUED INCOME

The amount of accrued income, 218 K€ (2008: € 18 K), consists primarily of interest income.

20.2.12. Conversion variances

ITEMS CONCERNED	ASSET Total gross value in thousands of Euros	ASSET Offset by hedging	ASSET Stock	ASSET Total net value	LIABILITY Total in thousands of Euros
Prepayments on non-current assets					
Loans					
Other non-current receivables	795		795		326
Operating receivables	25		25		62
Other receivables					
Financial liabilities					
Operating liabilities	15		15		
Payable to suppliers of non-current assets					
TOTAL	835		835		388

20.2.13. COMPOSITION OF SHARE CAPITAL

At 31 December 2009, the 28,231,580 Euros (2008: 28,225,830 €) in share capital was composed of 11,292,632 shares (2008: 11,290,332 actions), each with a par value of 2.5 Euros.

Operation name	Number of shares	Par value	Share Capital
At 31 December 2008	11,290,332	2,5	28,225,830
Exercise option	2,300	2,5	5,750
At 31 December 2009	11,292,632	2,5	28,231,580

20.2.13.1 Dividend distribution

The Annual General Meeting of Shareholders of 12 May 2009 approved the payment of dividends in respect of 2008 totalling 3,048,389.64 Euros, i.e. 27 Euros per share (2008: 3,048,389.64 Euros i.e. 27 Euros per share). At the time the dividend was paid, Vétoquinol held certain of its own shares: the dividends attributable to these shares were not paid, and were allocated to retained earnings. The total divdend paid amounted to 3,022,044.12 Euros (2008: 3,024,537 Euros).

20.2.13.2 Treasury stock / Share buyback program / liquidity contract

On 12 May 2009, under the terms of its ninth resolution, The Company's Annual General Meeting of Shareholders authorised the Board of Directors to establish a programme to buy back the shares of the Company, pursuant to the provisions of Articles L.225-209 et seq. of the French Commercial Code, of EC regulation No. 2273/2003 dated 22 December 2003, and of the General Regulation of the French Financial Markets Authority (Autorité des Marchés Financiers, or AMF). This resolution nullifies and replaces the authorisation previously granted under the seventh resolution of the Annual General Meeting of 19 May 2008.

The number of shares that the Company may acquire under the terms of the share buyback program may not at any time exceed 10% of the shares comprising the share capital of the Company.

The maximum unit purchase price for the shares is 33 Euros, and the total amount set aside for these acquisitions may not exceed 38 million Euros.

The share buyback programme was authorised for a period of eighteen months, starting from the date of the combined Annual General Meeting that delivered this authorisation, which means that it will run through 12 November 2010.

Shares will be acquired under the buyback programme primarily:

a) to stimulate trading in or the liquidity of the Company's shares within the framework of a liquidity agreement entered into with an independent investment services provider in compliance with the AFEI's guidelines that have been approved by the AMF,

b) To purchase shares of stock and hold themfor subsequent tender as exchange or consideration in connection with external growth transactions, as allowed by the AMF,

c) To grant shares of stock to employees, directors and officers of the Company, notably under any stock option plan, bonus share programme or employer-sponsored employee savings plan programme set up in accordance with all applicable legislation,

d) To grant shares of stock to holders of marketable securities granting access to the capital of the Company when they exercise the rights attached to these securities, in accordance with all applicable legislation.

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

To implement this contract, the resources allocated in 2007 to the liquidity account (€ 200,000), were augmented by € 50,000 over 2008. There was no additional payment in 2009. On December 31, 2009, Vétoquinol retains 6,574 of its own shares as part of the liquidity contract (end-December 2008: 9,357), valued with other assets at the end of December 2009 at € 139 K (end- December 2008: 176 K€).

20.2.13.3 Bonus shares

In its twelfth resolution, the Combined Extraordinary and Ordinary General Meeting of 9 October 2006, authorised the Board of Directors, for a period of at most 26 months, to grant bonus shares of the Company's stock, either already existing or to be issued, in one or more transactions, to employees of the Company and all related companies within the meaning of Article L.225-197-2 of the French Commercial Code, or to certain categories of employees, as well as to any corporate directors and officers, as legally defined.

On 4 June 2007, the Board of Directors voted unanimously that all bonus shares grants are to becarried out with existing shares that Vétoquinol shall have previously purchased in the market under the share buyback programme approved by the Annual General Meeting of shareholders, in accordance with theprovisions of Article L.225-209 of the FrenchCommercial Code. The characteristics of the bonusshare programme are as follows:

The bonus shares granted to all beneficiaries will become vested after a two-year vesting period startingon the day they are granted by the Board of Directors.of Directors.

Each beneficiary will be the owner of any Vétoquinol shares granted him once said shares have been recorded in a special registered account that the beneficiary will open in the books kept by Vetoquinol's registrar. Beneficiaries shall be notified of this registration within thirty days.

Any beneficiary may sell or otherwise transfer his bonus shares only following a two-year lockup period starting on the day the shares become fully vested.

The Board of Directors decided to make the definitive granting of the bonus shares conditional upon the presence of the beneficiary within Vétoquinol or a related company.

No beneficiary may receive the Vétoquinol shares he was granted if he holds more than 10% (ten percent) of the share capital of Vétoquinol at that date.

The shares so granted may not represent more than 0.3% of the Company's share capital on the day that the Board of Directors makes its decision.

Under this program, 33,800 bonus shares have been granted to the employees, directors and officers of Vétoquinol. At 31 December 2008, only 29,800 of the 33,800 bonus shares originally granted remained, following departures from the Group.

On June 4 2009, 29,800 free shares were finally given to 25 members of the Group.

20.2.13.4 Stock options

The Combined Extraordinary and Ordinary GeneralMeeting of 9 October 2006 authorised the Board ofDirectors to grant options to purchase the Company'sstock to all or some of the directors and officers referred to in Article L. 225-185 paragraph 4 of theFrench Commercial Code, or to members of thepersonnel of the Company and any related companiesor groups within the meaning of Article L. 225-180 ofthe French Commercial Code.

On 4 June 2007, The Board of Directors voted unanimously to grant 33,800 Vétoquinol stock options, with the following characteristics:

The purchase price was set at 25.33 Euros, corresponding to the average share price for the 20 trading days preceding the Board of Directors meeting, less a 5% discount. Beneficiaries must pay the Company 100% of the purchase price of the shares on the day the option is exercised.

The options may be exercised within a period of four years and six month. The options granted may be exercised after a two-year lockup period starting on the day the Board of Directors authorised the plan, i.e. 4 June 2007, in amounts that are not to exceed the following maxima and only during the periods indicated below :

- 50% between 15 September 2009 and 15 October 2009,
- 100% between 15 September 2010 and 15 October 2010.

The options may be exercised in full or in part, at any time between the fourth anniversary of the start of the plan and the date on which the plan expires, i.e. between 5 June 2011 and 5 December 2011. The options will expire at the end of this four year and six month period, i.e. on 6 December 2011.

The shares issued with full rights as of the first day of the financial year during which they were subscribed, as long as they were subscribed no later than 31 December of that year. They shall grant their holder the right to receive dividends starting only with the dividend paid in respect of the year during which the option was exercised Except for that reserve, as soon as they are created they shall in all other respects be considered entirely indistinguishable from all pre-existing shares.

The shares purchased will be recorded in registered form in the name of the beneficiary. They may be freely sold or otherwise transferred starting on 5 June 2011, following a four-year lockup period that begins on the day the Board of Directors authorised the plan. Any shares obtained through the exercise of options starting 15 September 2009 will consequently be subject to a contractual lockup lasting until the fourth anniversary of the creation of the plan, i.e. 5 June 2011(no sale shall be possible).

Summary of options outstanding:

Nature of provisions	Plan 5
Date plan opened	4 June 07
Exercise price	25.33
Expiration dates	6 Dec 11
Options outstanding as of 31 December 2009	29,100

20.2.13.5 Own shares

On 30 November 2007, Vétoquinol purchased a block of 46,300 shares for 28.50 Euros per share on Euronext to be used in connection with the stock option plans and bonus share grants authorised by the Board of Directors on 4 June 2007.

In 2008, Vétoquinol continued to buy back its own shares. At the end of 2008, it held 86,541 such shares, with a purchase value of 2,263 thousand Euros.

Out of these 86,541 treasury shares, 60,100 were granted.

In late 2009, Vétoquinol holds 56,741 own shares after the final allocation of 29,800 sahres at the General Meeting on June 4, 2009.

20.2.14. Government grants

Vétoquinol has received conditional state aid. On December 31, 2009, the total of advances received from OSEO amounted to 832 K€ (2008: 482 K€, 2007: 402 K€)

20.2.15. PROVISIONS

The recovery of financial provision in the amount of 3,333 thousand Euros is related to the partial asset contribution of equity investments held by Vétoquinol S.A. in its subsidiary Vétoquinol International. This recovery of provision is counter-balanced by the negative carrying amount of the same amount.

Type of provision in thousands of Euros	Amount/value at the beginning of 2009	Additions for the period	Recoveries for the period	Amount at 31 December 2009
Provisions for allowances on deposits (mines, oil)				
Provisions for investment at the beginning				
Provisions for price increases	219	61	14	266
Accelerated tax depreciation	4,606	530	913	4,223
Of which: extraordinary 30% surcharge				
Provisions for taxes on operations outside France (before 1 Jan. 1992)				
Provisions for taxes on operations outside France (after 1 Jan. 1992)				
Provisions for start-up loans				
Other regulated provisions				
TOTAL REGULATED PROVISIONS	4,825	591	927	4,490
Provisions for litigation	790	310	464	636
Provisions for guarantees given to customers				
Provisions for losses on futures markets				
Provisions for fines and penalties				
Provisions for foreign exchange losses	1,583		749	835
Provisions for pensions and similar obligations	669		669	
Provisions for taxes				
Provisions for renewal of non-current assets				
Provisions for major repairs				
Provisions for payroll taxes and taxes on vacation pay to be paid				
Other provisions for risks and charges	321	250		571
TOTAL PROVISIONS FOR RISKS AND CHARGES	3,364	559	1,882	2,042
Provisions for impairment of intangible assets				
Provisions for impairment of property, plant and equipment				
Provisions for impairment of investments in associates				
Provisions for impairment of other equity investments	31			31
Provisions for impairment of other financial assets	20		20	
Provisions for impairment of inventories and work-in-process	838	836	215	1,459
Provisions for impairment of trade receivables	308	155	128	335
Other provisions for impairment	468		317	151
TOTAL PROVISIONS FOR IMPAIRMENT	1,664	991	680	1,976
TOTAL PROVISIONS	9,853	2,142	3,488	8,507
Of which operating charges and recoveries		1,551	807	
Of which financial charges and recoveries			1,086	
Of which non-recurring charges and recoveries*		591	1,596	
Investments in associates: impairment at end of period				

20.2.16. Analysis of provisions

Amount/value	At 31 December 2008	Additions	Recoveries and reversals	At 31 December 2009
Provisions for foreign exchange losses	1,583		749	834
Labour disputes	790	310	464	636
Total provisions for litigation	**2,374**	**310**	**1,213**	**1,471**
Charges on temporary employment	61	20		81
Long service medal bonuses	261	29		290
Stock warrant/bonus share commitments	669		669	
Other provisions	0	200		200
Total of other provisions	**991**	**249**	**669**	**571**
Total of provisions for liabilities and expenses	**3,364**	**559**	**1,882**	**2,042**

20.2.17. BOND

On February 28, 2003, our Company issued a bond convertible into shares with a par value of 19,999,993 Euros. Holders were entitled to a coupon of 4% the first year and 5% from 1 March 2004. This financial instrument has a dilutive effect on earnings per share: the 117,855 bonds issued can potentially be converted into 1,178,550 shares of our Company. Soparfin (parent company of Vétoquinol SA) has held this bond since Aug. 7, 2006 and decided not to convert tranche A. On February 28, 2010, Soparfin will receive a non-conversion premium of 5,870 K€ and repayment of the nominal K€ for 9999. No decision has yet been made concerning tranche B. As a result, the value of the premium for non-conversion has not been provisioned as of December 31, 2009.

20.2.18. Contingent liability

Vétoquinol is party to a commercial dispute related to the breach of a distribution contract. This contingent liability had not been budgeted at the end of December 2007 due to flimsy liability and insufficient dependability of the assessment. During 2007, a favorable decision was rendered and Vétoquinol is required to pay no compensation at all. Appeal verdict was delivered in October 2009 requiring the defendant to pay 101 K€. The deadline for appeal in a higher court has not yet expired.

20.2.19. Analysis of revenues

Revenues in thousands of Euros	FRANCE 2009	Rest of world 2009	TOTAL 2009	FRANCE 2008	Rest of world 2008	TOTAL 2008
Sale of goods purchased for resale	6,423	2,331	8,753	6,972	2,949	9,921
Sale of goods	44,932	48,416	93,349	44,528	49,732	94,260
TOTAL	51,355	50,747	102,102	51,500	52,681	104,181

Revenues decreased slightly by 1.42% in France and decreased in the rest of the world, compared to the prior year. Globally, we observed a fall of +0.7%, because of the weak economy in 2009.

20.2.20. Non-recurring expenses

Description/value in thousands of Euros	31 December 2009	31 December 2008
Restructuring distribution network		600
Loss on treasury stock	39	51
Provision on bonus share/stock option commitments	849	
Non-recurring expenses on revenue transactions	888	651
Carrying amount on disposals of assets	55	3,401
Non-recurring expenses from capital transactions	55	3,401
Accelerated tax depreciation	530	557
Provisions for price increases	61	65
Non-recurring additions to depreciation, amortisation and impairment	591	622
TOTAL NON-RECURRING EXPENSES	1,535	4,674

After a period of 2 years, the free shares have been definitively distributed among Vétoquinol personnel on June 4, 2009; this resulted in an exceptional charge of € 849 K which was offset by a provision reversal of 669 K€ (pro rata).

In 2008, the carrying amount on disposal of assets is strongly impacted by the partial contribution of assets carried out by Vétoquinol S.A., to its subsidiary Vétoquinol International. This carrying amount amounted to 3,333 thousand Euros, and is offset by a financial recovery of provision of the same amount.

In 2008, the 600 thousand Euros expense related to restructuring of the company distribution network was offset by a non-recurring recovery of provision of the same amount.

20.2.21. Non-recurring income

In 2009, an internal restructuring led to Vétoquinol's selling a share (2.7%) of equity to a subsidiary in the amount of 957 K€.

Description/value in thousands of Euros	At 31 December 2009	At 31 December 2008
Gain on treasury stock	49	13
Rep. Prov. Eng; Bonus payment on shares / Free shares	669	272
Non-recurring income from revenue transactions	718	285
Proceeds from disposals of assets	1,108	7
Non-recurring income from capital transactions	1,108	7
Exceptional depreciation	913	897
Recovery of provision for price increases	14	38
Restructuring distribution network	0	600
Non-recurring recoveries of depreciation, amortisation and impairment	927	1,536
TOTAL NON-RECURRING INCOME	2,753	1,828

20.2.22. Analysis of income taxes

Value in thousands of Euros	2009 Pre-tax	2009 Tax due	2009 Net profit	2008 Pre-tax	2008 Tax due	2008 Net profit
Pre-tax profit from continuing operations	2,946	880	2,065	17,138	3,293	13,846
Non-recurring profit (loss) – short-term	1,218	411	808	-2,846	-969	-1,877
Non-recurring profit (loss) – long-term	0	0	0	0	0	0
Employee profit-sharing	-392	-132	-260	-448	-153	-296
Tax receivables	0	-2,975	2,975	0	-2,913	2,913
Total	3,771	-1,817	5,588	13,844	-742	14,586

Since 2008, Vétoquinol SA has been integrated with its tax subsidiary Vétoquinol International as head of the group. Vétoquinol SA is only liable for the tax to the tax authorities; Vétoquinol International reimburses the parent company. Thus, there is no difference between the tax accounted for and the tax paid and forfwhich the company is secured. Similarly, there is no difference between the tax accrued and tax which would have been incurred in the absence of tax consolidation.

20.2.23. VARIATION DES IMPÔTS DIFFÉRÉS OU LATENTS

Assets in thousands of Euros	Beginning of year ASSETS	Beginning of year Liabilities	Changes	Changes	End of year/period ASSETS	End of year/period Liabilities
Confirmed or possible differences						
1 – Regulated provision						
To be added back subsequently						
- Provision for price increases		75	5	21		92
- provision for setting up abroad						
To be added back possibly						
- provision for investment						
non-contracted employees						
- investment provision						
Exceptional depreciation						
additional (non-exempt) depreciation charge/write-back		1,586	314	183		1,454
2 – Investment grants						
3 – Temporarily non-deductible expenses						
To be deducted the following year						
- paid vacation (former benefit plan)	932		51		983	
- employee profit-sharing	157		140	157	140	
- other	156		281	156	281	
To be deducted subsequently						
- provision for retirement						
- other						
4 – Temporarily non-taxable income						
- short-term capital gains						
- merger gains						
- deferred long-term capital gains						
5 – Expenses deducted						
TOTAL	1,246	1,661	791	517	1,404	1,546
Items to be charged						
Tax-loss carry-forwards						
Deferred depreciation						
Long-term losses						
Other						
TOTAL						
Possible tax elements						
Gains on non-amortized assets						
Reserve from special gains						
Reserve from special profits						
Others						
TOTAL						

20.2.24. Financial commitments

Commitments given in thousands of Euros	TOTAL	Management	Subsidiaries	Equity investments	Related parties	Other
Endorsements						
Guarantees – Vétoquinol NA						
Guarantees – Miscellaneous	89					89
Guarantees – Vétoquinol Poland						
Other – retirement commitment	2,224					2,224
Other – Finance lease	332					332
Other – Miscellaneous	2,814					2,814
Total	**5,459**					**5,459**

Commitments received in thousands of Euros	TOTAL	Management	Subsidiaries	Equity investments	Related parties	Other
Endorsements						
Guarantees – SCA Soparfin (borrowings)						
Guarantees – SG (finance lease)	125					125
Other – Finance lease	332					332
Commitments received	**458**					**458**

The Vétoquinol and Vétoquinol Poland guarantee commitments concerning loans and mentioned previously were cancelled, subsequent to total repayment.

The line Others Diverse includes various other commitments such as the vehicle fleet (1,120 K€), IT hardware (467 K€) and real esate (1,227 K€). Following the introduction of the new loan, Vétoquinol is committed to financial obligation clauses (debt ratio, profitability ratios). During 2009, the Group has met its financial obligations. The principal actuarial assumptions used for calculating pension liabilities are as follows:

	31 december 2009	31 december 2008
Discount rate	4.91%	5.76%
Rate of salary increase	[2.5% - 5%]	[2.5% - 5%]
Payroll rate	45%	
Life expectancy table	TF-TH 2000-2002	
Turnover rate	Depending on age	

20.2.24.1 Workforce

Employees may receive service awards as defined by Decree No. 2000-1015 of the Official Journal of 19 October 2000 and by an enterprise agreement or standard practice. Moreover, there is also a system of Vétoquinol company-specific service awards, which allows staff to receive bonuses according to their seniority. A provision for this expense is recognized over the period.

20.2.25. WORKFORCE

WORKFORCE	2009 average	2008 average	Employees available 2009	Employees available 2009	Total average workforce 2009	Total average workforce 2008
Staff	224	211		1	224	212
Foremen	16	19			16	19
Employees and technicians	236	244	2	8	238	252
Workers	108	104	14	25	122	129
Total	584	578	16	34	600	612

20.2.25.1 Individual right to training

The individual right to training (DIF) was established by Act No. 2004-391 of March 4, 2004 and concerns vocational and collective training throughout life. It is intended to allow any employee with at least one year of seniority to reserve 20 hours' time per year over a maximum period of 6 years, to be used at his initiative, but with the consent of his employer.

The number of training hours FID accrued during 2009 was 10,664 (2008: 9,721 hours) while 4,024 hours (2008: 5,361 hours) were used during the year. On December 31, 2009, it remains 35,405 hours (2008: 29,942 hours).

20.2.25.2 Remuneration paid to members of administration and mmanagement

Total remuneration and fees paid for the year 2009 amounted to 1,070 K€ (2008: € 1,329 K). No advance has been granted.

20.2.26. POST-CLOSURE EVENTS

None.

21. ADDITIONAL INFORMATION

21.1. GENERAL DESCRIPTION OF THE COMPANY

21.1.1. Corporate name

The corporate name of the Company is « Vétoquinol Ltd ».

21.1.2. Registration of the Company at the Trade and Companies Register and PBA Code

Vétoquinol Ltd is registered at the Trade and Commerce Register in Vesoul under number 676 250 111. Its PBA code is 2120Z. It corresponds to medicine manufacturing.

21.1.3. Secondary establishments

Two secondary establishments of the Company are registered (i) at the Trade and Companies Register in Villefranche sur Saône (2002 B 372) and (ii) at the Trade and Companies Register in Paris (98 B 14086).

21.1.4. Incorparation date and duration of the Company

The Company was incorporated on May 12th 1962 and registered at the Trade and Companies Register on August 10th 1962 under number 62 B 11 named Vétoquinol, for a duration of 99 years.

21.1.5. Registered Office, legal form, applicable legislation

The company is a limited company with a Board Administration. The company, governed by French Law, is in particular subject to articles L.225-1 and following of the Commercial Law and to the Decree of 23rd May 1967 on commercial companies.

The Registered Office is located at Magny-Vernois 70204 Lure Cedex, France.

The phone number of the company is + 33 (0)3 84 62 55 55 and the address of the website is www.vetoquinol.com

21.1.6. Fiscal year

The fiscal year of the company starts January 1st and ends December 31st of each civil year.

21.2. MAIN STATUTORY PROVISIONS OF THE COMPANY

The main statutory provisions as well as those resulting from applicable laws and regulations are described hereunder:

21.2.1. Social Purpose - (article 2 of the statutes)

The Company's purpose, in France and abroad, directly or indirectly, is:

- the preparation, manufacturing, packaging, importation and exportation, purchase, wholesaling and retailing:
  - of all pharmaceutical specialties for veterinary and human use
  - of chemical, homeopathic, biological, organo- and phytotherapeutic products,
  - of all surgical or medical support instruments and protection gear,
  - of all products meant to protect, treat and clean mineral and vegetal material,
  - of all perfumery, cosmetology, dermatology, hygiene and dietetic products,
  - of all anti-parasitic products, insecticides and products intended to combat pests,
  - of all-care products for animal, vegetal and human use.
- Studies and researches in the medical, pharmaceutical, clinical, biological and industrial fields; the elaboration, procurement by acquisition or otherwise, the concession, exploitation, improvement of all patents, brand-names and trademarks, processes, inventions or others, related in any way to the products mentioned above or linked to the industry and to the distribution of such products.
- All of which, directly or indirectly for own account or for a third party's account, alone or in association or collaboration with third parties, by all means.

In order to promote and develop the branding of the Company, the implementation, within the limits of their tax deductibility, of all philanthropic activities, and/or sponsorship, by all means: cash donations, in-kind donations, grants, equipment loans, technical assistance, without this list being nominative.

And, generally, all financial, commercial, industrial, investment or real estate transactions that could be linked, directly or indirectly to the items specified above or which could foster development.

21.2.2. Allocation of profits (article 21 of the statutes)

First of all, from the profit to be allocated will be deducted all amounts that the general assembly will decide to carry forward to the following fiscal year or to assign to the creation of any extraordinary reserve fund, contingency fund, or other fund with or without a special assignment. The surplus is distributed among the shareholders.
The general assembly, acting on the year's accounts, has the faculty of granting to each shareholder, for all or part of the distributed dividend or interim dividends, an option between receiving payment of dividend or interim

dividends in cash or in shares.

21.2.3. Double voting right (article 19-4 of the statutes)

A double voting right different from that conferred to other shares, in view of the capital quota they represent, is assigned to all shares entirely paid for which proof of nominative registration for at least two years on behalf of the same shareholder has been checked.

In case of capital increase by incorporation of profits, reserves or premium, the right of double voting is conferred upon issuance of the new nominative shares allocated for free to a shareholder in respect of existing shares for which he already enjoys that right, provided that these new shares are registered shares.

Any share converted into bearer form or transferred to property, loses the double voting right. Nevertheless, transmission of shares through inheritance, liquidation of community property between spouses or donations *inter vivos* to a spouse or parent to inherit, does not lose the acquired entitlement, and does not interrupt the period of two years indicated above.

21.2.4. Statutory or other provisions regarding administration and management body (article 15)

The Executive Management of the Company is insured, under its responsibility, by a natural person appointed by the Board of Directors, and bearing the title of Chief Executive Officer. It may be the Chairman of the Board (see Chapter 14 of this reference document relating to corporate governance).

21.2.5. General meetings of shareholders (article 19-1° to 19-3° of the statutes)

The general meetings are called and deliberated as provided by law. They are convened at the head office or at any other location specified in the meeting notice. The general assembly consists of all shareholders, regardless of the number of their shares, provided they have been released from payments due.
Any shareholder may participate in person, by proxy or by remote voting, at the meetings on proof of identity and registry of the securities in accounts in his name (or in the name of the authorized intermediary registered under his name if he resides abroad) the third business day preceding the meeting at midnight, Paris time, either in nominative securities accounts or in bearer securities accounts kept by the approved intermediary, and this, at one of the locations mentioned in the meeting notice.

Regarding bearer securities, the authorized intermediary will have to issue a certificate of participation.
Any shareholder may vote by mail or by electronic voting. However, regarding the vote by mail, only those received at the Company within three days before the meeting day are taken into account. Regarding electronic voting, only the votes received at the company the day before the meeting, before 3 P.M., Paris time, are taken into account.
At the general meeting, the presence of the shareholder in person cancels any proxy or any absentee vote, unless this has been waived according to the regulations' principle relating to electronic voting.

Quorum shall be deemed by a majority calculation including shareholders who participate in the meeting by videoconferencing, if it allows retransmission of the ongoing discussions. The meetings are chaired by the President of the Board of Directors or, in his absence, by the oldest administrator present at this general meeting. Otherwise the Assembly elects its own President.

21.2.6. Provisions allowing delay postpone or prevent any change of control

In addition to the provisions of Article 10 and following of the statutes relating to threshold crossing declarations (see below paragraph 22.2.28.), there is no other provision of the statutes or the internal rules which could, with the Company's knowledge, have the effect of deferring or preventing a change of control of the Company.

21.2.7. Identification of bearer securities holders (article 9 paragraph 3 of the statutes)

The Company may at any time, by the legal and regulatory requirements in force, request of the Central Securities Depository (CSD) who keeps the account, issuance of securities issued by the Company, the name or, in case of legal entity, the corporate name, the nationality and address of the bearer securities holders, immediately or eventually conferring the right to vote in its own shareholder meetings and the quantity of securities held by each one of them and, where appropriate, any possible restriction on these securities.

21.2.8. Threshold crossing (article 10 of the statutes)

In addition to the legal obligation of reporting threshold crossing enacted by Article L.233-7 of the Commercial Law, any natural person or legal entity, acting alone or in concert, that acquires a percentage of the capital or voting rights of the Company (if the number and distribution of voting rights does not correspond to the number and distribution of shares) at least equal to 2.5% and to any multiple of that percentage without limitation, shall inform the Company, by registered letter with return receipt sent to the head offices, of the total number of shares and voting rights that he holds. The information should also be given when the participation in capital or in voting rights is below one of the above-noted thresholds.

The time-limit conditions governing the declaration are determined in compliance with the Commercial Law.

In case of breach of statutory duty of declaration under the conditions described above, and on demand, recorded in the minutes of the general meeting of one or more shareholders holding together at least 2.5% of the capital or voting rights, the shares exceeding the fraction that should have been declared are denied the right to vote as long as the situation isn't corrected and until the expiration of a two-year limit after the date of this correction.

21.2.9. Special provisions

Nil

21.3. SHARE CAPITAL OF THE COMPANY

21.3.1. Form and book-entry shares

The shares are nominative or in bearer according to the shareholder's choice, as long as they are traded on a regulated market. Should this condition no longer be met, the shares would automatically become nominative. They give rise to registration into book-entry accounting under legal and regulatory requirements. The accounts of nominative shares are kept by the Company or on its behalf by a designated representative. The shares are freely negotiable, subject to laws and regulations. The transfer of shares, whatever their form, is executed by book transfer under the terms and conditions prescribed by law.

21.3.2. Share capital amount

At the date of registration of this reference document, the capital of the Company is set at EUR 28,231,580. It is divided into 11,292,632 shares of EUR 2.50 nominal value each. The shares comprising the share capital of the Company are fully subscribed and fully paid.

21.3.3. Share capital change

The share capital may be 'reduced or paid-up as provided by law.

21.3.4. Other securities giving access to capital

The Company issued 117,855 convertible bonds shares (OCA) attached to 117,855 shares of the Company at the Annual General Meeting on February 27th, 2003. After division of the nominal share value by 10, approved by the general meeting of July 7th, 2006, the conversion of an OCA now entitles the holder to 10 shares of the Company.

The combined general meeting on June 4th, 2007 decided to authorize the Board of Directors to grant salaried staff of French and foreign branches of the the Company options on share subscriptions and stock options under the provisions of Article L.225-177 and following of the Commercial Law.

At the date of issuance of this reference document, 29,800 options of share subscription are of current validity, entitling holders to 29,800 shares.

21.3.4.1 Characteristics of Bonds convertible into Shares, hereafter named « OCA »

The combined general meeting of shareholders of the Company dated February 27th, 2003 decided to issue a debenture loan of a nominal amount of EUR 19,999,993.50, divided into 117,855 bonds of EUR 169.70 each, convertible into common shares of the Company as follows:

- released in two groups:
  - Group A: 59,928 bonds
  - Group B: 58,927 bonds.
- Term of loan:
  - Group A: 7 years
  - Group B: 8 years
- Interest: 4% per year the first year, 5% per year in subsequent years.
- Non-conversion premium:

any bondholder who has not opted for conversion of OCA within the time provided above will receive a premium for non-conversion of 6% per year, calculated such that the OCAs produce an annual compound yield equal to the annual coupon (namely 4% the first year and 5% in subsequent years), increased by 6%, payable on redemption date, in compliance with section 1154 of the Civil Code. The non-conversion premium is payable to the OCA concerned, at each repayment, be it in advance or at the agreed date.

The Company shall not, except with the bondholder's agreement or the occurrence of a maturity case implemented by the bondholders, proceed with the amortization or anticipated redemption of the OCAs for the duration of the debenture loan. The redemption price will be one hundred sixty-nine euros and seventy cents (€ 169.70) per OCA plus accrued interest and non-conversion premium.

On August 7th, 2006, Soparfin acquired all of the 117,855 OCAs issued on February 27th, 2003.

On December 4th, 2009, Soparfin informed Vétoquinol that they did not intend to convert into shares the 59,928 OCAs corresponding to the tranche A and maturing on February 28th, 2010.

21.3.4.2 Stock options plan

- Stock options plan of current validity

Pursuant to the authorization given by the Extraordinary General Meeting on June 4th, 2007, the stock option plan has been set up at the meeting of the Board of Directors dated June 4th 2007. The exercise price of issued options was EUR 25.33. This plan covers a total amount of 33,800 stock-options granted to 29 employees belonging to the Group according to the following terms:

The exercise of options can occur as follows:

- 50% from September 15th, 2009 to October 15th, 2009;
- 100% from September 15th, 2010 to October 15th, 2010.

The options are exercisable at any time, in whole or in part, from the fourth anniversary of the plan to the date of completion of the plan; that is from June 5th, 2011 to December 5th, 2011. From December 6th, 2011 it will not be possible to exercise the options. In case of resignation or dismissal of the options beneficiary, the latter loses all rights to exercise the unexercised options. At the date of issuance of the reference document, the remaining options to be allocated are 29,100 shares, this to 21 employees.

21.3.4.3 Free share allocation plan

Pursuant to the authorization given by the Extraordinary General Meeting of June 4th, 2007, a free share allocation plan has been set up at the meeting of the Board dated June 4th 2007. This plan covers a total of 33,800 shares granted to 30 employees from the Group according to the following terms:

The free shares allocations became permanent for all beneficiaries at the end of an acquisition period of two years running from their date of award by the Board, which was on June 5th, 2009. The free shares allocation is made permanent only if the beneficiary is still part of Vétoquinol Company or other related companies in compliance with Article L 225-197-2 of the Commercial Law, at the date of permanent attribution of the shares. Moreover, the beneficiary shall not hold more than ten percent (10%) of the share capital of Vétoquinol nor should this allocation have the effect of letting him hold more than 10% of the share capital of Vétoquinol. On June 5th, 2009, 29,800 shares were actually assigned to 25 employees.

