



2016

REGISTRATION DOCUMENT



REGISTRATION DOCUMENT

2016 Annual Financial Report



Note to recipient of this document: this is the translation of an extract of the Registration Document and Annual Financial Report for the year ended December 31, 2016. The original French document was filed with the AMF (French Financial Markets Authority) on April 26, 2017.

CONTENT



INTERVIEW WITH MATTHIEU FRECHIN, VETOQUINOL CEO	2	4 CONSOLIDATED FINANCIAL STATEMENTS AFR	23
2016 KEY FIGURES	4	6 INFORMATION ON THE COMPANY AND CAPITAL STOCK	57
2 VETOQUINOL'S SOCIAL RESPONSIBILITY	5		

INTERVIEW WITH MATTHIEU FRECHIN, Vetoquinol CEO



What were your highlights for 2016?

2016 was an good year: all of our financial indicators have improved. We posted 2016 sales of €350.4 million, representing like-for-like growth of 4.3%: this is a solid performance, and one of the strongest we've seen in the last five years. EBIT increased to €42.1 million, representing 12.0% of sales, while EBITDA amounted to €56.1 million, up 10%. Given these strong performances, our focus on reference products and the optimization of production facilities has proved to be the right strategy.

The Vetoquinol Board of Directors will recommend a dividend of €0.43 per share to the May 30, 2017 general meeting, representing an increase of 4.9%.

Could you give us a rundown of the latest products launched by Vetoquinol?

New product launches and regional expansion are key components of our growth strategy.

“2016 was an excellent year: all of our financial indicators have improved.”

“We continue to turn in excellent financial performances year after year, a guarantee of Vetoquinol's sustainability and independence.”

In 2016, we bolstered our portfolio with the addition of five new products:

- UpCard®: a drug designed to treat heart failure in dogs,
- Permacyl®: a drug designed to treat mastitis in dairy cows,
- Calf-Lyte®: a supplementary nutrient source for calves,
- Tylucyl®: a drug designed to treat mastitis and respiratory infections in cattle and pigs,
- Cefaseptin®: a drug designed to treat bacterial skin infections in dogs.

Over the last five years, Vetoquinol has marketed 13 new products, mainly resulting from in-house R&D as well as acquisitions.

In 2016, our Research & Development expenditure increased by almost 10% to €24.2 million, representing 6.9% of sales. The development unit we created from the ground up in the United States is now operational.

What are the Vetoquinol Group's strengths?

We are an independent, family-owned Group and have been listed on the stock exchange for 10 years.

We are a responsible operator. In the 2016 GAIA Index, we were ranked the No. 1 listed SME (all caps) for our commitment to CSR.

Our success is the result of the expertise of our employees and their individual commitment to our customers, who are devoted to animal health and well-being.

We have robust financial fundamentals with solid cash flow generation, a strong financial structure and a large borrowing capacity, all of which enable us to continue to invest and pursue a hybrid growth strategy. We have the resources to back our ambitions and successfully implement an active acquisition and product innovation policy in a totally independent manner.

What is the outlook for 2017 and beyond?

Our teams are fully committed to the ongoing achievement of our major challenges: strengthening our product portfolio, expanding into strategic countries, especially the United States, and supporting the animal health market by promoting responsible use of antibiotics.

Our aim is to step up growth. In order to achieve this, we will remain on the lookout for potential acquisitions.

We will continue to turn in excellent financial performances year after year, a guarantee of Vetoquinol's sustainability and independence.

Matthieu Frechin
Vetoquinol CEO

2016 KEY FIGURES

An animal health
pure player

No. 9 global animal
health company

Sales

€350.4_m

of which **€170.9_m**
from reference products (up 3.6%)

Breakdown of 2016 sales per business

Companion animals



€192.7_m

Livestock



€157.7_m

Headcount



An international presence



Breakdown of 2016 sales per territory

Europe

Americas

Asia Pacific



€177.6_m **€117.4_m** **€55.4_m**



161 R&D
technicians



9 production
sites

Net income – Group share

€27.8_m

EBITDA

€56.1_m

VETOQUINOL'S SOCIAL RESPONSIBILITY

2.1	SOCIALLY RESPONSIBLE STRATEGY	6	2.3	ENVIRONMENTAL INFORMATION	15
2.1.1	Vetoquinol, a brand recognized for its commitment	6	2.3.1	Overall environmental policy	15
2.1.2	Humans and animals: a lifelong relationship	7	2.3.2	Pollution and waste management	16
2.1.3	Responsible behavior: Guide to Good Business Practices	7	2.3.3	Sustainable use of resources	17
2.2	STAFF INFORMATION	8	2.3.4	Climate change	17
2.2.1	Employment	9	2.3.5	Protection of biodiversity	17
2.2.2	Hiring and departures	10	2.4	SOCIAL INFORMATION	18
2.2.3	Recruitment, compensation and employee benefits	10	2.4.1	Territorial, economic and social impact of the Group's business	18
2.2.4	Working hours	11	2.4.2	Relations with stakeholders	19
2.2.5	Employee relations	11	2.4.3	Subcontracting	20
2.2.6	Health and safety	12	2.4.4	Charter of commitments	20
2.2.7	Skills development	14	2.5	AUDITOR'S REPORT ON SOCIAL AND ENVIRONMENTAL INFORMATION	21
2.2.8	Equal opportunities and promotion of diversity	14			

VETOQUINOL'S SOCIAL RESPONSIBILITY

2.1 CSR STRATEGY

2.1.1 Vetoquinol, a brand recognized for its commitment

Vetoquinol, a family-owned business, has been exclusively dedicated to animal health since 1933. Vetoquinol, the No. 9 global animal health company, combines sustainability, development and independence while continuing its human adventure.

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

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



In 2016, Vetoquinol was recognized for its commitment to corporate social responsibility (CSR): the Company was ranked first in the GAIA Index all caps category, as well as the top company with sales between €150 and €500 million. The scope has been

widened this year to a selection of European companies. The GAIA Index, the environmental, social and governance (ESG) rating specialist for small and mid-cap companies, assessed Vetoquinol on its level of transparency and on the depth of its commitment to CSR based on four criteria: governance, employment, the environment and external stakeholders, as well as over 120 quantitative criteria. These rankings demonstrate Vetoquinol's application of CSR best practices and justly reward the skills and constant commitment of its employees.

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



In 2016, Vetoquinol launched its website dedicated entirely to pet owners: www.myhappypet.fr.

This website was designed as part of the Group's digital

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

2.1.2 Humans and animals: a lifelong relationship

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

- **Animals and children**

Pets play a primordial role in childhood development. As children's close companions and confidants, animals can see and hear everything. The presence of a pet can calm a child's fears, suffering or anxiety.

- **Animals and elderly people living alone**

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

- **Animals and the disabled**

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

2.1.3 Responsible behavior: Guide to Good Business Practices

Vetoquinol ensures that its development complies with applicable laws, ethical principles, individual rights and the principles of fair competition. For this purpose, employees are given a Guide to Good Business Practices.

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

Vetoquinol is committed to analyzing the impacts of its business activity in order to maximize the preservation of biodiversity and natural resources whilst minimizing pollution and the consumption of resources. This is primarily reflected in the process for the pharmaceutical development of livestock drugs.

In concrete terms, this means designing the most suitable products for promoting animal health at the same time as preserving the environment. This is precisely the mission of our Science Department.

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

The HSE engineer implements and applies standard indicators to measure progress in combating climate change and in the use of resources. He also analyzes the risks of harming the environment generated by everyday operations and major projects in order to propose and implement suitable preventive and protective measures. He is notified of projects and decisions that impact or that might impact one of the three dimensions of sustainable development.

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

The safety and health of workers is a constant concern. The Industrial and Quality Department ensures that the most stringent safety standards are applied in all Group entities. In 2017, additional expertise and resources will help bolster the current structure, in order to support the implementation of coordinated policies across the Group.

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

Vetoquinol has established a Social Network Charter to foster employee awareness of the responsible behavior they are expected to adopt when using modern communication media. In 2015, this Charter was circulated to all employees.

2.2. STAFF INFORMATION

On a daily basis, Vetoquinol seeks to apply the six values that underpin its business and that contribute towards driving the Group forward: Performance, Boldness, Commitment, Authenticity, Team Spirit and Openness.

The Vetoquinol values serve as a benchmark that guides the daily work of each employee. These values help to improve coordination between colleagues working in different countries and in different professional areas and to increase consistency between action taken and decisions made. They are broken down into expected work behaviors that form part of all employees' annual performance reviews (PACTE).

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

The Group is attentive to and frequently measures employee satisfaction. In 2015, a new staff barometer was introduced, initially at the French entity, in cooperation with the "Great Place to Work" institute (GPTW). The Vetoquinol staff participation rate of 87% is higher than the average rate for companies that have introduced this survey. Our employees are especially proud of their individual and team contributions and the reputation of their Company: 66% of employees answered 'Yes' to this question, compared to an average of 48% in France according to GPTW; 76% of Vetoquinol employees feel that they make a personal contribution to the Company (source GPTW: sample of French employees 63%). Additional points requiring improvement were the subject of various "world café" working and discussion groups in 2016. Two Ambassador groups comprising volunteers from all levels of responsibility submitted concrete suggestions, primarily for improving internal communication and recognition. These initiatives will be implemented in 2017. Vetoquinol is committed to doing its utmost to join the illustrious ranks of the winners of the French Great Place to Work awards.

This staff barometer will be rolled out in the other Group subsidiaries over the following years.

An international network ensuring proximity to customers

All employee disclosures relate to the Group.

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

- develop key accounts management operations in response to the trend towards business combinations between customers;
- step up the marketing of Group products on strategic markets, in particular the USA, the world's largest market;
- expand our operations in fast-growing markets (BRIC);

- drive operational excellence of the sales force via the progressive roll-out of a network of in-house trainers, a new CRM system developed entirely in-house to meet sales force requirements, and a network of recognized in-house experts in specific aspects of sales whose job is to promote good practices across the Group.

At production plants, significant efforts have been made in order to promote a lean manufacturing culture and the use of related tools, together with initiatives to improve quality of life at work.

2016 was marked by:

- The launch of an employer slogan: "Your future, their health, our family: together, let's make your talent grow", which reinforces the new Group slogan created in 2015: "Achieve more together".



This slogan was developed to enable Vetoquinol to increase its visibility and recognition on the talent market. Four employees kindly agreed to have their image used to illustrate each business department: development, production, sales and administration.

- The creation of the development unit in the USA, designed to speed up registration of our drugs for the US market and to contribute to the development of new global products in conjunction with our French teams.
- Preparations for the shutdown of two loss-making production plants in Australia (Armidale) and the USA (Pullman). The US plant's operations have been transferred to our site in Princeville, Canada.

- First year of operation for Vetoquinol-Zenoaq K.K., a joint venture with a well-established Japanese company operating in our sector, which will register the Group's main companion animal reference products for the Japanese market. Japan is now the Group's 18th strategic market.

2.2.1 Employment

2.2.1.1 2016 changes in headcount

As of December 31, 2016, the Group had 2,084 employees compared to 2,036 at the end of 2015. The headcount increased by 2.4% compared to 1.6% in 2015.

Headcount	Europe	Americas	Asia	Total
2016 total	1,220	433	431	2,084
2015 total	1,220	419	397	2,036
2016 CHANGE IN HEADCOUNT	-	14	34	48
	0%	3%	9%	2.4%

Changes in headcount vary according to the regions concerned:

- The headcount remained stable in Europe compared with 2015 but decreased slightly in Germany, due to Vetoquinol's upcoming move from Ravensburg to Munich. In France, the headcount increased by 4%, while the United Kingdom saw a decline of around ten percentage points; this temporary decrease corresponds to unfilled vacant positions as of 12/31/2016.
- In the Americas, the headcount increased by 3%, resulting from two opposing trends: first, the decrease in the headcount at the Bioniche site in Belleville, Canada, relating to the plan to combine the Belleville plant in Ontario with the Princeville plant in Quebec. Secondly, the headcount at the US subsidiary increased by 20% with the expansion of the sales force and the creation of an R&D unit, as mentioned above.
- The increase in the Asian headcount was mainly due to expansion of the sales force in India, as in previous years.

Group policy is generally to hire permanent employees. As a result, the proportion of temporary employees is very low. The number of part-time contracts is also very low, most of them reflecting the employee's own preference.

2.2.1.2 Breakdown of headcount per department

	2015	2016	Change
Sales & Marketing	777	821	6%
Administration	308	310	1%
Production	358	361	1%
Quality	201	207	3%
Supply Chain & Procurement	233	224	(4%)
Science	159	161	1%
TOTAL	2,036	2,084	2.4%

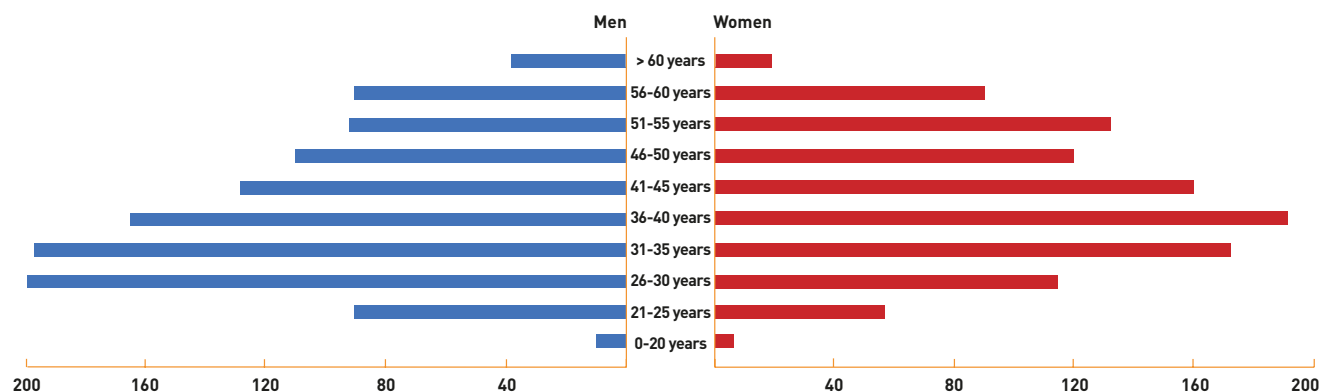
The increase in Sales & Marketing staff is mainly due to India, where sales continued to grow. The slight decrease in the Supply Chain headcount reflects outsourcing of warehousing in Germany and the United Kingdom.