Each beneficiary acquired Vétoquinol shares which were assigned the day of registration to his special nominative account established in Vétoquinol's account books by the bookkeeper. The permanently-allocated shares will be transferred only after an unavailability period of two years dated from their permanent allocation to each beneficiary.

21.3.5. Summary of potential capital

The total number of issuable shares through OCA exercise is 1,178,550. On March 1st, only 589,270 will remain, taking into account the Soparfin decision not to convert the first tranche of 59,928 OCAs maturing on February 28th, 2010. The total number of shares issuable on the exercise of stock options as described above in Section 22.3.4.2. of this reference document is 29,100, representing approximately 0.25% of the share capital of the Company on the basis of the number of existing shares at the date of registration of this reference document. On December 31st, 2009, after Soparfin's decision not to convert the Tranche A of the debenture loan, 618,370 potential shares can be created.

21.3.6. Unissued authorized Capital

The Company has authorized no capital increase which would not have been launched at the date of registration of this reference document, except:
The authorized capital in view of the OCAs and stock options exercise described above in section 22.3.5 of this reference document, and those authorized under the delegations agreed at the Extraordinary General Meeting of May 12th, 2009.

21.3.7. Delegation of authority granted by the combined general meeting of May 12th, 2009*

Authorization type	Object of the authorization	Validity of the decision	Limit	Use in 2009
Share buyback (Seventh resolution)	Purchase one's own shares, for market or share liquidity by an investment service provider via a liquidity contract share acquisition for conservation and subsequent delivery as payment or in exchange for external growth operations framework the allocation of shares to employees and/or corporate officers particularly in the context of a Stock option Plan,that of free shares allocations or that of a corporate savings plan, grants of shares to holders of securities giving access to the capital of the Company during the exercise of the rights attached to these securities	For a period of 18 months	10% of the capital of the Company at the date of the meeting, that is to say : 1,129,033 shares of EUR 2.50 nominal value Maximum Authorized amount: EUR 38 million Maximum procurement price of the share: EUR 33	This authorization was used during 2009. In total, 38 481 shares were repurchased and 41,264 resold.

Authorization type	Object of the authorization	Validity of the decision	Limit	Use in 2009
38 Capital increase (8th resolution)	Issuance of common shares, and / or other securities giving access to the capital of the Company and / or one of its subsidiaries or to the allocation of a debt security, with pre-emptive subscription rights	For a period of 26 months	Maximum nominal value of capital increases that may be made as a consequence of shares and securities issuance: EUR 30 million Maximum overall nominal amount of issuance of securities representative of the Company's receivables giving access to capital or debt security: EUR 80 million	This authorization has not been used
Capital increase (Ninth resolution)	Issue of ordinary shares and/or securities giving access to the capital of the Company and/or one of its subsidiaries or to the allocation of a debt security, with cancellation of preferential subscription rights	For a period of 26 months	Same as eighth resolution	This authorization has not been used.
Capital increase (10th resolution)	Increase of the number of shares to be issued upon capital increase with or without preferential subscription rights through over-allotment options.	For a period of 26 months	Same as 8th & 9th resolutions.	This authorization has not been used
Capital increase (11th resolution)	Capital increase by incorporation of reserves or premium	For a period of 26 months	Maximum nominal amount: EUR 45 million	This authorization has not been used
Capital increase (12th resolution)	Issuance of Shares and / or securities giving access to a quota of the Company's capital or, subject to reserve, first title to the allocation of debt securities in compensation of securities brought to any public exchange offer initiated by the Company	For a period of 26 months	Total nominal amount: EUR 10 million	This authorization has not been used
Capital increase (14th resolution)	Grant of stock options or share purchase for members of salaried staff and corporate officers, executives.	For a period of 38 months	Maximum shares to consent: 150,000.	This authorization has not been used.
Capital increase (15th resolution)	Proceed to the free allocation of existing shares or shares to be issued to the benefit of employees and / or corporate officers leaders	For a period of 38 months	Maximum shares to be allotted for free: 150,000	This authorization has not been used
Capital increase (16th resolution)	Proceed to a capital increase reserved for members of the corporate savings plans of the Group)	For a period of 26 months	Maximum shares to be issued: 300,000	This authorization has not been used

** The delegations of authority granted by the Annual General Meeting of May 12th, 2009 have superseded all previous delegations granted.*

21.3.8. Capital evolution the capital over the last three years

Operation achievement date	Operation	Number of shares issued	Nominal amount of the capital increase	Total Issue Premium Successive amounts of capital	Number of cumulative shares	Nominal value of shares	Operation achievement date
01/01/2007	Opening Balance					11,278,732	2.50
07/12/2007	Exercise of options	11,600	29,000		28,225,830	11,290,332	2.50
12/05/2009	Exercise of options	2,300	5,750		28,231,580	11,292,632	2.50

21.3.9. Acquisition by the Company of its own shares

The ordinary and extraordinary combined general meeting, held on May 12th, 2009 authorized the Board of Directors, in its seventh resolution, to set up a share buyback program.

This authorization is issued as follows:

- market encouragement or share liquidity by an investment service provider through a liquidity agreement in conformity with the AMAFI Code of Ethics recognized by the AMF,
- the acquisition of shares for conservation and subsequent delivery in payment or in exchange within an external growth operations framework as a practice approved by the AMF,
- the allocation of shares to employees and / or corporate officers (under conditions and terms provided by law) in particular concerning stock option plans, free shares allocations or corporate savings plan,
- the allocation of shares to holders of securities giving access to the capital of the Company at the exercise of the rights entitled by these securities, in accordance with the regulations in force.

The acquisition, disposal or transfer described above can be performed by any means consistent with the law and regulations in force, including through the use of derivative financial instruments and by acquisition or sale of blocks. These transactions may occur at any time, including during a bid for the Company's shares, provided that this offer is fully in cash and subject to periods of forbearance under the laws and regulations in force.

The general meeting has set the maximum number of shares that may be acquired under this resolution to 10% of the capital of the Company at the date of this meeting, which corresponds to 1,129,033 shares of EUR 2.50 nominal value, being specified that (i)through the use of this authorization, the number of treasury shares will be taken into consideration so that the Company is permanently within a number of treasury shares equal to a maximum of 10% of the share capital of the Company and (ii) that the number of treasury shares to be repaid or exchanged as part of a merger, demerger or transfer transaction cannot exceed 5% of the capital.

The general meeting decided that the total amount devoted to these acquisitions shall not exceed thirty-eight million (38 million) Euros and that the maximum procurement price cannot exceed EUR 33 per share. In case of capital increase by capital incorporation of premium, reserves, profits or other sub-form of free shares allocation during the period of validity of this authorization, and in case of division or consolidation of shares, the unit price targeted above will be adjusted by applying a multiplier equal to the ratio between the number of securities in the capital before the transaction and the value of this number after the operation. This authorization was granted for a period of 18 months from the date of this meeting.

21.3.10. Options or agreements relating to the Company's capital

At the date of issuance of this reference document, the actions of the Company are subject to a transfer agreement on the terms of sale by certain shareholders of their securities of the Company, the Soparfin family Holding having pre-emption rights on these shares.

21.4. SHAREHOLDING OF THE COMPANY

21.4.1. Actual distribution of the share capital and the voting rights

21.4.1.1 List of shareholders owning more than 5% of the capital and/or the Company's voting rights on December 31st 2009

Shareholder	Number of owned shares	% of the share capital	% of the voting rights
Soparfin	6,778,393	60.02%	67.94%
Famille Étienne Frechin	583,600	5.17%	6.07%

21.4.1.2 Evolution of the Company's capital over the past three years

	Situation on December 31st, 2009					Situation on December 31st, 2008					Situation on December 31st, 2007	
SHAREHOLDERS FAMILIES	Full ownership	Right of use (1)	Bare ownership (2)	TOTAL	%	Full ownership	Right of use (1)	Bare ownership (2)	TOTAL	%	Full ownership	%
Soparfin SCA	6,778,393			6,778,393	60.02%	6,328,393			6,328,393	56.05%	6,219,361	55.09%
Étienne Frechin Family	504,916	78,684	78,684	583,600	5.17%	898,916	78,684	78 ,84	977,600	8.66%	977,600	8.66%
Vétoquinol SA auto-possession	56,741	56,741	0.50%	86,541			86,541	0.77%	46,300	0.41%		
FCPE	70,710	70,710	0.63%	70,457			70,457	0.62%	75,207	0.67%		
Sous total	7,410,760			7,489,444		7,384,307			7,462,991		7,318,468	
PUBLIC				3,803,188	33.68%				3,827,341	33.90%	3,971,864	35.18%
NB D'ACTIONS TOTAL	11,292,632	11,292,632	100%	11,290,332			11,290,332	100%	11,290,332	100%		

(1) Right of use to Mr. Étienne Frechin
(2) bare ownership to the 4 children of Mr. Frechin

In ordinary general meetings, voting rights belong to the holder of the right of use and, in extraordinary general meetings, to the bare-owner.
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21.4.2. Shareholders' agreement and particular agreements

At the date of registration of this document of reference, the following covenants and agreements on shares of the Company are valid:

21.4.2.1 Shareholders' agreement mentioning engagement to securities conservation, dated December 8th 2003 - Article 885 I bis of the General Tax Code

Pact signed for a period of six years between (i) Mr. Etienne Frechin's family members and (ii) family members of each of his brothers and sister and (iii) the Companies Soparfin, Frejour and Veroes. Its object is to allow signatories of the Pact who are not directors of the Company to receive a partial exemption regarding Wealth Tax (WT) and to establish a preemptive right to the benefit of Soparfin in case of transfer of the Company's ownership to parties to this pact other than those belonging to the family group of Etienne Frechin. This pact has been extended tacitly for a period of one year.

21.4.2.2 Shareholders' agreement mentioning engagement to securities conservation, dated May 12th 2008 - Section 787 B of the General Tax Code

Pact between the family members of Mr. Etienne Fréchin and Soparfin for a period of two years, providing a collective commitment of conservation on securities representing, at the time of signature, a total of 20% of the Company's capital, meeting the requirements of Section 787 B of the CGI (preferential treatment in case of succession or donation).

21.4.3. Collateral forms

21.4.3.1 Collateral shares of the Company

At the time of registration of this reference document, it appears that an amount of 2,128,960 shares of the Company have been pledged under the following conditions:

- by Soparfin to the benefit of a banking pool for 2,000,000 securities (due February 2011);
- by Etienne Frechin's family group, in favor of a bank, for 128,960 securities.

21.4.3.2 Pledges of the Company's assets

As of the registration date for the current reference document, the Company has not agreed to any pledges on its assets.

22. MAJOR CONTRACTS

All the Group's contracts were concluded during the normal course of business and require no special comment.

23. INFORMATION FROM THIRD PARTIES, EXPERT STATEMENTS AND STATEMENTS OF INTEREST

None

24. DOCUMENTS ON PUBLIC DISPLAY

The statutes, minutes from shareholder meetings and other corporate and financial documents can be inspected at the Company headquarters in Magny-Vernois 70200 Lure (France) or online at www.vetoquinol.com.

25. INFORMATION ON HOLDINGS

Refer to the scope of consolidation in chapter 20: Financial information - paragraph 20.2.8.

26. TABLE OF AGREEMENTS

26.1. TABLE OF AGREEMENTS BETWEEN THE REFERENCE DOCUMENT AND THE ANNUAL FINANCIAL REPORT

Information required in the annual financial report	Chapter	Page
Certification of the document's author	1	5
Management report	27	160-172
Financial statement and reports		
Annual accounts	20.2	125
Statutory auditor's report on the annual accounts	32	176
Statutory auditor's report on the regulated agreements	33	177
Statutory auditor's report on the President's report on corporate governance and internal control	16.5	63
Consolidated accounts	20.1	77
Statutory auditor's report on the consolidated accounts	31	175

27. 2009 MANAGEMENT REPORT

27.1. VÉTOQUINOL GROUP ACTIVITY

27.1.1. Highlights of 2009

27.1.1.1 New loan

To finance its external growth, in January 2009 Vétoquinol signed a credit agreement with two banks for a medium-term loan of 25 M€. This transaction is subject to financial covenant clauses (debt ratio, profitability ratio) that Vétoquinol has agreed to respect. During the year 2009, the Group respected its financial covenants.

This loan allowed, through its subsidiary, the partial financing of the Indian acquisition intended to bear the stock certificates, Vétoquinol International.

27.1.1.2 Acquisition in India

On August 20, 2009, the Group completed the purchase of assets within the Division Santé Animale of Wockhardt Limited, based in Bombay (India). This new subsidiary will contribute to the Group's development in Asia. This acquisition is 6th in the Indian animal health market.

The Indian market, with an annual growth of over 8%, is estimated at more than 350 million USD. India is the world's largest producer of milk, representing more than 50% of our market dedicated to cattle. This acquisition, in line with the company's strategic direction, will enable strong synergies with the Group's expertise.

27.1.1.3 Bond

The company Soparfin, one of Vétoquinol SA's holdings, decided in December 2009 not to convert installment A of the bond it had bought in 2006 from 3i and Banexi. There has been no decision taken as to installment B.

Thus, in addition to the nominal 10 M€ and 5% interest to pay, Vétoquinol will pay a non-convertible premium of 5.8 M€ on 02/28/2010. The Group's treasury will permit the repayment of 16.9 M€.

27.1.1.4 Financial crisis

In light of the international financial crisis, we have revised our assessment methods, key assumptions, risk exposure and our significant estimates for the whole of the Group, and this has had no major impact on Vétoquinol's consolidated accounts, or on the Group's financial situation.

27.1.2. Strong growth in 2009 turnover: +7.6%

During the year 2009, Vétoquinol recorded a strong growth in activity, despite a negative currency effect. This good activity level was mainly due to contribution from acquisitions (Italy and India) and a return to organic growth, supported in the second quarter of 2009, despite the still-disrupted economic context. There is progression in all territories and strategic therapeutic areas.

27.1.2.1 Good activity performance

During the 2009 fiscal year, Vétoquinol reached a turnover of 252.2 M€ with a growth of 7.6% compared to the previous fiscal year, and +10.2% at constant currency effect. The exchange effect remains negative at -2.6%, reflecting the decline in the sterling pound and zloty.

Western Europe and North America were affected by the rise in sales team strength, aggressive marketing operations and managerial reorganization undertaken within the Group in 2008.

Poland has worked its way back to the path for growth, mainly due to changes in management and an end to the swine crisis.

Asia / the Pacific have experienced a sharp increase in activity level following the acquisition of Wockhardt's Division Santé Animale, in India, at the end of August 2009. Vétoquinol's three strategic therapeutic areas (anti-infectives, pain-inflammation and cardiology-nephrology) progressed significantly during the 2009 fiscal year.

27.1.2.2 A double dynamic in business growth

During the 3rd and 4th quarters of the 2009 fiscal year, Vétoquinol saw strong organic growth, the result of strengthening sales teams and of marketing initiatives set up at the end of 2008 and throughout the 2009 fiscal year.

The Group's development also relies on a dynamic of continued external growth, which was seen in the acquisitions made at the end of 2008 in Italy and in August 2009 in India. This last acquisition was completed in a very competitive environment, confirming Vétoquinol's expertise in target identification and integration.

The proposed acquisition of a small Chinese laboratory encountered difficulties due to local regulations. This does not modify Vétoquinol's strategic intent to operate in China, which has interesting potential in the mid-term.

27.1.2.3 Encouraging prospects

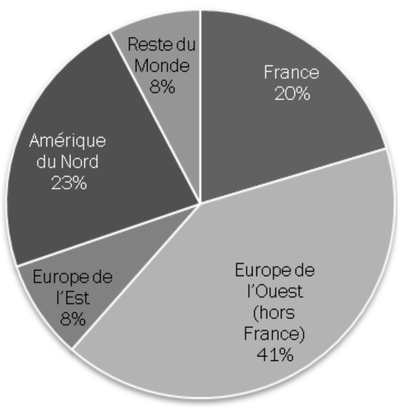
Although one must be careful in terms of business forecasts, given the still-recovering animal health market, Vétoquinol's good market responsiveness should continue to affect things in 2010.

27.1.2.4 Distribution of Turnover by geographic zones

In thousands of Euros By geographic zone	France	Western Europe (excluding France)	Eastern Europe	North America	Rest of the world	Consolidated total
Total external revenue, 2008	51,500	90,588	22,636	57,598	12,072	234,395
Total external revenue, 2009	51,417	103,729	20,818	56,778	19,471	252,214

Turnover in France remained stable between 2009 and 2008 but, because of the Group's increasing internationalization (acquisition of Wockhardt's Division Santé Animale in India in August 2009 and integration of the Italian subsidiary over 12 months during the year 2009, compared to only one month in 2008), France's relative weight decreases by 2 points in the Group's turnover.

Distribution of turnover across geographical zones for 2009



Western Europe (excluding France) rose in absolute value by 14.5%, penalized by the currency effect of 2.4% but bolstered by the Italian acquisition. The relative weight of North America is dropping, due to a decrease in the activity of two products intended for livestock.

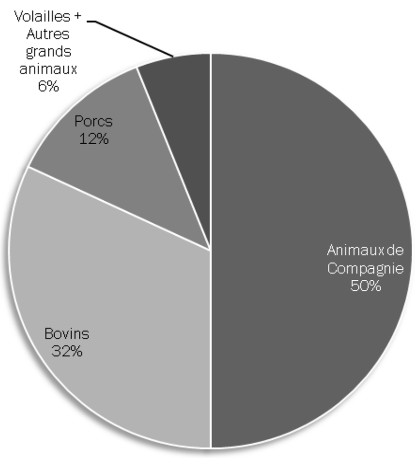
The relative weight of Eastern Europe in the Group's turnover decreased, strongly penalized by the currency effect (-17%), despite an organic growth of more than 8.3%.

Finally, the relative weight of the rest of the world on a comparable basis has continued to grow over the year 2009, at over 5% with normalized exchange rates.

27.1.2.5 Breakdown of turnover by type

In published data, livestock recorded an increase in 12.3%, which can be explained by the impact of Italy and India. On a comparable basis and with normalized exchange rates, the turnover for livestock is down 3.3%. In contrast, sales in the pet sector have continued to rise over the year 2009 (+4.2%) on a comparable basis and with normalized exchange rates. After a difficult year in 2008, the year 2009 sees the return of growth in the pork market in Eastern Europe, from which our sales benefit, with +12.1% on comparable basis and with normalized exchange rates.

Distribution of turnover by type, 2009



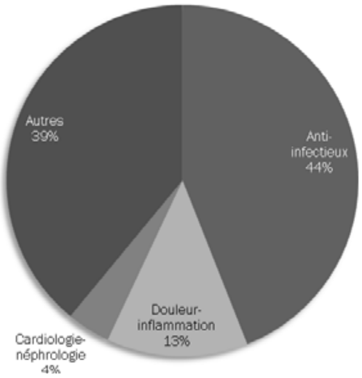
27.1.2.6 Distribution of turnover by area

The turnover's growth on the main developmental axes, chosen by the Group:

- treatment of infectious disease: +6.8%
- management of pain-inflammation: +8.1%
- treatment of cardiac and renal pathologies: +17.3%

demonstrates that strategic positioning chosen by the Group has been paying off. These growths will help continue on a path towards better balance between the three strategic therapeutic areas.

Distribution of turnover by area, 2009



27.1.3. Operating profit

Between 2008 and 2009, the Group saw its turnover rise by 7.6% in spite of the economic crisis. The Résultat Opérationnel Courant (ROC) is impacted by the strengthening of marketing and sales teams, new acquisitions that are not yet at the same level of profitability as the Group's other subsidiaries, and by the financing of new R&D projects.

In thousands of Euros	Dec. 31 2009	Dec. 31 2008
Revenus	252,214	234,395
Current Operating Result (Résultat Opérationnel Courant - ROC)	28,925	27,587
In % of the turnover	11.5%	11.8%
Net profit of consolidation	18,214	18,569
In % of the turnover	7.2%	7.9%

On a comparable basis, the % of ROC on turnover in 2009 would have amounted to 12.4%, or the same level as in 2008 excluding non-recurring elements. The integration of the Italian subsidiary, acquired in December 2008, weighs down the Group's short-term profitability. The Group's strategy is to gradually reduce this gap in profitability between the subsidiary and the Group over the next two to three years.

In the accounts, this translates into a decrease in 1.8 point in the margin of purchases, of which:

- 0.4 point due to the integration of India. Indeed, despite high profitability, our subsidiary outsources all of its purchases, and the ratio of purchases consumed to turnover is higher than the Group average.
- 2.1 points following the integration of Italy over 12 months, compared to a single month in December 2008 the year before.

On a comparable basis, this purchase margin would rise by 0.8 points thanks to good management of tariffs, product mix and of purchases.

In direct comparison, external expenses increased by 3.3 M€ (+6.4%) and personnel expenses by 1.8 M€ (+2.6%); these impacts are from taking Italy into account for 11 more months, and India starting in August 2009. On a comparable basis, we find that the strict control of expenditures set in place during the end of the year 2008, coupled with Vétoquinol's continuous improvement, has allowed us to reduce our external expenses by 0.7 M€ (-1.3%) and our personnel expenses by 1.3 M€ (-1.8%). It is important to note, in addition, that R&D efforts have not been reduced and research expenditure accounted for 7.7% of the turnover, compared to 7.2% in 2008.

Profit from operations thus amounted to 11.5%, consistent with our goals.

27.1.4. Profits by business sectors

27.1.4.1 Profits for operational sectors in the 2009 fiscal year

In thousands of Euros For installation of assets	France	Western Europe (excluding France)	Eastern Europe	North America	Rest of the world	Consolidated total
Revenues	102,102	102,025	28,559	71,053	5,251	308,990
Intersectoral revenues	-35,701	-735	-7,755	-12,586	0	-56,777
Total external revenues	**66,401**	**101,290**	**20,805**	**58,467**	**5,251**	**252,214**
Operating profit for the period	**11,611**	**11,974**	**3,149**	**2,124**	**68**	**28,925**
Other operating products and expenses	0	0	0	0	0	0
Operating profit	**11,611**	**11,974**	**3,149**	**2,124**	**68**	**28,925**

Operating income in France increased by 3.1 M€ due to better margins on purchases consumed, a more favorable product mix and tight control of the Group's expenditures.

Western Europe's profitability is affected by the inclusion of our Italian subsidiary for a full year, compared to only one month in 2008, as well as the decline of the sterling pound.

The rest of the world is impacted by the integration of our new subsidiary in India, as well as by the taking over of costs relative to our quest for an acquisition in China, and to a small degree in our Korean subsidiary.

The profitability of North America has decreased following the strengthening of sales and marketing teams, the provisioning of receivables due to the deterioration of the global economy, the provisioning of the recovery value for certain stocks and to rising royalties tied with the mix produced.

Eastern Europe's profitability is increasing following strict control of costs over the year 2009.

27.1.4.2 Profit from operational sectors in the 2009 fiscal year

In thousands of Euros For installation of assets	France	Western Europe (excluding France)	Eastern Europe	North America	Rest of the world	Consolidated total
Revenues	104,181	86,102	31,723	75,656	1,136	298,798
Intersectoral revenues -	-38,600	-784	-9,215	-15,804	0	-64,403
Total external revenues	**65,581**	**85,318**	**22,508**	**59,852**	**1,136**	**234,395**
Operating profit for the period	**8,480**	**12,988**	**3,150**	**2,950**	**19**	**27,587**
Other operating products and expenses	0	0	0	0	0	0
Operating profit	**8,480**	**12,988**	**3,150**	**2,950**	**19**	**27,587**

27.1.5. Financial profit

The financial profit shows a decrease of 0.8 M€, settling at -3.97 M€ vs. an amount of -3.14 M€ at the end of December 2008.

This variation results from other financial products and expenses up to 0.2 M€ and from the net financial debt which was greater in 2009 than 2008 by 1 M€ due to:

- interest on the new loan of 25 M€ for 0.7 M€,
- a rise in the non-conversion premium for 0.2 M€,

27.1.6. A minor decrease in cash available - very low interest rates

In thousands of Euros	Dec. 31 2009	Dec. 31 2008	Dec. 31 2007
Interest on bond	-1,000	-1,000	-1,000
Non-conversion premium -	-2,207	-1,989	-1,792
Interest on other loans and overdrafts	-980	-582	-826
Interest on financial leases	-17	-21	-25
Cost of gross financial debt	**-4,204**	**-3,592**	**-3,643**
Profit from interest generated by cash and cash equivalents	24	128	150
Profit from sale of cash equivalents	213	523	102
Profit from cash and cash equivalents	**237**	**651**	**252**
Cost of net financial debt	**-3,968**	**-2,941**	**-3,391**

27.1.7. Net profit

Net profit amounted to 18.2 M€ at the end of December 2009, compared to 18.6 M€ at the end of December 2008. The taxes paid sharply increased for a set of points. The apparent tax rate has risen to 26.8% vs. 24.1% in 2008, an increase of 2.7 points. To summarize, we can say that 0.9 points of the increase (0.23 M€) is related to one-time effects, and the rest of the increase or 1.7 points (0.4 M€) is tied to a mix effect profit.

27.1.8. BALANCE SHEET AND FINANCING

27.1.8.1 Group's debt

The Group's Net Financial Debt is low and the Gearing stood below 10% of the equity, well below the conventional ratios. The debt is due to the acceleration and intensification of external growth operations by the Group during the years 2008 and 2009, after a consolidation phase.

In thousands of Euros	Dec. 31 2009	Dec. 31 2008	Dec. 31 2007
Net Financial Debt	14,645	11,404	-471
Group share of equity	154,918	137,028	127,845
Gearing (in %)	9.5%	8.3%	-0.4%

27.1.8.2 Cash

In thousands of Euros	Dec. 31 2009	Dec. 31 2008	Dec. 31 2007
Cash flow from operations	**40,046**	**23,396**	**38,930**
Cash flow from financing investment activities -	**-35,145**	**-26,310**	**-8,673**
Cash flow from financing activities	**17,582**	**-11,075**	**-8,264**
Impact of changes in foreign currency -	-360	-1,094	-893
Net change in cash	**22,123**	**-15,082**	**21,100**

Cash flow in 2009 includes a new medium-term loan of 25 M€ over five years, set up in January to help finance external growth operations. If we neutralize the effect of this new loan, we see that the cash flow is negative by 3 M€ in 2009 while in

2008 it was negative by 15 M€. This swing is mainly due to change in working capital need that punished us in 2008, but instead had a very positive effect in 2009.

The cash flow from investment activities comprises the following elements:

In thousands of Euros	Dec. 31 2009	Dec. 31 2008	Dec. 31 2007
Net acquisition of fixed assets -	-7,455	-8,867	-8,673
Changes in cash related to business groupings	-27,690	-17,433	0
Cash flow from investment activities	**-35,145**	**-26,310**	**-8,673**

The year 2009 was marked by the acquisition of Wockhardt's Division Santé Animale from our Indian subsidiary for 27.7 M€, and 2008 by the acquisitions in Italy (13.4 M€) and in Scandinavia (1.0 M€).

27.1.9. Innovative Research and Development

Research and Development spending for the 2009 fiscal year rose to 19.5 million Euros, or 7.7% of the turnover (2008: 16.8 million Euros, or 7.2% of the turnover ; 2007: 15.3 million Euros, or 6.6% of the turnover).

The Group wishes to note that because of the original scientific research it carries out, OSEO Innovations described it as an innovative company in June 2008, which makes it eligible for the obligatory part of FCPIs.

The Group has a portfolio of some twenty new R&D projects, as mentioned in the current reference document. For further information on R&D, refer to chapter 6.1.5 and chapter 11.

27.1.10. Outlook

The Group also intends to continue its policy of targeted acquisitions (companies, compounds, products) in accordance with the strategy outlined in chapter 6 of the document.

The proposed acquisition of a small Chinese laboratory encountered difficulties due to local regulations. This does not modify Vétoquinol's strategic intent to operate in China, which has interesting potential in the mid-term.

The Group intends to pursue its development while preserving the financial results included in its business model.

The Group also intends to continue its "organic" development thanks to the arrival of new products from its innovative Research and Development.

27.1.11. Important events occurring between the date of the balance sheet and the date of the annual report

None

27.1.12. Changes in the presentation of annual accounts and evaluation methods used

There were no changes in the presentation of annual accounts or the evaluation methods used.

27.2. VÉTOQUINOL SA ACTIVITY

27.2.1. Turnover - Result

In thousands of Euros as of	December 31 2009	December 31 2008	December 31 2007
Turnover	102,102	104,181	103,481

The turnover of the company fell by 2.0% to € 102.1 million, vs. € 104.2 million at the end of December 2008. Net sales in France is stable compared with last year, decreasing only 0.1%. The good performance at our flagship Marbocyl with a 6.9% increase should be emphasized.

In the company's pets segment, there was an increase of 2.4%, due mainly to the new format of our product Oridermyl. In the livestock segment, France experienced a 3.6% decline in turnover due mainly to two products: Ectotrine and Flectron. In the equine segment, France experienced a sharp increase in sales: +9.1% above that of 2008, thanks mainly to our flagship range Equistro.

Export turnover excluding inter-company grew by +6.8% or € 1.0M compared with 2008. The increase in sales is due largely to growth in Europe and in the Maghreb - Middle East areas. Inter-company sales declined due to reduced orders from our subsidiaries in connection with both our determination to better manage working capital need and the economic crisis. Operating income was up 1.1 M € and € 7.8 million at the end of December 2009. This development is due mainly to the strict control of expenses and the decision to freeze hiring in order to absorb the consequences of the economic crisis.

The financial result deteriorated by € 15.3 million and moved up to - € 4.9 million vs. € 10.4 million + at the end of December 2008. The reasons, more cyclical than structural, are as follows: dividends from foreign subsidiaries have been booked at our Vétoquinol International subsidiary level and no interim dividend has been paid by the latter to Vétoquinol SA. These dividends were reinvested directly in our Vétoquinol International subsidiary. For the record, in 2008, the amount of dividends booked at Vétoquinol SA amounted to € 7.8m vs. € 0.1m in 2009. Soparfin's decision not to convert Tranche A bonds, driven solely by adverse conditions in the stock market at that date, resulted in the recognition of a financial burden of € 5.6 million in the accounts of the Company, Finally, the new € 25 million loan signed in January 2009 has resulted in additional financial costs of € 0.6 million, while the amount of reversals of provisions (€ 1.1 million) is € 2.2 million less than that of 2008. In 2008, the € 3.3 million reversal of provisions for depreciation of securities sold to the Swiss subsidiary holding company Vétoquinol International had boosted the bottom line.

Because of these different impacts on the financial result, net operating profit before tax amounted to € 2.9 million vs. € 17.1 million at the end of December 2009. The net exceptional gain is € 1.2m vs. € -2.8 million at the end of December 2008. During 2009, a reclassification within the group of a small ownership percentage by a German company has been conducted and resulted in an exceptional gain. In late December 2008, exceptional income included a charge on capital corresponding to the net book value of assets transferred in connection with the transfer of the Swiss holding subsidiary Vétoquinol International.

Net income reached € 5.6 million vs. € 14.6 million at the end of December 2008 due to all the above elements and a corporate tax receivable of € 1.8 million vs. 0, € 7 million in late 2008 - helped by a permanent research tax credit in the amount of € 2.9 million.

27.2.2. Subsidiaries and holdings

In 2008, the Company, as part of an internal restructuring, wished to establish a sub-holding to Vétoquinol

International, dedicated to the custody of a majority of its holdings. The data relating to companies whose financial statements are held in a different currency from the Euro have been converted at the exchange rate at period-end for balance sheet items and at average exchange rates for items in the income statement. The items presented in this table are in thousands.

Companies	Monies	Capital currency	Capital own other capital currency (Thousands)	Capital in thousands of Euros	Capital own other capital in thousands of Euros	Share capital retained (in %
Subsidiaries (over 50%)						
Frefin Asia	HKD	0.1	-4,666	0	-422	100
Vétoquinol International	EUROS	75,886	9,632	75,886	9,632	100
Semyung Vétoquinol Korea	WON	520,000	621,343	312	373	100
Vétoquinol North America	CAD	35,650	1,606	23,566	1,061	100
Investments (Between 10 and 50%)		None				
Other interests		None				

Companies	Value account of securities retained Value gross	Value account of securities retained Value net	Loans and advances made by the company and no longer reimbursed	Amount of bonds and guarantees given by the company	Result (Earnings or loss) from the last accounting period closed	Sales figures HT from the last accounting period	Dividends received by the company during the accounting period
Subsidiaries (over 50%)							
Frefin Asia	31	31			-1	0	0
Vétoquinol International	75,886	75,886			8,993	0	0
Semyung Vétoquinol Korea	1,018	1,018			-33	1,140	114
Vétoquinol North America	28,195	28,195	14,702		-43	0	0
Investments (Between 10 and 50%)	None						
Other interests	None						

27.2.3. Debt and cash

In thousands of euros	December 31, 2009	December 31, 2008
Active cash = VMP + availability excluding own shares	28,080	12,917
Advances payable	832	482
Bond (nominal + premium for non-conversion)	25,683	20,000
Bank loans and accrued interest	24,273	1,835
Overdrafts + cash pooling	8,360	4,743
Financial Indebtedness and passive cash	59,148	27,060
Net financial debt	31,070	14,143
Own capital	127,990	125,748
Vétoquinol SA Gearing (in %)	24.3%	8.1%

Cash (excluding own shares retained) rose by € 15.2 million in 2009, compared to a decrease of € 7.6 million during the previous year. This increase in cash resulted primarily from economic factors in the year 2009: financing of external growth by an average loan term, foreign loan repayment by Vétoquinol SA subsidiaries, loan repayment for € 2.8m, acquisitions of tangible and intangible assets for € 3.9 million, payment of dividends amounting to € 3.0 million, cash flow generated over the year to € 13.7 million impacted by the non-conversion premium for 5.6 M € following Soparfin's decision not to convert tranche A of the bond, or 19.3 M €.