2.2.1.3 Breakdown of headcount per gender and region

Headcount	Europe	Americas	Asia	Consolidated total
Women	695	235	26	956
	57%	54%	6%	45.9%
Men	525	198	405	1,128
	43%	46%	94%	54.1%
TOTAL	1,220	433	431	2,084
	59%	21%	21%	100%

The Indian sales force grows each year, and is exclusively made up of men due to local working conditions and traditional culture. This explains the slight preponderance of men at Group level. Like for like excluding India, at 56%, women continue to outnumber men across the Group, reflecting a satisfactory overall balance.

2.2.1.4 Age breakdown per gender



The age breakdown is relatively balanced and has not significantly changed since 2015: 21% of employees are under the age of 30, while 20% are over 50 years old. The average age of Group employees is 40.6.

Average length of service is 9.1 years. NB: the length of service of all acquired companies' staff is based on their length of service at their respective companies.

2.2.1.5 Breakdown by professional category

	2015	2016	%
Managers	543	558	26.8%
Sales force	499	537	25.8%
Technicians & office staff	659	657	31.5%
Manual workers	335	332	15.9%
TOTAL	2,036	2,084	100%

Technicians still outnumber each of the other categories in view of pharmaceutical production and development activities. Pharmaceutical production requires highly skilled laboratory and administrative technicians. The number of manual workers is relatively low.

Vetoquinol also outsources some production to subcontractors if the Company does not possess the requisite technological resources.

2.2.2 Hiring and departures

Vetoquinol centralizes all staff movements across all companies on a monthly basis, mainly in order to track staff turnover rates. The 2016 Group staff voluntary departure rate was 10.9%, slightly higher than the 2015 rate of 9.8%.

- Excluding India, the rate amounted to 7.3% in 2016 versus 5.4% in 2015. This increase is mainly due to the departure of employees following the restructuring of certain subsidiaries: Canada (closure of the Belleville plant), Germany (transfer to Munich), Australia (closure of the Armidale production plant), United States (closure of the Pullman plant).
- In India, however, there has been a marked improvement in the voluntary departure rate. The rate fell from 37% in 2014, to 31% in 2015, to 25% in 2016. This trend is the result of a dynamic action plan covering induction, compensation and training designed to build loyalty among local teams.

2.2.3 Recruitment, compensation and employee benefits

Vetoquinol pays particular attention to the induction of newly hired staff. Individual induction programs lasting several weeks are prepared for managers joining the Company. To familiarize themselves with business operations in the field, newly hired senior managers visit some customers with a company vet and spend a few days with the production departments.

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

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

Employee pay is determined by two key factors: individual performance and comparison with the labor market.

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

In accordance with government policies in its various countries, the Group may offer supplementary insurance schemes to provide employees with optimum coverage of their medical expenses as well as life and disability insurance. This is the case for employees at the Russian and Czech subsidiaries, where supplementary health insurance and work disruption insurance schemes have been set up.

2.2.3.1 Profit sharing

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

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

2.2.3.2 Incentives

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

On June 18, 2014, a new incentive agreement was signed applying to calendar years 2014, 2015 and 2016. The incentive scheme is based not only on Group financial results but also on safety statistics and strategic progress achieved.

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

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

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

2.2.4 Working hours

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

Type of employment contract	Americas	Asia	Europe	Total
Fixed-term	3.2%	0.0%	6.8%	4.7%
Permanent	96.8%	100.0%	93.2%	95%
TOTAL HEADCOUNT	100%	100%	100%	100%

2.2.4.1 Absenteeism

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

In France, the Company absenteeism rate was 2.68% in 2016, compared with 2.44% in 2015. (Formula for calculating the rate of absenteeism = number of business days absent for sick leave, parental leave, hospitalization, industrial accidents, occupational illness, excluding absences over 100 days / hours actually worked – including work-study trainees).

Anomalies or negative trends are analyzed in consultation with executives and human resources managers at the subsidiaries concerned and, where applicable, corrective action plans are formulated and implemented. The absenteeism rate does not call for specific comment.

2.2.5 Employee relations

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

The Group's French employees elected their representatives in 2013. The new staff representative bodies have a term of office expiring at the end of 2017.

One trade union (CFDT) is represented at the head office in France.

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

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

2.2.5.1 Collective bargaining agreements

In France, various company agreements were signed in 2016, demonstrating the quality of staff dialog:

- March 9, 2016, annual company agreement on changes in compensation.
- November 17, 2016, company agreement on the 'Generation' agreement for 2016-2018.

These agreements supplement those already in force:

- February 9, 2015, company agreement on professional equality for 2015-2017.
- December 18, 2015, agreement on night work for 2016-2020.

The Quebec-based Princeville plant regularly negotiates a "collective bargaining agreement" in accordance with local legislation applicable to union-affiliated sites.

2.2.5.2 Company corporate savings plan

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

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

2.2.5.3 'Generation' agreement

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

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

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

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

The main actions carried out in these different areas since November 2013 include:

- defining professional entry-level positions, which can be filled by recent graduates or applicants with little experience, so as to create pathways into active professional life;
- identifying employee "ambassadors" to present and promote the Company's professions at universities and schools;
- implementing the employee "mentor" program in order to support employees under the age of 30 during the initial months of their career at the Company;
- setting up early-career interviews, intended to take stock of the first two years of professional activity;
- creating a work/study guide in order to inform employees of the "work/study traineeship" policy, and to set out the respective rights and responsibilities of managers and work/study trainees;
- identifying areas of activity in which recruitment is under strain and in which work/study traineeships are used as a precursor to recruitment;
- identifying positions involving lighter duties, in order to prioritize the appointment of employees aged 50 and over who are subject to greater medical restrictions;
- supporting employees aged 50 and over in their decision to retrain for a new role;
- allocating at least 7% of the training budget (excluding mandatory training) to employees aged 50 years and over.

As part of the company agreement relating to the 'Generation' agreement for the 2016-2018 period, additional measures were defined:

- formalize a standard induction pathway, led by the employee "mentor" for young recruits;
- define and implement "profession-specific" training measures in the induction assessments of recruits under the age of 26;
- favor the employment of unqualified or under-qualified young people by giving them access to internships and by organizing company visits and information sessions at local youth centers, in order to showcase professional areas in the Company and in the pharmaceutical industry as a whole;
- create a welcome booklet dedicated to interns;
- train Industrial Department managers in the prevention and reduction of arduous work;
- at the request of Industrial Department employees aged 50 and over, organize office software training sessions in order to support occupational retraining;
- in order to promote intergenerational cooperation, organize the transfer of skills by partnering the senior employee with their replacement;
- in order to prepare for retirement, provide general information on retirement.

2.2.5.4 Staff fringe benefits

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

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

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

2.2.6 Health and safety

2.2.6.1 Health and safety conditions in the workplace

Vetoquinol has established a Group safety policy. This policy defines safety and the preservation of employees' health as essential requirements of Vetoquinol's business activity. Duties are clearly defined in each Group entity. A statutory Safety Officer is appointed at every Group company and is empowered by Group management to apply the Group safety policy and local regulations.

Employee safety training is given top priority; given the nature of their work, training in the risks associated with the type of products handled is primordial.

A comprehensive risk assessment is carried out at the design stage of every new workstation and thereafter at regular intervals.

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

A case of occupational illness was declared in 2016 for a musculoskeletal disorder, resulting in 77 working days lost.

Explosive atmosphere (ATEX) risk has been assessed in accordance with applicable regulations and is immaterial. Particular attention is paid to employees exposed to the risks of handling carcinogenic, mutagenic and reprotoxic (CMR) substances. The Group also endeavors to reduce such risks.

The Group aims to ensure continuous improvement with regard to safety; awareness-raising initiatives are regularly carried out in every sector. At the end of 2015, the Polish production plant was recognized by the labor inspection authority and was ranked No. 1 in the "Employer-promoter of safety at work" awards for large-cap companies. Collective safety measures are prioritized over individual protective equipment. Similarly, all outside companies that carry out operations on the Company's premises are required to comply with a safety protocol.

Each site has its own designated safety teams and equipment, and regular training is carried out.

In each country, the local safety officer monitors changes in the regulations.

Security is also managed by the safety officer, excluding IT security which is managed by the IT department. It is worth mentioning the excellent safety results of the Mairipora facility in Brazil, which recorded zero lost-time industrial accidents in 2016.

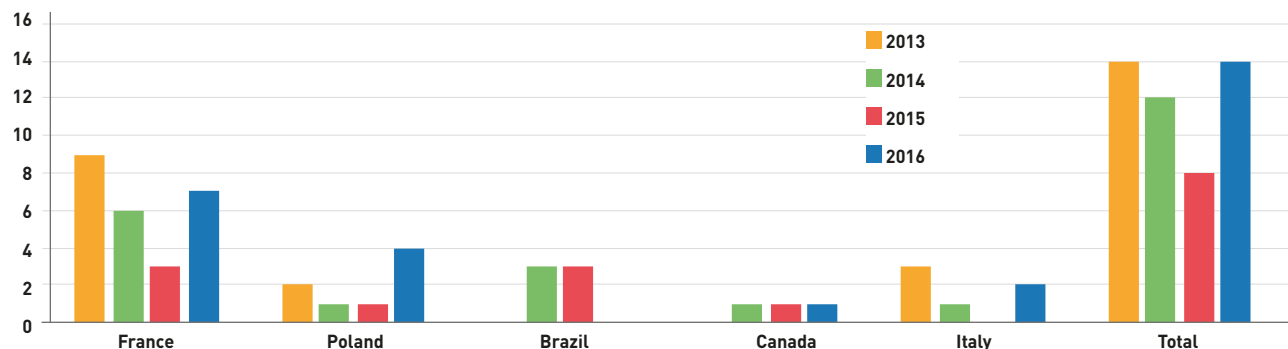
Overall in 2016, Group production plants unfortunately saw the frequency of lost-time accidents increase versus 2015, a year during which accidents were at an all-time low.

2.2.6.2 Health in action



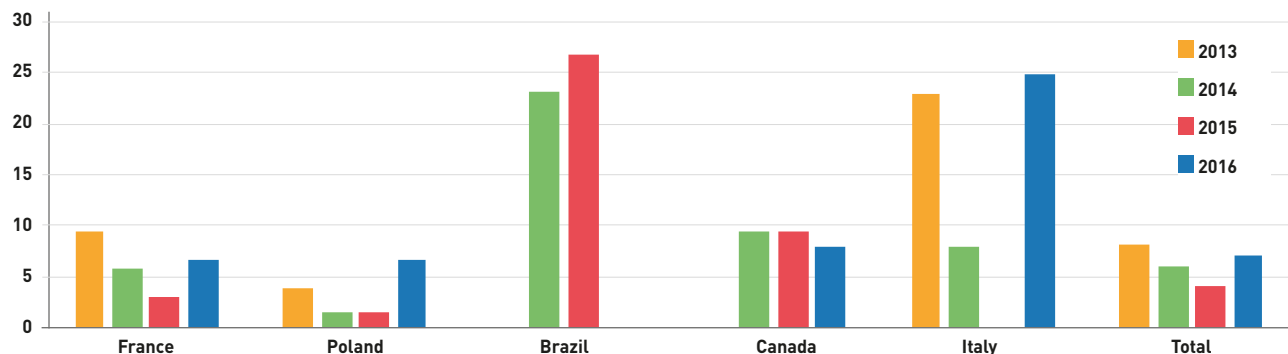
Vetoquinol encourages its employees to adopt a healthy lifestyle and to improve their health via the *Manger Bouger* ("Eat and exercise") program. The program offers physical activities, tools, seminars on nutrition, sport, health and lifestyle, and advice on eating and exercising better. Various initiatives have been rolled out at the Magny-Vernois head office in order to improve employees' quality of life at work.

2.2.6.3 Number of lost-time industrial accidents per country



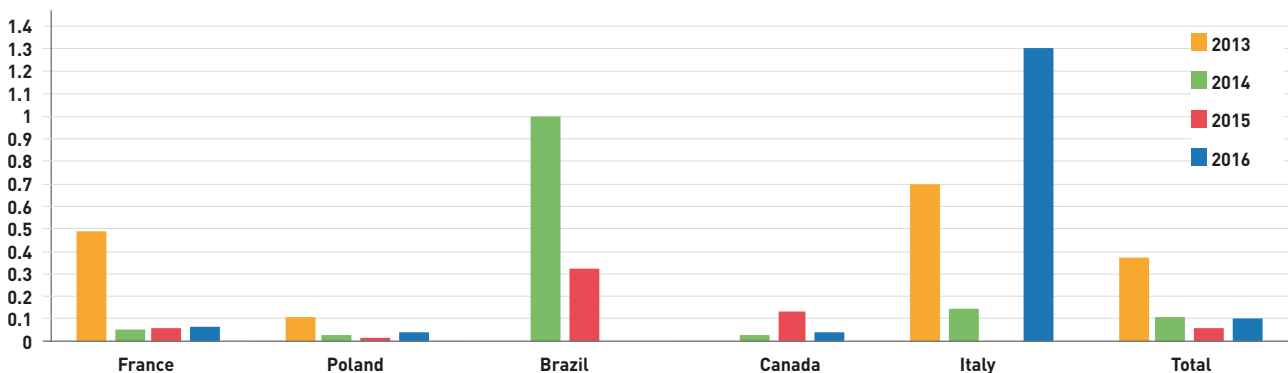
NB: Number of lost-time industrial accidents reported in 2016 and not rejected to date.

2.2.6.4 Lost-time industrial accident frequency rate per country



NB: Frequency rate: number of lost-time industrial accidents x 1 million / Number of hours worked.

2.2.6.5 Industrial accident severity rate per country



NB: Severity rate: number of days lost due to an industrial accident x 1,000 / Number of hours worked.

2.2.6.6 Health and safety agreements signed with trade unions and staff representatives

Since March 30, 2011, companies where over half of the employees are exposed to arduous work factors as defined by law have been required under French law to establish an action plan or company agreement aimed at mitigating or eliminating such factors.

Vetoquinol is not bound by this requirement, as less than 50% of its French employees are exposed to arduous work as defined under the legislation. Nevertheless, in accordance with its Health, Safety and Environment (HSE) policy, the Company takes steps to mitigate risk of staff illness and injury. A statutory Safety Officer is appointed at every Group company and is empowered by Group management to apply the Group safety policy and local regulations.

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

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

- Manual work,
- Repetitive work,
- Night work.

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

2.2.6.7 Compliance with the ILO fundamental conventions

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

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

2.2.7 Skills development

Skills development and training for all is a major component in the Group's HR policy. Training programs are designed to prepare for changing professional requirements.

2.2.7.1 Number of training hours per territory

Territories	Europe	Americas	Asia	Group
2016	28,078	9,930	12,606	50,614
2015	27,372	8,445	6,896	42,713

Vetoquinol implements its training initiatives at Group level. The Indian subsidiary reestablished its training program in order to retain its sales force. In Europe, the number of training hours is almost identical to that of 2015 and headcount is stable.