27.2.4. Allocation of results

Based on the outcome of the fiscal year, € 5,588,148.44, to which additional earnings of € 3,238,110.36 should be added, the Board of Directors proposes at the meeting to offer a dividend of € 0.29 dividend per share, an increase of 7.4%, and therefore affect the result in the following way:

To reserves	€ 0.00
To dividends of € 0.29 per share	€ 3,274,863.28
To optional reserves	€ 1,600,000.00
To retained earnings, the balance is	€ 3,951,395.52
Total	**€ 8,826,258.80**

27.2.5. Outlook 2010

The Group also intends to pursue its policy of targeted acquisitions (companies, compounds, products) in accordance with the strategy described in this document in Chapter 6. The proposed acquisition of a small Chinese laboratory encounters difficulties due to local regulations. This in no way alters the strategic intent of Vétoquinol to establish itself in China, which comprises interesting potential in the medium term. The Group will pursue its development while preserving the financial results included in its business model in the medium term.

27.2.6. Other information

27.2.6.1 Restatement of tax

Tax reversals on cars of which the company has use amounted to € 155,506 for a fleet of 94 vehicles.

27.2.6.2 Participations and Incentive

The participation of employees in company results amounted to € 392,310 (2008: € 448,124) and the amount of incentive pay amounted to € 820,364 (it was € 850,858 in 2008).

27.2.6.3 Status of employees' participation in capital

Shares held under the company savings plan for staff represent less than 3% of the capital of the company. At the end of the book year, this participation represents 0.63% of capital, or 70,710 shares.

27.2.6.4 Information on the share buyback program

During 2009, Vétoquinol did not repurchase its own shares. Following on the allocation plan of June 4, 2007, 29,800 bonus shares were finally awarded on June 4, 2009 to the staff and officers of Vétoquinol. At the end of 2009, Vétoquinol holds 56,741 shares (2008: 86,541) with a purchase value of 1,414 K€ (2008: € 2,269 K), of which 27,641 have been allocated (2008: 60,100).

27.2.6.5 Dividends distributed over the course of the last three years

By law, we must specify that dividend amounts per share, distributed in the last three years, were as follows:

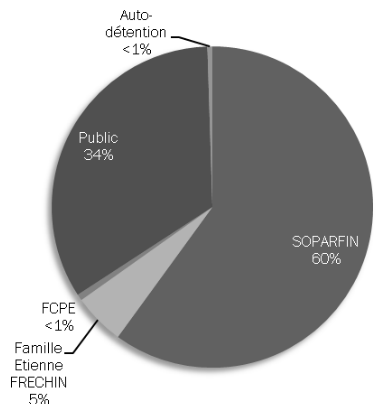
	2006	2007	2008
Nominal Value of a share	2.50 €	2.50 €	2.50 €
Net dividend per share	0.23 €	0.27 €	0.27 €
Special dividend	0.417* €	0.00 €	0.00 €

** Paid in September 2006*

27.2.6.6 Composition of capital

Breakdown of capital to 31/12/2009 is as follows:

Shareholder	Number Equity held	%
Soparfin	6,778,393	60.02%
Étienne Frechin Family	583,600	5.17%
FCPE	70,710	0.63%
Public	3,803,188	33.68%
Treasury stock	56,741	0.50%
TOTAL	11,292,632	



For more information, refer to Chapters 18 and 21 of this reference document.

27.2.6.7 Payment Deadline

The law concerning the modernization of the economy of Aug. 4, 2008, known as the LME, has imposed a reduction in payment terms among professionals. To monitor compliance with this new measure, companies whose accounts are certified by an Auditor must publish in their annual reports at the close of each book year a breakdown of the balance of accounts payable to suppliers by date for the last two fiscal years. (C beginning on January 1st 2009, (C. com. art. L & D 441-6-1 441-4; see FRC 3 / 08, inf. FRC 17 and 2 / 09, inf. 28).

The NCCC believes that the management report in 2010 prepared for 2009 by the companies whose accounts are certified by an external auditor must disclose the balance of payables by due date for fiscal 2009 only, not the comparisons with preceding book-years. It is considered that, in effect, because of the application of these provisions starting from 1 st January 2009 and the non-retroactive nature of laws, no information on the period of payment prior to this date need be communicated.

In order to respond to the relevant new provisions regarding the determination of payment deadlines, you will find the required information below:

Total amount not sold in K€	Current in K€	31 to 60 days* - in K€	More than 60 days** - in K€
10,567	9,593	264	710

**Being paid during the preparation of the current report.*
*** Suppliers over 60 days are in dispute and are subject to special treatment.*

27.3. INTEREST AND REMUNERATION OF MANAGERS

Refer to chapter 18 of the current reference document.

27.4. HUMAN RESOURCES

Refer to chapter 17 of the current reference document for all information concerning the Group.

27.4.1. Distribution of the Company's workforce

Vétoquinol SA's workforce is relatively stable, since it numbered 578 employees on 12/31/2009. In fact, Vétoquinol has seen a slight increase in its workforce since 2008 (561 employees) due to the relatively unstable economic conditions. As a result, recruitment was cautious throughout the year 2009 in order to have greater control over our staff and payroll. The numbers are presented excluding temporaries, apprentices and professional contractors.

27.4.1.1 By contract and by gender

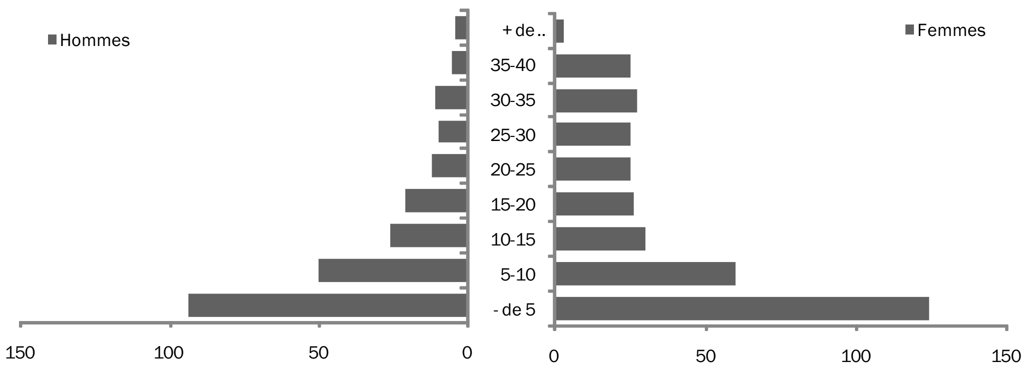
In thousands of Euros	Temporary contract	Indefinite contract	Total
Female	340	5	345
Male	226	7	233
TOTAL	566	12	578
Total in %	98%	2%	100%

27.4.1.2 By status and by gender

Status	Framework	Supervisor	Technician	Employee	Worker	Total
Female	88	6	161	14	76	345
	39%	50%	73%	93%	75%	60%
Male	140	6	61	1	25	233
	61%	50%	27%	7%	25%	40%
Total	228	12	222	15	101	578
	39%	2%	38%	3%	17%	100%

27.4.1.3 By tenure and by gender

In years	Average tenure	Total
Female	13.81	345
Male	10.83	233
Average	12.61	578



27.4.2. Compensation and benefits

In thousands of Euros	2009	2008	Growth
Annual payroll in K€	35,277	35,953	-1.9%
Participation in K€	392	448	-12.5%
Incentive in K€	820	851	-3.6%
Total benefits granted to staff in K€	**1,212**	**1,299**	**-6.7%**

27.5. INFORMATION ON RISKS INCURRED BY THE COMPANY

Refer to chapter 4 of the current reference document.

27.6. VÉTOQUINOL AND ITS SHAREHOLDERS

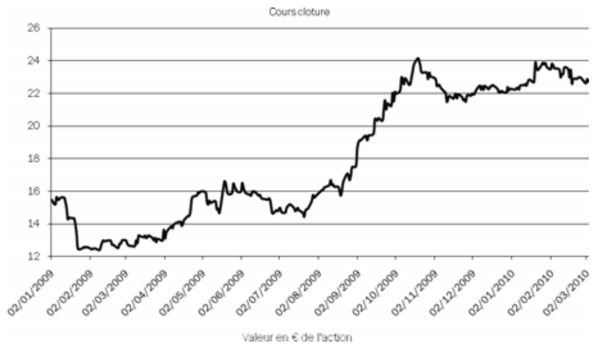
27.6.1. Vétoquinol stock

Vétoquinol's shares are listed on Euronext Paris - compartment B

ISIN	FR0004186856
Reuters	VETO.PA
Bloomberg	VETO.FP
Share price on 12/31/2009	22.30 €
Stock market capitalization 12/31/2009	251.8 M€
Share price on 03/03/2010	22.75 €
Stock market capitalization on 03/03/2010	256.9 M€

Vétoquinol's share capital on 12/31/2009 consisted of 11,292,632 shares of €2.50 in nominal value, fully paid in registered or bearer form, at the holder's option.

27.6.2. Growth of share price



27.6.3. Shareholder contact

Vétoquinol - Financial and Legal Department
BP 189 - Magny Vernois - F-70204 Lure Cedex
Phone: 33 (0)3 84 62 59 88
E-mail: relations.investisseurs@vetoquinol.com
Website: www.vetoquinol.com

27.7. INFORMATION ON ACTIONS TAKEN BY MANAGERS AND THEIR RELATIVES WITH REGARD TO THE COMPANY'S SECURITIES

On March 26, 2009, Etienne Frechin, President/CEO of Vétoquinol SA, and company representative Demabel Sarl, manager of Soparfin SCA, signed a contract with Soparfin SCA in terms of shares, after which he gave 400,000 company shares from Vétoquinol SA to Soparfin SCA.

27.8. SUSTAINABLE DEVELOPMENT

In 2009, Vétoquinol structured its approach to Sustainable Development by drafting and disseminating its Sustainable Development policy to the entire Group. This policy is, of course, based on the four pillars: economic, product development, environmental and social/societal.

27.8.1. Economic

Vétoquinol ensures that its developments are carried out in compliance with laws, morality and individual rights. To do so, Vétoquinol has distributed to a Guide to Good Business Practices to each employee, and will soon develop a charter with its vendors to ensure that they adhere to its values as well.

27.8.1.1 Product development

When developing new medications for commercial animals, intensive studies are conducted to determine the environmental impact of bodily discharge from treated animals (land- and water-based flora and fauna).

27.8.1.2 Environmental

Vétoquinol has developed an ambitious group policy that places environmental responsibility within each Group entity. These local leaders are responsible for overseeing the enforcement of the Group policy and local regulations by:

- -conducting, or delegating the conducting of, accidental pollution risk analyses,
- -quickly resolving any gene problems occurring at the waterside of sites,
- -engaging in continuous improvement programs about waste, emissions and consumption.

A Carbon Balance™ must be performed at each industrial and logistic entity, as was done in 2009 for Lure (the headquarter)'s activities. Suppliers will also be evaluated in terms of their environmental impact.

Starting early in 2009, a brochure explaining the behavior expected from employees with regard to environmental matters - at both home and work - was distributed to the entire French workforce.

27.8.1.3 Social/Societal

The safety and health of employees, for all Group entities, is of constant concern to Vétoquinol; this is why in 2009, Vétoquinol deployed its Group Security policy, whose main principles are:

- the appointing of a safety officer at each site;
- safety training, including mandatory training of newly hired employees, and regular refreshers as well as specific training in risks tied to Vétoquinol's operations;
- an analysis of existing risks, in particular through regular audits, but also as soon as investment or reorganization drafts are formed;
- work-related illness prevention, as well as psychosocial risks, is also specifically tracked with the help of the sites' medical services. A workplace satisfaction study for all Group employees was carried out in recent months and corrective actions were taken in 2009 (benefit audits, modification of the individual assessment system, ...).

This policy, which has been in place for several years, has already borne fruit at the main production site in Lure, where it helped achieve a record high of nearly 800 days without any lost time injuries.

28. RESULTS FROM THE PAST FIVE YEARS

Nature of indications	2005	2006	2007	2008	2009
Capital at end of fiscal year					
Share capital	23,993,800	28,196,830	28,225,830	28,225,830	28,231,580
Number of existing common shares	959,752	11,278,732	11,290,332	11,290,332	11,292,632
Number existing preferred shares	0	0	0	0	0
Maximum number of future shares to be created:					
Through conversion of bonds	0	0	0	0	0
Through exercising of subscription rights	0	0	0	0	0
Activity and results of the exercise					
Turnover excluding taxes	82,576,733	88,905,211	103,480,956	104,180,924	102,102,046
Profit before taxes, participation by employees, depreciation and allowances	12,030,915	22,635,125	22,080,062	16,752,213	8,678,418
Taxes on benefits	2,260,807	806,943	1,727,033	-741,759	-1,816,681
Employee participation due for the fiscal year	567,640	168,336	525,174	448,124	392,310
Profit after tax, participation by employees, depreciation and allowances	7,427,008	14,309,827	13,240,517	14,585,903	5,588,148
Distributed profit	1,823,529	2,594,108	3,048,390	3,048,390	3,274,863
Earnings per share					
Profit after tax, participation by employees, but before depreciation and allowances	9.59	1.92	1.76	1.51	0.89
Profit after tax, participation by employees, depreciation and allowances	7.74	1.27	1.17	1.29	0.49
Dividend per share	1.90	0.23	0.27	0.27	0.29
STAFF					
Average number of employees during the fiscal year	499	509	543	578	584
Payroll amount for the fiscal year	17,359,332	18,955,967	20,897,004	24,183,785	23,991,091
Employee benefit payments	9,490,559	10,707,340	11,936,388	12,620,081	12,106,360

29. STATUTORY AUDITOR FEES

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

	PWC	KPMG	TOTAL	PWC	KPMG	TOTAL	PWC	KPMG	TOTAL
France	127.4	114.7	242.1	125.0	115.4	240.4	138.6	128.2	266.8
Abroad	157.8		157.8	202.8		202.8	198.3		198.3
Sub-total	**285.2**	**114.7**	**399.9**	**327.8**	**115.4**	**443.2**	**336.9**	**128.2**	**465.1**
Other services	30*	12*	42*	65.5*		65.5	75.0*		75.0
Total	**315.2**	**126.7**	**441.9**	**393.3**	**115.4**	**508.7**	**411.9**	**128.2**	**540.1**

**Mainly acquisition audit*

30. STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L.225-235 OF THE CODE OF COMMERCE, ON THE REPORT FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THE COMPANY VÉTOQUINOL SA

Fiscal year ended December 31, 2009

Ladies and Gentlemen Shareholders,

In our capacity as Statutory Auditors of the company Vétoquinol SA and pursuant to the provisions of article L.225-235 of the Code of Commerce, we hereby present our report on the report prepared by the president of your company in accordance with the provisions of article L.225-37 of the Code of Commerce for the fiscal year ending on December 31, 2009.

It is for the president to prepare and submit, for approval by the Board of Directors, a report on all procedures for internal control and risk management set in place within the company, and to provide the other information required by article L.255-37 of the Code of Commerce particularly concerning the mechanism for corporate governance. It is for us:

- to present you with our observations on the information contained in the president's report, on procedures for internal control and management of risks relating to the preparation and processing of financial and accounting information, and
- to certify that this report includes the other information required by article L.255-37 of the Code of Commerce, it being specified that it is not for us to verify the accuracy of any other information.

We conducted our work in accordance with applicable professional standards in France.

Information on procedures for internal control and management of risks relating to the preparation and processing of financial and accounting information

Professional standards require the implementation of procedures to assess the accuracy of information in the president's report on the procedures for internal control and management of risks relating to the preparation and processing of financial and accounting information. These procedures specifically include:

- reviewing the procedures for internal control and management of risks relating to the preparation and processing of financial and accounting information underlying the particulars presented in the president's report as well as in existing documentation;
- reviewing the work that made the presentation of this information possible as well as existing documentation;
- determining whether any significant weaknesses in the internal control for the preparation and processing of financial and accounting information that we might discover in the course of our assessment are appropriately covered in the president's report.

Based on this work, we have no comment to make on the information concerning the procedures for internal control and management of company risks relating to the preparation and processing of financial and accounting information contained in the president of the Board of Director's report, established under the provisions of article L.255-37 of the Code of Commerce.

Other information

We attest that the president of the Board of Director's report includes the other information required by article L.255-37 of the Code of Commerce.

The Statutory Auditors
Paris La Défense and Neuilly-sur-Seine, March 25, 2010

KPMG Audit		PricewaterhouseCoopers Audit
		KPMG S.A. Department
Laurent Genin	Laurent Hoffnung	Xavier Aubry
Partner	*Partner*	*Partner*

31. STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Fiscal year ended December 31, 2009

Ladies and Gentlemen Shareholders,

In carrying out the mission entrusted to us by your general assembly, we present you with our report for the fiscal year ending December 31, 2009, on:

- control of the consolidated financial statements for the company Vétoquinol SA, as attached to this report;
- justification for our assessments;
- audit and specific information required under the law.

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

31.1. OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with applicable professional standards in France; these standards required the implementation of procedures to ensure that the consolidated financial statements are free of significant abnormalities. An audit consists of verifying, through surveys or through other methods of selection, the evidence supporting the amounts and disclosures in the consolidated financial statements. It also requires assessment of the main accounts used, of any significant estimates and of the presentation of the accounts as a whole.

We believe that the evidence we have obtained is a sufficient and appropriate basis on which to found our opinion. We certify that the consolidated financial statements are consistent and accurate under the IFRS guidelines as adopted by the European Union, and present a truthful picture of the estate, the financial situation and the result of the group made up of persons and entities included in the consolidation.

31.2. JUSTIFICATION OF ASSESSMENTS

Pursuant to the provisions of Article L.823-9 of the Code of Commerce concerning the justification of our assessments, we bring your attention to the following:

- the company has systematically proceeded, at each closure, to test the depreciation of goodwill and assets of indefinite lifespan, and to evaluate whether there is an index of loss of value for long-term assets, based on the modalities described in note 20.1.3.12 in the consolidated financial statements. We examined the modalities of implementation of this depreciation test as well as cash flow forecasts and assumptions used, and we verified that notes 20.1.3.12, 20.1.19 and 20.1.20 provide appropriate information.
- note 20.1.3.8.1 in the consolidated financial statements addresses procedures for evaluation, by independent actuaries, of obligations for pensions and other employee benefits in the long term. Our work has consisted of examining the data used, assessing the assumptions made, reviewing the calculations performed and verifying that notes 20.1.3.8.1 and 20.1.30 provide appropriate information.

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

31.3. SPECIFIC AUDIT

We have also performed, in accordance with applicable professional standards in France, specific checks as required by law on the information provided in the report on the group's management. We have no observations to make on their accuracy or consistency with the consolidated financial accounts.

The Statutory Auditors
Paris La Défense and Neuilly-sur-Seine, March 25, 2010

KPMG Audit		PricewaterhouseCoopers Audit KPMG S.A. Department
Laurent Genin *Partner*	Laurent Hoffnung *Partner*	Xavier Aubry *Partner*

32. STATUTORY AUDITORS' REPORT ON THE ANNUAL ACCOUNTS

Fiscal year ended December 31 2009

Ladies, Gentlemen,

In carrying out the mission entrusted to us by your general assembly, we present you with our report for the fiscal year ending December 31, 2009, on:

- audit of the annual accounts of the company Vétoquinol SA, as attached to this report;
- justification of our assessments;
- audit and specific information required under the law.

Your Board of Directors finalized the annual accounts. Our responsibility is to express an opinion on these accounts based on our audit.

32.1. OPINION ON THE ANNUAL ACCOUNTS

We conducted our audit in accordance with applicable professional standards in France; these standards required the implementation of procedures to ensure that the annual accounts are free of significant abnormalities. An audit consists of verifying, through surveys or through other methods of selection, the evidence supporting the amounts and disclosures in the consolidated financial statements. It also requires assessment of the main accounts used, of any significant estimates and of the presentation of the accounts as a whole.

We believe that the evidence we have obtained is a sufficient and appropriate basis on which to found our opinion. We certify that the annual accounts are consistent and accurate under the rules and regulations of French accounting, and present a truthful picture of the results of the operations from the previous fiscal year as well as the financial situation and the company's assets at the end of this fiscal year.

32.2. JUSTIFICATION OF ASSESSMENTS

Pursuant to the provisions of Article L.823-9 of the Code of Commerce concerning the justification of our assessments, we bring your attention to the following:

As mentioned in the note "Accounting Policies - Investments and other fixed assets" of the schedule, the company creates a provision as soon as the value of the stock title is lower than its purchase cost.

The assessments so made were part of our audit of the annual accounts, taken as a whole, and therefore contributed to the formation of our opinion as expressed in the first part of this report. Based on the evidence currently available, our assessment of the provisions relied on the analysis set up by the company to determine the value of its assets.

32.3. INSPECTION AND SPECIFIC INFORMATION

We have also performed, in accordance with applicable professional standards in France, the specific checks as required by law. We have no observations to make on the accuracy or consistency with the annual accounts of the information provided in the Board of Director's management report and in the documents sent to shareholders on the financial situation of the annual accounts.

Regarding the information provided, pursuant to the provisions in article L.255-102-1 of the Code of Commerce, on wages and benefits paid to corporate officers as well as commitments made in their favor, we have verified their consistency with the accounts or with the data used to prepare these accounts and, where appropriate, with items collected by your company from companies managing or controlled by it. Based on this work, we confirm the accuracy and truthfulness of this information. As required by law, we have verified that information concerning the identity of capital holders was provided to you in the management report.

The Statutory Auditors
Paris La Défense and Neuilly-sur-Seine, March 25, 2010

KPMG Audit		PricewaterhouseCoopers Audit KPMG S.A. Department
Laurent Genin *Partner*	Laurent Hoffnung *Partner*	Xavier Aubry *Partner*

33. STATUTORY AUDITORS' SPECIAL REPORT ON THE CONVENTIONS AND REGULATED AGREEMENTS

Fiscal year ended December 31, 2009

Ladies and Gentlemen,

In our capacity as Statutory Auditors of your company, we hereby present our report on the conventions and regulated agreements.

33.1. CONVENTIONS AND REGULATED AGREEMENTS DURING THE FISCAL YEAR

Pursuant to article L. 225-40 of the Code of Commerce, we have been advised of the conventions and agreements that needed prior approval from the Board of Directors. Our job is not to identify any undisclosed conventions or agreements but rather to provide you, based on information given to us, with the essential characteristics and conditions of those we have been made aware of, without comment on their usefulness or appropriateness. It is your responsibility, under the terms of article R.225-31 of the Code of Commerce, to assess the benefit that came with the conclusion of these conventions and agreements in light of their approval.

We have implemented procedures that we considered necessary to this mission in light of the professional standards of the Compagnie Nationale des Commissaires aux comptes. These procedures consisted of confirming the accuracy of the data with which we were provided through comparison with their documents of origin.

As part of its biennial international cash flow agreement, on June 1st 2009 your company granted its subsidiary, Vétoquinol North America, a loan of 2,800,000 CAD. On December 31, 2009, this loan amounted to 2,800,000 CAD, or €1,850,873 at the exchange rate on December 31, 2009. Interests calculated at 2.5% amount to €25,904 in the 2009 fiscal year.

For these new conventions, the director involved is Mr. Etienne Frechin, President of Vétoquinol SA and Vétoquinol North America.

On March 13, 2009, the convention on the remuneration of the chief executive officer in case of cancellation was modified to include performance conditions, the designated amount being based on a percentage of achievement relative to budgetary data on turnover and operating profit. For this new convention, the person involved is Mr. Dominique Henryon, chief operating officer.

33.2. CONVENTIONS AND COMMITMENTS APPROVED DURING PREVIOUS FISCAL YEARS WHICH WERE STILL IN EFFECT DURING THE FISCAL YEAR

Otherwise, under the Code of Commerce, we were informed that the implementation of the following conventions and agreements, approved during previous fiscal years, occurred during the past fiscal year.

- On August 31, 2006 your company granted its subsidiary, Vétoquinol North America, a loan of 1,000,000 CAD. On December 31, 2009, this loan was fully repaid. Interest calculated at 5.00% amounts to €11,668 in the 2009 fiscal year.
- On September 30, 2006 your company granted its subsidiary, Vétoquinol North America, a loan of 1,000,000 CAD. On December 31, 2009, this loan was fully repaid. Interest calculated at 5.00% amounts to €11,668 in the 2009 fiscal year.
- On December 31, 2009, your company granted its subsidiary, Vétoquinol North America, an advance amounting to 847,945 CAD, this advance amounted to 847,945 CAD or €560,514 on December 31, 2009. Interest calculated at 5.65% amounts to €29,961 in the 2009 fiscal year.
- On December 31, 2009, your company granted its subsidiary, Vétoquinol North America, an advance amounting to 889,194 CAD, this advance amounted to 889 194 CAD or €587,780 on December 31, 2009. Interest calculated at 5.65% amounts to €31,419 in the 2009 fiscal year.
- On January 1, 2007, your company granted its subsidiary, Vétoquinol North America, a loan of 15,500,000 USD. On December 31, 2009, this loan amounted to 12 732 150 CAD, or €8,838,088 at the exchange rate on December 31, 2009. Interest calculated at 6.00% amounts to €616,278 in the 2009 fiscal year.
- On April 16, 2007, your company granted its subsidiary, Vétoquinol North America, a loan of 1,500,000 CAD. On December 31, 2009, this loan was fully repaid. Interest calculated at 5.00% amounts to €25,320 in the 2009 fiscal year.
- On October 18, 2007 your company granted its subsidiary, Vétoquinol North America, a loan of 1,500,000 CAD. On December 31, 2009, this loan was

fully repaid. Interest calculated at 5.00% amounts to €33,137 in the 2009 fiscal year.

- On April 18, 2008, as part of its biennial international cash flow agreement, your company granted its subsidiary, Vétoquinol North America, a loan of 1,500,000 CAD. On December 31, 2009, this loan was fully repaid. Interest calculated at 4.00% amounts to €32,764 in the 2009 fiscal year.
- On June 6, 2008, as part of its biennial international cash flow agreement, your company granted its subsidiary, Vétoquinol North America, a loan of 3,300,000 CAD. On December 31, 2009, this loan amounted to 3,083,334 CAD, or €2,038,164 at the exchange rate on December 31, 2009. Interest calculated at 4.00% amounts to €82,551 in the 2009 fiscal year.
- On October 14, 2008, as part of its biennial international cash flow agreement, your company granted its subsidiary, Vétoquinol North America, a loan of 1,500,000 CAD. On December 31, 2009, this loan amounted to 1,250,000 CAD, or €826,282 at the exchange rate on December 31, 2009. Interest calculated at 4.00% amounts to €36,731 in the 2009 fiscal year.

The Statutory Auditors
Paris La Défense and Neuilly-sur-Seine, March 25, 2010

KPMG Audit		PricewaterhouseCoopers Audit
		KPMG S.A. Department
Laurent Genin	Laurent Hoffnung	Xavier Aubry
Partner	*Partner*	*Partner*

ANNEX 1 - CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

In thousands of euros	Notes	2007	2006
Revenues	7	233,364	211,591
Purchases consumed	-	(77,333)	(72,910)
Other purchases and external charges	9	(52,520)	(45,887)
Personnel costs	10	(62,129)	(55,381)
Taxes and duties	-	(4,282)	(3,649)
Depreciation, amortisation and impairment of non-current assets	19/20	(10,046)	(8,404)
Provisions and recoveries	-	1,328	(68)
Other operating income and expenses	12	803	336
Operating profit from continuing operations	-	29,185	25,628
Other income and expenses	13	(1,107)	(777)
Operating profit	-	28,078	24,851
Net finance costs	15	(3,391)	(3,489)
Other financial income and expenses	15	(1,113)	(1,336)
Pre-tax profit	-	23,574	20,027
Income taxes	16	(4,925)	(4,196)
Consolidated net profit	-	18,649	15,831
Attributable to parent company shareholders	-	18,642	15,824
Minority interests	-	7	7
Basic earnings per share (in euros)	17	1.65	1.59
Diluted earnings per share (in euros)	17	1.66	1.57

2.2. CONSOLIDATED BALANCE SHEET

In thousands of euros	Notes	31 Dec. 2007	31 Dec. 2006
ASSETS			
Goodwill	18	25,405	26,233
Other intangible assets	19	25,988	29,270
Property, plant and equipment	20	44,068	43,983
Available-for-sale financial assets	21	1	4
Other financial assets	22	426	340
Deferred tax assets	16	5,246	2,642
Total non-current assets	-	101,134	102,472
Inventories	24	39,308	36,362
Trade receivables and related accounts	25	47,199	47,159
Current income tax receivables	16	429	2,911
Cash and cash equivalents	26	40,336	21,719
Total current assets	-	127,271	108,151
TOTAL ASSETS	-	228,405	210,623
EQUITY	-	-	-
Share capital and share premium	27	60,821	60,763
Retained earnings and other reserves	-	48,382	34,537
Net profit for the period	-	18,642	15,824
Equity attributable to parent company shareholders	-	127,845	111,124
Minority interests	-	26	24
Total equity	-	127,871	111,147
LIABILITIES	-	-	-
Non-current financial liabilities	28	32,709	30,192
Deferred tax liabilities	16	1,137	2,746
Provisions for employee benefit obligations	29	2,718	2,985
Other non-current provisions	30	779	698
Accountable advances from government	31	402	402
Total non-current liabilities	-	37,746	37,023
Trade payables and related accounts	32	54,311	48,764
Current income taxes payable	-	1,711	1,273
Current financial liabilities	28	6,754	12,298
Other current provisions	30	12	117
Total current liabilities	-	62,788	62,452
Total liabilities	-	100,534	99,476
TOTAL EQUITY AND LIABILITIES	-	228,405	210,623

2.3. CONSOLIDATED CASH FLOW STATEMENT

In thousands of euros	Notes	2007	2006
Consolidated net profit	-	18,649	15,831
Elimination of non-cash items			
Depreciation, amortisation and impairment	-	10,042	8,374
Badwill	-	0	(188)
Income taxes	-	4,925	4,196
Interest expense	-	3,496	3,578
Provisions for employee benefit obligations	-	105	99
Impairment of available-for-sale financial assets	-	0	0
Gains on disposals of assets (net of tax)	-	34	465
Other items with no impact on cash flow	-	(1)	323
Income and expenses in connection with the share-based payment	-	285	339
Change in working capital requirements	-	4,869	2,692
Cash flow from operating activities	-	42,404	35,710
Income tax paid	-	(3,474)	(10,378)
Interest paid	-	(1,715)	(1,976)
Net cash flow from operating activities	-	37,215	23,356
Purchase of intangible assets	-	(1,588)	(19,710)
Purchase of property, plant and equipment	-	(6,850	(9,971)
Purchase of available-for-sale assets	-	0	0
Purchase of other financial assets	-	0	(64)
Proceeds of asset disposals	-	160	572
Loan repayments / income from other financial assets	-	(392)	115
Acquisition of subsidiaries, net of cash acquired	-	0	(427)
Net cash flow used by investing activities	-	(8,670)	(29,486)
Proceeds from capital increase	-	57	15,904
Net (purchase) disposal of treasury stock	-	(1,320)	
Issuance of borrowings and other financial liabilities	-	2,376	450
Repayment of financial liabilities	-	(5,065)	(7,959)
Dividends paid to parent company shareholders	-	(2,593)	(5,827)
Dividends paid to minority interests	-	(5)	(3)
Investment grants and accountable advances	-	-	250
Other cash flows related to financing activities	-	-	-
Net cash flow from (used by) financing activities	-	(6,549)	2,815
Impact of changes in exchange rates	-	(894)	234
Net change in cash and cash equivalents	-	21,102	(3,081)
Cash and cash equivalents at beginning of period	26	15,204	18,285
Change in cash and cash equivalents	-	21,102	(3,081)
Cash and cash equivalents at end of period	26	36,307	15,204

2.4. STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

In thousands of euros	Share capital and share premium (Note 27)	Foreign currency translation reserve	Actuarial gains (losses)	Change in FV of AFS assets	Other reserves	Total reserves	Net profit for the period	Equity - parent company share holders	Minority interests	Total equity
Balance at 31 December 2005	44,859	5,324	(163)	(457)	24,798	29,502	12,441	86,802	18	86,820
Income and expenses for the period	0	(2,441)	72	457	-	(1,912)	15,824	13,913	7	13,919
Appropriation of net profit	-	-	-	-	12,441	12,441	(12,441)	0	-	0
Stock options exercised	111	-	-	-	-	0	-	111	-	111
Stock warrants exercised	2,356	-	-	-	-	0	-	2,356	-	2,356
IPO - Capital increase	13,436	-	-	-	-	0	-	13,436	-	13,436
Dividends paid by the parent company	-	-	-	-	(5,827)	(5,827)	-	(5,827)	-	(5,827)
Other	-	-	-	-	332	332	-	332	(1)	331
Balance at 31 December 2006	60,763	2,884	(91)	0	31,744	34,537	15,824	111,124	24	111,148
Income and expenses for the period	-	(1,456)	224	-	-	(1,232)	18,642	17,410	7	17,417
Appropriation of net profit	-	-	-	-	-	15,824	(15,824)	0	-	0
Treasury stock	-	-	-	-	(1,366)	(1,366)	-	(1,366)	-	(1,366)
Stock options exercised	57	-	-	-	-	0	-	57	-	57
Dividends paid by the parent company	-	-	-	-	(2,593)	(2,593)	-	(2,593)	(5)	(2,598)
Other & corrections of deferred taxes	0	-	-	-	3,214	3,214	-	3,214	-	3,214
Balance at 31 December 2007	60,820	1,428	133	0	30,999	48,384	18,642	127,845	26	127,871

2.5. CONSOLIDATED STATEMENT OF INCOME AND EXPENSES FOR THE YEAR ENDED 31 DECEMBER

In thousands of euros	2007	2006
Actuarial gains	318	108
Change in fair value of available-for-sale assets	0	457
Change in accounting method	0	-
Translation losses	(1,456)	(2,441)
Tax on items recognised directly in equity	(95)	(36)
S/ Net profit recognised directly in equity	(1,232)	(1,912)
Net profit for the period	18,649	15,831
S/Total income and expenses for the period	17,417	13,919
Attributable to:		
Parent company shareholders	17,410	13,912
Minority interests	7	7

2.6. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

1. GENERAL OVERVIEW

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

A company determined to stay close to its customers through a strong presence in over 80 countries, Vétoquinol earns 78% of its revenue outside of France, delivering market leading products for species we know very well, namely cats, dogs, cattle and pigs.

With revenues of 233.4 million euros in 2007 and a workforce of over 1,300 on five continents, the Vétoquinol Group currently ranks twelfth worldwide, and holds third place in Canada and sixth place in France. The parent company, Vétoquinol SA, is a French *société anonyme* with its registered office at Magny Vernois, 34 rue du Chêne Sainte Anne, 70204 Lure Cedex.

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

The consolidated financial statements of the Vétoquinol Group were approved by the Board of Directors on 22 February 2008. They will be submitted for approval by the shareholders at the next Annual General Meeting, which will take place on 19 May 2008.

2. ACCOUNTING PRINCIPLES AND VALUATION METHODS

2.1. GENERAL PRINCIPLES AND ACCOUNTING STANDARDS

These consolidated financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of those standards published by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as adopted by the European Union on 31 December 2007.

These consolidated financial statements were prepared on a historical cost basis, except for available-for-sale assets, which are stated at fair value through equity, and for financial assets and liabilities stated at fair value through profit or loss (including derivatives).

In preparing these consolidated financial statements in accordance with IFRS, Group management was required to make a number of basic accounting estimates, the most important of which are described in Note 5.

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

Standards, interpretations and amendments to previously issued standards that are not yet in force:

At the balance sheet date, the following had been published by the IASB but had not yet been adopted by the European Union: IFRS 8, IFRIC 12, IFRIC 13, IFRIC 14, Amendment of IAS 23, Amendment of IAS 27 and Amendment of IFRS 3. These standards and interpretations were not applied by Vétoquinol and their possible application in the next fiscal year is likely to have no impact on the presentation of the financial statements.

2.2. CONSOLIDATION AND BUSINESS COMBINATIONS

Scope of consolidation

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

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

A company is included in the consolidated reporting entity as of the date on which the Group acquires effective control of it, and deconsolidated as of the date on which that effective control ceases.

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is equal to the aggregate of the fair values of the assets given, the liabilities incurred or assumed and the equity instruments issued by the acquirer at the acquisition date, plus any costs directly attributable to the business combination. The identifiable assets acquired, and the identifiable liabilities and contingent liabilities assumed in a business combination are initially recognised at their fair values at the acquisition date, whatever the proportion held by minority interests. The excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill (see Note 18). Conversely, if the net fair value of the identifiable assets, liabilities and contingent liabilities acquired exceeds the cost of the business combination, that excess is immediately recognised through profit or loss.

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

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

The Group is composed solely of Vétoquinol SA and its subsidiaries. It has no joint ventures or associates. The Group reporting entity is presented in Note 40 "Group companies".

2.3. BUSINESS COMBINATIONS

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

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

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

2.4. FOREIGN CURRENCY TRANSLATION

Functional currency and presentation currency

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

Transactions, assets and liabilities

Revenues and expenses denominated in foreign currency are recorded at the functional currency equivalent on the date of transaction. Foreign currency monetary items are translated on the balance sheet at closing exchange rates. Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction, whereas those measured at fair value are translated using the exchange rates at the date when the value was determined.

Any resulting unrealized translation gains or losses are recognised through profit or loss, except for:

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

Translation of the financial statements of Group companies

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

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

On the disposal of a foreign operation, the cumulative translation adjustments originally recorded in equity are recognised through profit or loss under gains or losses on disposal, except for those translation adjustments recognised prior to 1 January 2004 and charged against consolidated reserves as part of the changeover of Group accounting to IFRS.

2.5. REVENUE RECOGNITION

Income from ordinary activities is the fair value of the consideration received or to be received for goods sold and services rendered by the Group as part of its ordinary business.
Revenue arises from the sale of goods to third parties, net of trade discounts and volume rebates granted to final customers, of financial discounts and after elimination of intra-Group transactions.

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

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

2.6. SEGMENT REPORTING

The Group's primary and only segment reporting format is by geographical region.

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

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

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

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

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

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

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

2.7. EARNINGS PER SHARE

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

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

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

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

2.8. EMPLOYEE BENEFITS

Pension and other post-employment benefit obligations

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

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

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

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

Actuarial gains and losses arising on adjustments due to revised actuarial assumptions and to experience are recognised directly in equity in the consolidated statement of income and expenses for the period in which they occur.

Share-based payment

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

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

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

A bonus shares allocation plan has been created (see Note 27.2).

2.9. LEASES

Operating leases

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

Finance leases

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

2.10. INTANGIBLE ASSETS

Goodwill

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

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

Research & development costs

Under IAS 38, research costs are expensed as incurred, whereas development costs are capitalized, but only if all six criteria set forth in IAS 38 have been met.

Owing to the risks and uncertainties related to regulatory approval and the research and development process, those capitalization criteria are not deemed to have been met until the Group obtains marketing authorisation for its drugs.
In contrast, costs related to licence and distribution rights for drugs, processes and information of a scientific nature are capitalized as intangible assets. Such sums are typically paid in the starting phase and in the course of a research project, until marketing authorisation has been obtained.

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

Other intangible assets

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

The same amortisation periods are used throughout the entire Group:

Categories	Method	Period
Licences and patents	Straight-line	5-10 years
Software	Straight-line	1-5 years
Trademarks	Straight-line	7-10 years
Other	Straight-line	10 years

2.11. PROPERTY, PLANT AND EQUIPMENT

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

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

2.12. IMPAIRMENT OF ASSETS

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

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. To measure impairment, assets are grouped together in cash-generating units (CGUs), i.e. the smallest identifiable group of assets that generates cash inflows. The CGUs defined for Vétoquinol are countries: the USA, Canada, France, the UK, Belgium, Switzerland, the Czech Republic, Austria, Poland, Ireland, Germany, Mexico and the Netherlands.

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

2.13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets chiefly include nonconsolidated equity investments, which are measured at fair value. Changes in fair value are recorded in equity. If an objective indication of a loss of value exists on a financial asset (notably a significant and long-term decrease in the value of the asset) then a provision for irreversible impairment is recognized through profit or loss. Changes in fair value recognised in equity are “recycled” to the income statement when the specific assets are derecognised or disposed of.

2.14. OTHER FINANCIAL ASSETS

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

2.15. DERIVATIVE INSTRUMENTS

To hedge its currency or 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 sole purpose of hedging risk.

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

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

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

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

At each balance sheet date, the fair value of the instruments used is determined by reference to market value. If no market value is available, an independent calculation agent provides an assessment.
Note 23 below gives quantitative explanations of how these instruments are used.

2.16. INVENTORIES

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

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

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

2.17. TRADE RECEIVABLES AND RELATED ACCOUNTS

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

There is practically no credit risk on the trade receivables held by the Group. Any impairment provisions recorded concern essentially customers whose receivables are past due.

2.18. CASH AND CASH EQUIVALENTS

Cash includes bank deposits, short-term investments and cash equivalents, and is measured at its amortised cost.

2.19. FINANCIAL LIABILITIES

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

Borrowings are recognised initially at fair value, less any allocable transaction costs. They are subsequently stated at amortised cost using the effective interest method.

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

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

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

Interest is expensed as incurred

2.20. DEFERRED TAXES

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

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

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

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

2.21. PROVISIONS

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

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

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

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

2.22. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

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

2.23. GOVERNMENT GRANTS

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

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

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

2.24. DISTRIBUTION OF DIVIDENDS

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

3. FINANCIAL RISK MANAGEMENT

Currency risk

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

Accordingly, its subsidiaries are not significantly exposed to currency risk. Foreign currency movements are centralised at the Vétoquinol SA level, and hedging instruments are put in place to offer protection against the risk. The term on these instruments is always less than one year, and at the year-end closing date, there are no outstanding hedges. For this reason, the provisions of IAS 39 pertaining to accounting for such instruments are not applicable to the financial statements for the years ended 31 December 2006 and 31 December 2007. Gains and losses on these instruments are recognised in net financial profit.

As described above, practically the only currency risk to which Vétoquinol is exposed by the operations of its subsidiaries is in the consolidated income statement. On the basis of the 2007 financial statements, and taking only the non-French subsidiaries, a 10% rise in the value of the euro against all other currencies would have lowered consolidated revenues by 11.3 million euros and consolidated operating profit by 1.1 million euros.

Currency risk of Vétoquinol SA:

Because of its sales in foreign currencies, Vétoquinol SA is exposed to currency risk between the date these sales are invoiced and the date payment is received.

Based on the pivot rates with which the budget was prepared and/or the exchange rates used for invoicing, forecasts of collections and actual or forecast exchange rates, Vétoquinol SA hedges either a portion or all of its inflows in foreign currencies using traditional bank products such as forward sales and options, and more or less sophisticated products such as tunnels and zero-premium collars.

Foreign exchange gains or losses and the net result of hedging transactions are recognised in net financial profit. Group procedures do not authorise speculative transactions. Most of these transactions are entered into and closed during the year, over very short periods, and therefore there are no outstanding items on the balance sheet at the period ends (see Note 23).

Analysis of Group's exposure to currency risk (IFRS 7), based on face values at 31 December 2007:

In thousands of euros	Euros	CAD	CHF	USD	GBP	ZPN	Other currencies	Total
31 Dec. 2007								
Trade receivables	22,577	7,426	493	6,359	2,413	3,203	1,004	43,475
Impairment of trade receivables	(781)	(1)	(24)	(113)	(28)	(163)	(20)	(1,129)
Net trade receivables	21,797	7,425	470	6,246	2,385	3,040	984	42,346
Prepayments	593	-	-	-	-	6	3	601
Prepaid expenses	349	236	30	6	68	59	53	801
Receivable from government agencies	885	228	26	-	1,198	190	9	2,537
Other operating receivables	200	-	1	-	-	-	11	212
Miscellaneous receivables	473	12	22	-	67	132	6	713
Provisions	-	-	-	-	-	-	(11)	(11)
Total other receivables	2,500	477	79	6	1,332	387	71	4,853
Trade payables and related accounts	37,255	7,114	651	2,195	4,575	2,195	327	54,311
Net trade payables and related accounts	37,255	7,114	651	2,195	4,575	2,195	327	54,311
Total gross balance sheet exposure	(12,958)	788	(102)	4,057	(858)	1,232	728	(7,112)

Interest rate risk

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

The Group's exposure to interest rate risk is very low, and basically only two lines on the balance sheet are concerned: financial liabilities and cash.

Over 83% of the Group's debt at 31 December 2007 (including bank overdraft facilities and convertible bonds) bore interest at a fixed rate. Floating rate commitments represented a total of 5.7 million euros at 31 December 2007. To hedge these floating rate commitments and optimise its financing costs, the Group may, as it has in the past, choose to enter into interest rate swaps.

At 31 December 2007, the Group had cash and cash equivalents of nearly 40.3 million euros (excluding bank facilities), including cash and 17.5 million euros in money market unit trusts and mutual funds with major retail banks. The fall of the stock markets in early 2008 has affected neither Vétoquinol's cash position nor its ordinary business activities.

On the basis of the 2007 financial statements, a 100 basis point hike in interest rates would have lowered 2007 net profit by 73 thousand euros.

Liquidity risk

In the light of its financial position at 31 December 2007, the Group does not believe that it is exposed to any liquidity risk. At 31 December 2007, the Group's cash balances were largely sufficient to honour all of its short-term debt maturities. The Group had a 0.9 million euro negative net debt position at 31 December 2007, compared with 20.8 million euros of net debt at 31 December 2006.
Each Group subsidiary is responsible for collection of its own trade receivables and cash balances. The Group Finance Department uses a cash forecast derived from the annual budget to provide continuous reporting of the cash movements of the subsidiaries, in order to establish the Group's net cash positions as precisely as possible and maintain the Group's ability to honour its financial commitments.

Credit risk

Credit risk is the risk of the Group's incurring a financial loss in the event that a customer or counterparty on a financial instrument does not honour its contractual obligations. The only credit risk to which the Group is exposed is that of its trade receivables.
The Group's exposure to credit risk is impacted primarily by the individual characteristics of its customers. The Group markets its products in some

80 countries, through a proprietary network of 110 distributors.

In certain geographical regions, a certain concentration of wholesalers and/or central purchasing agencies, accompanied by a renegotiation of contracts, could result in a revision of the Group's margins. This risk, however, appears to be limited, as the Group is sufficiently large and diversified both geographically and by product to resist any such pressures. For example, the Group's largest wholesale distributor represented approximately 10.6% of consolidated total revenues in 2007.

Any customers that do not meet the Group's requirements in terms of solvency are allowed to conduct business with the Group only by paying in advance.

All sales of assets are covered by an ownership reserve clause that provides the Group with a guarantee in the event of default. The Group does not request any specific guarantee on its trade receivables and related accounts.

Insofar as its investments are concerned, the Group limits its exposure to credit risk by investing only in liquid or asset-backed securities. Given the types of money market unit trusts used, Group management does not expect any counterparty to default.
At 31 December 2007, the carrying amount of the Group's financial assets represented a maximum exposure to credit risk of 88 million euros.

Equity risk

None.

4. MANAGEMENT OF SHARE CAPITAL

The Group's policy is to maintain a strong capital base, in order to preserve the confidence of Vétoquinol's investors and creditors and the market, and to support the future expansion of its operations. The Executive Committee monitors the number and diversity of the Group's shareholders, its return on equity and the dividends paid to holders of its common shares. The Group has committed to a pay–out of no more than 15% of the net profit for the year.

The committee strives to maintain a balance between the higher return that would result from an increased use of debt and the benefits and security provided by a strong capital base. The Group seeks to attain a pre-tax return on capital employed (ROCE) of 20% - at 31 December 2007, the ROCE was 21.9%, compared with 19.1% in 2006.

In comparison, the weighted average interest rate on interest-bearing borrowings (excluding the bond) ranged from 4.0% to 4.5% in 2007 (4.0% to 4.5% in 2006).

The Group occasionally purchases its own shares on the market. The amounts of these purchases depend on market prices. These shares are used primarily in connection with the stock option and bonus share programmes. The Executive Committee makes all purchase and sale decisions on a case by case basis. The Group does not have a formal share buyback programme.

During the fiscal year, the Group did not alter its capital management policy.

Neither the Company nor its subsidiaries are subject to any external laws or regulations that impose specific external requirements with regard to their capital.

5. INFORMATION ON JUDGEMENTS AND ESTIMATES

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

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

The definitive values may be different from these estimates.

6. BUSINESS COMBINATIONS IN 2007

There were no business combinations in 2007.

6.1. BUSINESS COMBINATIONS IN 2006 – ACQUISITION OF VET SOLUTIONS

General overview

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

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

Description of transaction

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

This acquisition was paid for in cash only.

In accordance with IFRS 3, the fair values of all identifiable assets and liabilities were calculated prior to the acquisition on the basis of the financial position and net worth of Vet Solutions at 29 December 2006.

In the light of the nature of this transaction, as additional information becomes available over the next twelve months starting from the date of acquisition, it may be necessary to revise some of the elements governing the allocation of the purchase price of Vet Solutions.

In 2007, the goodwill on the Vétoquinol USA subsidiary was not adjusted to reflect a change of value.

Calculation of goodwill on Vet Solutions

In thousands of USD	Fair values at Dec. 29, 2006
Customer portfolio	11,089
Other non-current assets	133
Net working capital requirement	2,199
Net assets acquired	13,421
Purchase price	23,000
Goodwill	9,579

At 31 December 2007, the goodwill on Vet Solutions amounted to 6,507 thousand euros.

6.2. BUSINESS COMBINATIONS IN 2006 – ACQUISITION OF SEMYUNG VÉTOQUINOL

General overview and description of transaction

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

Calculation of badwill on Semyung Vétoquinol

In thousands of euros	
Acquisition of shares on 27 December 2005	300
Acquisition of shares on 3 January 2006	350
Acquisition of shares on 30 March 2006	368
Total value of Semyung Vétoquinol shares	1,018
Net assets of the South Korean subsidiary	1,206
Badwill	(188)

7. SEGMENT REPORTING (PRIMARY SEGMENT– GEOGRAPHICAL REGION)

In 2006 and 2007, all revenues came from the sale of veterinary products.

Analysis of earnings by segment - 2007

In thousands of euros By location of assets	France	Rest of Western Europe	Eastern Europe	North America	Rest of world	Consolidated total
Revenues	103,481	82,068	30,856	76,387	1,582	294,374
Inter-segment revenues	(37,962)	(711)	(7,296)	(15,041)	0	(61,009)
Total external revenues	65,519	81,357	23,560	61,346	1,582	233,364
Operating profit from continuing operations	10,272	12,935	3,592	2,211	175	29,185
Other income and expenses	(1,107)	0	0	0	0	(1,107)
Operating profit	9,165	12,935	3,592	2,211	175	28,078
Net financial expenses	-	-	-	-	-	(4,504)
Pre-tax profit	-	-	-	-	-	23,574
Income taxes	-	-	-	-	-	(4,925)
Net profit	-	-	-	-	-	18,649

In compliance with the disclosure requirements of IAS 14, the Vétoquinol group has opted for an analysis by the location of its assets. Sales are also analysed and presented by location and market (geographical region):

In thousands of euros By location of customers	France	Rest of Western Europe	Eastern Europe	North America	Rest of world	Consolidated total
Revenues	53,235	126,505	26,563	64,739	12,298	283,340
Inter-segment revenues	(2,456)	(38,244)	(3,183)	(5,537)	(557)	(49,976)
Total external revenues	50,779	88,261	23,381	59,202	11,741	233,364

Analysis of earnings by segment - 2006

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

In compliance with the disclosure requirements of IAS 14, the Vétoquinol group has opted for an analysis by the location of its assets. Sales are also analysed and presented by location and market (geographical region):

In thousands of euros By location of customers	France	Rest of Western Europe	Eastern Europe	North America	Rest of world	Consolidated total
Revenues	48,317	113,179	26,538	62,656	12,430	263,119
Inter-segment revenues	(1,856)	(32,097)	(3,838)	(13,076)	(661)	(51,528)
Total external revenues	46,461	81,082	22,700	49,579	11,770	211,592

Analysis of other segment non-cash items included in profit or loss by segment

In thousands of euros	France	Rest of Western Europe	Eastern Europe	North America	Rest of world	Consolidated total
2007						
Depreciation and amortisation	(5,500)	(695)	(1,261)	(2,579)	(11)	(10,046)
Provisions and recoveries	964	274	32	(4)	62	1,328
Expenses on grants of stock options	(31)	-	-	-	-	(31)
Expenses on grants of bonus shares	(254)	-	-	-	-	(254)
2006						
Depreciation and amortisation	(4,875)	(658)	(968)	(1,886)	(17)	(8,404)
Provisions and recoveries	(356)	226	92	37	(66)	(68)

No impairment was recorded directly to equity in 2006 or 2007.

Analysis of assets, liabilities and investments by segment

In thousands of euros	France	Rest of Western Europe	Eastern Europe	North America	Rest of world	Consolidated total
At 31 December 2007						
Assets	143,565	29,621	16,035	38,607	576	228,405
Liabilities	42,709	17,639	5,988	33,835	362	100,534
Acquisition of assets	4,936	954	806	888	0	7,584
At 31 December 2006						
Assets	126,174	24,496	14,612	44,746	595	210,623
Liabilities	34,228	16,599	8,414	39,874	362	99,476
Acquisition of assets	8,065	440	2,502	17,278	125	28,410

Acquisitions of assets in North America in 2006 included 7,274 thousand euros for goodwill on Vet Solutions.

8. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred and expensed in 2007 amounted to 15,343 thousand euros (6.6% of revenues), compared with 13,010 thousand euros in 2006 (6.1% of revenues).

9. OTHER PURCHASES AND EXTERNAL CHARGES

In thousands of euros	2007	2006
General subcontracting	2,035	1,142
Lease and rental payments	4,316	3,883
Maintenance	2,869	2,503
Insurance	1,175	1,052
Analyses and research	1,328	1,050
Non-employee personnel	1,096	1,042
Fees and commissions paid to intermediaries	11,485	9,374
Advertising, publications, public relations	8,352	8,626
Transport of goods and group transportation of personnel	6,129	5,682
Business travel and entertainment	6,108	4,944
Postage and of telecommunications	1,295	1,372
Royalties on concessions, patents, licences, trademarks, etc.	4,416	3,565
Other external services	1,366	1,252
Miscellaneous	548	400
Total	52,520	45,887

10. PERSONNEL COSTS

In thousands of euros	2007	2006
Wages and salaries	43,862	39,659
Payroll taxes (*)	17,328	14,885
Termination benefits	533	440
Employee benefits – cost of services rendered (Note 29)	122	396
Post-employment benefits – actuarial gains and losses through profit or loss	0	0
Expenses on grants of stock options	31	-
Expenses on grants of bonus shares	254	-
Total personnel costs	62,129	55,381

(*)The cost of defined contribution pension plans is included in total payroll taxes.

11. SHARE-BASED PAYMENT

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

	Plan 1	Plan 2	Plan 3	Plan 4	Plan 5
Date plan was opened	15 June 1999	29 March 2000	1 March 2001	19 Seven. 2003	4 June 2007
Exercise price	25.47	25.47	30.95	49.30	25.33
Expiration dates	15 Dec. 2004	29 Seven. 2005	31 Aug. 2006	18 March 2009	6 Dec. 2011
Options outstanding at 31 December 2007	-	-	-	230	32,600

Under each of these plans, the grant conditions are tied to the past performance of the beneficiaries. As the standard allows, the Group has opted not to apply IFRS 2 for plans paid in shares and granted before 7 November 2002 (Plans 1, 2 and 3). The application of IFRS 2 to Plan 4 would have no material impact on profit or loss, while Plan 5 added 31 thousand euros in expense.

Analysis of the number of options issued:

	2007		2006	
	Exercise price	Number of options	Exercise price	Number of options
At 1 January	49.30	1,440	48.22	3,836
Granted	25.33	33,800	-	-
Cancelled	-	1,250	-	50
Expired	N/A	-	N/A	-
Exercised	49.30	1,160	47.45	2,346
At 31 December	25.49	32,830	49.30	1,440

The weighted average exercise price of stock options exercised in 2007 was 49.30 euros (47.45 euros in 2006). The 1,160 options exercised in 2007 (2,346 in 2006) gave rise to the issue of 11,600 shares, each with a par value of 2.50 euros (23,460 in 2006, with a par value of 2.50 euros).

Prior to the initial public offering, the market for shares issued in connection with stock option plans was made by Soparfin at an agreed-upon price, the calculation of which was reviewed by the Independent Auditors each year. This price was 89.77 euros at 31 December 2005, for one share with a par value of 25 euros.

Insofar as the bonus share plan is concerned (see Note 27.2), the application of IFRS 2 had an impact of 253 thousand euros (measured using the Black-Scholes model).

12. OTHER OPERATING INCOME AND EXPENSES

In thousands of euros	2007	2006
Operating grants	26	24
Investment grants transferred to net profit for the period	28	28
Amortisation of deferred charges	0	0
Net gain (loss) on disposals of assets	(7)	(11)
Other income	1,335	1,107
Other expenses	(579)	(813)
Total	803	336

Analysis of other income:

In thousands of euros	2007	2006
Fees and royalties	53	50
Port fees rebilled to customers	391	242
Indemnities	60	64
Sale of marketing authorisations	100	60
Claim reimbursement	-	30
Other	731	661
Total	1,335	1,107

13. OTHER INCOME AND EXPENSES

In thousands of euros	2007	2006
Balance, Eiger project	-	310
Badwill (South Korea)	-	188
Adjustment on tax provisions	-	605
Other income	-	1,103
Discount following capital increase reserved for employees	-	(339)
Bringing Prolab up to standards	-	(452)
Indemnities for breach of contract	(1,107)	(599)
Transfer of Equistro	-	(109)
Product liability	-	(59)
Change of accounting method on project	-	(323)
Other expenses	(1,107)	(1,880)
Total	(1,107)	(777)

14. LEASES

14.1. FINANCE LEASES – LESSEE

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

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

The property, plant and equipment that pertain to finance leases are listed in Note 20, and the corresponding financial liability is discussed in Note 28.

Commitments on non-cancellable finance leases

In thousands of euros	31 Dec. 2007	31 Dec. 2006
Less than 1 year	124	122
1-5 years	386	467
More than 5 years	72	115
Minimum payments	582	704
Future finance charges	(70)	(95)
Present value of payments on finance leases	512	609
Less than 1 year	119	117
1-5 years	340	408
More than 5 years	54	84
Total minimum future payments	512	609

14.2. OPERATING LEASES – LESSEE

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

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

Commitments on non-cancellable operating leases

In thousands of euros	31 Dec. 2007	31 Dec. 2006
Less than 1 year	3,451	3,171
1-5 years	6,417	5,540
More than 5 years	1,160	2,817
Total minimum payments	11,029	11,527
Total minimum future subleasing revenues to receive	-	-

Operating lease expenses for the period

In thousands of euros	2007	2006
Minimum payments recognised	4,316	3,883
Conditional rents recognised	0	0
Subleasing revenues recognised	0	0

15. OTHER FINANCIAL INCOME AND EXPENSES

In thousands of euros	2007	2006
Interest income on cash and cash equivalents	150	105
Income on disposals of cash equivalents	102	100
Income on cash and of cash equivalents	252	205
Interest expense on bond	(1,000)	(1,000)
Non-conversion premium	(1,792)	(1,614)
Interest expense on other borrowings and overdrafts	(826)	(1,053)
Interest expense on finance leases	(25)	(27)
Cost of gross debt	(3,643)	(3,694)
Net finance costs	(3,391)	(3,489)
Other financial income	264	256
Other financial expenses	(50)	(513)
Financial expenses on employee benefits	(105)	(99)
Foreign exchange gains	658	854
Foreign exchange losses	(1,880)	(1,834)
Other financial income and expenses	(1,113)	(1,336)

Net financial profit is attributable to assets and liabilities recognised at amortised cost.

16. INCOME TAXES

In 2007 and 2006, the tax rate used to calculate deferred taxes for French companies was 34.43%.

Analysis of income tax expense:

In thousands of euros	2007	2006
Current tax expense	(6,483)	(5,171)
Deferred tax income on temporary differences	1,558	975
Total	(4,925)	(4,196)

Reconciliation of theoretical tax at the statutory tax rate in France to the effective tax:

In thousands of euros	2007	2006
Net profit for the period - attributable to parent company shareholders	18,649	15,831
Neutralisation of badwill on South Korean acquisition	-	188
Income taxes	(4,925)	(4,196)
Pre-tax profit of consolidated companies	23,574	19,838
Theoretical tax at 34.43% (2006: 34.43%)	8,117	6,830
Non-deductible expenses and non-taxable profit	107	(544)
Impact of change in tax rate	(4)	72
Loss carryforwards	(462)	95
Tax rate difference on foreign affiliates	(1,358)	(1,275)
Impact of reduced rate	278	0
Tax credit	(1,598)	(1,380)
Theoretical tax expense on fees related to the IPO	-	619
Miscellaneous	(155)	(221)
Effective tax	4,925	4,196
Effective tax rate	20.89%	21.15%

Analysis of movements in deferred tax assets during the period:

In thousands of euros	2007	2006
At 1 January	2,642	3,430
Recognised through profit or loss	1,537	553
Recognised in equity	650	(36)
Reclassification	435	(1,293)
Translation adjustments	(19)	(12)
At 31 December	5,246	2,642

Analysis of movements in deferred tax liabilities during the period:

In thousands of euros	2007	2006
At 1 January	2,746	4,521
Recorded to the income statement	(21)	(423)
Recorded in equity	(2,035)	0
Reclassification	435	(1,293)
Translation adjustments	11	(60)
At 31 December	1,137	2,746

Pursuant to IAS 12 and under certain circumstances, a business may offset its deferred tax assets and liabilities. This was done in the table above on the line “Reclassification”.

Analysis of net deferred taxes by type:

In thousands of euros		31 Dec. 2007	31 Dec. 2006
Non-conversion premium on the convertible bonds		2,469	1,852
Trademarks		(726)	(2,338)
Component-based approach (net)		(949)	(1,087)
Other temporary differences (net)		1,441	101
Internal margin on inventories		1,556	1,155
Internal capital gain on disposals of non-current assets		(30)	(28)
Restatement of finance leases		(51)	(37)
Employee benefits		667	853
Tax loss carryforwards		391	632
Regulated provisions		(658)	(803)
Other (net)		-	(404)
Total		4,109	(104)
Of which:	Deferred tax assets	5,246	2,642
	Deferred tax liabilities	(1,137)	(2,746)

Non-capitalized tax loss carryforwards correspond to non-capitalized deferred tax assets in the amount of 450 thousand euros at 31 December 2007 (862 thousand euros in 2006).

17. EARNINGS PER SHARE

Basic earnings per share

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

	2007	2006
Net profit attributable to holders of common shares (thousands of euros)	18,642	15,824
Weighted average number of common shares*	11,280,552	9,945,504
Basic earnings per share (in euros per share)	1.65	1.59

Diluted earnings per share

Diluted earnings per share are calculated by adjusting the net profit attributable to holders of common shares and the weighted average number of shares outstanding during the period for the impact of all common shares that have a potentially dilutive effect. Potentially dilutive instruments include notably stock options, stock warrants and bonds convertible into shares issued by Vétoquinol. Without taking a position on the probability of such dilution, determining the maximum degree of dilution reveals the maximum impact on earnings per share that would result if all potentially dilutive instruments were exercised.

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

Also, when it increased the capital of the Company on 27 February 2003, Vétoquinol SA issued 117,855 shares with warrants. Every 5 warrants give shareholders the right to obtain 40 shares with a par value of 2.50 euros per share. Using the "treasury stock method", this represented 259,330 potential shares at 31 December 2005. On 15 September 2006, all of the stock warrants were exercised.