In the Americas, the increase of around 17% was primarily generated by the US subsidiary. The arrival of a new Human Resources manager in early 2016 is now bearing fruit.

2.2.8 Equal treatment and promotion of diversity

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

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

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

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

In terms of pay, no inherent inequalities between men and women have been identified for an identical role and for comparable years of service, despite the continuing existence of headcount imbalances due to sociocultural factors. Over one quarter of managerial positions are held by women. Some isolated wage anomalies resulting from individual careers and indiscriminately affecting men and women are due to be corrected as part of the year's wage policy.

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

The overall ratio of women to men remains relatively stable from one year to the next.

2.2.8.1 Employment of disabled persons

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

Vetoquinol SA currently complies with 95% of the disabled employment targets defined by law.

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

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

2.3 ENVIRONMENTAL INFORMATION

The environment, our shared responsibility

2.3.1 Overall environmental policy

The Group discloses environmental data concerning the following five main production plants:

- Lure (France),
- Gorzow (Poland),
- Forli (Italy),
- Princeville (Canada),
- Mairipora (Brazil).

2.3.1.1 Risk control underpinning our business

All Vetoquinol production locations have an environmental and safety officer.

All new Group employees are trained in environmental protection.

On sites that have an emergency plan, the managers and technicians responsible for putting the plan into action receive periodic training in emergency measures. Procedures and operational processes such as waste sorting are implemented on a local basis. Staff are trained with a view to applying these procedures.

The Group has around six full-time employees responsible for managing environmental factors, in particular prevention of risks and pollution.

The Group has not recorded any provisions or guarantees related to environmental contingencies.

At every production plant, the environmental officer monitors applicable regulations in order to anticipate any changes thereto.

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

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

The discovery of antibiotics in the 20th century marked a significant medical milestone. However, the widespread and occasionally excessive use of antibiotics modified the bacterial ecology and contributed to the emergence of bacterial resistance to antibiotics. Vetoquinol has been able to bring to market a single-injection treatment procedure thanks to its scientific expertise in the fields of pharmacology and pharmacodynamics coupled with extensive R&D work. This treatment complies with the latest official requirements concerning the use of antibiotics in animal health, and its single injection procedure (SISAAB* concept) greatly simplifies the administration of the drug. In 2016, Vetoquinol made a strong commitment to helping veterinarians cope with the new restrictions regarding the prescription of "critical" antibiotics, by organizing scientific and legislative webinars led by experts and providing tools for raising awareness amongst pet owners.

Vetoquinol also provides vets with educational materials for pet owners explaining the use of critical antibiotics: a waiting room poster and a handbook enable vet nurses to answer frequently asked questions.

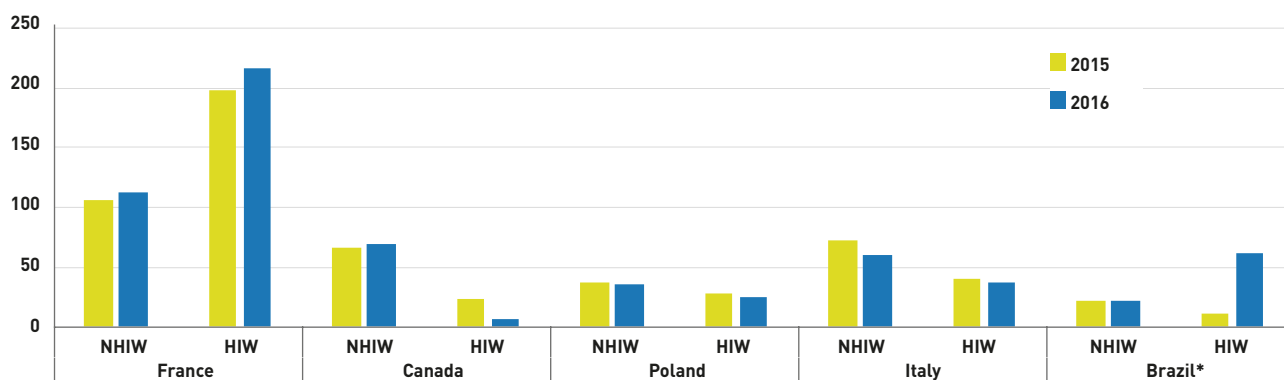
2.3.2 Pollution and waste management

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

There is no soil pollution. All production plants have water-proof floors designed to contain any accidental spillage.

Regarding water pollution, the Canadian and Polish locations have separate sewer systems connected to the local municipal wastewater treatment plant. The Italian site does not produce any water pollution: all wastewater is collected and stored in containers for treatment by a specialist firm.

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



At Magny-Vernois, an on-site biological treatment plant is used to eliminate biodegradable pollutants. It is supported by a peroxonation facility (combining the treatment of oxygenated and ozone water) in order to eliminate non-biodegradable molecules.

Solid waste is monitored closely by means of detailed indicators and changes are analyzed in order to prevent anomalies. In accordance with the waste sorting policy, materials such as wood, cardboard, paper, metal and electrical and electronic equipment are sent to recycling companies. Pharmaceutical waste, which cannot be recycled, is incinerated at a certified energy recycling facility. The best way to deal with waste is to re-use it: Vetoquinol prioritizes this solution, which is already applied to pallets, transport containers, printing paper, etc.

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

In 2016, Vetoquinol paid no compensation pursuant to any court decision relating to an environmental issue, and no provision has been set aside.

2.3.2.2 Reducing hazardous and raw material waste

In the pharmaceutical industry, raw materials are expensive and generate waste that is expensive to treat. The degree of material waste during the production process makes it more difficult to judge the quantities required, a problem exacerbated by the fact that these substances have a limited lifespan. Therefore, Vetoquinol makes the utmost effort to optimize the use of these substances. Efficiency is monitored daily by the production teams, who strive constantly to minimize waste.

To preserve the natural properties of the soil, Vetoquinol maintains and upkeeps a maximum amount of grassy areas on its sites, with regular planting of trees and flowers.

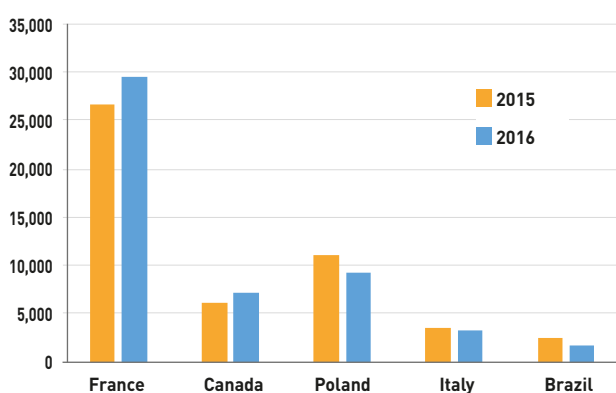
* These figures are estimates.

2.3.3 Sustainable use of resources

2.3.3.1 Limiting the impact of our operations on water

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

2.3.3.2 Drinking water consumption (m³)

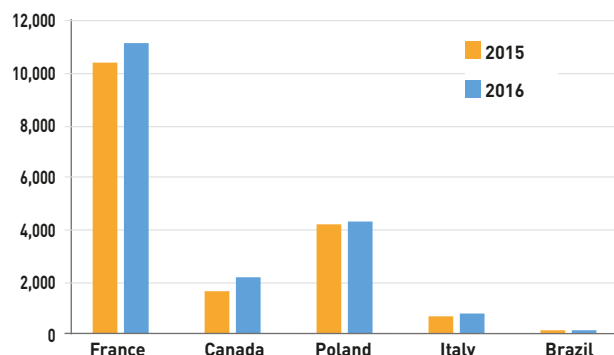


The Magny-Vernois plant has the special feature of using groundwater for the industrial cooling of some facilities (annual consumption of approx. 30,000 m³). This water, which remains clean and is only slightly heated, is drained into the rainwater system. Vetoquinol plans to eventually reduce the use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

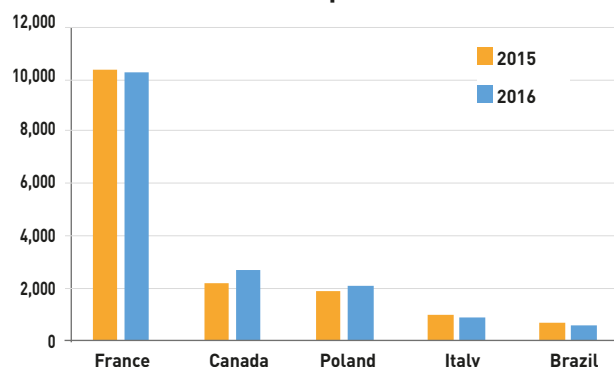
The Lure site obtained ISO 50001 certification on January 18, 2016. The Group has introduced a consumption measurement system and an action plan to reduce energy consumption. The plan spans several years and includes investment in more efficient equipment and metering and regulating systems designed to facilitate consumption management and discrepancy monitoring. It also includes employee awareness campaigns covering daily actions at work and home consumption. In late December 2016, a follow-up audit by AFNOR renewed this certification.

At the main production plant in Magny-Vernois, a team of internal ISO 50001 auditors were trained. These auditors, as well as technical staff, also received training in saving energy. The action plan rolled out in 2016 resulted in significant electricity savings and highlighted the need to install additional energy meters in order to track consumption more accurately.

2.3.3.3 Gas consumption (MWh GCV)



2.3.3.4 Power consumption (MWh)



2.3.4 Climate change

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

For information, Group CO₂ emissions totaled 2,958 tons (source: 2014 GHG disclosure).

The Group has already seized opportunities to reduce emissions by cutting energy consumption and streamlining transportation.

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

2.3.5 Protection of biodiversity

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

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

2.4 SOCIAL INFORMATION

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

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

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

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

Vetoquinol sponsors cultural and sports events and clubs.

In 2016, for the fourth consecutive year Vetoquinol was the main sponsor of the *Eurockéennes de Belfort* festival, one of the largest music festivals in France, and also provided financial support to the Paris Zoo.

In Canada, and with help from the country's veterinary clinics, Vetoquinol raised funds in support of the Vets without Borders "Goat Pass-On" program, which aims to help rural communities in Uganda raise goats. This directly benefits families, communities and entire villages.

Also in Canada, a range of activities were organized by employees in support of Centraide, a foundation that raises money in order to break the cycle of poverty and social exclusion as well as financing a local school.

Eco-responsibility initiatives were also set up in France (energy saving challenges) and Canada (clean-up of site surroundings as part of Earth Day). Vetoquinol Lavaltrie's *Vert l'Excellence* Committee encourages employees to adopt more responsible daily actions.

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

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

2.4.2 Relations with stakeholders

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

	Stakeholders	Main goals and interests
Research & Development	• Veterinary schools • Universities • Recognized experts • Laboratories, INRA, INSERM	• International conferences/meetings • Development/know-how • Advanced scientific training • Experience-sharing
Staff	• Employees • Staff representative bodies • Management and employee representatives	• Staff negotiations, dialog, barometer • Business values, Guide to Good Business Practices • Annual performance reviews, conferences • Company mutual fund, works council • Training, Group vacancies • Collective agreement • Information-sharing
Institutions	• AFSSA • DGM/EMA/FDA • Eurostat • Vetnosis • National agencies • AMF • Health for Animals • DREAL • SIMV	• Regulatory affairs, MAs • Assessment of veterinary drugs • EU country statistics • Animal health market studies • GLP/GMP certification • Applicable general regulations • Industry representation on the 5 continents • Site inspections • Information-sharing
Customers	• Vets/clinics/drugstores • Breeders • Pet owners • Retailers/wholesalers	• Distribution/listening and product training/demand • Breeders/production meetings • Listening/pet well-being • Key account management
Partners	• Suppliers • Lessors/tenants • Banks	• Quality improvements/work groups • Tenders • Funding the business • Anti-corruption measures
Financial community	• Shareholders • Investors • Analysts • Rating agency • Auditors • Euronext/MiddleNext	• Shareholders' general meeting • Investor meetings/roadshows • Financial results presentations • Stock market regulations • Questionnaires • Audit • Information support
Public	• ESAT • Centraide • Media • Government and municipalities • Charities, social and environmental NGOs	• Disabled workers partnership • Aid for disadvantaged families • Social networks • Labor office • Compliance with social and environmental criteria • Local residents • Waste management • Protection of biodiversity, ISO 50001

2.4.3 Subcontracting

The Group develops strong partnerships with a number of rigorously selected pharmaceutical industry players whose production capacity matches the Group's requirements. Preselected partners are audited and approved by the Group Quality Department. They must also hold the requisite authorizations for performing the operations the Group intends to assign to them.

The Group outsources manufacturing operations for reasons related to technology (access to different technologies), capacity (saturation of existing plant) or regulations (need for approved technology for manufacturing products in compliance with specific regulations).

Partners are periodically monitored and audited in order to ensure their level of performance and compliance with applicable regulations.

2.4.4 Charter of commitments

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

Regarding matters that are not governed by laws or regulations, Vetoquinol's employees are bound by principles of fairness and honesty in their daily activities.

AUDITOR'S REPORT ON SOCIAL AND ENVIRONMENTAL INFORMATION

Year ended December 31, 2016

To the Corporate Management,

Further to the request submitted to us and in our capacity as independent auditors of Vetoquinol SA, we hereby present to you our report on the consolidated social and environmental information presented in the Management Report prepared pursuant to Article L.225-102-1 of the French Commercial Code in respect of the financial year ended December 31, 2016.

Management responsibility

It is the responsibility of the Board of Directors to draw up a management report, comprising the consolidated staff, environmental and social information set out in Article R. 225-105-1 of the French Commercial Code (hereafter referred to as the "Information"), presented in accordance with the guidelines adopted by the Company (the "Guidelines") and available upon request at the Group's head office, a summary of which appears in the procedural note available on the Group's website.

Independence and quality control

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

Duties of the independent auditor

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

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

CERTIFICATE OF INCLUSION

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

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

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

MODERATE ASSURANCE REPORT

Nature and scope of audit

We conducted our audit in accordance with ISAE 3000 (International Standard on Assurance Engagements) and professional guidelines applicable in France. We performed the following procedures in order to obtain moderate assurance that the Information is free of material misstatements that could affect the fairness of such Information, in all material aspects, in accordance with the guidelines. A greater degree of assurance would have required more extensive verifications.

The engagement was carried out in March 2017 over a duration of 7 man-hours. We conducted seven interviews with Group managers.