	2007	2006
Net profit attributable to holders of common shares (thousand euros)	18,642	15,824
Expenses on grants of stock options	31	-
Expenses on grants of bonus shares	254	-
Interest expense savings net of taxes (tax rate = 34.43%) on the convertible bonds issue	1,830	1,714
Profit used to calculate diluted profit (thousand euros)	20,757	17,538
Weighted average number of shares outstanding during the period*	11,280,552	9,945,504
Treasury stock at the end of the period (direct holding)	(46,300)	-
Treasury stock at the end of the period (liquidity agreement)	(2,387)	-
Weighted average number of shares outstanding restated over the period	11,231,865	9,945,504
Potential dilutive effect:	-	-
Dilutive effect of stock options*	34,900	14,400
Dilutive effect of bonus shares	33,000	0
Dilutive effect of convertible bonds	1,178,550	1,178,550
Potential dilutive effect of financial instruments outstanding	1,246,450	1,192,950
Number of shares including the potential dilutive effect	12,478,315	11,138,454
Diluted net profit per share (in euros per share)	1.66	1.57

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

18. GOODWILL

In thousands of euros	2007	2006
At 1 January		
Gross value	26,233	19,932
Accumulated impairment	-	-
Carrying amount at beginning of period	26,233	19,932
Acquisitions	0	7,274
Impairment losses	0	0
Translation adjustments, net	(828)	(974)
At 31 December		
Gross value	25,405	26,233
Accumulated impairment	-	-
Carrying amount at end of period	25,405	26,233

Impairment tests

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

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

Analysis of goodwill allocated to the various CGUs:

In thousands of euros	31 Dec. 2007	31 Dec. 2006
Vétoquinol Biowet Poland	2,652	2,488
Chassot GmbH/Germany	1,705	1,705
Chassot UK	480	524
Vetco Ireland	421	421
Vétoquinol Switzerland	681	701
Vétoquinol Austria	772	772
Vétoquinol Czech Republic	903	875
Vétoquinol USA	10,370	11,592
Vétoquinol Belgium	500	500
Vétoquinol SA France	2,051	2,051
Vétoquinol Canada	4,870	4,605
Total	25,405	26,233

All differences in value between the two years are attributable solely to translation adjustments on goodwill denominated in foreign currencies.

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

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

- **Revenue growth rate of 3% to 8%, depending on the country;**
- **Infinite growth rate of 1.5% to 3%, depending on the country;**
- **Pre-tax discount rate of 8.6% in 2007 (10.2% in 2006).**

On the basis of these tests, no impairment was recorded in 2007 or 2006 for goodwill, intangible assets or property, plant and equipment.

Depreciation testing of the North American region - which includes the Vétoquinol USA and Vétoquinol Canada CGUs and accounts for most of the Group's goodwill - was performed using the discounted cash flow method, with an 8.8% discount rate and a 3% infinite growth rate.

19. INTANGIBLE ASSETS

In thousands of euros	Concessions, licences and patents	Software	Trademarks	Other	Total
At 1 January 2006					
Gross value	10,324	8,326	9,544	5,659	33,853
Accumulated amortisation	(5,028)	(3,984)	(681)	(2,078)	(11,770)
Carrying amount	5,296	4,341	8,864	3,583	22,082
Acquisitions	1,241	966	0	421	2,626
Acquisitions through business combinations	-	-	-	8,420	8,420
Disposals	0	0	0	(2)	(2)
Reclassifications	(4)	1	0	(1)	(4)
Amortisation	(739)	(1,240)	0	(532)	(2,511)
Translation adjustments, net	(128)	(126)	0	(767)	(1,021)
Other movements	(323)	0	0	0	(323)
At 31 December 2006					
Gross value	10,893	9,022	8,863	14,106	42,884
Accumulated amortisation	(5,548)	(5,082)	0	(2,985)	(13,615)
Carrying amount	5,344	3,941	8,863	11,122	29,270
Acquisitions	457	1,129	0	2	1,588
Disposals	0	0	0	(10)	(10)
Reclassifications	6	0	0	0	6
Amortisation	(969)	(1,491)	0	(1,291)	(3,752)
Translation adjustments, net	(49)	16	0	(1,080)	(1,113)
At 31 December 2007					
Gross value	9,921	10,299	8,863	12,685	41,768
Accumulated amortisation	(5,132)	(6,705)	0	(3,942)	(15,780)
Carrying amount	4,788	3,594	8,863	8,743	25,988

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

The “other” column at 31 December 2007 is primarily composed of the values of the customer lists of Vet Solutions (6,710 thousand euros) and IGI (1,966 thousand euros).

20. PROPERTY, PLANT AND EQUIPMENT

In thousands of euros	Land	Buildings	Plant and equipment	Other property, plant and equipment	PP&E in progress, advances and prepayments	Total
At 1 January 2006						
Gross value	2,012	38,533	33,941	12,456	8,674	95,616
Accumulated depreciation	(549)	(22,258)	(22,943)	(9,032)	0	(54,782)
Carrying amount	1,463	16,275	10,998	3,424	8,674	40,834
Additions	50	4,093	1,857	820	2,971	9,791
Acquisitions through business combinations	0	97	180	21	0	298
Disposals	0	(79)	(418)	(83)	0	(581)
Depreciation and amortisation	(35)	(2,473)	(2,162)	(1,223)	0	(5,894)
Translation adjustments, net	(19)	(219)	(146)	(62	(27)	(473)
Reclassifications	0	9,132	751	147	(10,027)	4
At 31 December 2006						
Gross value	1,979	51,185	30,836	10,654	1,591	96,244
Accumulated depreciation	(521)	(24,355)	(19,775)	(7,611)	0	(52,262)
Carrying amount	1,459	26,830	11,060	3,043	1,591	43,983
Additions	29	2,185	1,275	689	1,819	5,997
Disposals	0	0	(46)	(111)	0	(157)
Depreciation and amortisation	(41)	(2,907)	(2,242)	(1,104)	0	(6,294)
Translation adjustments, net	34	276	180	23	33	546
Reclassifications	10	1,044	833	183	(2,076)	(5)
At 31 December 2007						
Gross value	2,053	54,882	32,476	10,386	1,367	101,163
Accumulated depreciation	(562)	(27,454)	(21,416)	(7,663)	0	(57,095)
Carrying amount	1,491	27,427	11,060	2,723	1,367	44,068

Finance leases

Property, plant and equipment include the following items, held under finance leases:

In thousands of euros	31 Dec. 2007	31 Dec. 2006
Land		
Gross value	101	101
Carrying amount	101	101
Buildings		
Gross value	10,027	10,027
Accumulated depreciation	(9,185)	(9,100)
Carrying amount	842	927
Total		
Gross value	10,128	10,128
Accumulated depreciation	(9,185)	(9,100)
Carrying amount	943	1,028

The amount committed for the acquisition of property, plant and equipment is indicated in Note 36.3.

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

In thousands of euros	Semuyng Vet	I.E.N	Other	Total
At 1 January 2006	300	23	12	335
Acquisitions	718	-	-	718
Reclassification as equity investments	(1,018)	-	-	(1,018)
Provision for impairment of financial assets	-	(23)	(8)	(31)
Foreign exchange gain (loss)	-	-	-	-
At 31 December 2006	0	0	4	4
Acquisitions	-	-	-	-
Disposals	-	-	(3)	(3)
Foreign exchange gain (loss)	-	-	-	-
At 31 December 2007	0	0	1	1

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

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

22. OTHER FINANCIAL ASSETS

In thousands of euros	Loans	Deposits & collateralised guarantees	Other	Total
At 31 December 2005	4	63	339	406
Acquisitions	0	4	94	98
Disposals	(1)	0	(163)	(164)
Foreign exchange gain (loss)	0	0	1	1
At 31 December 2006	3	67	270	340
Acquisitions	0	90	0	90
Disposals	0	0	(6)	(6)
Foreign exchange gain (loss)	0	0	2	2
At 31 December 2007	3	157	266	426

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

23. DERIVATIVE INSTRUMENTS

23.1. DERIVATIVE INSTRUMENTS

As mentioned in Note 2.15, the Group occasionally makes use of derivative instruments, and solely for the purpose of reducing the Group's exposure to currency risk or interest rate risk.
At 31 December 2007, the fair value of currency derivatives was 14 thousand euros (6 thousand euros in 2006), for a notional amount of 0.64 million euros (0.44 million euros in 2006). The longest maturity on the options was February 2008.
At 31 December 2007, Vétoquinol had no outstanding interest rate swaps. At 31 December 2006, the fair value of outstanding interest rate derivatives represented less than 10 thousand euros, for hedged floating rate debt with a notional amount of 1.4 million euros and a face value of 3 million euros.

In thousands of euros	31 Dec. 2007			31 Dec. 2006		
	Face value	Positive fair value	Negative fair value	Face value	Positive fair value	Negative fair value
Forward currency contract	638	14	-	441	-	4
Over-the-counter currency options	-	-	-	-	-	-
Currency derivatives	638	14	-	441	-	4
Interest rate swaps	-	-	-	3,000	2	-
Interest rate options	-	-	-	-	-	-
Interest rate derivatives	-	-	-	3,000	2	-

24. INVENTORIES

Analysis of inventories by type

In thousands of euros	31 Dec. 2007			31 Dec. 2006		
	Gross value	Impairment	Carrying amount	Gross value	Impairment	Carrying amount
Raw materials & consumables	12,547	(810)	11,737	10,175	(833)	9,342
Other supplies	0	0	0	0	0	0
Work-in-process	2,737	(166)	2,570	1,842	(60)	1,782
Semi-finished and finished goods	17,812	(500)	17,312	19,495	(671)	18,824
Goods purchased for resale	7,790	(102)	7,688	6,620	(207)	6,413
Total	40,886	(1,578)	39,308	38,132	(1,771)	36,362

Analysis of inventory impairment

In thousands of euros	31 Dec. 2006	Additions	Recoveries/ reversals	Translation adjustment	31 Dec. 2007
Raw materials & consumables	833	133	(163)	7	810
Work-in-process	60	135	(33)	4	166
Semi-finished and finished goods	671	32	(216)	13	500
Goods purchased for resale	207	5	(94)	(16)	102
Total	1,771	304	(506)	9	1,578

25. TRADE RECEIVABLES AND RELATED ACCOUNTS

In thousands of euros	31 Dec. 2007	31 Dec. 2006
Trade receivables	43,475	43,221
Impairment of trade receivables	(1,129)	(1,776)
Net trade receivables	42,346	41,445
Prepayments	601	445
Prepaid expenses	801	1,248
Receivable from government agencies	2,537	1,869
Other operating receivables	212	1,824
Miscellaneous receivables	713	339
Provisions	(11)	(12)
Other debtors	4,853	5,714
Total trade receivables and related accounts	47,199	47,159

All net trade receivables mature in less than one year.

26. CASH AND CASH EQUIVALENTS

In thousands of euros	31 Dec. 2007	31 Dec. 2006
Marketable securities	17,458	961
Cash	22,878	20,757
Total cash and cash equivalents	40,336	21,719

The total cash indicated in the cash flow statement included:

In thousands of euros	31 Dec. 2007	31 Dec. 2006
Total cash and cash equivalents	40,336	21,719
Bank overdrafts (Note 28)	(4,030)	(6,515)
Total	36,307	15,204

27. SHARE CAPITAL AND SHARE PREMIUM

In thousands of euros	Number of shares	Common shares	A & B shares	Share premium	Total
At 31 December 2005	959,752	21,048	2,946	20,865	44,859
10 for 1 stock split	9,597,520	-	-	-	-
Stock option plan - options exercised	23,460	59	-	53	111
Stock warrants exercised	942,840	2,357	-	0	2,357
Cancellation of A&B shares following the IPO	-	2,946	(2,946)	-	0
IPO - capital increase	476,190	1,190	-	8,810	10,000
IPO – full exercise of over-allotment option	157,895	395	-	2,921	3,316
Capital increase reserved for employees	80,827	202	-	1,156	1,358
IPO costs, net of taxes	-	-	-	1,238	1,238
At 31 December 2006	11,278,732	28,197	0	32,566	60,763
Stock option plan - options exercised	11,600	29	-	28	57
At 31 December 2007	11,290,332	28,226	0	32,594	60,820

At 31 December 2007, the 28,225,830 euros in share capital was composed of 11,290,332 shares, each with a par value of 2.5 euros. At 31 December 2006, share capital was composed of 11,278,732 shares, each with a par value of 2.5 euros.

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

In 2007, a capital increase of 11,600 shares was recognised subsequent to the exercise of certain stock options.

27.1. LIQUIDITY AGREEMENT – TREASURY STOCK

At their Ordinary and Extraordinary General Meeting held on 9 October 2006, the shareholders passed the third resolution, which authorises the Board of Directors to carry out a programme involving the buyback of the Company's own shares, in accordance with the terms and conditions of Articles L.225-209 et seq. of the French Commercial Code, European Regulation 2273/2003 dated 22 December 2003, and the General Regulations of the French Financial Markets Authority (*Autorité des Marchés Financiers*, or AMF).
The number of shares that the Company may acquire under the terms of the aforementioned share buyback programme may not exceed 10% of the shares comprising the share capital of the Company on 8 December 2006, the date of the Board's decision, after completion of the capital increase carried out in accordance with the relevant provisions of Article L.225-135-1 of the French Commercial Code, i.e. up to but no more than 1,119,790 shares.

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

The share buyback programme was authorised for a period of eighteen months, starting from the date of the combined Ordinary and Extraordinary General Meeting of shareholders that delivered this authorisation, which means that it will run through 9 April 2008.

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

As of 19 December 2006 and through 31 December 2007, and renewable thereafter automatically for successive periods of 12 months, Vétoquinol entrusted the implementation of a liquidity agreement in conformity with the AFEI's guidelines, which were approved by the AMF in a decision issued on 22 March 2005, to ODDO Corporate Finance.
In order to set this contract in place, 200,000 euros were allocated to a liquidity account. At 31 December 2007, Vétoquinol held 2,387 of its own shares under the terms of the liquidity agreement, which effectively started up in early January 2007.

27.2. BONUS SHARES

In its twelfth resolution, the Combined Extraordinary and Ordinary General Meeting of 9 October 2006 authorised the Board of Directors, for a period of at most 26 months, to grant bonus shares of the Company's stock, either already existing or to be issued, in one or more transactions, to employees of the Company and all related companies within the meaning of Article L.225-197-2 of the French Commercial Code, or to certain categories of employees, as well as to any corporate directors and officers, as legally defined.

On 4 June 2007, the Board of Directors voted unanimously that all bonus shares grants are to be carried out with existing shares that Vétoquinol shall have previously purchased in the market under the share buyback programme approved by the Annual General Meeting of shareholders in accordance with the provisions of Article L.225-209 of the French Commercial Code. The characteristics of the bonus share programme are as follows:

The bonus shares granted to all beneficiaries will become vested after a two-year vesting period starting on the day they are granted by the Board of Directors.

Each beneficiary will be the owner of any Vétoquinol shares granted him once said shares have been recorded in a special registered account that the beneficiary will open in the books kept by Vétoquinol's registrar. Beneficiaries shall be notified of this registration within thirty days.

Any beneficiary may sell or otherwise transfer his bonus shares only following a two-year lockup period starting on the day the shares become fully vested.
The Board of Directors decided to make the definitive granting of the bonus shares conditional upon the presence of the beneficiary within Vétoquinol or a related company, within the meaning of Article L 225-197-2 of the French Commercial Code, (said companies referred to below as the "Vétoquinol Group"), on the day the shares become definitively vested.

No beneficiary may receive the Vétoquinol shares he was granted if he holds more than 10% (ten percent) of the share capital of Vétoquinol at that date.

Moreover, the Vétoquinol bonus shares granted to any beneficiary must not bring that person's total shareholding to more than 10% of the share capital of Vétoquinol.

Under this program, 33,800 bonus shares have been granted to the employees, directors and officers of Vétoquinol. At 31 December 2007, only 33,000 of the 33,800 bonus shares originally granted remained, following departures from the Group.

27.3. STOCK OPTIONS

The Combined Extraordinary and Ordinary General Meeting of 9 October 2006 authorised the Board of Directors to grant options to purchase the Company's stock to all or some of the directors and officers referred to in Article L. 225-185 paragraph 4 of the French Commercial Code, or to members of the personnel of the Company and any related companies or groups within the meaning of Article L. 225-180 of the French Commercial Code.

On 4 June 2007, the Board of Directors voted unanimously to grant 33,800 Vétoquinol stock options, with the following characteristics:
The purchase price was set at 25.33 euros, corresponding to the average share price for the 20 trading days preceding the Board of Directors meeting, less a 5% discount. Beneficiaries must pay the Company 100% of the purchase price of the shares on the day the option is exercised.

The options may be exercised within a period of four years and six months. The options granted may be exercised after a two-year lockup period starting on the day the Board of Directors authorised the plan, i.e. 4 June 2007, in amounts that are not to exceed the following maxima and only during the periods indicated below:

- 50% between 15 September 2009 and 15 October 2009;
- 100% between 15 September 2010 and 15 October 2010.

The options may be exercised in full or in part, at any time between the fourth anniversary of the start of the plan and the date on which the plan expires, i.e. between 5 June 2011 and 5 December 2011. The options will expire at the end of this four year and six month period, i.e. on 6 December 2011.

The shares issued will provide their holders with full rights as of the first day of the financial year during which they were subscribed, as long as they were subscribed no later than 31 December of that year. They shall grant their holder the right to receive dividends starting only with the dividend paid in respect of the year during which the option was exercised. Except for that reserve, as soon as they are created they shall in all other respects be considered entirely indistinguishable from all pre-existing shares.

The shares purchased will be recorded in registered form in the name of the beneficiary. They may be freely sold or otherwise transferred following a four-year lockup period starting on the day the Board of Directors authorised the plan, i.e. 5 June 2011. Any shares obtained through the exercise of options starting 15 September 2009 will consequently be subject to a contractual lockup period lasting until the fourth anniversary of the creation of the plan, i.e. 5 June 2011 (no sale shall be possible).

27.4. TREASURY STOCK

On 30 November 2007, Vétoquinol purchased a block of 46,300 shares for 28.50 euros per share on Euronext to be used in connection with the stock option plans and bonus share grants authorised by the Board of Directors on 4 June 2007.

At 31 December 2007, Vétoquinol held 1,384,056.71 euros in treasury stock.

27.5. DISTRIBUTION OF DIVIDENDS

The Annual General Meeting of 4 June 2007 approved the payment of dividends in respect of 2006 totalling 2,594,108.36 euros, i.e. 0.23 euros per share (2006: 1,823,528.80 euros in respect of 2005, i.e. 1.90 euros per share).

At the time the dividend was paid, Vétoquinol held certain of its own shares: the dividends attributable to these shares were not paid, and were allocated to retained earnings. The total dividend paid amounted to 2,593,200 euros.

28. FINANCIAL LIABILITIES

Analysis of current and non-current financial liabilities:

In thousands of euros	31 Dec. 2007	31 Dec. 2006
Convertible bonds	27,170	25,378
Borrowings and other financial liabilities	5,127	4,299
Borrowings on finance leases (Note 14)	412	515
Total financial liabilities - non-current	32,709	30,192
Borrowings and other financial liabilities	2,621	5,686
Borrowings on finance leases (Note 14)	103	97
Bank overdrafts	4,030	6,515
Total financial liabilities - current	6,754	12,298
Total financial liabilities	39,463	42,490

Analysis of financial liabilities by maturity:

In thousands of euros	Total	< 1 year	1 - 5 years	> 5 years
At 31 December 2006				
Convertible bonds	25,378	0	25,378	0
Borrowings and other financial liabilities	9,985	5,686	4,299	0
Borrowings on finance leases	612	97	409	106
Bank overdrafts	6,515	6,515	0	0
Total financial liabilities	42,490	12,298	30,086	106
At 31 December 2007				
Convertible bonds	27,170	0	27,170	0
Borrowings and other financial liabilities	7,749	4,698	3,051	0
Borrowings on finance leases	515	103	344	68
Bank overdrafts	4,030	4,030	0	0
Total financial liabilities	39,463	8,830	30,565	68

Features of the convertible bond issue

At their Combined Extraordinary and Ordinary General Meeting of 27 February 2003, the shareholders of Vétoquinol SA approved a 19,999,993.50 euro bond issue, consisting of 117,855 bonds with a face value of 169.70 euros each and convertible into common shares of Vétoquinol SA with the following terms and conditions:

- **Issue in two tranches, currently held by Soparfin:**
  - Tranche A: 58,928 bonds,
  - Tranche B: 58,927 bonds.
- **Term of the bond:**
  - Tranche A: 7 years,
  - Tranche B: 8 years.
- **Interest: 4% p.a. the first year, 5% p.a. thereafter.**
- **Non-conversion premium:**

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

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

Following the 10-for-1 stock split approved by the Annual General Meeting of 7 July 2006, the conversion ratio is now one convertible bond for 10 Vétoquinol SA shares.

The value of the convertible bonds recorded on the balance sheet excludes 180 thousand euros that are classified in equity. The fair value of the financial expense recognised in 2007 was 1,792 thousand euros (1,614 thousand euros in 2006).

Analysis of financial liabilities by primary currency and by type of interest rate:

In thousands of euros	31 Dec. 2007	31 Dec. 2006
Fixed rate	0	0
Floating rate	2,076	3,927
CAD	2,076	3,927
Fixed rate on bonds	27,170	25,378
Fixed rate & variable swapped to fixed	2,551	3,777
Floating rate	3,636	2,893
EUR	33,357	32,048
Fixed rate	29,721	29,155
Floating rate	5,712	6,820
Total (all currencies)	35,433	35,975
Bank overdrafts	4,030	6,515
Total	39,463	42,490

Collateral given as guarantee

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

Of the loans still outstanding at year-end 31 December 2007, the Group has agreed to pledge mortgage assets held as collateral, upon first request of the bank, to guarantee all outstanding sums. At 31 December 2007, the outstanding balance was 1,200 thousand euros, from an initial commitment of 6,202 thousand euros and a remaining balance due of 1,800 thousand euros at 31 December 2006.

Lines of credit

At 31 December 2007, the Group had total open lines of bank credit in different currencies amounting to the equivalent of 25,754 thousand euros (24,860 thousand euros at 31 December 2006). These lines of credit were drawn down by 4,030 thousand euros at 31 December 2007 (6,515 thousand euros at 31 December 2006).

Liquidity risk

In the light of its available cash balances at 31 December 2007, the Group does not have any liquidity risk. The Group expects to incur a total of 3.6 million euros in interest expense in the coming years, including 2.832 million euros on the bond (excluding the non-conversion premium, as the bond is expected to be converted).

The Group's contractual cash flows include the notional amounts of its financial liabilities and the non-discounted value of its contractual interest payments.

In thousands of euros	Carrying amount	Contractual cash flows	Analysis of contractual cash flows		
			< 1 year	1 - 5 years	> 5 years
At 31 December 2007					
Convertible bonds	27,170	30,002	1,000	29,002	0
Borrowings and other financial liabilities	7,749	8,239	4,950	3,289	0
Borrowings on finance leases	515	789	146	508	136
Bank overdrafts	4,030	4,030	4,030	0	0
Trade payables	23,842	23,842	23,842	0	0
Payable to suppliers of non-current assets	902	902	902	0	0
Other operating liabilities	10,974	10,974	10,974	0	0
Total financial liabilities	75,180	78,777	45,843	32,798	136

29. PROVISIONS FOR EMPLOYEE BENEFITS

In thousands of euros	Note	31 Dec. 2007	31 Dec. 2006
Provision for termination benefits	29.1	2,219	2,527
Provision for long service medals	29.2	277	289
Provision for term savings account	-	223	169
Total	-	2,718	2,985

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

29.1. TERMINATION BENEFITS

A system of termination benefits has been set in place for Vétoquinol employees in France, Poland and Austria. In France, employees qualify for termination benefits under the national collective bargaining agreement for the production and sale of pharmaceutical, parapharmaceutical and veterinary products.

Analysis of changes in the liability:

In thousands of euros	2007	2006
Carrying amount at 1 January	2,527	2,344
Expenses through profit or loss	215	360
Actuarial gains (losses) recorded in equity	(275)	(97)
Paid contributions	(265)	(82)
Translation adjustments	16	2
New liabilities associated with the acquisition of new businesses	-	-
Carrying amount at 31 December	2,219	2,527

Amounts expensed during the period:

In thousands of euros	2007	2006
Cost of services rendered during the period	122	271
Financial cost	94	89
Past service cost	-	-
Total	215	360

Principal actuarial assumptions:

	2007	2006
Discount rate	[4.60%- 5.48%]	[4.60%-5.10%]
Rate of increase of salaries	[2.5% - 5%]	[2.5% - 5%]
Payroll taxes	45%	45%
Mortality table	TF-TH 2000-2002	TV 88/90
Turnover rate	Based on age range	

29.2. LONG SERVICE MEDALS

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

Analysis of changes in the liability:

In thousands of euros	2007	2006
Carrying amount at 1 January	289	267
Expenses through profit or loss	33	50
Actuarial (gains) losses recorded in equity	(44)	(12)
Paid contributions	(2)	(16)
Translation adjustments	-	-
New liabilities associated with the acquisition of new businesses	-	-
Carrying amount at 31 December	277	289

Amounts expensed during the period:

In thousands of euros	2007	2006
Cost of services rendered during the period	21	40
Financial cost	12	10
Actuarial gains (losses)	-	-
Total	33	50

Principal actuarial assumptions:

	2007	2006
Discount rate	5.48%	4.01%
Rate of increase of long service medals and bonuses	0.6% to 0.9%	0.6% to 0.9%
Payroll taxes	45%	45%
Mortality table	TF-TH 2000-2002	TV 88/90
Turnover rate	Based on age range	

29.3. OTHER EMPLOYEE BENEFITS

The Group also provisions for other employee benefits. Through 31 December 2007, these provisions concerned exclusively the employee term savings account.

In thousands of euros	2007	2006
Carrying amount at 1 January	169	85
Expenses through profit or loss*	54	84
Carrying amount at 31 December	223	169

* Of these liabilities, expenses through profit or loss are comprised entirely of the cost of services rendered

29.4. PENSION OBLIGATIONS

Defined benefits plans

The Group has no defined benefits plans.

Defined contribution plans

The expenses associated with the defined contribution plans are discussed in Note 10.

30. OTHER PROVISIONS

In thousands of euros	Provisions for litigation	Other provisions	Total
At 31 December 2006	561	257	815
Additional provisions and increases	706	5	711
Recoveries of amounts used	(487)	(249)	(735)
Reversals of amounts not used	0	0	0
Translation adjustments	0	0	0
At 31 December 2007	779	12	791

Of which:	31 Dec. 2007	31 Dec. 2006
Current	12	117
Non-current	779	698
Total	791	815

Provisions for litigation concern sales and labour-related disputes and claims. At 31 December 2007, the provisions for litigation included 779 thousand euros for breach of contract cases.

The 256 thousand euros in other provisions at 31 December 2006 included 194 thousand euros on the transfer of Equistro's business.

31. GOVERNMENT GRANTS

The Vétoquinol Group has received accountable advances from the government. At 31 December 2007, like the previous year, these advances included 402 thousand euros in advances received from ANVAR [the former French innovation agency].

The Vétoquinol Group also receives investment and operating grants, which are recorded in deferred income and taken into income each year (see Notes 32 and 12).

32. TRADE PAYABLES AND RELATED ACCOUNTS

In thousands of euros	31 Dec. 2007	31 Dec. 2006
Trade payables	23,842	20,732
Payable to suppliers of non-current assets	902	1,747
Tax and benefits liabilities	18,302	15,622
Other operating liabilities	10,974	10,355
Deferred income	281	309
Other miscellaneous liabilities	10	(2)
Amounts owed related parties	0	0
Total	54,311	48,764

33. ALL TRADE PAYABLES FALL DUE WITHIN ONE YEAR. ASSETS AND LIABILITIES BY ACCOUNTING CATEGORY– IAS 39

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

The fair value of financial liabilities other than derivatives is taken as the present value of all future cash flows generated by principal and interest payments, discounted at the market rate of interest at the balance sheet date. The market rate of interest on the debt component of the convertible bonds is calculated using the rates on similar liabilities with no conversion option.

It should be recalled that derivative instruments are not recognised due to their low fair value.

In thousands of euros - 2007	Assets / Liabilities at fair value through profit or loss	Assets/ Liabilities at amortised cost	Non-financial instru--ments *	Total carrying amount	Fair value
Other equity investments	-	1	-	1	1
Other non-current assets (loans and advances)	-	426	-	426	426
Trade receivables and related accounts	-	47,199	-	47,199	47,199
Cash and cash equivalents	-	40,336	-	40,336	40,381
Derivatives	-		-	0	14
Financial assets – 31 December 2007	0	87,961	0	87,961	88,020
Bonds	-	27,170	-	27,170	29,985
Short- and long-term borrowings and financial liabilities	-	11,778	515	12,293	12,247
Derivatives	-		-	0	0
Trade payables	-	23,842	-	23,842	23,842
Payable to suppliers of non-current assets	-	902	-	902	902
Other operating liabilities	-	10,974	-	10,974	10,974
Financial liabilities – 31 December 2007	0	74,665	515	75,180	77,949

In thousands of euros - 2006	Assets / liabilities at fair value through profit or loss	Assets/ Liabilities at amortised cost	Non-financial instru--ments *	Total carrying amount	Fair value
Other equity investments	-	4	-	4	4
Other non-current assets (loans and advances)	-	340	-	340	340
Trade receivables and related accounts	-	47,159	-	47,159	47,159
Cash and cash equivalents	-	21,719	-	21,719	21,719
Derivatives	-	-	-	0	0
Financial assets - 31 December 2006	0	69,222	0	69,222	69,222
Bonds	-	25,378	-	25,378	27,862
Short- and long-term borrowings and financial liabilities	-	16,500	612	17,112	17,023
Derivatives	-	0	-	0	2
Trade payables	-	20,732	-	20,732	20,732
Payable to suppliers of non-current assets	-	1,747	-	1,747	1,747
Other operating liabilities	-	10,355	-	10,355	10,355
Financial liabilities - 31 December 2006	0	74,712	612	75,324	77,722

*Non-financial instruments are comprised solely of finance leases.

34. DIVIDENDS PER SHARE

Total dividends paid in 2007 amounted to 2,594,108.36 euros (1,823,528.80 euros in 2006), i.e. 0.23 euros per share (1.9 euros per share in 2006).

At the next Annual General Meeting, which is to be held 19 May 2008, the Company’s shareholders will be asked to approve the payment of a dividend of 0.27 euros per share.

35. WORKFORCE

Workforce in 2007 by function and by geographical region	France	Rest of Western Europe	Eastern Europe	North America	Rest of world	Consolidated total
Sales & Marketing	94	124	71	93	6	388
Administration & Management	83	28	39	25	3	178
Production	159	0	123	53	0	335
Quality	67	1	49	30	1	148
Purchasing & Logistics	51	10	22	27	1	111
Research & Development	100	14	15	12	0	141
Total workforce - 2007	554	177	319	240	11	1,301
Total workforce - 2006	520	163	292	237	11	1,223

36. OFF-BALANCE SHEET COMMITMENTS

36.1. GUARANTEES GIVEN

In thousands of euros	31 Dec. 2007	31 Dec. 2006
Guarantees and deposits	291	103
Mortgages and collateral	18,502	18,161
Total	18,793	18,265

In Canada, the advances (described in Note 36.2) are guaranteed by a second lien in the amount of 25,000 thousand Canadian dollars at 31 December 2007, the equivalent of 17,302 thousand euros at the closing exchange rate (25,000 thousand Canadian dollars, i.e. 16,361 thousand euros at the closing rate in 2006), on all receivables, inventories and intellectual property in the possessions of Vétoquinol Canada and its parent, Vétoquinol SA.

36.2. GUARANTEES RECEIVED

In thousands of euros	31 Dec. 2007	31 Dec. 2006
Guarantees and deposits	7,783	5,689
Liability guarantees	7,911	8,831
Total	15,693	14,520

Société Générale provided a guarantee on 122 thousand euros in remaining finance lease payments at 31 December 2007 (122 thousand euros in 2006).

Soparfin also provided a guarantee for Vétoquinol SA on 910 thousand euros in loans contracted during 2006. At 31 December 2007, as the loans had been repaid, the guarantee was revoked.

In Canada, the Group obtained authorised bank advances for a maximum of 15,000 thousand Canadian dollars (10,381 thousand euros at the closing rate for 2007), on a consolidated basis, which may be used in the form of bank loans with interest set at the lending institution's preferential rate plus 0.375%, or in the form of a banker's acceptance, with interest at a floating benchmark rate determined by the lending institution plus 1.75%. On this line of credit, a total of 3,820 thousand Canadian dollars had been drawn down at 31 December 2007, i.e. 2,644 thousand euros (8,000 thousand Canadian dollars, i.e. 5,236 thousand euros at the closing rate for 2006).

In connection with the agreement to purchase the US assets of Vet Solutions, the sellers of Vet Solutions Management, Vet Solutions Inc, D. Schildgen, S. Dowling, M. Drew and K. Koch granted the usual liability guarantee on the assets sold to Vétoquinol USA. This guarantee is for 2 years as of 29 December 2006 (except for the environmental, labour and tax aspects) and may not be called if the callable amount under this guarantee is less than 200 thousand US dollars. The amount granted as compensation under this guarantee may not exceed 50% of the acquisition price, i.e. 11,500 thousand US dollars (7,812 thousand euros at the closing rate for 2007).

In connection with the acquisition of the shares of the South Korean company Semyung Vet, the former shareholders granted Vétoquinol a liability guarantee counter-guaranteed by a first demand bank guarantee for 35 thousand euros, for Mr. Joe (bank guarantee expires on 14 January 2008), and for 79,000 thousand Korean won for the group of shareholders (bank guarantee expires on 30 March 2008), i.e. 57 thousand euros at the closing rate for 2007.

36.3. COMMITMENTS RELATED TO INVESTMENTS IN NON-CURRENT ASSETS

At the balance sheet date, Vétoquinol had contracted the following investments in non-current assets that had not yet been recorded in the financial statements:

In thousands of euros	31 Dec. 2007	31 Dec. 2006
Intangible assets	0	26
Property, plant and equipment	749	1,868
Total	749	1,895

36.4. COMMITMENTS RELATED TO OPERATING LEASES

Operating lease-related commitments are discussed in Note 14.

37. CONTINGENT ASSETS AND LIABILITIES

Vétoquinol is plaintiff in a commercial dispute related to the breach of a distribution agreement. The initial claim was for 968 thousand euros. In a decision dated 8 February 2007, the commercial court found in favour of Vétoquinol, in the amount of 232 thousand euros. Vétoquinol's had sought to obtain a 690 thousand euro customer indemnity, but this was denied. Vétoquinol was, however, requested to assume 43 thousand euros in costs for the salaries of the sales representatives. The defendant appealed the judgement on 19 October 2007.

Vétoquinol is defendant in a commercial dispute related to the breach of a distribution contract. No provision for the contingent liability had been set aside at 31 December 2006 because the potential obligation was not substantial and could not be assessed with a sufficient degree of reliability. The court found in favour of Vétoquinol in 2007, and the Company will not be required to indemnify the plaintiff.

At 31 December 2006, Vétoquinol had been sued been sued for the alleged breach of a distribution understanding pertaining to certain of its products, with the plaintiff seeking damages of 410 thousand euros. Management was not in a position to evaluate the outcome of this legal dispute and accordingly deemed that the contingent liability was indeterminable. As a result, no provision was recognised in the financial statements. In 2007, a judgement was handed down and the plaintiff was awarded 34 thousand euros.

38. INFORMATION PERTAINING TO RELATED PARTIES

38.1. COMPENSATION PAID TO KEY EXECUTIVE PERSONNEL

In euros	2007	2006
Short-term benefits	1,036,867	922,239
Post-employment benefits	0	0
Total	1,036,867	922,239

The key executives of the Vétoquinol Group are: Etienne Frechin (Chairman and CEO), Dominique Henryon (COO), Bernard Boisramé (SEVP – Chief Pharmacist) and Matthieu Frechin (SEVP - Strategy and New Business Development).

38.2. TRANSACTIONS WITH RELATED PARTIES

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

On 15 September 2006, under the terms of an agreement between the shareholders of the Company dated 3 August 2006, Soparfin acquired 58,928 stock warrants from the shareholders 3i solutions, BNP Paribas Développement and Middle Markets Funds II. All of the stock warrants were exercised on 15 September 2006.

39. SUBSEQUENT EVENTS

On 15 January 2008, Vétoquinol acquired 34% of the capital of Viavet Scandinavia AB, our distributor in Sweden, Denmark and Norway. On 1 July 2008, we will increase our holding to 100%.

40. GROUP COMPANIES

Companies	Registered office	% held at 31 Dec. 2007	% held at 31 Dec. 2006
Vétoquinol SA	Magny-Vernois B.P. 189 – Lure Cedex - France	100.00%	100.00%
Vétoquinol N.-A. Inc	200 Chemin Georges – Lavaltrie – Quebec 50K 1H0 – Canada	100.00%	100.00%
Vétoquinol Prolab	700 Rue St Henri - Princeville G6L4X1 – Canada	100.00%	100.00%
Vétoquinol Canada Ltee	200 Chemin Georges –Lavaltrie– Quebec 50K 1H0 - Canada	100.00%	100.00%
Vétoquinol USA Inc.	101 Lincoln Drive – Buena – New Jersey 08310–0687 – USA	100.00%	100.00%
Vétoquinol de Mexico S.A. de C.V	Lopez Cotilla 744 - Col. Del Valle – Mexico City 03100, D.F. – Mexico	100.00%	100.00%
Vétoquinol Spain	Parque Empresarial San Fernando Edificio Italia - 28830 San Fernando de Henares – Spain	100.00%	100.00%
Vétoquinol Unipessoal LDA	Rua Consiglieri Pedroso - no.123 - Building H – Queluz de Baixo - 2730-056 Barcarena – Portugal	100.00%	-
Vétoquinol UK	Great Slade - Buckingham Industrial Park – Buckingham MK18,1PA - UK	100.00%	100.00%
Vétoquinol Ireland	Unit 7 – Boranmore Business Park - Co.Galway - Ireland	100.00%	100.00%
Vétoquinol NV (Belgium)	Kontichsesteenweg 42 - 263 Aartselaar - Belgium	99.00%	99.00%
Vétoquinol BV (Netherlands)	Kontichsesteenweg 42 - 263 Aartselaar - Belgium	100.00%	100.00%
Vétoquinol International	31 Rue des Jeûneurs – 75002 Paris - France	100.00%	-
Frefin GmbH	Parkstrasse 10 - 88212 Ravensburg – Germany	100.00%	100.00%
Vétoquinol GmbH	Parkstrasse 10 - 88212 Ravensburg – Germany	100.00%	100.00%
Chassot GmbH	Parkstrasse 10 - 88212 Ravensburg – Germany	100.00%	100.00%
Equistro Pharma	Year der Alten Ziegelei 18 – 48157 Munster – Germany	-	100.00%
Vétoquinol Biowet Poland	UL. Kosynierow Gdnyskich 13/14 – 66-400 Gorzow WKLP – Poland	100.00%	100.00%
Vétoquinol Biowet Ukraine	U I Rogaliewa 18 – Dniepropietrovsk – Ukraine	100.00%	95.00%
Chassot UK	Cougar Lane Naul - Co Dublin - Ireland	100.00%	100.00%
VETCO Ireland	Cougar Lane Naul - Co Dublin - Ireland	100.00%	100.00%
Vétoquinol AG Switzerland	Aemmenmattstrasse 2 - 3123 BELP Bern – Switzerland	100.00%	100.00%
Vétoquinol Czech Republic	Zamenicka 411 - 28802 Nymburk – Czech Republic	100.00%	100.00%
Vétoquinol Austria	Zehetnergasse 24 - A 11-40 Vienna – Austria	100.00%	100.00%
Semyung Vétoquinol South Korea	909-3, Whajung-dong Dukyang-Ku – Koyang-City Kyungki -DO – South Korea	100.00%	100.00%

Independent Auditors' report on the consolidated financial statements

(Year ended 31 December 2007)

To the Shareholders:

In compliance with the assignment entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of Vétoquinol S.A. for the year ended December 31, 2007.

The consolidated financial statements were approved by your Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

1. Opinion on the consolidated financial statements

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

In our opinion, the consolidated financial statements for fiscal year 2007 give a true and fair view of the assets, liabilities, financial position and results of the consolidated group of persons and entities in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union.

2. Basis of our opinion

In accordance with the provisions of Article L.823-9 of the French Commercial Code regarding the basis of our opinion, we draw your attention to the following items:

- The carrying amounts of goodwill and assets with indeterminate useful lives are tested for impairment at each balance sheet date, and the Company assesses whether there is an indication that its non-current assets have experienced a loss of value, using the methods described in Note 2.12 to the consolidated financial statements. We have examined the methods used to test for impairment as well as the cash flow forecasts and assumptions used, and have verified that Notes 2.12, 18 and 19 provide appropriate information.
- Note 2.8 sets forth the procedures for estimating the employer's retirement obligations and other related commitments. These commitments were evaluated by independent actuaries. Our work consisted of examining the data used, reviewing the calculations that were made and verifying that Notes 2.8 and 29 to the consolidated financial statements provide appropriate information.

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

3. Specific verifications

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

Paris La Défense and Neuilly-sur-Seine, 15 April 2008
The Independent Auditors

KPMG Audit A division of KPMG S.A.		PricewaterhouseCoopers Audit
Laurent Hoffnung *Partner*	Catherine Porta *Partner*	Xavier Aubry *Partner*

ANNEX 2 - CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

A. CONSOLIDATED INCOME STATEMENT FOR THE YEAR 2008

In thousands of euros	Notes	31/12/2008	31/12/2007
Revenues	**F.8**	**234,395**	**233,364**
Purchases consumed		-75,558	-77,333
Other purchases and external charges	F.10	-51,905	-52,520
Personnel costs	F.11	-68,348	-62,129
Taxes and duties		-3,890	-4,282
Depreciation, amortisation and impairment of non-current assets	F.20 / F.21	-10,289	-10,046
Provisions and write-backs		-588	1,328
Other operating income and expenses*	F.13	3,770	2,343
Operating profit from continuing operations		**27,587**	**30,725**
Other income and expenses	F.14	-	-1,107
Operating profit		**27,587**	**29,619**
Net finance costs	F.16	-2,941	-3,391
Other financial income and expenses	F.16	-194	-1,113
Pre-tax profit		**24,452**	**25,115**
Income taxes*	F.17	-5,882	-6,466
CONSOLIDATED NET PROFIT		**18,569**	**18,649**
Net profit – Attributable to parent company shareholders		18,564	18,642
Net profit – minority interests		5	7
Earnings per share (in euro)	F.18	1.64	1.65
Diluted earnings per share (in euro)	F.18	1.67	1.66

** Reclassification of Research Tax Credit (RTC) to "Other income and expenses" as of 2008 (2007 figures have been adjusted accordingly). (See section "General principles and accounting standards" in the notes).*

B. CONSOLIDATED BALANCE SHEET FOR THE YEAR 2008

In thousands of euros	Notes	31/12/2008	31/12/2007
ASSETS			
Goodwill	F.19	33,565	25,405
Other intangible assets	F.20	26,408	25,988
Tangible assets	F.21	42,553	44,068
Financial assets available for sale	F.22	0	1
Other financial assets	F.23	422	426
Deferred tax assets	F.17	6,511	5,246
Total non-current assets		**109,458**	**101,134**
Inventories	F.25	43,024	39,308
Trade receivables and related accounts*	F.26	54,546	48,739
Current income tax receivables	F.17	3,558	429
Cash and cash equivalents	F.27	25,845	40,336
Total current assets		**126,973**	**128,812**
TOTAL ASSETS		**236,431**	**229,946**
EQUITY			
Share capital and share premium	F.28	60,820	60,821
Reserves		57,645	48,382
Net profit for the period		18,564	18,642
Equity attributable to parent company shareholders		**137,028**	**127,845**
Minority interests		26	26
Total equity		**137,054**	**127,871**
LIABILITIES			
Non-current financial liabilities	F.29	30,233	32,709
Deferred tax liabilities	F.17	1,235	1,137
Provisions for employee benefits	F.30	3,900	2,718
Other current provisions	F.31	790	779
Accountable advances from government	F.32	482	402
Total non-current liabilities		**36,641**	**37,746**
Trade payables and related accounts	F.33	51,357	54,311
Current income taxes payable*	-	4,728	3,252
Current financial liabilities	F.29	6,534	6,754
Other current provisions	F.31	118	12
Total current liabilities		**62,736**	**64,328**
Total liabilities		**99,377**	**102,074**
TOTAL EQUITY AND LIABILITIES		**236,431**	**229,946**

** Reclassification of Research Tax Credit (RTC) to "Trade receivables and related accounts" as of 2008 (2007 figures have been adjusted accordingly). (See section "General principles and accounting standards" in the notes).*

C. CASH FLOW STATEMENT FOR THE YEAR 2008

In thousands of euros	Notes	31/12/2008	31/12/2007
Consolidated net profit		**18,569**	**18,649**
Elimination of non-cash items			
Depreciation, amortisation and impairment		10,404	10,042
Badwill		0	0
Income taxes*		5,882	6,466
Interest expense		3,468	3,496
Provisions for employee benefits		119	105
Impairment of financial assets available for sale		0	0
Gains on disposals of assets (net of taxes)		-86	34
Other items with no impact on cash flow		-1	
Income and expenses in connection with the share-based payments		237	285
*Change in working capital requirements**		*-8,182*	*3,329*
Operating cash flow		30,412	42,404
Income tax paid		-7,015	-3,474
Interest paid		-1,494	-1,715
Net operating cash flow		21,903	37,215
Purchase of intangible assets		-3,593	-1,588
Purchase of tangible assets		-5,274	-6,850
Purchase of assets available for sale			0
Purchase of other financial assets			-0
Income from sale of assets		68	160
Loan repayments / income from other financial assets		-67	-392
Acquisition of subsidiaries, net of cash required		-17,443	0
Net cash flow used by investments		-26,310	-8,670
Proceeds from capital increase		0	57
Net (purchase)/disposal of treasury stock		-906	-1,320
Issuance of borrowings and other financial liabilities		441	2,376
Repayment of financial liabilities		-6,085	-5,065
Dividends paid to parent company shareholders		-3,025	-2,593
Dividends paid to minority interests of integrated companies		-6	-5
Investment grants and accountable advances			
Other cash flows related to financing			
Net cash flow from/(used by) financing		-9,581	-6,549
Impact of changes in exchange rates		-1,094	-894
Net change in cash		-15,082	21,102
Cash and cash equivalents at beginning of period	F.27	36,307	15,204
Change in cash and cash equivalents		-15,082	21,102
CASH AND CASH EQUIVALENTS AT CLOSE OF PERIOD	**F.27**	**21,225**	**36,307**

** Reclassification of Research Tax Credit (RTC) to "Trade receivables and related accounts" as of 2008 (2007 figures have been adjusted accordingly). (See section "General principles and accounting standards" in the notes).*

D. STATEMENT OF CHANGE IN CONSOLIDATED EQUITY FOR THE YEAR 2008

In thousands of euros	Share capital and share premium (note 28)	Foreign currency translation reserve	Actuarial gains	Change in FV of AFS	Other reserves	Total reserves	Net profit for the period	Total equity - Group	Minority interests	Total equity
Balance at 31/12/2006	**60,763**	**2,884**	**-91**	**0**	**31,744**	**34,537**	**15,824**	**111,124**	**24**	**111,148**
Income and expenses for the period		-1,456	224			-1,232	18,642	17,410	7	17,417
Appropriation of net profit					15,824	15,824	-15,824	0		0
Treasury stock					-1,366	-1,366		-1,366		-1,366
Stock options exercised	57					0		57		
Dividends paid by the parent company					-2,593	-2,593		-2,593	-5	-2,598
Other & corrections of deferred taxes	0				3,214	3,214		3,214		3,214
Balance at 31/12/2007	**60,820**	**1,428**	**133**	**0**	**46,823**	**48,384**	**18,642**	**127,845**	**26**	**127,871**
Income and expenses for the period		-5,564	123			-5,440	18,564	13,124	5	13,129
Appropriation of net profit					18,642	18,642	-18,642	0		0
Treasury stock					-1,073	-1,073		-1,073		-1,073
Stock options exercised						0		0		
Dividends paid by the parent company					-3,025	-3,025		-3,025	-6	-3,030
Other & corrections of deferred taxes					157	157		157		157
BALANCE AT 31/12/2008	**60,820**	**-4,136**	**256**	**0**	**61,524**	**57,644**	**18,564**	**137,028**	**26**	**137,054**

E. CONSOLIDATED STATEMENT OF INCOME AND EXPENSES FOR THE YEAR 2008

In thousands of euros	31/12/2008	31/12/2007
Actuarial gains	171	318
Change in fair value of assets available for sale	0	0
Change in accounting method	0	0
Translation losses	-5,564	-1,456
Tax on items recognised directly in equity	-48	-95
S/Net profit recognised directly in equity	**-5,440**	**-1,232**
Net profit for the period	18,569	18,649
S/TOTAL INCOME AND EXPENSES FOR THE PERIOD	**13,129**	**17,417**
Of which:		
Parent company shareholders	13,124	17,410
Minority interests	5	7

F. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR 2008

F.1. General overview

Vétoquinol is an independent veterinary pharmaceutical labouratory founded in 1933, focusing on livestock and companion animals. Dedicating exclusively to animal health, this family-owned business is the world's 11th largest labouratory, generating more than 78% of its revenues internationally.

Its operations range from research to the production and marketing of pharmaceuticals and dietary products. Focused on curing, Vétoquinol is an expert in three therapeutic domains: anti-infectives, pain-inflammation and cardiology-nephrology.

Currently the group distributes its products in one hundred countries in Europe, North America, and Asia through its subsidiaries in 22 countries and a network of 140 distribution partners. The company employees more than 1,400 people throughout the world.

The parent company, Vétoquinol, is a French joint-stock company (société anonyme) with registered offices in Magny Vernois, 34 rue du Chêne Saint Anne, 70204 Lure Cedex, France.

Vétoquinol S.A., the parent company, is a subsidiary of the company Soparfin.

The consolidated accounts of the Vétoquinol Group were approved by the Board of Directors on 13 March 2009. The accounts shall be submitted for approval by the next annual general meeting which will take place on 12 May 2009.

F.2. Other information

F.2.1 Financing

To finance its external growth, Vétoquinol signed a credit agreement with two banks in January of 2009 involving a medium-term loan of 25 million euros. The debt/equity ratio of the group amounts to less than 15%, after the disbursement for the Chinese acquisition. Significant maneuvering room for financing new operations will remain. This transaction is subject to financial covenant clauses (debt/equity ratio, profitability ratio) that Vétoquinol has committed to respecting.

F.2.2 Independent auditors' compensation

This information is not reported in the notes to Vétoquinol's consolidated accounts because it is reported in the management report.

F.2.3 Financial crisis

We have reviewed our valuation methods, our key assumptions, our risk exposure, and our main estimates regarding the international financial crisis for the entire Group, and it has not had a major impact on Vétoquinol's consolidated accounts and the Group's financial position.

F.3. Accounting principles

F.3.1 General principles and accounting standards

These consolidated financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of those standards published by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB, as adopted by the European Union on 31 December 2008.

These consolidated financial statements were prepared on a historical cost basis, except for financial assets available for sale, which are stated at fair value through equity, and for financial assets and liabilities stated at fair value through profit or loss (including derivatives).

In preparing these consolidated financial statements in accordance with IFRS, Group management was required to use basic accounting estimates described in note F.6.

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

With the aim of providing readers of these statements with better information, the company has, in certain cases, adopted in the 2008 financial statements a different classification from that of the previous year. For a meaningful comparison of the figures between financial years, the figures reported in the column for the 2007 period have been reclassified based on the options used for the 2008 period. These reclassifications are identified by (*) in the financial statements and they have no impact on net profit which remains unchanged in comparison with that of the previous year.

Hence, to conform more closely with international standards, in its 2008 financial statements the Group has reclassified the Research Tax Credit (RTC) previously under "Income taxes" to "Other operating income and expenses". This reclassification is identified by a (*) in the financial statements and it has no impact on net profit which remains unchanged. The RTC increased from 1.541 million euros in 2007 to 2.914 million euros in 2008.

Standards, interpretations, and amendments to standards already published but not yet in force:

The application of the following standards, interpretations, and amendments applicable to the 2008 financial year did not have an impact on the Group's consolidated accounts:

Amendment to IAS 39 and IFRS 7 on the reclassification of financial assets;
IFRIC 11, IFRS 2 – Treasury stock and intra-group transactions.

In addition, the Group decided not to apply in advance the standards, interpretations, and amendments approved by the European Union that are not yet in effect, in particular:

IFRS 8, "operating segments" (replacing IAS 14);
Amendment to IAS 23 "borrowing costs";
IFRIC 13 "Customer loyalty programs";

IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

Moreover, the Group does not apply the provisions of the following standards, interpretations and amendments that have not yet been approved by the European Union, concerning (among others):
IFRIC 12 "Service concession arrangements";
IFRIC 15 "Agreements for the Construction of Real Estate";
IFRIC 16 "Hedges of a Net Investment in a Foreign Operation";
IFRIC 17 "Distributions of Non-Cash Assets to Owners";
Amendment to IAS 27 "Consolidated and Separate Financial Statements";
Amendment to IFRS 3 "Business Combinations".

F.3.2 Consolidation and business combinations

Scope of consolidation

The consolidated accounts include those of Vétoquinol S.A. and its subsidiaries in which the company has, directly or indirectly, majority voting rights. Together, they form the Vétoquinol Group.

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

A company is included in the scope of consolidation as of the date on which the Group acquires effective control of it, and deconsolidated as of the date on which that effective control ceases.

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is equal to the aggregate of the fair value of the assets given, the liabilities incurred or assumed and the equity instruments issued by the acquirer at the acquisition date, plus any costs directly attributable to the business combination. The identifiable assets acquired, and the identifiable liabilities and contingent liabilities assumed in a business combination are initially recognised at their fair value at the acquisition date, whatever the proportion held by minority interests. The excess of the acquisition cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised as goodwill (F.19). Conversely, if the share of assets, liabilities and contingent liabilities at fair value exceeds the acquisition cost, the excess is recorded immediately in the income statement.

The interests of minority shareholders are presented in the balance sheet as a category of equity. Their share of consolidated net profit is presented separately in the income statement.

All intra-Group balances and transactions, including gains and losses, as well as dividends, are eliminated on consolidation. The Group is composed solely of Vétoquinol S.A. and its subsidiaries. It has no joint-ventures or associates.

The scope of Group companies is presented in note F.41 "Group companies".

F.3.3 Business combinations

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

The acquisition cost is equal to the aggregate of the fair value of the assets given, the liabilities incurred or assumed and the equity instruments issued by the acquirer at the acquisition date, plus any costs directly attributable to the business combination. If the business combination agreement calls for an adjustment in the acquisition price depending on future events, the Group includes the amount of this adjustment in the cost of the business combination at the acquisition date if this adjustment is probable and can be reliably measured.

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

F.3.4 Foreign currency translation

Functional currency and presentation currency

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

Contingent assets and liabilities

At the Group companies, transactions in foreign currencies are converted into the functional currency at the exchange rate prevailing at the moment that they are executed. Foreign currency monetary items are translated on the balance sheet at closing exchange rates.
Non-monetary items denominated in foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction, whereas those measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Any resulting unrealised translation gains or losses are recognised through profit or loss, except for:
- unrealised gains or losses recognised directly in equity, whose exchange component is recognised in equity, and
- unrealised gains or losses that result from translation of a net investment in a subsidiary, which are recognised in equity and subsequently in the income statement on disposal of the entity.

Translation of the financial statements of Group companies

The financial statements of Group companies denominated in functional currencies (excluding currencies of hyperinflationary economies) other than the presentation currency are translated into the presentation currency as follows:
- assets and liabilities are translated at the closing for each balance sheet at the date of that balance sheet;
- income and expenses are translated at the average yearly rate or at the exchange rate in force at the date of transaction in the case of significant transactions;
- all resulting exchange differences are recognised as a separate component of equity.

On the disposal of a foreign operation, the cumulative translation adjustments originally recorded in equity are recognised through profit or loss under gains or losses on disposal, except for those translation adjustments recognised prior to 1 January 2004 and charged against consolidated reserves as part of the changeover of Group accounting to IFRS.

F.3.5 Revenue recognition

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

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

Revenue arising from the sale of goods is recognised when all of the following criteria have been satisfied:
- the Company has transferred to the buyer the significant risks and rewards of ownership;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- it is probable that the economic benefits associated with the transaction will flow to the Company;
- the costs incurred or to be incurred with respect to the transaction can be measured reliably.

F.3.6 Segment reporting

The Group's primary and only segment reporting format is by geographical region.

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

The Group's worldwide organisational structure is divided into five regions determined by where Group assets and operations are located:
- France
- Rest of Western Europe
- Eastern Europe
- North America
- Rest of World

Although the Group also has two business segments, companion animals and productive livestock, they cannot be deemed to form a secondary reportable segment for the following reasons:
- nature of the products: most of the therapeutic segments are common to both companion animals and productive livestock (e.g. antibiotics, anti-parasitics, etc.);
- the same production lines are used for both segments and there is no significant differentiation in terms of sourcing;
- the only distinction is between the ethical sector (veterinarians) and the OTC market (general public);
- distribution channels: the main distribution channels depend more heavily on the country than on the business segment. In some cases, the same sales forces may be used for both business segments;
- regulatory environment: exactly the same bodies are responsible for marketing authorisation in both segments.

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

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

F.3.7 Earnings per share

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

The calculation of net diluted earnings per share includes share equivalents with a potentially dilutive effect but excludes those share equivalents that do not have a potentially dilutive effect. The figures for diluted earnings per share are based on the assumption that maximum dilution will occur. This assumption makes it possible to calculate the maximum difference in relation to basic earnings per share that would be obtained if all dilutive instruments were exercised, without expressing an opinion on the likelihood of dilution.

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

F.3.8 Employee benefits

Pension and other post-employment benefit obligations

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

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

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

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

Actuarial gains and losses arising on adjustments due to revised actuarial assumptions and to experience are recognised directly in equity in the consolidated statement of income and expenses for the period in which they occur.

Share-based payment

Five stock option plans have been available to employees since June 1999. Vétoquinol is under no obligation to buy back its own shares.

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

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

A bonus shares allocation plan has been put in place (see Note F.28.2).

F.3.9 Leases

Operating leases

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

Finance leases

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

F.3.10 Intangible assets

Goodwill

Goodwill represents the excess of the cost of acquiring a subsidiary over the Group's interest in the net fair value of the subsidiary's identifiable net assets at the acquisition date. Under IAS 36, goodwill is allocated to cash-generating units for purposes of impairment testing described in note F.3.12. Goodwill is tested annually for impairment and recognised at cost, less any accumulated impairment losses. Impairment losses may not be reversed.

Research & development costs

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

In contrast, costs related to licence and distribution rights for drugs, processes and information of a scientific nature are recognised on the balance sheet as intangible assets. Such sums are typically paid in the starting phase and in the course of a research project, until marketing authorisation has been obtained. Those amounts are amortised over periods ranging from five to 12 years.

Other intangible assets

Intangible assets are stated in the balance sheet at historical cost and systematically amortised over their estimated useful lives, except for the Equistro trademark, which has an indefinite useful life; an impairment test is conducted annually to determine whether the assets should be written-down.

The same amortisation periods are used throughout the entire Group:

Categories	Method	Period
Licenses and patents	Straight-line	5-10 years
Software	Straight-line	1-5 years
Trademarks	Straight-line	7-10 years
Other	Straight-line	10 years

F.3.11 Tangible assets

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

Categories	Method	Period
Buildings	Straight-line	15-40 years
Fixtures	Straight-line	10-20 years
Production equipment	Straight-line	6 2/3-10 years
Vehicles	Straight-line	5 years
Office equipment	Straight-line	5 years
R&D equipment	Straight-line	5 years
Furniture	Straight-line	8-10 years
Other tangible assets	Straight-line	5 years

F.3.12 Impairment of assets

In accordance with the requirements set forth in IAS 36, assets with indefinite useful lives are not depreciable/amortisable assets and are tested for impairment if there are any doubts as to their recoverable amount owing to specific events or circumstances.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. To measure impairment, assets are grouped together in cash-generating units (CGUs), i.e. the smallest identifiable. The CGUs defined for Vétoquinol are based in the following countries: USA, Canada, France, UK, Belgium, Switzerland, Czech Republic, Austria, Poland, Ireland, Germany, Italy and Scandinavia. Non-financial assets (other than goodwill) that have incurred impairment losses are reviewed for possible reversal of those losses at each annual or interim closing. Impairment losses are first charged against goodwill. The balance is allocated to the assets of the CGU.

F.3.13 Financial assets available for sale

Financial assets available for sale chiefly include non-consolidated equity investments, which are measured in the balance sheet at fair value. Changes in fair value are recorded in equity. If an objective indication of a loss of value exists on a financial asset (notably a significant and long-term decrease in the value of the asset) then a provision for irreversible impairment is recognised through profit or loss. Changes in fair value recognised in equity are "recycled" to the income statement when the specific assets are derecognised or disposed off.

F.3.14 Other financial assets

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

F.3.15 Derivative instruments

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

The main currency hedge instruments used are the purchase of currency options or forward contracts on the British pound expiring in less than one year. To hedge interest rate exposure, the Group uses primarily vanilla swaps and caps.

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

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

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

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

Note F.24 below gives quantitative explanations of how these instruments are used.

F.3.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of work in progress and of finished goods in storage includes raw materials, direct labour and a proportion of variable and fixed production overheads based on normal operating capacity.

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

F.3.17 Trade receivables and related accounts

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

There is practically no credit risk on the trade receivables held by the Group. Any impairment provisions recorded concern essentially customers whose receivables are past due.

F.3.18 Cash and cash equivalents

Cash includes bank deposits, short-term investments and cash equivalents, and is measured at its amortised cost.

F.3.19 Financial liabilities

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

Borrowings are recognised initially at fair value, less any allocable transaction costs. They are subsequently stated at amortised cost using the effective interest method.

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

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

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

Interest is expensed as incurred.

F.3.20 Deferred taxes

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

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised.

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

F.3.21 Provisions

Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and the amount of the obligation can be reliably estimated.
Provisions for restructuring encompass lease termination penalties and termination benefits. Future operating losses are not provided for.

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

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

F.3.22 Non-current assets held for sale and discontinued operations

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

F.3.23 Government grants

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

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

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

F.3.24 Distribution of dividends

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

F.4. Financial risk management

Currency risk

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

Accordingly, its subsidiaries are not significantly exposed to currency risk. Foreign currency movements are centralised at the Vétoquinol S.A. level, and hedging instruments are put in place to offer protection against the risk. The term on these instruments is always less than one year, and at the year-end closing date, there are no outstanding hedges. For this reason, the provisions of IAS 39 pertaining to accounting for such instruments are not applicable to the financial statements for the years ended 31 December 2008 and 31 December 2007. Gains and losses on these instruments are recognised in net financial profit.

As described above, practically the only currency risk to which Vétoquinol is exposed by the operations of its subsidiaries is in the consolidated income statement. On the basis of the 2008 financial statements, and taking only the non-French subsidiaries, a 10% rise in the value of the euro against all other currencies would have lowered consolidated revenues by 11.0 million euros and consolidated operating profit by 1.1 million euros.

Currency risk of Vétoquinol S.A.:
Because of its sales in foreign currencies, Vétoquinol S.A. is exposed to currency risk between the date these sales are invoiced and the date payment is received.

Based on the pivot rates with which the budget was prepared and/or the exchange rates used for invoicing, forecasts of collections and actual or forecast exchange rates, Vétoquinol S.A. hedges either a portion or all of its inflows in foreign currencies using traditional bank products.

Foreign exchange gains or losses and the net result of hedging transactions are recognised in net financial profit. Group procedures do not authorise speculative transactions. Most of these transactions are entered into and closed during the year, over very short periods, and therefore there are no outstanding items on the balance sheet at the period ends (see Note F.24).