We performed the following procedures:

- We assessed the appropriateness of the guidelines in terms of their relevance, completeness, impartiality, clarity and reliability, taking industry best practices into consideration where applicable.
- We verified the implementation of a collection, compilation, processing and control process within the Group designed to guarantee the completeness and consistency of the Information. We took cognizance of the internal control and risk management procedures relating to the preparation of the Information. We conducted interviews with the persons responsible for social and environmental reporting.
- We identified the consolidated information to be tested and determined the nature and scope of the tests, taking into consideration its importance with regard to the social and environmental consequences related to the Group's operations, characteristics and social commitments.
- Regarding what we considered to be the most important quantitative consolidated information:
 - in respect of the parent company, Vetoquinol SA, and its controlled entities, we performed analytical procedures and tested the calculation and consolidation of such information by way of sample tests;
 - in respect of locations or subsidiaries which we selected¹ in accordance with their contribution to consolidated indicators and with a risk analysis, we:
 - conducted interviews to verify the proper application of procedures and to identify any omissions;
 - performed detailed sample tests designed to verify the calculations made and reconcile the data contained in the supporting documentation.

The sample selected in this manner represents an average of over 50% of contributions to social data and around 50% of contributions to environmental data.

- Regarding what we considered to be the most important qualitative consolidated information, we conducted interviews and reviewed the related documentary sources in order to corroborate said information and assess its fairness. On the subject of fair practices, interviews were held only at the parent company, Vetoquinol SA.
- We assessed the fairness and consistency of the other published consolidated information in light of our knowledge of the company and, where applicable, through interviews or by reviewing documentary sources.
- Lastly, we assessed the appropriateness of the explanations provided for any information omitted.

Observations regarding the guidelines

The CSR guidelines are localized for each entity, in order to tailor the reporting process to each of the various Vetoquinol entities.

Observations regarding the information

The social, environmental and staff information is collected by the operating departments and is reconciled with the data held by the financial departments.

CONCLUSION

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

Lyon, March 23, 2017

FINEXFI
Isabelle Lhoste
Partner

¹ Companies selected for the tests: operating locations in Poland, Italy, Canada and Brazil



4

CONSOLIDATED FINANCIAL STATEMENTS **AFR**

4.1	CONSOLIDATED STATEMENT OF FINANCIAL POSITION	24	4.4	STATEMENT OF CHANGES IN CONSOLIDATED EQUITY	27
4.2	CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	25	4.5	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	28
4.3	CONSOLIDATED STATEMENT OF CASH FLOWS	26			

CONSOLIDATED FINANCIAL STATEMENTS AFR

4.1 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€000	Notes	2016	2015
Sales	4.5.8	350,354	342,612
Purchases consumed		(116,224)	(120,302)
Other purchases and external expenses	4.5.10	(72,814)	(67,411)
Staff costs	4.5.11	(105,382)	(103,147)
Taxes other than on income		(4,840)	(4,888)
Depreciation and impairment of fixed assets	4.5.20/4.5.21	(13,512)	(13,587)
Provisions and write-backs		(946)	1,634
Other operating income	4.5.13	6,477	6,459
Other operating expenses	4.5.13	(1,039)	(2,285)
EBIT		42,072	39,085
% of sales		12.0%	11.4%
Non-recurring operating income and expenses	4.5.14	(2,071)	(4,811)
OPERATING INCOME		40,002	34,275
% of sales		11.4%	10.0%
Income from cash and cash equivalents	4.5.16	1,042	1,330
Gross cost of debt	4.5.16	(448)	(672)
NET INCOME FROM CASH AND CASH EQUIVALENTS	4.5.16	594	657
Other financial income	4.5.16	2,995	7,861
Other financial expenses	4.5.16	(3,789)	(6,338)
NET FINANCIAL INCOME/(EXPENSE)	4.5.16	(200)	2,181
INCOME BEFORE TAX		39,802	36,456
Income tax expense	4.5.17	(11,835)	(12,296)
NET INCOME EXCL. EARNINGS OF ASSOCIATES		27,967	24,160
Earnings/(loss) of associates		(137)	-
NET INCOME FOR THE YEAR		27,830	24,160
Attributable to:			
Parent company shareholders		27,827	24,156
Non-controlling (minority) interests		4	4
Exchange differences on translation of foreign operations reclassifiable to P/L		4,951	1,315
Post-tax actuarial gains (losses) not reclassified to P/L		(467)	229
Other comprehensive income, net of tax		-	-
Total comprehensive income for the year, net of tax		32,315	25,703
Attributable to:			
Parent company shareholders		32,311	25,699
Non-controlling (minority) interests		4	4
Basic EPS (€)	4.5.18	2.35	2.04
Diluted EPS (€)	4.5.18	2.35	2.04
Operating income		40,002	34,275
Provisions and write-backs recorded under non-recurring operating income and expenses		1,678	4,713
Provisions and write-backs		946	(1,634)
Depreciation and impairment of fixed assets		13,512	13,587
EBITDA		56,138	50,941
% of sales		16.0%	14.9%

4.2 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€000	Notes	Dec 31, 2016	Dec 31, 2015
ASSETS			
Goodwill	4.5.19	78,689	77,364
Other intangible assets	4.5.20	46,541	47,255
Property, plant and equipment	4.5.21	52,649	50,745
Investments in associates		313	-
Other financial assets	4.5.23	847	743
Deferred tax assets	4.5.17	8,952	7,979
Total non-current assets		187,990	184,086
Inventories	4.5.25	69,426	68,374
Trade and other receivables	4.5.26	73,996	66,536
Current income tax receivables		2,189	4,671
Other current assets	4.5.26	2,274	1,735
Cash and cash equivalents	4.5.27	103,296	87,073
Total current assets		251,182	228,390
TOTAL ASSETS		439,172	412,476
SHAREHOLDERS' EQUITY			
Capital stock and additional paid-in capital	4.5.28	70,831	70,831
Reserves		217,759	194,449
Net income for the year		27,827	24,156
Equity attributable to parent company shareholders		316,416	289,436
Non-controlling (minority) interests		59	57
Shareholders' equity		316,476	289,492
LIABILITIES			
Non-current financial liabilities	4.5.29	15,427	24,163
Deferred tax liabilities	4.5.17	10,834	10,452
Provisions for employee benefits	4.5.30	7,895	6,870
Other provisions	4.5.31	1,625	1,077
Other long-term liabilities		36	11
Government loans	4.5.32	490	889
Total non-current liabilities		36,307	43,461
Trade and other payables	4.5.33	72,761	68,560
Current income tax liabilities		3,389	1,456
Current financial liabilities	4.5.29	8,849	8,904
Other provisions	4.5.31	956	262
Other current liabilities	4.5.33	36	59
Government loans (portion due in less than 1 yr)	4.5.32	399	280
Total current liabilities		86,390	79,522
Total liabilities		122,696	122,983
TOTAL EQUITY AND LIABILITIES		439,172	412,476

4.3 CONSOLIDATED STATEMENT OF CASH FLOWS

€000	Notes	2016	2015
Consolidated net income		27,830	24,160
Elimination of non-cash items		-	-
Depreciation, amortization and provisions		15,621	17,757
Elimination of (earnings)/loss of associates		137	-
Income tax expense		11,835	12,296
Interest expense		(491)	(773)
Provisions for employee benefits		85	65
Impairment of available-for-sale financial assets		-	-
Capital gains (losses) on sales, net of tax		(85)	(258)
Other non-cash items		-	-
Income and expenses from share-based payments		-	-
Cash flows from operating activities		54,933	53,247
Tax paid		(9,946)	(13,057)
Change in working capital		(1,781)	(1,293)
Net cash flow from operating activities		43,205	38,897
Purchase of intangible assets		(4,155)	(2,506)
Purchase of PP&E		(9,440)	(11,016)
Acquisition of financial assets		(458)	-
Proceeds from sale of assets		720	419
Loan repayments / income from other financial assets		(87)	(19)
Net cash flow from (used by) business combinations	4.5.7	-	(2,136)
Net cash flow from (used by) investing activities		(13,419)	(15,259)
Capital increase		-	-
Net (purchase)/sale of treasury stock		(386)	-
Issuance of debt and other financial liabilities		27	497
Repayment of financial liabilities		(8,982)	(19,609)
Interest paid		(503)	(745)
Interest received		960	1,471
Dividends paid to parent company shareholders	4.5.28.3	(4,860)	(4,627)
Dividends paid to non-controlling (minority) interests		(1)	-
Investment subsidies and government loans		-	-
Other cash flows from financing activities		-	-
Net cash flow from financing activities		(13,745)	(23,013)
Exchange gains (losses)		187	253
Net change in cash		16,229	878
Opening net cash and cash equivalents		87,041	86,164
Change in cash and cash equivalents		16,229	878
Closing net cash and cash equivalents	4.5.27	103,270	87,041

4.4 STATEMENT OF CHANGES IN CONSOLIDATED EQUITY

€000

	Capital stock and additional paid-in capital (Note 4.5.28)	Translation reserve	Actuarial gains (losses)	Other reserves	Total reserves	Net income for the year	Total equity attributable to parent company shareholders	Non-controlling (minority) interests	Total shareholders' equity
December 31, 2014	70,831	(189)	(595)	172,530	171,746	25,766	268,343	53	268,396
Net income for the year	-	-	-	-	-	24,156	24,156	4	24,160
Other comprehensive income, net of tax	-	1,315	229	-	1,544	-	1,544	-	1,544
2015 comprehensive income	-	1,315	229	-	1,544	24,156	25,699	4	25,703
Appropriation of earnings	-	-	-	25,766	25,766	(25,766)	-	-	-
Stock options exercised	-	-	-	-	-	-	-	-	-
Bond conversions	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	-	-	-	-
Dividends paid by the parent company	-	-	-	(4,627)	(4,627)	-	(4,627)	-	(4,627)
Other	-	-	-	20	20	-	20	-	20
December 31, 2015	70,831	1,126	(366)	193,689	194,449	24,156	289,436	57	289,492
Net income for the year	-	-	-	-	-	27,827	27,827	4	27,830
Other comprehensive income, net of tax	-	4,951	(467)	-	4,484	-	4,484	-	4,484
2016 comprehensive income	-	4,951	(467)	-	4,484	27,827	32,311	4	32,315
Appropriation of earnings	-	-	-	24,156	24,156	(24,156)	-	-	-
Stock options exercised	-	-	-	-	-	-	-	-	-
Bond conversions	-	-	-	-	-	-	-	-	-
Treasury shares	-	-	-	(386)	(386)	-	(386)	-	(386)
Dividends paid by the parent company	-	-	-	(4,860)	(4,860)	-	(4,860)	(1)	(4,861)
Other	-	-	-	(85)	(85)	-	(85)	-	(85)
December 31, 2016	70,831	6,077	(832)	212,514	217,759	27,827	316,416	59	316,476

4.5 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4.5.1 Overview

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

Since its foundation in 1933, Vetoquinol has pursued a strategy combining innovation with geographical diversification. The Group's hybrid growth is driven by the reinforcement of its product portfolio coupled with acquisitions in high potential growth markets. Vetoquinol employs 2,084 people.

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

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

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

The Vetoquinol Group consolidated financial statements were approved by the Board of Directors on March 22, 2017. They will be submitted for shareholder approval at the next Ordinary General Meeting, due to be held on May 30, 2017.

4.5.2 Key events

Following the agreement signed with Zenoaq on December 3, 2015 establishing a joint venture (JV) in Japan, Vetoquinol acquired a 55% equity interest in the JV by injecting €0.4 million of capital funding. Control is exercised jointly by the two partners; the JV's earnings are recognized in Vetoquinol's income statement under "Earnings of associates".

4.5.3 Accounting principles

4.5.3.1 General accounting principles and standards

The 2016 consolidated financial statements were prepared in accordance with international accounting standards as published by the IASB and adopted by the European Union as of December 31, 2016. These international standards include IAS (International Accounting Standards), IFRS (International Financial Reporting Standards) and SIC and IFRIC interpretations. The IFRS adopted by the European Union as of December 31, 2016 may be consulted in the section entitled "IAS/IFRS Standards and Interpretations" on the following website: http://ec.europa.eu/internal_market/accounting/ias/index_en.htm.

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

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

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

These policies are identical to those used by the Group as of December 31, 2015, with the exception of standards, interpretations and amendments adopted by the European Union and applicable for accounting periods beginning on or after January 1, 2016:

- Amendments to IAS 1 – Disclosure initiative
- Amendments to IAS 16 and IAS 38 – Clarification of acceptable methods of depreciation and amortization
- Annual improvements to IFRS (2010-2012)
- Annual improvements to IFRS (2012-2014)
- Amendments to IAS 16 and IAS 41 – Agriculture: Bearer plants
- Amendments to IFRS 11 – Accounting for the acquisition of an interest in a joint operation
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities: Applying the consolidation exception

The Group has elected not to apply in advance standards, interpretations and amendments adopted by the European Union and applicable from January 1, 2017:

- Amendment to IAS 7: Disclosure initiative
- Amendments to IAS 12: Recognition of deferred tax assets for unrealized losses
- IFRS 15 – Revenue from contracts with customers
- IFRS 9 – Financial instruments

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

Regarding IFRS 15, after an initial examination of the standard, and in view of our current business practices, the application of the standard is not expected to have a material impact on the consolidated financial statements.

4.5.3.2 Consolidation and business combinations

4.5.3.2.1 Consolidation scope

The consolidated financial statements cover Vetoquinol SA and its subsidiaries, in which the Company directly or indirectly holds a majority of the voting rights. Together, they comprise Vetoquinol Group.

The subsidiaries comprise all entities over which the Group

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

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

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

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

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

The Group is composed solely of Vetoquinol SA and its subsidiaries. It has no joint ventures or associates.

Group companies are presented under Note 4.5.43 "Group companies".

4.5.3.3 Business combinations

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

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

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

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

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

4.5.3.4 Foreign currency translation

4.5.3.4.1 Functional currency and reporting currency

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

4.5.3.4.2 Transactions, assets and liabilities

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

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

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

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

4.5.3.4.3 Translation of Group company financial statements

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

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

4.5.3.5 Revenue recognition

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

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

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

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

4.5.3.6 Segment reporting – IFRS 8

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

The Group's operating segments are geographical segments.

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

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

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

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

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

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

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

4.5.3.7 Earnings per share

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

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

4.5.3.8 Employee benefits

4.5.3.8.1 Pension liabilities and other long-term employee benefits

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

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

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

The amount of future employee benefit payments is estimated using actuarial assumptions as to future salary levels, age at retirement and mortality, then discounted to present value by reference to interest rates on long-term blue chip corporate bonds.

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

4.5.3.8.2 Share-based payments

None.