Analysis of Group's exposure to currency risk (IFRS 7), based on face values at 31 December 2007:

In thousands of euros	Euros	CAD	CHF	USD	GBP	ZPN	Other currencies	Total
31/12/2008								
Trade receivables and related accounts	29,634	5,531	648	6,518	2,403	2,133	1,424	48,290
Impairment of trade receivables	- 896	- 30	- 30	- 11	- 21	- 161	- 35	- 1,185
NET TRADE RECEIVABLES	28,738	5,500	618	6,507	2,382	1,972	1,388	47,106
Prepayments	206					5	13	223
Prepaid expenses	995	164	28	20		49	479	1,735
Receivables from government agencies	3,838	162	1			192	20	4,212
Other operating receivables	369		0		89		8	467
Miscellaneous receivables	471	24	33	43	7	181	52	811
Provisions							- 8	- 8
TOTAL OTHER RECEIVABLES	5,879	350	61	63	96	426	564	7,440
Trade payables and related accounts	38,344	4,682	755	3,400	2,021	1,689	466	51,357
NET TRADE PAYABLES AND RELATED ACCOUNTS	38,344	4,682	755	3,400	2,021	1,689	466	51,357
TOTAL GROSS BALANCE SHEET EXPOSURE	**- 3,727**	**1,169**	**- 77**	**3,171**	**457**	**709**	**1,486**	**3,189**

In thousands of euros	Euros	CAD	CHF	USD	GBP	ZPN	Other currencies	Total
31/12/2007								
Trade receivables and related accounts	22,577	7,426	493	6,359	2,413	3,203	1,004	43,475
Impairment of trade receivables	- 781	- 1	- 24	- 113	- 28	- 163	- 20	- 1,129
NET TRADE RECEIVABLES	21,797	7,425	470	6,246	2,385	3,040	984	42,346
Prepayments	593					6	3	601
Prepaid expenses	349	236	30	6	68	59	53	801
Receivables from government agencies*	2,426	228	26		1,198	190	9	4,077
Other operating receivables	200		1				11	212
Miscellaneous receivables	473	12	22		67	132	6	713
Provisions							- 11	- 11
TOTAL OTHER RECEIVABLES	4,041	477	79	6	1,332	387	71	6,393
Trade payables and related accounts	37,255	7,114	651	2,195	4,575	2,195	327	54,311
NET TRADE PAYABLES AND RELATED ACCOUNTS	37,255	7,114	651	2,195	4,575	2,195	327	54,311
TOTAL GROSS BALANCE SHEET EXPOSURE	**- 11,417**	**788**	**- 102**	**4,057**	**- 858**	**1,232**	**728**	**- 5,572**

** Reclassification of Research Tax Credit (RTC) to "Receivables from government agencies" as of 2008 (2007 figures have been adjusted accordingly).*

Interest rate risk

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

The Group's exposure to interest rate risk is very low, and basically only two lines on the balance sheet are concerned: financial liabilities and cash.

Over 86% of the Group's debt at 31 December 2008 (including bank overdraft facilities and convertible bonds) bore interest at a fixed rate (83% at 31 December 2007). Floating rate commitments represented a total of 0.4 million euros at 31 December 2008 (5.7 million euros at 31 December 2007). To hedge these floating rate commitments and optimize its financing costs, the Group may, as it has in the past, choose to enter into fixed-rate interest rate swaps.

At 31 December 2008, the Group had cash and cash equivalents of nearly 25.8 million euros (excluding bank facilities), including cash and around 8.38 million euros in money market unit trusts and mutual funds with major retail banks (17.5 million euros at 31 December 2007). The 15.1 million euros decrease in cash and cash equivalents is mostly due to the acquisitions of the companies Ascor Chimici and ViaVet Scandinavia AB.

The fall of the stock markets in 2008 did not cause any impairment of Vétoquinol's cash positions.

On the basis of the 2008 financial statements, a 100 basis point hike in interest rates would have lowered 2008 net profit by 72 thousand euros (in 2007, 73 thousand euros).

Liquidity risk

In the light of its financial position at 31 December 2008, the Group does not believe that it is exposed to any liquidity risk. At 31 December 2008, the Group's cash balances were largely sufficient to honour all of its short-term debt maturities. The Group had 10.9 million euros in net financial debt at 31 December 2008, compared with negative net financial debt of 0.9 million euros at 31 December 2007.

Each Group subsidiary is responsible for collection of its own trade receivables and cash balances. The Group Finance Department uses a cash forecast derived from the annual budget to provide continuous reporting of the cash movements of the subsidiaries, in order to establish the Group's net cash positions as precisely as possible and maintain the Group's ability to honour its financial commitments.

Credit risk

Credit risk is the risk of the Group's incurring a financial loss in the event that a customer or counter party on a financial instrument does not honour its contractual obligations. The only credit risk to which the Group is exposed is that of its trade receivables.

The Group's exposure to credit risk is impacted primarily by the individual characteristics of its customers. The Group markets its products in some 100 countries, through a proprietary network of 140 distributors.

In certain geographical regions, a certain concentration of wholesalers and/or central purchasing agencies, accompanied by a renegotiation of contracts, could result in a revision of the Group's margins. This risk, however, appears to be limited, as the Group is sufficiently large and diversified both geographically and by product to resist any such pressures. For example, the Group's largest wholesale distributor represented approximately 10.3% of consolidated total revenues in 2008.

Any customers who do not meet the Group's requirements in terms of solvency are allowed to conduct business with the Group only by paying in advance.

All sales of assets are covered by an ownership reserve clause that provides the Group with a guarantee in the event of default. The Group does not request any specific guarantee on its trade receivables and related accounts.

Insofar as its investments are concerned, the Group limits its exposure to credit risk by investing only in liquid or asset-backed securities. Given the types of money market unit trusts used, Group management does not expect any counter party to default.

At 31 December 2008, the carrying amount of the Group's financial assets represented a maximum exposure to credit risk of 97.5 million euros, up from 88 million euros at year-end 2007. The increase is attributable to the acquisition of Ascor.

F.5. Management of share capital

The Group's policy is to maintain a strong capital base, in order to preserve the confidence of Vétoquinol's investors and creditors and the market, and to support the future expansion of its operations. The Executive Committee monitors the number and diversity of the Group's shareholders, its return on equity and the dividends paid to holders of its common shares. The Group has committed to a pay–out of no more than 15% of the net profit for the year. The committee strives to maintain a balance between the higher return that would result from an increased use of debt and the benefits and security provided by a strong capital base. The Group seeks to attain a pre-tax return on capital employed (ROCE) of 23%; at 31 December 2008, the ROCE was 21.9%, compared with 22.8% in 2007. ROCE is calculated by dividing operating profit by operating assets. Operating assets are the sum of fixed assets (intangible assets, tangible assets, and other financial assets) plus inventories, trade and other receivables, minus trade payables and related accounts. The decrease in ROCE in 2008 is mainly due to the acquisition of our subsidiary in Italy in early December 2008, which increased operating assets, but only operating profit for the month of December was included in the income statement.

In comparison, the weighted average interest rate on interest-bearing borrowings (excluding the bond) ranged from 4.0% to 4.5% in 2008 (4.0% to 4.5% in 2007).

The Group occasionally purchases its own shares on the market. The amounts of these purchases depend on market prices. These shares are used primarily in connection with the stock option and bonus share programmes. The Executive Committee makes all purchase and sale decisions on a case by case basis. The Group does not have a formal share buyback programme.

During the fiscal year, the Group did not alter its capital management policy. Neither the Company nor its subsidiaries are subject to any external laws or regulations that impose specific external requirements with regard to their capital.

F.6. Information on judgements and estimates

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

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

The final amounts may be different from these estimates.

F.7. Business combinations in 2008

Two business combinations were formed in the 2008 financial year. There were no business combinations in 2007.

F.7.1 Business combination in 2008 – Acquisition of ViaVet Scandinavia AB

General overview and transaction description

Since 2 July 2008, Vétoquinol has had a new subsidiary in Sweden to cover the three Scandinavian countries – Sweden, Denmark, and Norway.

The acquisition took place in two stages: first, on 28 January, the Group increased its equity investment in ViaVet Scandinavia AB to around 34%.

Then, on 2 July 2008, the Group gained full ownership of this company, acquiring the remaining share capital.

The total acquisition price amounted to 1.34 million euros. The entire acquisition was self-financed.

In the light of the nature of this transaction, as additional information becomes available over the next twelve months starting from the date of acquisition, it may be necessary to revise some of the elements governing the allocation of the purchase price of ViaVet Scandinavia AB.

Calculation of goodwill in ViaVet Scandinavia AB

In thousands of euros	
Acquisition of Scandinavian shares 28 January 2008	396
Acquisition of Scandinavian shares 25 June 2008	945
Total value of Scandanivan shares	1,340
Fair value of assets and liabilities acquired	173
Goodwill	1,167

F.7.2 Business combination in 2008 – Acquisition of Ascor Chimici

General overview and transaction description

Effective on 1 December 2008, Vétoquinol acquired 100% of the business units of the company Ascor Chimici.

This acquisition allows Vétoquinol to significantly strengthen its position on the Italian market. We now have a solid base that will allow us to develop our market segments in Italy.

The company, founded in 1969, generated 21.4 million euros in revenues in 2007 and it employs 63 people. Located near Forli, including both the company headquarters and its production unit, Ascor Chimici manufactures and sells anti-biotics for pigs, cattle and poultry, and anti-biotic base pre-mixes.

In the light of the nature of this transaction, as additional information becomes available over the next twelve months starting from the date of acquisition, it may be necessary to revise some of the elements governing the allocation of the purchase price of Ascor Chimici.

Calculation of goodwill in Ascor Chimici

In thousands of euros	
Acquisition of Italian shares 28 November 2008	13,365
Total value of Italian shares	13,365
Fair value of assets and liabilities acquired	5,723
Goodwill	7,643

F.8. Segment reporting (primary segment – geographical regions)

In 2007 and 2008, all revenues came from the sale of veterinary products.

Segment earnings for 2008

In thousands of euros By location of assets	France	Rest of Western Europe	Eastern Europe	North America	Rest of World	Consolidated total
Revenues	104,181	86,102	31,723	75,656	1,136	298,798
Inter-segment revenues	-38,600	-784	-9,215	-15,804	0	-64,403
Total external revenues	65,581	85,318	22,508	59,852	1,136	234,395
Operating profit from continuing operations	8,480	12,988	3,150	2,950	19	27,587
Other operating income and expenses	0	0	0	0	0	0
Operating profit	8,480	12,988	3,150	2,950	19	27,587
Net financial expenses						-3,135
Pre-tax profit						24,452
Income taxes						-5,882
NET PROFIT						**18,569**

** Reclassification of Research Tax Credit (RTC) to "Operating profit from continuing operations"*

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

In thousands of euros By location of customers	France	Rest of Western Europe	Eastern Europe	North America	Rest of World	Consolidated total
Revenues	54,598	130,149	26,139	74,957	12,954	283,340
Inter-segment revenues	-3,098	-39,561	-3,503	-17,359	-882	-49,976
TOTAL EXTERNAL REVENUES	**51,500**	**90,588**	**22,636**	**57,598**	**12,072**	**234,395**

Segment earnings for 2007

In thousands of euros By location of assets	France	Rest of Western Europe	Eastern Europe	North America	Rest of World	Consolidated total
Revenues	103,481	82,068	30,856	76,387	1,582	294,374
Inter-segment revenues	-37,962	-711	-7,296	-15,041	0	-61,009
Total external revenues	65,519	81,357	23,560	61,346	1,582	233,364
Operating profit from continuing operations*	11,812	12,935	3,592	2,211	175	30,725
Other income and expenses	-1,107	0	0	0	0	-1,107
Operating profit*	10,706	12,935	3,592	2,211	175	29,619
Net financial expenses						-4,504
Pre-tax profit*						25,115
Income taxes*						-6,466
NET PROFIT						**18,649**

** Reclassification of Research Tax Credit (RTC) to "Operating profit from continuing operations"*

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

In thousands of euros By location of customers	France	Rest of Western Europe	Eastern Europe	North America	Rest of World	Consolidated total
Revenues	53,235	126,505	26,563	64,739	12,298	283,340
Inter-segment revenues	-2,456	-38,244	-3,183	-5,537	-557	-49,976
TOTAL EXTERNAL REVENUES	**50,779**	**88,261**	**23,381**	**59,202**	**11,741**	**233,364**

Analysis of other segment non-cash items included in profit or loss

In thousands of euros	France	Rest of Western Europe	Eastern Europe	North America	Rest of World	Consolidated total
31/12/2008						
Depreciation and amortisation	-5,807	-658	-1,364	-2,453	-8	-10,289
Provisions and write-backs	-565	54	-165	89	0	-588
Expenses on grants of stock options	-28					-28
Expenses on grants of bonus shares	-209					-209
31/12/2007						
Depreciation and amortisation	-5,500	-695	-1,261	-2,579	-11	-10,046
Provisions and write-backs	964	274	32	-4	62	1,328
Expenses on grants of stock options	-31					-31
Expenses on grants of bonus shares	-254					-254

No impairment was recorded directly to equity in 2007 or 2008.

Analysis of assets, liabilities and investments by segment

In thousands of euros	France	Rest of Western Europe	Eastern Europe	North America	Rest of World	Consolidated total
31/12/2008						
Assets	157,780	28,742	13,248	35,908	754	236,431
Liabilities	48,310	15,727	2,856	31,508	977	99,377
Acquisition of assets	3,835	518	765	3,962	2	9,082
Acquisition of assets attributable to business combinations	0	1,804	0	0	0	1,804
31/12/2007						
Assets	145,106	29,621	16,035	38,607	576	229,946
Liabilities	44,250	17,639	5,988	33,835	362	102,074
Acquisition of assets	4,936	954	806	888	0	7,584

F.9. Research & Development Costs

Research and development costs incurred and expensed in 2008 amounted to 16.8 million euros (7.2% of revenues), compared with 15.3 million euros in 2007 (6.6% of revenues).

F.10. Other purchases and external charges

In thousands of euros	31/12/2008	31/12/2007
General subcontracting	2,353	2,035
Lease and rental payments	5,124	4,316
Maintenance	2,796	2,869
Insurance	1,047	1,175
Analyses and research	1,521	1,328
Non-employee personnel	1,685	1,096
Fees and commissions paid to intermediaries	9,448	11,485
Advertising, publications, public relations	8,317	8,352
Transport of goods and group transportation of personnel	6,086	6,129
Business travel and entertainment	6,245	6,108
Postage and telecommunications expenses	1,388	1,295
Royalties on concessions, patents, licences, trademarks, etc.	4,071	4,416
Other external services	1,219	1,366
Miscellaneous	606	548
TOTAL	**51,905**	**52,520**

F.11. Personnel costs

In thousands of euros	31/12/2008	31/12/2007
RémWages and salaries	48,890	43,862
Payroll taxes (*)	18,435	17,328
Termination benefits	577	533
Employee benefits – cost of services rendered (Note F.30)	210	122
Post-employment benefits - actuarial gains and losses through profit or loss	0	0
Expenses on grants of stock options	28	31
Expenses on grants of bonus shares	209	254
TOTAL EMPLOYEE BENEFITS	**68,348**	**62,129**

(*) The cost of defined contribution pension plans is included in total payroll taxes.

F.12. Share-based payment

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

	Plan 4*	Plan 5
Date plan was opened	19-Sep-2003	4-June-2007
Exercise price	49.30	25.33
Expiration dates	18-March-2009	6-Dec-2011
OPTIONS OUTSTANDING AT 31/12/2008	**230**	**30,300**

** One stock option exercised grants the right to buy 10 shares*

Under each of these plans, the grant conditions are tied to the past performance of the beneficiaries. As the standard allows, the Group has opted not to apply IFRS 2 for plans paid in shares and granted before 7 November 2002 (Plans 1, 2 and 3). The application of IFRS 2 to Plan 4 would have no material impact on profit or loss, while Plan 5 added 31 thousand euros in expense.

Analysis of the number of options issued:

	2008		2007	
	Exercise price	Number of options	Exercise price	Number of options
At 1 January	25.49	32,830	49.30	1,440
Granted	-		25.33	33,800
Cancelled	-	2,300	-	1,250
Expired	N/A		N/A	
Expired	-		49.30	1,160
AT 31 DECEMBER	**25.49**	**30,530**	**25.49**	**32,830**

No options were exercised in 2008 (the weighted average price of stock options exercised in 2007 was 49.30 euros). The 1,160 options exercised in 2007 gave rise to the issue of 11,600 shares, each with a par value of 2.50 euros.

Prior to the initial public offering, the market for shares issued in connection with stock option plans was made by Soparfin at an agreed-upon price, the calculation of which was reviewed by the Independent Auditors each year. This price was 89.77 euros at 31 December 2005, for one share with a par value of 25 euros.

Insofar as the bonus shares allocation plan is concerned (see Note F.28.2), the application of IFRS 2 had an impact of 209 thousand euros (measured using the Black-Scholes model).

F.13. Other operating income and expenses

In thousands of euros	31/12/2008	31/12/2007
Operating grants	0	26
Investment grants transferred to net profit for the period	28	28
Transfer of charges	0	0
Net gain on disposals of assets	-22	-7
Research Tax Credit (RTC)*	2,913	1,541
Other income	1,452	1,335
Other expenses	-601	-579
TOTAL	**3,770**	**2,343**

(*) Reclassification of 2007 RTC

Analysis of other income:

In thousands of euros	31/12/2008	31/12/2007
Fees and royalties	19	53
Port fees rebilled to customers	260	391
Indemnities	139	60
Sale of marketing authorisations	0	100
Claim reimbursement	166	215
Other	867	516
TOTAL	**1,452**	**1,335**

F.14. Other income and expenses

In thousands of euros	31/12/2008	31/12/2007
Other operating income	0	0
Indemnities for breach of contract		-1,107
Other expenses	0	-1,107
TOTAL	**0**	**-1,107**

F.15. Leases

F.15.1 Finance leases – Lessee

The Group's only finance leases pertain to the leasing of buildings. The related leases contain clauses that call for adjustments to rent payable calculated on the basis of changes in the French cost of construction index.

The property, plant and equipment that pertain to finance leases are listed in Note F.21, and the corresponding financial liability is discussed in Note F.29.

Commitments on non-cancellable finance leases

In thousands of euros	31/12/2008	31/12/2007
Less than 1 year	126	124
1 to 5 years	304	386
More than 5 years	29	72
Minimum payments	458	582
Interest - Future finance charges	-48	-70
Present value of payments on finance leases	410	512
Less than 1 year	121	119
1 to 5 years	267	340
More than 5 years	22	54
TOTAL MINIMUM FUTURE PAYMENTS	**410**	**512**

F.15.2 Operating leases – Lessee

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

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

Commitments on non-cancellable operating leases

In thousands of euros	31/12/2008	31/12/2007
Less than 1 year	4,050	3,451
1 to 5 years	7,511	6,417
More than 5 years	557	1,160
Total minimum payments	12,117	11,029
Total minimum future subleasing revenues to be received	-	-

Operating lease expenses for the period

In thousands of euros	31/12/2008	31/12/2007
Minimum payments recognised	5,124	4,316
Conditional rents		
Subleasing revenues recognised	0	0

F.16. Net financial expenses

In thousands of euros	31/12/2008	31/12/2007
Interest income on cash and cash equivalents	130	150
Income on disposals of cash equivalents	523	102
Income on cash and cash equivalents	654	252
Interest expense on bond	-1,000	-1,000
Non-conversion premium	-1,989	-1,792
Interest expense on other borrowings and overdrafts	-585	-826
Interest expense on finance leases	-21	-25
Cost of gross debt	-3,595	-3,643
Net finance costs	-2,941	-3,391

In thousands of euros	31/12/2008	31/12/2007
Other financial income	331	264
Other financial expenses	-24	-50
Financial expenses on employee benefits	-119	-105
Foreign exchange gains	2,477	658
Foreign exchange losses	-2,858	-1,880
Other financial income and expenses	**-194**	**-1,113**

Net financial profit is attributable to assets and liabilities recognised at amortised cost.

F.17. Income taxes

In 2007 and 2008, the tax rate used to calculate deferred taxes for French companies was 34.43%.

Analysis of income tax expense:

In thousands of euros	31/12/2008	31/12/2007
Current tax expense*	-6,679	-8,024
Deferred tax income on temporary differences	796	1,558
TOTAL	**-5,882**	**-6,466**

(*) Reclassification of 2007 RTC

Reconciliation of theoretical tax at the statutory tax rate in France to the effective tax:

In thousands of euros	31/12/2008	31/12/2007
Consolidated net profit	**18,569**	**18,649**
Restatement of RTC*	2,913	1,541
Income taxes*	-5,882	-6,466
Pre-tax profit, RTC restated	**21,539**	**23,574**
Theoretical tax at 34.43% (2007: 34.43%)	**7,416**	**8,117**
Non-deductible expenses and non-taxable income	616	107
Impact of change in tax rate	-12	-4
Losses carried forward	-221	-462
Tax difference on foreign affiliates	-1,576	-1,358
Impact of reduced rate	-173	278
Tax credit*	-27	-57
Miscellaneous	-141	-155
Effective tax*	**5,882**	**6,466**
Effective tax rate*	**27.31%**	**27.43%**

(*) The restatement of 2007 RTC generated a change in the presentation of the above table.

Analysis of movements in deferred tax assets during the period:

In thousands of euros	31/12/2008	31/12/2007
At 1 January	**5,246**	**2,642**
Recognised through profit or loss	790	1,537
Recognised in equity	80	650
Changes in consolidation	283	
Reclassification	180	435
Translation adjustments	-69	-19
AT 31 DECEMBER	**6,511**	**5,246**

Analysis of movements in deferred tax liabilities during the period:

In thousands of euros	31/12/2008	31/12/2007
At 1 January	**1,137**	**2,746**
Recognised through profit or loss	-6	-21
Recognised in equity	-1	-2,035
Reclassification	180	435
Translation adjustments	-75	11
AT 31 DECEMBER	**1,235**	**1,137**

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

Analysis of net deferred taxes by type:

In thousands of euros	31/12/2008	31/12/2007
Non-conversion premium on the convertible bonds	3,153	2,469
Trademarks	-823	-726
Component-based approach (net)	-859	-949
Other temporary differences (net)	1,375	1,441
Internal margin on inventories	1,819	1,556
Internal capital gain on disposals of non-current assets	-2	-30
Restatement of finance leases	-67	-51
Employee benefits	695	667
Tax losses carried forward	620	391
Regulated provisions	-637	-658
Other (net)		
TOTAL	**5,276**	**4,109**
Of which: Deferred tax assets	6,511	5,246
Deferred tax liabilities	-1,235	-1,137

At 31 December 2008, there were no longer any tax losses carried forward not activated among deferred tax assets (450 thousand euros at 31 December 2007).

F.18. Earnings per share

Basic earnings per share

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

	31/12/2008	31/12/2007
Net profit attributable to holders of common shares (thousands of euros)	18,564	18,642
Weighted average number of common shares	11,290,332	11,280,552
BASIC EARNINGS PER SHARE (IN EUROS PER SHARE)	**1.64**	**1.65**

Diluted earnings per share

Diluted earnings per share are calculated by adjusting the net profit attributable to holders of common shares and the weighted average number of shares outstanding during the period for the impact of all common shares that have a potentially dilutive effect. Potentially dilutive instruments include notably stock options, stock warrants and bonds convertible into shares issued by Vétoquinol. Without taking a position on the probability of such dilution, determining the maximum degree of dilution reveals the maximum impact on earnings per share that would result if all potentially dilutive instruments were exercised.

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

	31/12/2008	31/12/2007
Net profit attributable to holders of common shares (thousands of euros)	18,564	18,642
Expenses on grants of stock options	28	31
Expenses on grants of bonus shares	209	254
Interest expense savings net of taxes (tax rate = 34.43%) on the convertible bonds issue	1,960	1,830
Profit used to calculate diluted profit (thousand euros)	**20,761**	**20,757**
Weighted average number of shares outstanding during the period	11,290,332	11,280,552
Treasury stock at the end of the period (direct holding)	(86,541)	(46,300)
Treasury stock at the end of the period (liquidity agreement)	(9,357)	(2,387)
Weighted average number of shares outstanding restated over the period	**11,194,434**	**11,231,865**
Potential dilutive effect:		
Dilutive effect of stock options	32,600	34,900
Dilutive effect of bonus share grants	29,800	33,000
Dilutive effect of convertible bonds	1,178,550	1,178,550
Potential dilutive effect of financial instruments outstanding	**1,240,950**	**1,246,450**
Number of shares including the potential dilutive effect	**12,435,384**	**12,478,315**
Diluted net profit per share (in euros per share)	**1.67**	**1.66**

F.19. Goodwill

In thousands of euros	31/12/2008	31/12/2007
At 1 January		
Net value	25,405	26,233
Carrying amount at beginning of period	**25,405**	**26,233**
Acquisitions	8,841	0
Impairment losses recognised through profit or loss	0	0
Translation adjustments, net	-681	-828
At 31 December		
Net value	33,565	25,405
Carrying amount at end of period	**33,565**	**25,405**

Impairment tests

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

The CGUs defined for the Vétoquinol Group consist of the following countries: USA, Canada, France, UK, Belgium, Switzerland, Czech Repulic, Austria, Poland, Ireland, Germany, Italy, and Scandinavia.

Analysis of goodwill allocated to the various CGUs:

In thousands of euros	31/12/2008	31/12/2007
Vétoquinol Biowet Poland	2,295	2,652
Chassot Gmbh Germany	1,705	1,705
Chassot UK	369	480
Vetco Ireland	421	421
Vétoquinol Switzerland	759	681
Vétoquinol Austria	772	772
Vétoquinol Czech Republic	894	903
Vétoquinol USA	10,969	10,370
Vétoquinol Belgium	500	500
Vétoquinol Italy	7,643	0
Vétoquinol Scandinavia	1,014	0
Vétoquinol Asia	33	0
Vétoquinol S.A. France	2,051	2,051
Vétoquinol Canada	4,140	4,870
TOTAL	**33,565**	**25,405**

All differences in value between the two years are attributable solely to translation adjustments on goodwill denominated in the foreign currencies of the subsidiaries acquired prior to 2008.

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

Cash flow forecasts were established over a period of five years, on the basis of budget projections for the following period, drawn up by Management on the basis of the following assumptions:
- revenue growth rate of 3% to 8%, depending on country;
- perpetual growth rate of 1.5% to 3%, depending on country;
- pre-tax discount rate of 9.6% in 2008 (8.6% in 2007).

On the basis of these tests, no impairment was recorded in 2007 or 2008 for goodwill, intangible assets or property, plant and equipment.

Depreciation testing of the North American region – which includes the Vétoquinol USA and Vétoquinol Canada CGUs and accounts for most of the Group's goodwill – was performed using the discounted cash flow method, with a 9.54% discount rate and a 3% perpetual growth rate.

Likewise an impairment test was conducted on the Equistro trademark, an intangible asset with an unlimited useful life, using a perpetual revenue growth rate of 1.5%.
Using this impairment test, no impairment was observed.

F.20. Intangible assets

In thousands of euros	Concessions, licenses and patents	Software	Trademarks	Other	Total
At 1 January 2007					
Gross value	10,893	9,022	8,863	14,106	42,884
Accumulated amortisation	-5,548	-5,082	0	-2,985	-13,615
Net value	**5,344**	**3,941**	**8,863**	**11,122**	**29,270**
Acquisitions	457	1,129	0	2	1,588
Disposals	0	0	0	-10	-10
Reclassifications	6	0	0	0	6
Amortisation	-969	-1,491	0	-1,291	-3,752
Translation adjustments, net	-49	16	0	-1,080	-1,113
At 31 December 2007					
Gross value	9,921	10,299	8,863	12,685	41,768
Accumulated amortisation	-5,132	-6,705	0	-3,942	-15,780
Net value	**4,788**	**3,594**	**8,863**	**8,743**	**25,988**
Acquisitions	690	1,164	0	1,919	3,773
Acquisitions of business combinations	282	0	53	0	335
Reclassifications	1	70	0	0	71
Amortisation	-1,123	-1,514	-1	-1,191	-3,829
Translation adjustments, net	-62	-147	0	279	70
At 31 December 2008					
Gross value	11,710	11,195	8,953	15,139	46,998
Accumulated amortisation	-7,134	-8,028	-38	-5,389	-20,590
Net value	**4,576**	**3,167**	**8,915**	**9,750**	**26,408**

Intangible fixed assets inlcude the Equistro trademark for 8.863 million euros, which has an indeterminate useful life and, as such, is not amortised.

The "other" column at 31 December 2008 primarily consists of the following items:
- the customer lists of Vet Solutions (USA) for 6.309 million euros;
- the customer lists of IGI (USA) for 1.609 million euros;
- ophthalmic products purchased for Vetcom (Canada) for 1.76 million euros (acquisition made in 2008).

F.21. Tangible assets

In thousands of euros	Land	Buildings	Plant and equipment	Other tangible assets	Tangible assets in progress, advances, and prepayments	Total
At 1 January 2007						
Gross value	1,979	51,185	30,836	10,654	1,591	96,244
Accumulated depreciation	-521	-24,355	-19,775	-7,611	0	-52,262
Carrying amount	1,459	26,830	11,060	3,043	1,591	43,983
Additions	29	2,185	1,275	689	1,819	5,997
Disposals	0	0	-46	-111	0	-157
Depreciation and amortisation	-41	-2,907	-2,242	-1,104	0	-6,294
Translation adjustments, net	34	276	180	23	33	546
Reclassifications	10	1,044	833	183	-2,076	-5
At 31 December 2007						
Gross value	2,053	54,882	32,476	10,386	1,367	101,163
Accumulated depreciation	-562	-27,454	-21,416	-7,663	0	-57,095
Carrying amount	1,491	27,427	11,060	2,723	1,367	44,068
Additions	41	686	2,360	711	1,510	5,309
Acquisitions of business combinations		411	972	86	0	1,469
Disposals	0	-57	-3	-29	0	-89
Depreciation and amortisation	-45	-2,965	-2,435	-1,014	0	-6,460
Translation adjustments, net	-80	-727	-510	-202	-137	-1,656
Reclassifications	0	257	823	90	-1,259	-89
At 31 December 2008						
Gross value	2,013	53,991	37,298	10,073	1,481	104,856
Accumulated depreciation	-607	-28,959	-25,031	-7,706	0	-62,303
Carrying amount	1,407	25,032	12,267	2,366	1,481	42,553

Finance leases

Tangible assets include the following items, held under finance leases:

In thousands of euros	31/12/2008	31/12/2007
Land		
Gross value	101	101
Carrying amount	101	101
Buildings		
Gross value	10,027	10,027
Accumulated depreciation	-9,271	-9,185
Carrying amount	756	842
Total		
Gross value	10,128	10,128
Accumulated depreciation	-9,271	-9,185
Carrying amount	857	943

The amount committed for the acquisition of tangible assets is listed in note F.37.3.

F.22. Financial assets available for sale

In thousands of euros	Biovet Canada	Semuyng Vet	I.E.N.	Other	Total
1 January 2007	0	0	0	4	4
Acquisitions					
Disposals				-3	-3
Foreign exchange gain (loss)					
31/12/2007	0	0	0	1	1
Acquisitions					
Disposals				-1	-1
Foreign exchange gain (loss)					
31/12/2008	0	0	0	0	0

F.23. Other financial assets

In thousands of euros	Loans	Deposits and collateralised guarantees	Other	Total
1 January 2007	3	67	270	340
Acquisitions		90		90
Disposals			-6	-6
Foreign exchange gain (loss)			2	2
31/12/2007	3	157	266	426
Acquisitions		79	27	106
Changes in consolidation		66		66
Disposals		-59	-108	-167
Foreign exchange gain (loss)			-9	-9
31/12/2008	3	243	176	422

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

F.24. Derivative instruments

24.1 Derivative instruments

As mentioned in note F.3.15, the Group occasionally makes use of derivative instruments, and solely for the purpose of reducing the Group's exposure to currency risk or interest rate risk.

At 31 December 2008, the Group had no derivatives. At 31 December 2007, the fair value of currency derivatives was 14 thousand euros, for a notional amount of 0.64 million euros. The longest maturity on the options was February 2008. As was the case a year earlier, at 31 December 2008, Vétoquinol had no outstanding interest rate swaps.

In thousands of euros	31/12/2008			31/12/2007		
	Face value	Positive fair value	Negative fair value	Face value	Positive fair value	Negative fair value
Forward currency contract	-	-	-	638	14	-
Over-the-counter currency options	-	-	-	-	-	-
Currency derivatives	-	-	-	638	14	-
Interest rate swaps	-	-	-	-	-	-
Interest rate options	-	-	-	-	-	-
Interest rate derivatives	-	-	-	-	-	-

F.25. Inventories

Analysis of inventories by type

In thousands of euros	31/12/2008			31/12/2007		
	Gross value	Impairment	Carrying amount	Gross value	Impairment	Carrying amount
Raw materials & consumables	13,306	-1,016	12,290	12,547	-810	11,737
Other supplies	0	0	0	0	0	0
Work-in-progress	3,022	-183	2,839	2,737	-166	2,570
Semi-finished and finished goods	20,219	-281	19,939	17,812	-500	17,312
Goods purchased for resale	8,079	-124	7,955	7,790	-102	7,688
TOTAL	**44,628**	**-1,604**	**43,024**	**40,886**	**-1,578**	**39,308**

Variation des dépréciations

In thousands of euros	31/12/2007	Additions	Reclassifications and change in consolidation	Write-backs	Translation adjustment	31/12/2008
Raw materials & consumables	810	205	77	-58	-18	1,016
Work-in-progress	166	109	60	-137	-16	183
Semi-finished and finished goods	500	99	-185	-103	-31	281
Goods purchased for resale	102	36	6	-23	4	124
TOTAL	**1,578**	**449**	**-41**	**-321**	**-61**	**1,604**

F.26. Trade receivables and related accounts

In thousands of euros	31/12/2008	31/12/2007
Trade receivables and related accounts	48,290	43,475
Impairment of trade receivables	-1,185	-1,129
Net trade receivables	47,106	42,346
Prepayments	223	601
Prepaid expenses	1,735	801
Receivable from government agencies*	4,212	4,077
Other operating receivables	467	212
Miscellaneous receivables	811	713
Provisions	-8	-11
Other receivables	7,440	6,393
TOTAL TRADE RECEIVABLES AND RELATED ACCOUNTS	**54,546**	**48,739**

(*) Reclassification of 2007 RTC

All trade receivables and related accounts are due in less than one year.