4.5.3.9 Leases

4.5.3.9.1 Operating leases

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

4.5.3.9.2 Finance leases

For material finance leases entered into by the Group as a lessee, an asset and a liability are recognized at the leased asset's fair value or, if lower, at the present value of the minimum lease payments (at the interest rate implicit in the lease). The payments are divided between interest expense and reduction of the lease liability. Property, plant and equipment acquired under finance leases is depreciated over the useful life of the assets or, if shorter, over the lease term.

4.5.3.10 Intangible assets

4.5.3.10.1 Goodwill

Goodwill is valued at cost less accumulated impairment losses. See Note 4.5.3.3. for the initial valuation of goodwill. Under IAS 36, goodwill is allocated to cash-generating units for purposes of impairment testing as described in Note 4.5.3.12. Goodwill is subject to impairment testing at least once a year – and more frequently if there are any indicators of impairment – and is carried at cost less any accumulated impairment losses. Impairment losses are irreversible.

4.5.3.10.2 R&D expenses

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

However, amounts paid in consideration of the grant of licenses and marketing rights for molecules, processes, information of a scientific nature and in-licensing arrangements are recognized as intangible assets. These amounts are generally paid in the start-up phase and during the course of a research project, until marketing authorization has been obtained.

They are amortized over periods ranging from 5 to 15 years.

4.5.3.10.3 Other intangible assets

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

The same amortization periods are used throughout the Group:

Categories	Method	Period
Licenses and patents	Straight line	5 to 15 years
Software	Straight line	1 to 5 years
Trademarks	Straight line	7 to 10 years
Products and/or MAs	Straight line	10 to 15 years
Other inc. customer relations	Straight line	10 years

4.5.3.11 Property, plant and equipment

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

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

4.5.3.12 Impairment of assets

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

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

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

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

4.5.3.13 Financial assets available for sale

None.

4.5.3.14 Other financial assets

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

4.5.3.15 Derivatives

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

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

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

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

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

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

4.5.3.16 Inventories

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

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

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

4.5.3.17 Trade receivables

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

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

4.5.3.18 Cash and cash equivalents

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

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

4.5.3.19 Financial liabilities

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

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

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

In the case of borrowings corresponding to finance lease restatements, the capital borrowed is equal to the initial value of the assets acquired under finance leases, which are recorded in Property, plant and equipment.

Interest expenses are expensed as incurred.

4.5.3.20 Deferred taxes

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

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

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

Deferred taxes are recognized for temporary differences associated with investments in subsidiaries and associates, except where the Group can control the timing of the reversal of those temporary differences and it is probable that they will not reverse in the foreseeable future.

4.5.3.21 Provisions

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

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

4.5.3.22 Non-current assets held for sale

None.

4.5.3.23 Government grants

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

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

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

4.5.3.24 Dividend distribution

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

4.5.4 Financial risk management

4.5.4.1 Currency risk management

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

Accordingly, the distribution subsidiaries are not exposed to exchange rate risk. Foreign currency movements are centralized at the level of Vetoquinol SA and hedging instruments may be put in place. These instruments usually have a term of less than one year. At the balance sheet date, there were no material hedging instruments outstanding. For this reason, IAS 39 rules pertaining to such instruments were not found to apply to 2016 or the prior year. If Vetoquinol earns gains or incurs losses on these instruments, such gains or losses are recognized under net financial income/(expense).

The Group has a USD surplus and keeps these dollar receipts for the purposes of potential acquisitions. Other currencies are sold mainly on the spot market.

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

On the basis of the 2016 financial statements, solely with regard to the foreign subsidiaries, a 10% increase in the value of the euro compared to all other foreign currencies would have resulted in an €18.1 million decrease in consolidated sales (2015: €17.6 million) and a €2.0 million decrease in consolidated operating income (2015: €1.8 million).

Conversely, a 10% reduction in the value of the euro compared to other currencies would have resulted in a €22.1 million increase in sales (2015: €21.5 million) and a €2.4 million increase in consolidated operating income (2015: €2.2 million).

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

Currency gains or losses and the net result of hedging transactions are recognized under net financial income/(expense). Most of these transactions are entered into and closed during the year, over very short periods, and therefore there are no outstanding items recorded in the closing balance sheet. The Group's procedures do not permit speculative transactions.

The Group is exposed to GBP devaluation. The depreciation in GBP vs EUR following Brexit prevented the Group from selling off all of its GBP receipts. As of 12/31/2016, the Group still held GBP 8.6 million.

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

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

€000	EUR	USD	CAD	GBP	INR	PLN	BRL	AUD	CHF	Other	Total currencies
Dec 31, 2015											
Trade receivables	30,818	8,179	5,978	5,634	2,854	1,739	1,764	480	542	2,911	60,900
Impairment of trade receivables	(1,349)	(3)	(19)	(1)	(179)	(357)	(44)	-	(29)	(29)	(2,010)
Net trade receivables	29,469	8,176	5,958	5,633	2,675	1,382	1,720	480	514	2,882	58,890
Prepayments	251	160	167	-	20	12	46	36	-	16	708
Prepaid expenses	383	10	463	204	67	113	1	1	6	144	1,394
Receivables from government agencies	4,322	-	223	-	76	42	665	17	45	92	5,483
Other operating receivables	299	527	6	-	-	24	79	-	-	1	935
Miscellaneous receivables	472	21	16	-	74	191	5	9	71	2	861
Provisions	-	-	-	-	-	-	-	-	-	-	-
Total other receivables	5,728	718	875	204	237	383	797	64	121	255	9,381
Trade and other payables	40,087	7,127	10,078	3,698	2,230	2,442	801	980	352	824	68,619
Net trade and other payables	40,087	7,127	10,078	3,698	2,230	2,442	801	980	352	824	68,619
Total gross balance sheet exposure	(4,891)	1,767	(3,244)	2,139	682	(678)	1,715	(435)	284	2,313	(348)

4.5.4.2 Interest rate risk management

The Group's general policy on interest rate risk is to globally manage its exposure through swaps. Pursuant to the provisions of IAS 39, whenever the conditions for hedge accounting are met, the Group applies the relevant procedures. When these conditions are not met, or if the amounts concerned are not material, as has been the case in recent years, derivatives are carried on the balance sheet at their fair value, and all changes in fair value are posted to income, in accordance with the provisions of IAS 39.

Normally, the Group's exposure to interest rate risk is insignificant and concerns basically two line items on the balance sheet: financial liabilities and cash.

As of December 31, 2016, 99.7% of the Group's financial liabilities (including bank overdrafts) bore interest at a fixed rate (2015: 99.6%). Floating rate commitments amounted to €0.1 million as of December 31, 2016 (2015: €0.1 million). The latest €41 million loan taken out by the Group to finance

the Bioniche acquisition was swapped in 2014, as was the 2013 €16 million loan for the Orsco acquisition.

The Group's investments consist of fixed-rate term deposits with major banks, whilst the corresponding bank overdrafts are subject to a floating rate. This enabled the Group to minimize interest costs during 2015 and 2016. On the basis of the 2016 financial statements, a 100 basis point increase in interest rates would have increased earnings by €676,000 (2015: €447,000 increase in earnings).

4.5.4.3 Liquidity risk management

The Group's cash and cash equivalents – excluding bank overdrafts – stood at €103.3 million as of December 31, 2016 (2015: €87.1 million). Cash equivalents comprise fixed-rate term deposits with major retail banks amounting to €35.7 million (2015: €42.4 million).

2016 Group free cash flow before net cost of debt and tax amounted to €54.9 million, compared to €53.2 million in the previous year.

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

One loan is subject to a financial covenant, which is binding on Vetoquinol. During 2015 and 2016, the Group met the financial covenant requirement in respect of this loan: consolidated net debt/consolidated equity (gearing) less than 1.

The other loan is subject to a number of financial covenants binding on Vetoquinol. During 2015 and 2016, the Group met these financial covenant obligations, which are as follows: consolidated net debt/consolidated equity less than 1 and maintenance of Soparfin's majority of voting rights at Vetoquinol's shareholders' general meetings.

In light of its financial position at December 31, 2016, the Group considers that it is not exposed to liquidity risk. As of December 31, 2016, the Group's cash was largely sufficient to meet its financial liabilities due in less than one year. Net cash amounted to €78.1 million as of December 31, 2016, compared to €52.8 million as of December 31, 2015.

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

4.5.4.4 Credit risk management

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

The Group's exposure to credit risk is mainly influenced by the individual features of its customers. The Group currently sells its products in more than one hundred countries throughout the world via subsidiaries in 23 countries and a network of 140 distributors.

In some geographical regions, the occurrence of a concentration of wholesalers and/or central purchasing agencies could result in a revision of the Group's margins following renegotiation of these contracts. However, this risk appears to be limited, as the Group is sufficiently large and diversified geographically and by product to be able to withstand such pressure. By way of illustration, the Group's largest wholesale distributor accounted for 5.7% of consolidated revenues in 2016 (2015: 5.9%).

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

Sales of goods are subject to a retention of title clause that provides the Group with some security in the event of default. The Group does not require any specific security with regard to trade and other receivables.

The carrying value of the Group's financial assets represents its maximum exposure to credit risk; as of December 31, 2016 this amounted to €70.2 million (2015: €64.3 million).

4.5.5 Capital management

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

Occasionally, the Group purchases its own shares on the market. The timing of these purchases depends on prevailing market prices. These shares are primarily used in connection with stock option and bonus share programs. Decisions to buy and sell are made by the Chairman and/or the CEO on a case by case basis. The Group has no defined share buyback program. Apart from these occasional practices, the Group has a liquidity contract (see Note 4.5.28).

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

4.5.6 Information on judgments and estimates

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

The estimates and assumptions made on the basis of information available at the balance sheet date relate in particular to:

- trade receivable bad debt and year-end rebate provisions;
- duration of product life cycles;
- provisions for restructuring and environmental and litigation risks;

- valuation of goodwill, intangible assets and property, plant and equipment acquired as well as their estimated useful life;
- pension commitments.

4.5.7 Business combinations

There were no business combinations in 2016 or 2015.

4.5.8 Operating segments – IFRS 8

All 2016 and 2015 revenues came from sales of veterinary products.

4.5.8.1 2016 operating segment results

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

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

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

4.5.8.2 2015 operating segment results

€000	Europe	Americas	Asia Pacific (rest of world)	Consolidated total
By asset location				
Sales	266,807	126,339	26,826	419,972
Inter-segment sales	(62,513)	(14,600)	(248)	(77,360)
Total external sales	204,294	111,740	26,578	342,612
EBIT	29,220	8,226	1,640	39,085
Non-recurring operating income and expenses	(93)	(4,718)	-	(4,811)
Operating income	29,127	3,508	1,640	34,275
Net financial income/(expense)	-	-	-	2,181
Income before tax	-	-	-	36,456
Income tax	-	-	-	(12,296)
NET INCOME	-	-	-	24,160

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

€000	Europe	Americas	Asia Pacific (rest of world)	Consolidated total
By geographical region				
Sales	236,807	128,599	54,566	419,972
Inter-segment sales	(53,867)	(19,078)	(4,414)	(77,360)
TOTAL EXTERNAL SALES	182,939	109,521	50,152	342,612

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

€000	Europe	Americas	Asia Pacific (rest of world)	Consolidated total
2016				
Depreciation and amortization	(8,002)	(4,788)	(722)	(13,512)
Provisions and write-backs	(420)	(214)	(312)	(946)
Goodwill impairment	-	-	-	-
Expenses on grants of bonus shares	-	-	-	-
2015				
Depreciation and amortization	(8,229)	(4,244)	(1,114)	(13,587)
Provisions and write-backs	165	899	571	1,634
Goodwill impairment	-	(4,181)	-	(4,181)
Expenses on grants of bonus shares	-	-	-	-

Goodwill impairment was recorded for Brazil in 2015.

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

4.5.8.4 Segment assets, liabilities and investments

The segment assets and liabilities presented here include deferred taxes.

€000	Europe	Americas	Asia Pacific (rest of world)	Consolidated total
December 31, 2016				
Assets	267,869	127,217	44,086	439,172
Liabilities	49,562	69,026	4,108	122,696
Acquisition of assets	10,000	3,654	114	13,768
Acquisition of assets from business combinations	-	-	-	-
December 31, 2015				
Assets	251,347	118,836	42,292	412,476
Liabilities	49,245	69,833	3,905	122,983
Acquisition of assets	7,728	5,313	269	13,310
Acquisition of assets from business combinations	-	-	-	-

4.5.9 R&D costs

R&D costs incurred and expensed in 2016 amounted to €24.2 million, or 6.9% of sales (2015: €22.1 million, or 6.4% of sales).

4.5.10 Other purchases and external expenses

€000	2016	2015
General subcontracting	3,010	2,949
Lease and rental payments	6,524	6,576
Maintenance	3,745	3,705
Insurance	1,288	1,268
Analyses and research	1,404	1,745
Third-party staff	1,359	886
Fees and commissions paid to intermediaries	18,391	13,765
Advertising, publications, public relations	12,229	12,142
Freight and collective transportation of staff	7,294	7,449
Business travel and entertainment	11,581	10,798
Postage and telecommunications	1,999	1,863
Royalties on concessions, patents, licenses, trademarks, etc.	1,356	1,393
Other external services	2,004	2,194
Miscellaneous	629	679
TOTAL	72,814	67,411

4.5.11 Staff costs

€000	2016	2015
Wages and salaries	77,904	75,707
Social security charges (*)	25,401	25,933
Severance pay	1,251	1,106
Employee benefits (Note 4.5.30)	798	401
Employee long-term benefits – actuarial gains and losses recognized in the income statement	29	-
Expenses on grants of stock options	-	-
Expenses on grants of bonus shares	-	-
TOTAL EMPLOYEE BENEFITS	105,382	103,147

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

4.5.12 Share-based payments – bonus shares and stock options

No new bonus share or stock option plans were introduced in 2016.

4.5.13 Other operating income and expenses

€000	2016	2015
Operating grants	7	224
Investment grants transferred to income for the year	25	28
Gains on asset sales	103	419
Research tax credit (Crédit d'Impôt Recherche – CIR)	3,865	3,853
Other income	2,476	1,936
OTHER OPERATING INCOME	6,477	6,459
Book values of assets sold	(152)	(161)
Other expenses	(887)	(2,124)
OTHER OPERATING EXPENSES	(1,039)	(2,285)
TOTAL	5,438	4,174

Other expenses included bad debt losses of €0.3 million. In 2015, other expenses included bad debt losses of €1.0 million, as well as the recognition of €0.8 million in compensation payable in the US.