F.27. Cash and cash equivalents

In thousands of euros	31/12/2008	31/12/2007
Marketable securities	8,379	17,458
Marketable securities	17,466	22,878
TOTAL CASH AND CASH EQUIVALENTS	**25,845**	**40,336**

The total cash recognised in the cash flow statement includes:

In thousands of euros	31/12/2008	31/12/2007
Total cash and cash equivalents	25,845	40,336
Bank overdrafts (note F.29)	-4,620	-4,030
TOTAL	**21,225**	**36,307**

(*) Reclassification of 2007 RTC

F.28. Share capital and share premium

In thousands of euros	Number of shares	Common shares	A & B shares	Share premium	Total
At 31 December 2006	11,278,732	28,197	0	32,566	60,763
Stock option plan – options exercised	11,600	29		28	57
At 31 December 2007	11,290,332	28,226	0	32,594	60,820
Stock option plan – options exercised					0
At 31 December 2008	11,290,332	28,226	0	32,594	60,820

At 31 December 2008, the 28,225,830 euros in share capital consisted of 11,290,332 shares, each with a par value of 2.5 euros. There was no change compared to 31 December 2007. At the Extraordinary General Meeting of 7 July 2006 it was decided that as of this same date, double voting rights would be granted to all fully paid-up shares for which proof of registration in the name of one and the same shareholder for at least two years could be provided.

In 2007, a capital increase of 11,600 shares was recognised subsequent to the exercise of certain stock options.

F.28.1 Liquidity agreement – Treasury stock

On 19 May 2008, under the terms of its ninth resolution, the Company's Annual General Meeting of Shareholders authorised the Board of Directors to establish a programme to buy back the shares of the Company, in accordance with the provisions of the French Commercial Code Articles L.225-209 et seq., of EC regulation No. 2273/2003 dated 22 December 2003, and the General Regulation of the French Financial Markets Authority (Autorité des Marchés Financiers, or AMF). This resolution nullifies and replaces the authorisation previously granted under the seventh resolution of the Annual General Meeting of 4 June 2007. The number of shares that the Company may acquire under the terms of the share buyback programme may not at any time exceed 10% of the shares comprising the share capital of the Company.

The maximum unit purchase price for the shares is 42 euros, and the total amount authorised for these buybacks may not exceed 47 million euros.

The share buyback programme was authorised for a period of eighteen months, starting from the date of the combined Annual General Meeting that delivered this authorisation, which means that it will run through 19 November 2009.

Shares will be acquired under the buyback programme primarily:
- to stimulate trading in or the liquidity of the Company's shares within the framework of a liquidity agreement entered into with an independent investment services provider in compliance with the AFEI's guidelines that have been approved by the AMF,
- to purchase shares of stock and hold them for subsequent tender as exchange or consideration in connection with external growth transactions, as allowed by the AMF,
- to grant shares of stock to employees, directors and officers of the Company, notably under any stock option plan, bonus share programme or employer-sponsored employee savings plan programme set up in accordance with all applicable legislation,
- to grant shares of stock to holders of marketable securities granting access to the capital of the Company when they exercise the rights attached to these securities, in accordance with all applicable legislation.

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

In order to set this contract in place, 200,000 euros were allocated to a liquidity account in 2007, to which 50,000 euros were added. At 31 December 2007, Vétoquinol held 9,357 of its own shares under the terms of the liquidity agreement.

F.28.2 Granting of bonus shares

In its twelfth resolution, the Combined Extraordinary and Ordinary General Meeting of 9 October 2006 authorised the Board of Directors, for a period of at most 26 months, to grant bonus shares of the Company's stock, either already existing or to be issued, in one or more transactions, to employees of the Company and all related companies within the meaning of Article L.225-197-2 of the French Commercial Code, or to certain categories of employees, as well as to any corporate directors and officers, as legally defined.

On 4 June 2007, the Board of Directors voted unanimously that all bonus share grants are to be carried out with existing shares that Vétoquinol will have previously purchased in the market under the share buyback programme approved by the Annual General Meeting of shareholders in accordance with the provisions of Article L.225-209 of the French Commercial Code. The details of the bonus share programme are as follows:

The bonus shares granted to all beneficiaries will become vested after a two-year vesting period starting on the day they are granted by the Board of Directors.

Each beneficiary will be the owner of any Vétoquinol shares granted him once said shares have been recorded in a special registered account that the beneficiary will open in the books kept by Vétoquinol's registrar. Beneficiaries will be notified of this registration within thirty days.

Any beneficiary may sell or otherwise transfer his bonus shares only following a two-year lockup period starting on the day the shares become fully vested.

The Board of Directors decided to make the definitive granting of the bonus shares conditional upon the presence of the beneficiary within Vétoquinol or its subsidiaries.

No beneficiary may receive the Vétoquinol shares he was granted if he holds more than 10% (ten percent) of Vétoquinol share capital at that date.

The shares granted may not correspond to more than 0.3% of the company's capital on the day of the Board of Directors' decision.

Under this program, 33,800 bonus shares have been granted to Vétoquinol employees, directors and officers. At 31 December 2008, only 29,800 of the 33,800 bonus shares originally granted remained, following departures from the Group.

F.28.3 Stock options

The Combined Extraordinary and Ordinary General Meeting of 9 October 2006 authorised the Board of Directors to grant options to purchase the Company's stock to all or some of the directors and officers referred to in Article L. 225-185 paragraph 4 of the French Commercial Code, or to members of the personnel of the Company and any related companies or groups within the meaning of Article L. 225-180 of the French Commercial Code.

On 4 June 2007, the Board of Directors voted unanimously to grant 33,800 Vétoquinol stock options. The details are as follows.

The purchase price was set at 25.33 euros. This price corresponds to the average share price for the 20 trading days preceding the Board of Directors meeting, less a 5% discount. Beneficiaries must pay the Company 100% of the purchase price of the shares on the day the option is exercised.

The options may be exercised within a period of four years and six months. The options granted may be exercised after a two-year lockup period starting on the day the Board of Directors authorised the plan, i.e. 4 June 2007, in amounts that are not to exceed the following maxima and only during the periods listed below:
- 50% between 15 September 2009 and 15 October 2009;
- 100% between 15 September 2010 and 15 October 2010;

The options may be exercised, in full or in part, at any time between the fourth anniversary of the start of the plan and the date on which the plan expires, i.e. between 5 June 2011 and 5 December 2011. The options will expire at the end of this four year and six month period, i.e. on 6 December 2011.

The shares issued will provide their holders with full rights as of the first day of the financial year during which they were subscribed, as long as they were subscribed no later than 31 December of that year. They will grant their holder the right to receive dividends starting only with the dividend paid attributable to the year during which the option was exercised. Except for that reserve, as soon as they are issued they will in all other respects be considered entirely indistinguishable from all pre-existing shares.

The shares purchased will be recorded in registered form in the name of the beneficiary. They may be freely sold or otherwise transferred following a four-year lockup period starting on the day the Board of Directors authorised the plan, i.e. 5 June 2011. Any shares obtained through the exercise of options starting 15 September 2009 will consequently be subject to a contractual lockup period lasting until the fourth anniversary of the setting up of the plan, i.e. 5 June 2011 (no sale shall be permitted).

F.28.4 Treasury stock

On 30 November 2007, Vétoquinol purchased a block of 46,300 shares at 28.50 euros per share on Euronext to be used in connection with the stock option plans and bonus share grants authorised by the Board of Directors on 4 June 2007.

In 2008, Vétoquinol continued to buy its own shares. At 31 December 2008, it held 86,541 such shares, with a purchase value of 2,263 thousand euros.

At 31 December 2008, Vétoquinol held treasury stock (including the liquidity agreement) for a total amount of 2.439 million euros (1.384 million euros in 2007).

F.28.5 Distribution of dividends

The Annual General Meeting of 18 May 2008 approved the distribution of dividends attributable to 2007, amounting to 3,048,389.64 euros, i.e. 0.27 euros per share (2007, 2,594,108.36 euros attributable to 2006. i.e. 0.23 euros per share).

At the time the dividend was paid, Vétoquinol held certain of its own shares: the dividends attributable to these shares were not paid, and were allocated to retained earnings. The total dividend paid amounted to 3,024,537 euros.

F.29. Financial liabilities

Analysis of current and non-current financial liabilities:

In thousands of euros	31/12/2008	31/12/2007
Convertible bond	29,158	27,170
Borrowings and other financial liabilities	604	5,127
Borrowings on finance leases (Note F.15)	471	412
Total non-current financial liabilities	**30,233**	**32,709**
Borrowings and other financial liabilities	1,751	2,621
Borrowings on finance leases (Note F.15)	163	103
Bank overdrafts	4,620	4,030
Total current financial liabilities	**6,534**	**6,754**
TOTAL FINANCIAL LIABILITIES	**36,766**	**39,463**

Analysis of financial liabilities by maturity:

In thousands of euros	Total	< 1 year	1 - 5 years	> 5 years
At 31 December 2007				
Convertible bond	27,170		27,170	
Borrowings and other financial liabilities	7,749	4,698	3,051	0
Borrowings on finance leases	515	103	344	68
Bank overdrafts	4,030	4,030	0	0
Total financial liabilities	**39,463**	**8,830**	**30,565**	**68**
At 31 December 2008				
Convertible bond	29,158		29,158	
Borrowings and other financial liabilities	2,354	1,805	550	
Borrowings on finance leases	633	163	443	28
Bank overdrafts	4,620	4,620	0	0
TOTAL FINANCIAL LIABILITIES	**36,766**	**6,588**	**30,151**	**28**

Features of the convertible bond issue

At their Combined Extraordinary and Ordinary General Meeting of 27 February 2003, the shareholders of Vétoquinol S.A. approved a 19,999,993,50 euro bond issue, consisting of 117,855 bonds with a face value of 169.70 euros each and convertible into common shares of Vétoquinol S.A. with the following terms and conditions:

- issue in two tranches, currently held by Soparfin:
  - tranche A: 58,928 bonds;
  - tranche B: 58,927 bonds;
- term of the bond:
  - tranche A: 7 years;
  - tranche B: 8 years;
- interest: 4% p.a. the first year, 5% p.a. thereafter;
- non-conversion premium:

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

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

Following the 10-for-1 stock split approved by the Annual General Meeting of 7 July 2006, the conversion ratio is now one convertible bond for 10 Vétoquinol S.A. shares.

The value of the convertible bonds recorded on the balance sheet excludes 180 thousand euros classified in equity. The fair value of the interest expense recognised in 2008 was 1.989 million euros (1,792 million euros in 2007).

Analysis of financial liabilities by primary currency and by type of interest rate:

In thousands of euros	31/12/2008	31/12/2007
Fixed rate	221	0
Floating rate	0	2,076
CAD	**221**	**2,076**
Fixed rate on bonds	29,158	27,170
Fixed rate and floating swapped to fixed	2,367	2,551
Floating rate	400	3,636
EUR	**31,925**	**33,357**
Fixed rate	31,746	29,721
Floating rate	400	5,712
Total (all currencies)	**32,146**	**35,433**
Bank overdrafts	4,620	4,030
TOTAL	**36,766**	**39,463**

Collateral given as guarantee
A pledge of mortgage assets was given to the lessor on the property lease.

Of the loans still outstanding at year-end 31 December 2008, the Group has agreed to pledge mortgage assets held as collateral, upon first request of the bank, to guarantee all outstanding sums. At 31 December 2008, the outstanding balance was 600 thousand euros, from an initial commitment of 6,202 million euros and a remaining balance due of 1.2 million euros at 31 December 2007.

Credit lines
At 31 December 2008, the Group had total open lines of bank credit in different currencies amounting to the equivalent of 25.1 million euros (25.7 million euros at 31 December 2007). These credit lines were were drawn down by around €4.62 million at 31 December 2008 (4.03 million at 31 December 2007).

Liquidity risk
In the light of its available cash balances at 31 December 2008, the Group does not have any liquidity risk. The Group expects to incur a total of 1.8 million euros in interest expense in the coming years, including 1.7 million euros on the bond (excluding the non-conversion premium). These figures do not take into account the new 25 million euros loan that Vétoquinol obtained in January 2009 to finance these external growth transactions.

Contractual cash flows include the notional amounts of its financial liabilities and the non-discounted value of its contractual interest payments.

In thousands of euros	Carrying amount	Contractual cash flows	Analysis of contractual cash flows		
			< 1 year	1-5 years	> 5 years
At 31 December 2008					
Convertible bond	29,158	30,825	1,000	29,825	0
Borrowings and other financial liabilities	2,354	2,388	1,839	550	0
Borrowings on finance leases	633	714	193	493	29
Bank overdrafts	4,620	4,620	4,620	0	0
Trade payables	22,338	22,338	22,338	0	0
Payables to suppliers of non-current assets	1,072	1,072	1,072	0	0
Other operating liabilities	10,311	10,311	10,311	0	0
TOTAL FINANCIAL LIABILITIES	**70,488**	**72,269**	**41,373**	**30,867**	**29**

In thousands of euros	Carrying amount comptable	Contractual cash flows	Analysis of contractual cash flows		
			< 1 year	1-5 years	> 5 years
At 31 December 2007					
Convertible bond	27,170	29,836	1,000	28,836	0
Borrowings and other financial liabilities	7,749	8,239	4,950	3,289	0
Borrowings on finance leases	515	582	124	386	72
Bank overdrafts	4,030	4,030	4,030	0	0
Trade payables	23,842	23,842	23,842	0	0
Payables to suppliers of non-current assets	902	902	902	0	0
Other operating liabilities	10,974	10,974	10,974	0	0
TOTAL FINANCIAL LIABILITIES	**75,180**	**78,404**	**45,822**	**32,511**	**72**

F.30. Provisions for employee benefits

In thousands of euros	Note	31/12/2008	31/12/2007
Provision for termination benefits	F.30.1	3,495	2,219
Provision for long service medals	F.30.2	280	277
Provision for term savings account	-	126	223
TOTAL		**3,900**	**2,718**

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

F.30.1 Termination benefits

A system of termination benefits has been set in place for Vétoquinol employees in France, Poland, Austria, and Italy. In France, employees qualify for termination benefits under the national collective bargaining agreement for the production and sale of pharmaceutical, parapharmaceutical and veterinary products.

Analysis of changes in the liability:

In thousands of euros	31/12/2008	31/12/2007
Carrying amount at 1 January	2,219	2,527
Expenses through profit or loss	385	215
Actuarial gains (losses) recorded in equity	-139	-275
Paid contributions	-88	-265
Translation adjustments	-50	16
New liabilities associated with the acquisition of new businesses	1,168	
Carrying amount at 31 December	3,495	2,219

Amounts expensed during the period:

In thousands of euros	31/12/2008	31/12/2007
Cost of services rendered during the period	279	122
Financial cost	106	94
Past service cost		
TOTAL	**385**	**215**

Principal actuarial assumptions:

	31/12/2008	31/12/2007
Discount rate	5.76%	5.48%
Rate of salary increase	[2.5% - 5%]	[2.5% - 5%]
Payroll taxes rate	45%	
Mortality table	TF-TH 2000-2002	
Turnover rate	Based on age range	

F.30.2 Long service medals

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

Analysis of changes in the liability:

In thousands of euros	31/12/2008	31/12/2007
Carrying amount at 1 January	277	289
Expenses through profit or loss	40	33
Actuarial gains (losses) recorded in equity	-32	-44
Paid contributions	-6	-2
Translation adjustments		
New liabilities associated with the acquisition of new businesses		
Carrying amount at 31 December	280	277

Amounts expensed during the period:

In thousands of euros	31/12/2008	31/12/2007
Cost of services rendered during the period	27	21
Financial cost	13	12
Actuarial gains (losses)		
TOTAL	**40**	**33**

Principal actuarial assumptions:

	31/12/2008	31/12/2007
Discount rate	5.71%	5.48%
Rate of increase of long service medals and bonuses	0.6% to 0.9%	
Payroll taxes rate	45%	
Mortality table	TF-TH 2000-2002	
Turnover rate	Based on age range	

F.30.3 Other employee benefits

The Group also provisions for other employee benefits. Through 31 December 2008, these provisions concerned exclusively the employee term savings account.

In thousands of euros	31/12/2008	31/12/2007
Carrying amount at 1 January	223	169
Expenses through profit or loss*	-97	54
Carrying amount at 31 December	126	223

** Of these liabilities, expenses through profit or loss are comprised entirely of the cost of services rendered*

F.30.4 Pension obligations

Defined benefit plans

The Group has no defined benefit plans.

Defined contribution plans

The expenses associated with the defined contribution pension plans are discussed in Note F.11.

F.31. Other provisions

In thousands of euros	Provision for litigation	Other provisions	Total
At 31 December 2006	**561**	**257**	**815**
Additional provisions and increases	706	5	711
Amounts used	-487	-249	-735
Write-backs of amounts not used	0	0	0
Translation adjustments	0	0	0
At 31 December 2007	**779**	**12**	**791**
Additional provisions and increases	620	0	620
Amounts used	-609	-12	-621
Write-backs of amounts not used	0	0	0
Provisions for the acquisition of companies	0	118	118
Translation adjustments	0	0	0
At 31 December 2008	**790**	**118**	**908**

Of which:	31/12/2008	31/12/2007
Current	118	12
Non-current	790	779
TOTAL	**908**	**791**

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

At 31 December 2007, the provisions for litigation included 790 thousand euros for breach of contract cases (779,000 euros in 2007).

F.32. Government grants

The Vétoquinol Group has received accountable advances from the government. At 31 December 2008, these advances included 482 thousand euros in advances received from OSEO and ANVAR [French government agencies]. At 31 December 2007, this item included repayable advances of €402,000.

The Vétoquinol Group also receives investment and operating grants. They are recorded in deferred income and taken into income each year (see Notes F.33 and F.13).

F.33. Trade payables and related accounts

In thousands of euros	31/12/2008	31/12/2007
Trade payables	22,338	23,842
Payables to suppliers of non-current assets	1,072	902
Tax and social security liabilities	17,055	18,302
Other operating liabilities	10,311	10,974
Deferred income	264	281
Other miscelleaneous liabilities	317	10
Amounts owed to related parties		
TOTAL	**51,357**	**54,311**

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

F.34. Assets and liabilities by accounting category – IAS 39

The fair value of derivatives is measured using valuations provided by bank counter parties.

The fair value of financial liabilities other than derivatives is taken as the present value of all future cash flows generated by principal and interest payments, discounted at the market rate of interest at the balance sheet date. The market interest rate on the debt component of the convertible bonds is calculated using the market interest rate on similar liabilities with no conversion option. It should be recalled that derivative instruments are not recognised in view of their low fair value.

In thousands of euros - 2008	Assets/liabilities at fair value through profit or loss	Assets/liabilities at amortised cost	Non-financial instruments**	Total carrying amount	Fair value
Other equity investments		0		0	0
Other non-current assets (loans and advances)		422		422	422
Trade receivables and related accounts		54,546		54,546	54,546
Cash and cash equivalents		25,845		25,845	25,869
Derivatives				0	0
Financial assets 2008	0	80,813	0	80,813	80,837
Bonds		29,158		29,158	31,319
Short/long-term borrowings and other financial liabilities		6,975	633	7,608	7,593
Derivatives				0	0
Trade payables		22,338		22,338	22,338
Payables to suppliers of non-current assets		1,072		1,072	1,072
Other operating liabilities		10,311		10,311	10,311
Financial liabilities 2008	0	69,854	633	70,488	72,633

(*) Reclassification of 2007 RTC
(**) Non-financial instruments consist solely of finance leases.

In thousands of euros - 2007	Assets/liabilities at fair value through profit or loss	Assets/liabilities at amortised cost	Non-financial instruments**	Total carrying amount	Fair value
Other equity investments		1		1	1
Other non-current assets (loans and advances)		426		426	426
Trade receivables and related accounts*		48,739		48,739	48,739
Cash and cash equivalents		40,336		40,336	40,381
Derivatives				0	14
Financial assets 2007	**0**	**89,502**	**0**	**89,502**	**89,561**
Bonds		27,170		27,170	29,985
Short/long-term borrowings and other financial liabilities		11,778	515	12,293	12,247
Derivatives				0	0
Trade payables		23,842		23,842	23,842
Payables to suppliers of non-current assets		902		902	902
Other operating liabilities		10,974		10,974	10,974
Financial liabilities 2007	**0**	**74,665**	**515**	**75,180**	**77,949**

(*) Reclassification of 2007 RTC
(**) Non-financial instruments consist solely of finance leases.

F.35. Dividends per share

Dividends paid in 2008 amounted to 3,048,389.64 euros (2,594,108.36 euros in 2007), i.e. 0.27 euros per share (0,23 euros per share in 2007). At the next Annual General Meeting, scheduled on 12 May 2009, the Company's shareholders will be asked to approve a 0.27 euros per share dividend pay-out.

F.36. Workforce

2008 workforce by department and by geographical region	France	Rest of Western Europe	Eastern Europe	North America	Rest of World	Consolidated total
Sales & Marketing	108	137	70	102	7	424
Administrative & Management	88	30	39	27	3	187
Production	167	25	119	56	0	367
Quality	67	7	49	29	1	153
Purchasing & Logistics	54	21	26	28	1	130
Research & Development	101	17	19	14	0	151
Total workforce 2008	**585**	**237**	**322**	**256**	**12**	**1,412**
Total workforce 2007	**554**	**177**	**319**	**240**	**11**	**1,301**

F.37. Off-balance sheet commitments

F.37.1 Guarantees given

In thousands of euros	31/12/2008	31/12/2007
Guarantees and deposits	89	291
Mortgages and collateral	19,132	18,502
TOTAL	**19,220**	**18,793**

In Canada, the advances (described in note F.37.2) are guaranteed by a second lien in the amount of 31.5 million Canadian dollars at 31 December 2008, the equivalent of 18.5 million euros at the closing exchange rate for 2008 (25 million Canadian dollars, i.e. 17.3 million euros at the closing rate in 2007), on all receivables, inventories and intellectual property in the possessions of Vétoquinol Canada and its parent, Vétoquinol S.A.

F.37.2 Gurantees received

In thousands of euros	31/12/2008	31/12/2007
Guarantees and deposits	5,418	7,783
Liability guarantees	3,661	7,911
TOTAL	**9,078**	**15,693**

Societe Generale provided a guarantee on 124 thousand euros in remaining finance lease payments at 31 December 2008 (122 thousand euros in 2007).

In Canada, the Group obtained authorised bank advances for a maximum of 10 million Canadian dollars (5,9 million euros at the closing rate for 2008), on a consolidated basis, which may be used in the form of bank loans with interest set at the lending institution's preferential rate plus 0.375%. On this line of credit, a total of 2,2 million Canadian dollars had been drawn down at 31 December 2008, i.e. 1.3 million euros (3.8 million Canadian dollars, i.e. 2,6 million euros at the closing rate for 2007).

In connection with the agreement to purchase the US assets of Vet Solutions, the sellers of Vet Solutions Management, Vet Solutions Inc, D. Schildgen, S. Dowling, M. Drew and K. Koch granted the usual liability guarantee on the assets sold to Vétoquinol USA. This guarantee is for two years as of 29 December 2006 (except for the environmental, labour and tax aspects) and may not be called if the callable amount under this guarantee is less than 200 thousand US dollars. The amount granted as compensation under this guarantee may not exceed 50% of the acquisition price, i.e. 11.5 million US dollars (7,8 million euros at the closing rate for 2007).

In connection with the acquisition of the shares of the South Korean company Semyung Vet, the former shareholders granted Vétoquinol a liability guarantee counter-guaranteed by a first demand bank guarantee for around 35 million euros for Mr. Joe (bank guarantee expires on 14 January 2008), and for around 79 million Korean won for the group of shareholders (bank guarantee expires on 30 March 2008), i.e. 57 thousand euros at the closing rate for 2007.

In connection with the acquisition of the shares in the Scandinavian company Viavet Scandinavia AB, the former shareholders granted Vétoquinol a liability guarantee. This guarantee is for two years from the end of the first fiscal year to 31 December 2010 and may not be called if the callable amount under this guarantee is less than 100 thousand Swedish kronas (9,200 euros at the closing rate for 2008). The amount granted as compensation under this guarantee may not exceed 50% of the acquisition price, i.e. 13.2 million Swedish kronas (1.2 million euros at the closing rate for 2008).

In connection with the acquisition of the shares in the Italian company Ascor Chimici, the former shareholders granted Vétoquinol a liability guarantee. This guarantee is for two years starting from 24 November 2008 and it may not be called if the callable amount under this guarantee is less than 500 thousand euros. The amount granted as compensation under this guarantee may not exceed 1.5 million euros.

F.37.3 Commitments related to investments in non-current assets

At the balance sheet date, Vétoquinol had contracted the following investments in non-current assets that had not yet been recorded in the financial statements:

In thousands of euros	31/12/2008	31/12/2007
Intangible assets		
Tangible assets	839	749
TOTAL	**839**	**749**

F.37.4 Commitments related to operating leases

Commitments related to operating leases are discussed in note F.15.

F.38. Contingent assets and liabilities

Vétoquinol is plaintiff in a commercial dispute related to the breach of a distribution agreement. The initial claim was for 968 thousand euros. In a decision dated 8 February 2007, the commercial court found in favour of Vétoquinol, in the amount of 232 thousand euros. Vétoquinol had sought to obtain a 690 thousand euros customer indemnity, but this was denied. Vétoquinol was, however, requested to assume 43 thousand euros in costs for the salaries of the sales representatives. The defendant appealed the judgement on 19 October 2007. The appeal decision awarded the sum of 210 thousand euros in favour of Vétoquinol.

Vétoquinol is a defendant in a commercial dispute related to the breach of a distribution agreement. No provision for the contingent liability had been set aside at 31 December 2007 because the potential obligation was not substantial and could not be assessed with a sufficient degree of reliability. The court found in favour of Vétoquinol in 2007, and the Company will not be required to indemnify the plaintiff. The plaintiff has appealed the decision.

F.39. Information on related parties

F.39.1 Compensation paid to key executive personnel

In thousands of euros	31/12/2008	31/12/2007
Short-term benefits	1,339,439	1,070,677
Post-employment benefits		
TOTAL	**1,339,439**	**1,070,677**

The key executives of the Vétoquinol Group are: Etienne Frechin (Chairman and CEO), Dominique Henryon (COO), and Matthieu Frechin (SEVP – Strategy and New Business Development). Bernard Boisrame (SEVP - Chief Pharmacist) left the Group and was replaced as Chief Pharmacist by Alain Masson.

F.39.2 Transactions with related parties

NONE.

F.40. Subsequent events

NONE.

F.41. Group Companies

Companies	Registered office	% held at 31/12/2008	% held at 31/12/2007
Vétoquinol S.A.	Magny-Vernois B.P. 189 – Lure Cedex	100.00%	100.00%
Vétoquinol N.-A. Inc	200 Chemin Georges – Lavaltrie Québec 50k 1H0 – Canada	100.00%	100.00%
Vétoquinol Prolab	700 rue St Henri – Princeville G6L4X1 – Canada	100.00%	100.00%
Vétoquinol Canada Ltee	200 Chemin Georges – Lavaltrie Québec 50k 1h0 – Canada	100.00%	100.00%
Vétoquinol USA Inc.	101 Lincoln Drive – Buena – New Jersey NJ08310 – 0687 – USA	100.00%	100.00%
Vétoquinol de Mexico S.A. de C.V	Lopez Cotilla 744 – Col. Del Valle Mexico, 03100. D.F. – Mexico	100.00%	100.00%
Vétoquinol Spain	Parque Empresarial San Fernando Edificio Italia 28830 San Fernando de Henares – Spain	100.00%	100.00%
Vétoquinol Unipessoal Lda	Rua Consiglieri Pedroso – nº 123 – Edifício H Queluz de Baixo – 2730-056 Barcarena – Portugal	100.00%	100.00%
Vétoquinol UK	Vétoquinol House Great Slade – Industrial Park Buckingham MK18,1PA – UK	100.00%	100.00%
Vétoquinol Ireland	Colin Marsden & Co – 59 Clare Street Limerick City – Ireland	100.00%	100.00%
Vétoquinol NV (Belgium)	Kontichsesteenweg 42 – 263 Aartselaar – Belgium	99.00%	99.00%
Vétoquinol BV (Netherlands)	Kontichsesteenweg 42 – 263 Aartselaar – Belgium	100.00%	100.00%
Vétoquinol International	Magny-Vernois B.P. 189 – Lure Cedex	100.00%	100.00%
Frefin GmbH	Parkstrasse 10 – 88212 Ravensburg – Germany	100.00%	100.00%
Vétoquinol GmbH Vervaltungs	Parkstrasse 10 – 88212 Ravensburg – Germany	0.00%	100.00%
Vétoquinol GmbH	Parkstrasse 10 – 88212 Ravensburg – Germany	100.00%	100.00%
Vétoquinol Biowet Poland	UL. Kosynierow Gdnyskich 13/14 66-400 Gorzow WKLP – Poland	100.00%	100.00%
Vétoquinol Biowet Ukrainia	U I Rogaliewa 18 – Dniepropietrovsk – UKrainia	100.00%	100.00%
Chassot UK	Cougar Lane Naul Co Dublin	100.00%	100.00%
Vetco Ireland	Cougar Lane Naul Co Dublin	100.00%	100.00%
Vétoquinol AG Switzerland	Aemmenmattstrasse 2 – 3123 BELP Bern – Switzerland	100.00%	100.00%
Vétoquinol Czech Republic	Zamenicka 411 – 28802 Nymburk – Czech Republic	100.00%	100.00%
Vétoquinol Austria	Zehetnergasse 24 – A 11-40 Wien – Austria	100.00%	100.00%
Ascor Chimici S.r.l.	Via Piana 265 – Bertinoro (FO) – Italy	100.00%	0.00%
Vétoquinol Scandinavia AB	Box 9 – 265,21 Astorp – Sweden	100.00%	0.00%
Frefin Asia Limited	Boham Centre – 79-85 Boham Strand Sheung Wan – Honk Kong	100.00%	0.00%
Semyung Vétoquinol South Korea	909-3, Whajung-dong Dukyang-Ku Koyang-City Kyungki-Do - South Korea	100.00%	100.00%

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2008

To the Shareholders:

In compliance with the assignment entrusted to us by your Annual General Meeting, we present to you our report on the fiscal year ending 31 December 2008, on:

- the examination of the consolidated financial statements of Vétoquinol S.A., which are attached to this report;
- the basis for our assessments;
- the specific audit prescribed by law.

The consolidated financial statements were approved by your Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

In our opinion, the consolidated financial statements for fiscal year 2008 give a true and fair view of the assets, liabilities, financial position and results of the consolidated group of persons and entities, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

BASIS FOR ASSESSMENTS

In accordance with the provisions of Article L.823-9 of the French Commercial Code regarding the basis of our opinion, we draw your attention to the following items:

- at each balance sheet date, the company systematically tests carrying amounts of goodwill and assets with indeterminate useful life for impairment, and it assesses whether there is an indication that its non-current assets have experienced a loss of value, using the methods described in note F.3.12 to the consolidated financial statements. We have examined the methods used to test for impairment, as well as the cash flow forecasts and assumptions used, and we have verified that notes F.3.12, F.19 and F.20 provide appropriate information.
- Note F.3.8 to the consolidated financial statements sets forth the procedures, by independent actuaries, for estimating the employer's retirement obligations and other related commitments. Our work consisted of examining the data used, assessing the underlying assumptions, reviewing the calculations made, and verifying that notes F.3.8 and F.30 provide appropriate information.

These assessments were made in the context of our approach to auditing the consolidated financial statements taken as a whole, therefore they contributed to the formation of our opinion expressed in the first part of this report.

SPECIFIC AUDIT

We also conducted the specific audit, as per French law, on the information given in the Group management report. We have no matters to report with regard to its fair presentation and consistency with the consolidated financial statements.

The independent auditors

Paris La Défense and Neuilly-sur-Seine, 27 April 2009

KPMG Audit
A division of KPMG SA.

Laurent Genin
Partner

Laurent Hoffnung
Partner

PricewaterhouseCoopers Audit

Xavier Aubry
Partner

Vétoquinol

a Sign of Passion

VETOQUINOL SA
A French limited company (société anonyme) with share capital of 28,231,580 euros
Lure Trade & Companies Register (RCS) no. 676 250 111

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