Other income consists of:

€000	2016	2015
Fees and royalties	770	516
Freight costs passed on to customers	424	498
Compensation received	93	97
Social security refunds	33	-
Other	1,155	826
TOTAL	2,476	1,936

4.5.14 Non-recurring operating income and expenses

€000	2016	2015
Non-recurring operating income	45	96
Goodwill impairment	-	(4,181)
Impairment of intangible assets (Canada)	(506)	-
Other non-recurring operating expenses	(10)	(111)
Bioniche acquisition and integration costs	-	(78)
Restructuring costs (Australia)	(698)	-
Restructuring costs (Germany)	(488)	-
Restructuring costs (Canada)	(413)	(536)
TOTAL	(2,071)	(4,811)

2015: the impairment loss consists entirely of goodwill impairment in Brazil.

4.5.15 Leases

4.5.15.1 Finance leases entered into as lessee

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

Commitments on non-cancelable operating leases

€000	Dec 31, 2016	Dec 31, 2015
Less than 1 year	5,896	5,382
1 to 5 years	7,901	8,670
More than 5 years	520	1,227
Total minimum payments	14,318	15,279
TOTAL MINIMUM FUTURE SUBLEASE INCOME RECEIVABLE	-	-

Operating lease expenses for the year

€000	2016	2015
Minimum payments recognized	6,524	6,576
Conditional rents recognized	-	-
Sublease income recognized	-	-

4.5.16 Net financial income/(expense)

€000	2016	2015
Interest income from cash and cash equivalents	1,042	1,330
Net gains on sale of cash equivalents	-	-
INCOME FROM CASH AND CASH EQUIVALENTS	1,042	1,330
Interest on borrowings and overdrafts	(448)	(672)
Interest on finance leases	-	-
GROSS COST OF DEBT	(448)	(672)
NET INCOME FROM CASH AND CASH EQUIVALENTS	594	657

€000	2016	2015
Currency gains	2,988	7,658
Other income	7	204
OTHER FINANCIAL INCOME	2,995	7,861
Financial expenses related to employee benefits	(85)	(65)
Currency losses	(3,557)	(6,152)
Other expenses	(146)	(121)
OTHER FINANCIAL EXPENSES	(3,789)	(6,338)
OTHER FINANCIAL INCOME AND EXPENSES	(794)	1,524

4.5.17 Income tax

The 2016 tax rate used to calculate deferred taxes for French companies was 34.43% (2015: 34.43%).

When the assets or liabilities corresponding to the temporary difference are expected to be realized or settled after 2018, the related deferred taxes for French companies have been calculated at the provisional rate of 28.92% adopted in the Finance Act of December 29, 2016.

Income tax expense is broken down as follows:

€000	2016	2015
Current income tax expense	(12,525)	(11,320)
Deferred tax income/(expense)	690	(977)
TOTAL	(11,835)	(12,296)

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

€000	2016	2015
Net income for the year	27,830	24,160
CIR restatement	(3,810)	(3,800)
Apprenticeship tax credit (CIA) restatement	-	-
CVAE restatement	(1,038)	(1,003)
(Earnings)/loss of associates	137	-
Income tax expense	11,835	12,296
Pre-tax earnings adjusted for tax credits	34,954	31,653
Theoretical tax at 34.43%	12,035	10,898
Non-deductible expenses and non-taxable income (*)	(34)	1,741
Impact of change in tax rate	65	88
Change in tax losses b/fwd and c/fwd	745	1,091
Tax rate differences for foreign companies	(2,222)	(2,999)
Other taxes (under IAS 12) (**)	1,434	1,442
Impact of reduced rate	(17)	(18)
Tax credit	(116)	(82)
Miscellaneous	(55)	135
Effective tax	11,835	12,296
Effective tax rate	33.86%	38.85%

(*) Incl. €1,416,000 relating to the 2015 impairment expense on the Brazilian CGU.

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

Analysis of movements in deferred tax assets during the year:

€000	2016	2015
Opening balance	7,979	7,824
Recognized in the income statement	481	154
Recognized in other comprehensive income	61	(117)
Changes in consolidation scope	-	-
Reclassifications	385	(298)
Exchange differences	45	416
Closing balance	8,952	7,979

Analysis of movements in deferred tax liabilities during the year:

€000	2016	2015
Opening balance	10,452	5,132
Recognized in the income statement	(209)	1,131
Recognized in other comprehensive income	-	-
Changes in consolidation scope	-	-
Restatement of deferred tax liabilities via goodwill	(266)	4,151
Reclassifications	(384)	(298)
Exchange differences	473	336
Closing balance	10,834	10,452

Unrecognized deferred tax assets arising from 2016 tax losses reported by subsidiaries amounted to €1.3 million (2015: €0.71 million).

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

Analysis of net deferred taxes by type:

€000	Dec 31, 2016	Dec 31, 2015
Intangible assets	(6,518)	(6,827)
Component-based approach (net)	349	287
Other temporary differences (net)	1,755	1,624
Internal margin on inventories	2,022	2,107
Internal capital gain on sales of fixed assets	-	-
Restatement of finance leases	(53)	(71)
Employee benefits	1,718	1,619
Tax losses carried forward	-	-
Regulated provisions	(1,149)	(1,220)
Other (net)*	(5)	8
TOTAL	(1,882)	(2,473)
Of which: Deferred tax assets	8,952	7,979
Deferred tax liabilities	(10,834)	(10,452)

* including exchange differences

4.5.18 Earnings per share

4.5.18.1 Basic earnings per share

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

€000	2016	2015
Net income attributable to holders of common shares (€000)	27,827	24,156
Weighted average number of common shares	11,881,902	11,881,902
Treasury shares at end of period (direct holding)	(24,596)	(13,903)
Treasury shares at end of period (liquidity contract)	(2,838)	(3,652)
Adjusted weighted average number of shares outstanding over the period	11,854,468	11,864,347
BASIC EARNINGS PER SHARE (€)	2.35	2.04

4.5.18.2 Diluted earnings per share

Diluted earnings per share is calculated by adjusting net income attributable to holders of common shares divided by the weighted average number of shares outstanding over the year for the impact of all common shares having a potentially dilutive effect. There was no dilutive effect in 2015 or 2016: diluted earnings per share was therefore equal to basic earnings per share.

	2016	2015
Net income attributable to holders of common shares (€000)	27,827	24,156
Earnings used to calculate diluted earnings (€000)	27,827	24,156
Weighted average number of shares outstanding over the year	11,881,902	11,881,902
Treasury shares at end of period (direct holding)	(24,596)	(13,903)
Treasury shares at year-end (liquidity contract)	(2,838)	(3,652)
Adjusted weighted average number of shares outstanding over the period	11,854,468	11,864,347
Number of shares including dilutive effect	11,854,468	11,864,347
Diluted earnings per share (€)	2.35	2.04

4.5.19 Goodwill

€000	2016	2015
At January 1		
Gross value	77,364	76,299
Opening book value	77,364	76,299
Acquisitions related to business combinations	-	-
Impairment losses recognized in the income statement	-	(4,181)
Reclassifications/allocation of goodwill*	(266)	4,151
Exchange differences, net	1,591	1,095
At December 31		
Gross value	78,689	77,364
Closing book value	78,689	77,364

* For 2015, this allocation includes a restatement of Bioniche goodwill deferred tax liabilities.

4.5.19.1 Impairment tests – measurement of PP&E and intangible assets

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

The CGUs defined for the Group are the following entities: USA, Canada, France, UK, Belgium, Switzerland, Czech Republic, Austria, Poland, Ireland, Germany, Italy, Scandinavia, India, Brazil and Bioniche.

Analysis of goodwill allocated to these CGUs:

€000	Dec 31, 2016	Dec 31, 2015
Vetoquinol Biowet Poland	2,161	2,235
Vetoquinol GmbH/Germany	1,705	1,705
Vetoquinol UK	411	479
Vetoquinol Ireland	421	421
Vetoquinol Switzerland	1,050	1,040
Vetoquinol Austria	772	772
Vetoquinol Czech Republic	890	890
Vetoquinol USA	14,483	14,022
Vetoquinol Belgium	500	500
Vetoquinol Italy	6,465	6,465
Vetoquinol Brazil	-	-
Vetoquinol Scandinavia	1,153	1,199
Vetoquinol Asia	44	42
Vetoquinol India	9,923	9,864
Vetoquinol SA France	13,894	14,160
Bioniche	19,859	18,915
Vetoquinol Canada	4,960	4,655
Total	78,689	77,364

Changes in goodwill for 2016 resulted from exchange differences. The change in value for 2015 resulted from the Brazilian CGU impairment, as well as exchange differences on goodwill denominated in foreign currencies for previously acquired subsidiaries.

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

Cash flow forecasts were established over a five-year period, based on budget projections for the following year drawn up by management. The following assumptions were used:

- sales growth:
 - Western Europe: 2.3%
 - Eastern Europe: 0%
 - North America: 4%
 - Asia: 8%
- growth to infinity of 1.7% to 4.9%, depending on the country,
- the other values were derived from the cost structure shown on the most recent budget projection as of the date of the test (for example, profit margin from the 2017 budget applied to 2018 and the following years for the December 31, 2016 test), adjusted for non-recurring items,
- the discount rate varies by country, ranging from 6.3% to 8.9%.

No impairment expense was recorded for 2016. The €4.2 million impairment expense recognized in 2015 following impairment tests carried out on fixed assets corresponded to goodwill impairment of the Brazilian CGU; this expense reflected the worsening of the outlook for this CGU in view of the tense and uncertain economic conditions in Brazil. The impairment was recorded under "Non-recurring operating income and expenses" on the income statement.

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

Likewise, an impairment test was conducted on the Equistro trademark, an intangible asset with an indefinite life, assuming sales growth to infinity of 1.7% and a 6.2% discount rate. On the basis of this test, no impairment was found.

Sensitivity analysis based on a deviation of +/- 1% in the discount rate resulted in no material negative adjustments at year-end 2016 or 2015 apart from the goodwill impairment recorded against the Brazilian CGU in 2015.

4.5.20 Intangible assets

€000	Concessions, licenses and patents	Software	Trademarks	Other	Total
AT DECEMBER 31, 2014					
GROSS BOOK VALUE	15,952	14,662	13,872	52,913	97,399
ACCUMULATED AMORTIZATION	(12,734)	(12,952)	(260)	(24,069)	(50,015)
CARRYING AMOUNT	3,217	1,710	13,613	28,844	47,384
Acquisitions	128	2,177	-	222	2,527
Acquisitions through business combinations	-	-	-	-	-
Change in consolidation method	-	-	-	-	-
Disposals	-	-	-	-	-
Reclassifications	-	14	-	(163)	(149)
Amortization	(723)	(627)	(20)	(3,417)	(4,787)
Deconsolidation	-	-	-	-	-
Exchange differences, net	(225)	(28)	307	2,225	2,280
AT DECEMBER 31, 2015					
GROSS BOOK VALUE	16,056	16,312	14,166	56,908	103,442
ACCUMULATED AMORTIZATION	(13,658)	(13,065)	(267)	(29,197)	(56,187)
CARRYING AMOUNT	2,398	3,247	13,900	27,711	47,255
Acquisitions	220	3,819	-	18	4,057
Acquisitions through business combinations	-	-	-	-	-
Change in consolidation method	-	-	-	-	-
Disposals	-	(15)	-	-	(15)
Reclassifications	132	66	-	(108)	90
Amortization	(556)	(703)	(16)	(4,389)	(5,665)
Deconsolidation	-	-	-	-	-
Exchange differences, net	152	36	31	601	820
AT DECEMBER 31, 2016					
GROSS BOOK VALUE	16,432	20,027	14,207	58,227	108,894
ACCUMULATED AMORTIZATION	(14,087)	(13,578)	(293)	(34,395)	(62,353)
CARRYING AMOUNT	2,345	6,450	13,914	23,833	46,541

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

The "Other" column mainly includes the following intangible assets as of December 31, 2016:

- ophthalmic products purchased in 2008 from Vetcom (Canada) valued at €730,000 (2015: €1,220,000),
- an exclusive distribution contract for Zylkène products valued at €3,010,000 (2015: €3,535,000),
- product lists arising from the Ascort Chimici acquisition valued at €556,000 (2015: €844,000),

- product lists arising from the Wockhardt animal health division acquisition valued at €2,559,000 (2015: €3,092,000),
 - product lists arising from the Farmagricola acquisition valued at €252,000 (2015: €246,000),
 - product lists arising from the Bioniche animal health division acquisition valued at €16,228,000 (2015: €17,073,000).
- As of December 31, 2015, this item also included the Vet Solutions (USA) customer list valued at €1,008,000, which had been fully amortized as of December 31, 2016,

4.5.21 Property, plant and equipment

€000

	Land	Buildings	Plant and equipment	Other PP&E	PP&E in progress, advances and down payments	Total
AT DECEMBER 31, 2014						
GROSS BOOK VALUE	4,263	71,189	56,196	14,559	2,750	148,956
ACCUMULATED DEPRECIATION	(830)	(46,570)	(39,787)	(11,487)	-	(98,674)
NET BOOK VALUE	3,432	24,619	16,409	3,072	2,750	50,282
Additions	39	716	3,136	1,205	5,688	10,784
Acquisitions through business combinations	-	-	-	-	-	-
Change in consolidation method	-	-	-	-	-	-
Disposals	-	(37)	(38)	(86)	-	(161)
Depreciation	(52)	(3,385)	(3,663)	(1,301)	-	(8,402)
Exchange differences, net	(408)	(597)	(468)	(75)	(198)	(1,747)
Deconsolidation	-	-	-	-	-	-
Reclassifications	-	2,550	1,593	269	(4,423)	(11)
AT DECEMBER 31, 2015						
GROSS BOOK VALUE	3,841	72,786	58,480	15,176	3,817	154,098
ACCUMULATED DEPRECIATION	(830)	(48,920)	(41,512)	(12,091)	-	(103,353)
NET BOOK VALUE	3,011	23,865	16,968	3,084	3,817	50,745
Additions	6	719	2,338	1,144	5,503	9,711
Acquisitions through business combinations	-	-	-	-	-	-
Change in consolidation method	-	-	-	-	-	-
Disposals	(290)	(172)	(104)	(54)	-	(620)
Depreciation	(52)	(3,383)	(3,691)	(1,363)	-	(8,488)
Exchange differences, net	301	478	486	54	120	1,440
Deconsolidation	-	-	-	-	-	-
Reclassifications	-	2,716	2,038	596	(5,489)	(139)
AT DECEMBER 31, 2016						
GROSS BOOK VALUE	3,858	76,341	62,607	16,370	3,951	163,126
ACCUMULATED DEPRECIATION	(882)	(52,116)	(44,572)	(12,907)	-	(110,477)
NET BOOK VALUE	2,976	24,225	18,035	3,462	3,951	52,649

4.5.21.1 Finance leases

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

€000	Dec 31, 2016	Dec 31, 2015
Land		
Gross value	101	101
Net book value	101	101
Buildings		
Gross value	10,027	10,027
Accumulated depreciation	(9,944)	(9,868)
Net book value	83	159
Other PP&E		
Gross value	-	-
Accumulated depreciation	-	-
Net book value	-	-
Total		
Gross value	10,129	10,129
Accumulated depreciation	(9,944)	(9,868)
Net book value	184	261

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

4.5.22 Financial assets available for sale

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

There were no assets available for sale in 2015.

4.5.23 Other financial assets

Not material.

4.5.24 Derivatives

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

As of December 31, 2016, the Group had no exchange rate hedges outstanding. As of December 31, 2015, the Group had exchange rate hedges outstanding with €2,000 fair value and €57,000 notional value.

As of December 31, 2016, there were two interest rate swaps outstanding with €248,000 negative fair value (2015: negative €327,000).

€000	Dec 31, 2016			Dec 31, 2015		
	Notional	Positive fair value	Negative fair value	Notional	Positive fair value	Negative fair value
Forward currency contract	-	-	-	57	2	-
Over-the-counter currency options	-	-	-	-	-	-
Currency derivatives	-	-	-	57	2	-
Interest rate swaps	23,689	-	(248)	32,344	-	(327)
Interest rate options	-	-	-	-	-	-
Interest rate derivatives	23,689	-	(248)	32,344	-	(327)

4.5.25 Inventories

4.5.25.1 Analysis of inventories by type

€000	Dec 31, 2016			Dec 31, 2015		
	Gross value	Impairment	Carrying amount	Gross value	Impairment	Carrying amount
Raw materials & consumables	17,005	(586)	16,419	17,481	(394)	17,087
Other supplies	10	-	10	-	-	-
Work in progress	14,178	(485)	13,693	10,704	(335)	10,369
Semi-finished and finished goods	21,925	(1,317)	20,608	24,264	(1,016)	23,248
Goods purchased for resale	18,876	(180)	18,696	17,993	(324)	17,669
TOTAL	71,994	(2,568)	69,426	70,443	(2,069)	68,374

4.5.25.2 Analysis of inventory impairment

€000	Dec 31, 2014	Additions	Reclassifications	Write-backs	Currency differences	Dec 31, 2015
Raw materials & consumables	280	466	(15)	(306)	(31)	394
Work in progress	528	409	-	(604)	1	335
Semi-finished and finished goods	1,739	783	(149)	(1,342)	(16)	1,016
Goods purchased for resale	308	343	-	(339)	11	324
TOTAL	2,856	2,001	(164)	(2,591)	(34)	2,069

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

4.5.26 Trade and other receivables

€000	Dec 31, 2016	Dec 31, 2015
Trade receivables	66,574	60,900
Impairment of trade receivables	(2,408)	(2,010)
Net trade receivables	64,166	58,890
Prepayments	877	708
Receivables from government agencies	7,733	5,483
Other operating receivables	522	935
Miscellaneous receivables	699	519
Provisions	-	-
Other receivables	9,830	7,646
Total trade and other receivables	73,996	66,536
Prepaid expenses	1,938	1,394
Loans and guarantees	336	342
Other	-	-
Total other current assets	2,274	1,735

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

4.5.27 Cash and cash equivalents

€000	Dec 31, 2016	Dec 31, 2015
Marketable securities	35,714	42,409
Cash	67,582	44,664
Cash and cash equivalents in the balance sheet (assets)	103,296	87,073

Total cash and cash equivalents in the cash flow statement (CFS) include:

€000	Dec 31, 2016	Dec 31, 2015
Total cash and cash equivalents in the balance sheet	103,296	87,073
Bank overdrafts (Note 4.5.29)	(26)	(32)
Cash and cash equivalents in the CFS	103,270	87,041

4.5.28 Capital stock and additional paid-in capital

€000	Number of shares	Capital stock	Additional paid-in capital	Total
At December 31, 2014	11,881,902	29,705	41,126	70,831
At December 31, 2015	11,881,902	29,705	41,126	70,831
At December 31, 2016	11,881,902	29,705	41,126	70,831

At December 31, 2016, the capital stock amounted to €29,704,755 (2015: €29,704,755) divided into 11,881,902 shares (2015: 11,881,902 shares), each with a par value of €2.50.

4.5.28.1 Stock options

None.

4.5.28.2 Treasury stock excluding liquidity contract

As of December 31, 2016, Vetoquinol held 24,596 treasury shares (2015: 13,903).

4.5.28.3 Dividend distribution

The shareholders' general meeting of May 24, 2016 approved the distribution of dividends attributable to FY 2015 amounting to €4,871,579.82, i.e. €0.41 per share (2015: €4,633,941.78 in respect of FY 2014, i.e. €0.39 per share; 2014: €4,396,303.74 in respect of FY 2013, i.e. €0.37 per share). At the time the dividend was paid, Vetoquinol held a number of its own shares. The dividends attributable to these shares were not paid but were allocated to

retained earnings. The total dividends paid out in 2016 amounted to €4,859,854.23 (2015: €4,626,985.35; 2014: €4,383,161.34).

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

The Board has proposed a 2016 dividend payout of €0.43 per share payable on June 6, 2017.

4.5.29 Financial liabilities

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

€000	Dec 31, 2016	Dec 31, 2015
Borrowings and other financial liabilities	15,427	24,163
Finance lease liabilities (Note 4.5.15.1)	-	-
Total non-current financial liabilities	15,427	24,163
Borrowings and other financial liabilities	8,823	8,872
Finance lease liabilities (Note 4.5.15.1)	-	-
Bank overdrafts	26	32
Total current financial liabilities	8,849	8,904
TOTAL FINANCIAL LIABILITIES	24,276	33,067

The breakdown by maturity of financial liabilities is as follows:

€000	Total	< 1 year	1-5 years	> 5 years
At December 31, 2015				
Borrowings and other financial liabilities	33,035	8,872	24,163	-
Finance lease liabilities	-	-	-	-
Bank overdrafts	32	32	-	-
TOTAL FINANCIAL LIABILITIES	33,067	8,904	24,163	-
At December 31, 2016				
Borrowings and other financial liabilities	24,250	8,823	15,427	-
Finance lease liabilities	-	-	-	-
Bank overdrafts	26	26	-	-
TOTAL FINANCIAL LIABILITIES	24,276	8,849	15,427	-

4.5.29.1 Reconciliation between opening and closing balances

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

€000	Dec 31, 2015	Cash flow	Non-cash transactions				Dec 31, 2016
			Acquisitions	Currency gains/losses	Reclassifications	Changes in fair value	
Borrowings and other financial liabilities – non-current	23,928	20	2		(8,681)	-	15,269
Borrowings and other financial liabilities – current	8,780	(8,729)	-		8,681	-	8,733
Finance lease liabilities	-	-	-	-	-	-	-
Hedging instruments	327	-	-	-	-	(79)	248
TOTAL FINANCIAL LIABILITIES	33,035	(8,709)	3	-	-	(79)	24,250

4.5.29.2 Breakdown by currency and rate type

€000	Dec 31, 2016	Dec 31, 2015
Fixed rate	223	201
Total INR	223	201
Fixed rate	-	-
Total BRL	-	-
Fixed rate	33	72
Total AUD	33	72
Fixed rate	-	-
Total USD	-	-
Fixed rate	-	-
Total CAD	-	-
Fixed rate	-	-
Total PLN	-	-
Fixed rate on bonds	-	-
Fixed rate and floating swapped to fixed	23,937	32,672
Floating rate	56	91
Total EUR	23,993	32,762
Fixed rate	24,194	32,944
Floating rate	56	91
Total (all currencies combined)	24,250	33,035
Bank overdrafts	26	32
TOTAL	24,276	33,067

4.5.29.3 Collateral given as guarantee

None.

4.5.29.4 Credit lines

As of December 31, 2016, the Group had open lines of bank credit in various currencies amounting to the equivalent of €30,632,000 (2015: €30,296,000). €26,000 of these credit lines had been used (2015: €32,000).

4.5.29.5 Liquidity risk

In view of its available cash and cash equivalents as of December 31, 2016, the Group is not exposed to liquidity risk.

Contractual cash flows include the notional amounts of the Group's financial liabilities and the non-discounted value of its contractual interest payments.

€000	Carrying amount	Contractual cash flows	Breakdown of contractual cash flows		
			< 1 year	1-5 years	> 5 years
At December 31, 2015					
Borrowings and other financial liabilities	33,035	33,815	9,223	24,592	-
Finance lease liabilities	-	-	-	-	-
Bank overdrafts	32	32	32	-	-
Trade payables	24,893	24,893	24,893	-	-
Payables to fixed asset suppliers	832	832	832	-	-
Other operating liabilities	16,009	16,009	16,009	-	-
TOTAL FINANCIAL LIABILITIES	74,801	75,581	50,989	24,592	-

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

4.5.30 Provisions for employee benefits

€000	Dec 31, 2016	Dec 31, 2015
Provision for retirement bonus	6,451	5,516
Other employee benefits (CET time savings account, long-service awards, etc.)	1,444	1,354
PROVISIONS FOR EMPLOYEE BENEFITS	7,895	6,870

4.5.30.1 Retirement bonuses

A retirement bonus system has been established for the Vetoquinol sites in France, Poland, Austria, Italy and Germany. In France, employees qualify for a retirement bonus ("*Indemnités de Fin de Carrière*") under the national collective bargaining agreement for production and sale of pharmaceutical, parapharmaceutical and veterinary products. The sensitivity analysis based on a deviation of +/- 0.25% in the discount rate did not result in any material (+/- €170,000) adjustments to the commitment.

• Changes in the corresponding liability were as follows:

€000	2016	2015
Carrying amount at January 1	5,516	5,663
Expenses posted to the income statement	661	412
Actuarial gains and losses recognized in other comprehensive income	712	(350)
Contributions paid	(301)	(217)
Reclassifications	(68)	9
Benefits paid from the fund	(64)	-
Exchange differences	(5)	-
New liabilities arising from acquisitions	-	-
Carrying amount at December 31	6,451	5,516

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

€000	2016	2015
Cost of services rendered during the year	547	347
Financial cost	85	65
Cost of past services	-	-
Actuarial gains and losses recognized in the income statement	29	-
TOTAL	661	412

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

	Dec 31, 2016	Dec 31, 2015
Discount rate	1.39%	2.03%
Salary increase rate	2.50%	2.00%
Social security contribution rate	47%	
Mortality table	TF-TH 2000-2002	
Staff turnover	Based on age range	

4.5.30.2 Other employee benefits

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

• Changes in the corresponding liability were as follows:

€000	2016	2015
Carrying amount at January 1	1,354	1,382
Expenses recognized in the income statement	136	(12)
Contributions paid	(30)	(23)
Reclassifications	-	-
Exchange differences	(17)	5
New liabilities arising from acquisitions	-	-
Carrying amount at December 31	1,444	1,354

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

€000	2016	2015
Cost of services rendered during the year	65	27
Financial cost	8	5
Actuarial gains and losses	63	(44)
TOTAL	136	(12)

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

	Dec 31, 2016	Dec 31, 2015
Discount rate	0.92%	1.39%
Salary increase rate	0.60%	
Social security contribution rate	47%	
Mortality table	TF-TH 2000-2002	
Staff turnover	Based on age range	

4.5.30.3 Pension commitments

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

4.5.31 Other provisions

€000	Provision for litigation	Other provisions	Total
At December 31, 2014	453	579	1,034
Additional provisions and increases	334	655	989
Amounts used	(200)	(437)	(637)
Reclassifications	(13)	32	19
Write-backs of amounts not used	-	-	-
Provisions arising from acquisitions	-	-	-
Exchange differences	-	(65)	(65)
At December 31, 2015	574	765	1,339
Additional provisions and increases	161	1,451	1,611
Amounts used	(154)	(292)	(446)
Reclassifications	129	(114)	15
Write-backs of amounts not used	-	-	-
Provisions arising from acquisitions	-	-	-
Exchange differences	-	62	62
At December 31, 2016	709	1,872	2,581

€000	Dec 31, 2016	Dec 31, 2015
Current	956	262
Non-current	1,625	1,077
TOTAL	2,581	1,339

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

4.5.32 Government grants

The Group received conditional loans from the French government in 2015. As of December 31, 2016, loans received from OSEO and BPI France amounted to €889,000 (2015: €1,169,000).

4.5.33 Trade and other payables

€000	Dec 31, 2016	Dec 31, 2015
Trade payables	26,686	24,893
Payables to fixed asset suppliers	999	832
Tax and social security liabilities	28,397	26,787
Other operating liabilities	16,678	16,009
Other miscellaneous liabilities	2	39
Total trade and other payables	72,761	68,560
Deferred income	36	59
Total other current liabilities	36	59

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

4.5.34 Assets and liabilities by accounting category – IAS 39

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

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

"Cash and cash equivalents" are stated at amortized cost given that income and interest are periodically recognized in the income statement. At December 31, 2016, there were no derivatives. At December 31, 2015, the Group had a derivative with a positive fair value (€2,000).

€000 – 2016

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

€000 – 2015

	Assets/liabilities at fair value through profit/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)	-	743	-	743	743
Trade receivables and related accounts	-	68,271	-	68,271	68,271
Cash and cash equivalents	-	87,073	-	87,073	87,073
Derivatives	-	-	-	-	2
Financial assets at Dec 31, 2015	-	156,087	-	156,087	156,089
Bonds	-	-	-	-	-
Short/long-term borrowings and other financial liabilities	-	32,740	-	32,740	32,847
Derivatives	-	327	-	327	327
Trade payables	-	24,893	-	24,893	24,893
Payables to fixed asset suppliers	-	832	-	832	832
Other operating liabilities	-	16,009	-	16,009	16,009
Financial liabilities at Dec 31, 2015	-	74,801	-	74,801	74,908

* Non-financial instruments consist solely of finance leases.

4.5.35 Dividends per share

Dividends paid in 2016 amounted to €4,859,854.23 (2015: €4,626,985.35), or €0.41 per share (2015: €0.39 per share). At the next General Meeting on May 30, 2017, the shareholders will be asked to approve a dividend payout of €0.43 per share.

4.5.36 Headcount

2016 headcount by functional dept. and geographical region	France	Western Europe (excl. France)	Eastern Europe	Americas	Asia	Consolidated total
Sales & Marketing	74	136	52	168	391	821
Administration & Management	149	33	47	65	16	310
Production	168	24	94	72	3	361
Quality	86	10	53	54	4	207
Procurement & Logistics	79	39	42	52	12	224
R&D	108	13	13	22	5	161
Total headcount at Dec 31, 2016	664	255	301	433	431	2084
Total headcount at Dec 31, 2015	638	269	313	419	397	2,036

4.5.37 Off-balance sheet commitments

4.5.37.1 Guarantees given

€000	Dec 31, 2016	Dec 31, 2015
Guarantees and deposits	25	25
Mortgages and collateral	22,202	20,839
TOTAL	22,226	20,863

In Canada, the advances (described in Note 4.5.37.2) are secured by a lien amounting to CAD 31.5 million or €22.2 million as of December 31, 2016 (2015: CAD 31.5 million or €20.8 million at the 2015 closing rate), on all receivables, inventories and intellectual property of Vetoquinol NA Inc and its parent, Vetoquinol SA.

4.5.37.2 Guarantees received

€000	Dec 31, 2016	Dec 31, 2015
Guarantees and deposits	7,048	6,616
Liability guarantees	44	158
TOTAL	7,092	6,774

In Canada, the Group obtained authorized bank lines of credit for a maximum of CAD 10 million on a consolidated basis, or €7,048,000 at the 2016 closing rate (2015: CAD 10 million, or €6,616,000 at the 2015 closing rate), which may be used in the form of bank loans with interest set at the bank's preferential rate plus 0.375%. No amounts had been drawn on this line of credit as of December 31, 2015 or December 31, 2016.

In connection with the Farmagricola acquisition, the former shareholders of this company granted Vetoquinol a liability guarantee, which has a five-year term from the acquisition date, i.e. until June 1, 2016. The guarantee may only be called upon if the amount claimed under the guarantee exceeds BRL 15,000 (€4,400 at the 2016 closing rate). The liability guarantee expired as of December 31, 2016. As of 2015 year-end, the total amount of compensation awarded under this guarantee could not exceed BRL 0.7 million (€158,000 at the 2015 closing rate).

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

4.5.37.3 Capital expenditure commitments

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

€000	Dec 31, 2016	Dec 31, 2015
Intangible assets	307	-
Property, plant and equipment	5,042	890
TOTAL	5,349	890

4.5.37.4 Operating lease commitments

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

4.5.38 Contingent assets and liabilities

None.

4.5.39 Related party disclosures

4.5.39.1 Compensation paid to key executives

€000	2016	2015
Short-term benefits	1,197	1,139
Post-employment benefits	-	-
TOTAL	1,197	1,139

Vetoquinol Group top management comprises:

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

4.5.39.2 Related party transactions

None.

4.5.40 Post-balance sheet events

On March 21, 2017, Vetoquinol SA purchased Vet-Com-pharma GmbH, which sells Reprocine and Oestracton products, at a price of €1.8 million.

4.5.41 Litigation and arbitration

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

4.5.42 Financial/commercial position

No change in the Group's financial or commercial position has occurred since December 31, 2016.

4.5.43 Group companies

Company	Head office	% held at Dec 31, 2016	% held at Dec 31, 2015
Vetoquinol SA	Magny-Vernois – 70204 Lure Cedex – France	100%	100%
Vetoquinol NA Inc.	2000 Chemin Georges – Lavaltrie – Quebec J5T 3S5 Canada	100%	100%
Vetoquinol USA Inc.	Corporation Trust Center – 1209 Orange Street – Wilmington – Delaware 19801 – USA	100%	100%
Vetoquinol de Mexico SA de CV	Mariano Escobedo n° 748, 5 Piso Int. – Col. Nueva Anzures – Delegation Miguel Hidalgo – Mexico	100%	100%
Vetoquinol Saude Animal Ltda	Rue Alcantara 195 – Villa Maria SP CEP -02110010 – Estado de São Paulo – Brazil	100%	100%
Vetoquinol Do Brasil Partici- pacoes Ltda	Rue Alcantara 195 – Villa Maria SP CEP -02110010 – Estado de São Paulo – Brazil	100%	100%
Vetoquinol Especialidades Veterinarias SA	Carretera de Fuencarral, km 15,700 – Edificio Europa I, Portal 3, piso 2, puerta 5, – 28108 Alcobendas (Madrid) – Spain	100%	100%
Vetoquinol Unipessoal Lda	Rua Consiglieri Pedroso – n° 123 – Edificio H – Queluz de Baixo – 2730-056 Barcarena – Portugal	100%	100%
Vetoquinol UK Ltd.	Great Slade – Buckingham Industrial Park – Buckingham MK18 1PA – UK	100%	100%
Vetoquinol Ireland Ltd.	First Floor – Segrave House – 19-20 Earlsfort Terrace – Dublin 2 – Ireland	100%	100%
Vetoquinol NV	Kontichsesteenweg 42 – 263 Aartselaar – Belgium	99%	99%
Vetoquinol BV	Postbus 3191 – 5203 DD'S-Hertogenbosch – Netherlands	100%	100%
Vetoquinol International	Magny-Vernois – 70204 Lure Cedex – France	100%	100%
Frefin GmbH	Parkstrasse 10 – 88212 Ravensburg – Germany	100%	100%
Vetoquinol GmbH (formerly Chassot GmbH)	Parkstrasse 10 – 88212 Ravensburg – Germany	100%	100%
Vetoquinol Biowet Poland Sp. z o.o.	ul. Kosynierow Gdynskich 13/14 St. – 66-400 Gorzów WKLP – Poland	100%	100%
Vetoquinol AG	Freiburgstrasse 255 – 3018 Bern – Switzerland	100%	100%
Vetoquinol s.r.o.	Zámenická 411 – 28802 Nymburk – Czech Republic	100%	100%
Vetoquinol Österreich GmbH	Zehetnergasse 24 – A 1140 Wien – Austria	100%	100%
Vetoquinol Italia s.r.l.	Via Piana 265 – Capocolle di Bertinoro – Italy	100%	100%
Vetoquinol Scandinavia AB	Box 9 – 265 21 Astorp – Sweden	100%	100%
Frefin Mauritius Ltd.	London Centre – 34 Remy Ollier Street – Port Louis – Repub- lic of Mauritius	100%	100%
Vetoquinol India Animal Health Private Ltd.	801, Sigma, 8th floor – Hirandani Business Park – Technology Street – Powai – Mumbai 400 076 – India	100%	100%
Frefin Asia Ltd.	Bonham Centre – 79-85 Bonham Strand – Sheung Wan – Hong Kong	100%	100%
Vetoquinol Korea Co. Ltd.	45, Eunbit-ro, Deogyang-gu – Goyang City Kyunggi-do – Hawajeong-dong – South Korea	100%	100%
Vetoquinol Trading (Shang- hai) Co. Ltd.	Suite 1607, Block C, 85 Loushanguan, Changning District, Shanghai, PRC	100%	100%
Vetoquinol Australia Pty Ltd Inc.	Cornwall Stodart- Level 10, 114 William Street, Melbourne – Vic 3000 – Australia	100%	100%
Bioniche Animal Health Europe Ltd	Bracetown Business Park – Clonee – Dublin 15 – Ireland	100%	100%
Vetoquinol Japan	963-8862, Fukushima – Saikon – 1 – 13 – 26, Koriyama City – Japan	55%	-



6

INFORMATION ON THE COMPANY AND CAPITAL STOCK

6.1	INFORMATION ON THE COMPANY – BYLAWS AFR	58	6.3	GROUP SHAREHOLDERS	65
6.1.1	Information about Vetoquinol	58	6.3.1	Vetoquinol SA shareholders	65
6.1.2	Capital stock	58	6.3.2	Analysis of voting rights	65
6.1.3	Articles of incorporation and bylaws	60	6.3.3	Control of the issuer by another company	65
6.1.4	Information on company share transactions performed by corporate officers and related persons	63	6.3.4	Agreement potentially leading to a change of control	65
6.2	SIMPLIFIED GROUP ORGANIZATIONAL CHART AS OF DECEMBER 31, 2016	64	6.3.5	Stock market information	66
			6.3.6	Financial reporting timetable	66
			6.3.7	Investor relations	66

INFORMATION ON THE COMPANY AND CAPITAL STOCK

6.1. INFORMATION ON THE COMPANY – BYLAWS

6.1.1 Information about Vetoquinol

6.1.1.1 Company name

The name of the Company is SA Vetoquinol.

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

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

6.1.1.3 Secondary establishments

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

6.1.1.4 Company incorporation date and term

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

6.1.1.5 Head office, legal form, governing law

The Company is a French public limited company with a Board of Directors ("*société anonyme à Conseil d'administration*"). The Company is governed by French law and its operation is mainly regulated by Articles L.225-1 et seq. of the French Commercial Code and by the terms of the Decree of March 23, 1967 on trading companies.

The Company's head office is located at Magny-Vernois 70200.

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

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

6.1.1.6 Fiscal year

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

6.1.2 Capital stock

At the registration date of this Registration Document, Vetoquinol's capital stock stands at €29,704,755 divided into 11,881,902 shares, each with a par value of €2.50. The shares comprising the Company's capital stock are fully subscribed and paid up.

6.1.2.1 Shares not representing capital stock

There are no shares not representing capital stock.

6.1.2.2 Shares held by the issuer

At December 31, 2016, Vetoquinol SA held 27,434 of its own shares having a par value of €2.50 each and a total book value of €824,831.28, including 2,838 shares with a total value of €129,214.14 held under the liquidity contract managed by Oddo Corporate Finance.

6.1.2.3 Convertible securities

Stock options (see section 5.2.16.3.)

Bonus shares (see section 5.2.16.2.)

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

None.

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

None.

6.1.2.6 Capital stock history

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

No transactions were carried out during the last four years.

6.1.2.7 Shareholders' agreement and special agreements

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

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

6.1.2.8 Treasury stock/ share buyback program/ liquidity contract plan

Subject to the May 30, 2017 general meeting's approval of the resolution related to the buyback of the Company's shares, the Company will be authorized to buy back its own shares as required in order to:

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

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

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

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

The general meeting has decided that the total amount allocated to these acquisitions may not exceed €60 million and that the maximum purchase price per share may not exceed €70.

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

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

- decide upon the exercise of this authorization;
- set the terms and conditions that will ensure, where required, the preservation of the rights of holders of equity securities giving access to the capital stock, stock options or performance share allocation rights, in compliance with statutory, regulatory and contractual provisions;

- place all trading orders and enter into all agreements as required, in particular, for the purpose of keeping registers of share purchases and sales, pursuant to applicable regulations;
- make all representations, complete all other formalities and, in general, do whatever is necessary.

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

This authorization is granted for a term of eighteen (18) months as from the date of the May 30, 2017 general meeting.

6.1.3 Articles of incorporation and bylaws

6.1.3.1 Corporate purpose (see Article 2 of the bylaws)

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

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

The Board of Directors

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

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

Chairman of the Board of Directors

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

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

Senior management

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

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

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

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

Chief Operating Officers

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

Chief Pharmacist

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

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

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

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

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

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

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

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

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

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

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

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

In case of conflict between a proxy vote and a remote vote, the remote vote shall prevail over the proxy vote.

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

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

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

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

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

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

In the event of breach of the obligation provided for in the bylaws to disclose crossing of thresholds under the aforementioned conditions, and at the request, as recorded in the minutes of the general meeting, of one or more shareholders holding together at least 2.5% of the capital stock or voting rights, the shares exceeding the fraction that should have been disclosed are stripped of voting rights until the situation has been rectified and thereafter until the end of a two-year period following such rectification.

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

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

6.1.3.9 Delegation of powers effective in 2016

DELEGATION OF POWERS GRANTED BY THE MAY 13, 2014 COMBINED ORDINARY AND EXTRAORDINARY GENERAL MEETING				
Authorization type	Subject of authorization	Term of delegation	Cap	Use
Capital increase (12 th resolution)	Grant stock options to Group employees	For a period of 38 months	Maximum number of shares to be issued: 150,000	This authorization was not used in 2014, 2015 or 2016.
POWERS GRANTED BY THE MAY 20, 2015 COMBINED ORDINARY AND EXTRAORDINARY GENERAL MEETING				
Capital increase (8 th resolution)	Capital increase by capitalization of reserves or additional paid-in capital	For a period of 26 months	Authorized amount: €80 million	This authorization was not used in 2015 or 2016.
Granting of bonus shares (9 th resolution)	Granting of existing or future bonus shares without pre-emptive subscription rights to employees and/or corporate officers of the Company or its associates.	For a period of 38 months	Total number of bonus shares authorized: 250,000	This authorization was not used in 2015 or 2016.
POWERS GRANTED BY THE MAY 24, 2016 COMBINED ORDINARY AND EXTRAORDINARY GENERAL MEETING				
Capital increase (12 th resolution)	Issue of shares and/or equity securities giving access to future equity securities of the Company without pre-emptive subscription rights, to be granted to subscribers to a Group corporate savings plan to be set up on such occasion, up to a maximum amount of €10 million, at a price set in accordance with the provisions of the French Labor Code.	For a period of 26 months	Maximum amount of €10 million, at a price set in accordance with the provisions of the French Labor Code	This authorization was not used in 2016.
Share buyback (7 th resolution)	Purchase of Company shares, in order to: • issue shares to employees and/or corporate officers, • bolster the share's trading and liquidity via an investment service provider, • purchase shares to hold as treasury shares for subsequent payment or exchange, • issue shares to holders of equity-based securities.	For a period of 18 months	Treasury shares limited to a maximum of 7% of the capital stock, i.e. 831,733 shares with a par value of €2.50 each, Maximum authorized amount: €50 million Maximum share purchase price: €60	In 2016 under this authorization: 33,021 shares were purchased and 33,596 shares sold
Capital increase (9 th resolution)	Issue of shares with pre-emptive subscription rights	For a period of 26 months	Maximum authorized amount • Equity issues €10 million, • Debt issues €5 million	This authorization was not used in 2016.
Capital increase (10 th resolution)	Issue of shares to the public without pre-emptive subscription rights	For a period of 26 months	Maximum authorized amount: • Equity issues €10 million, • Debt issues €5 million	This authorization was not used in 2016.

Capital increase (11 th resolution)	Issue of shares without pre-emptive subscription rights under a public offering or private placement	For a period of 26 months	Maximum authorized amount: • Equity issues €10 million, • Debt issues €5 million	This authorization was not used in 2016.
Bonus share grants (8 th resolution)	Granting of existing or future bonus shares without pre-emptive subscription rights to employees and/or corporate officers of the Company or its associates	For a period of 38 months	Total number of bonus shares authorized: 1 million	This authorization was not used in 2016.
Setting of overall caps (13 th resolution)	Setting of overall caps applicable to the delegation of powers to carry out capital increases through the issue of shares or securities giving access to the capital stock and securities giving access to the capital stock or debt securities		Maximum par value of capital increase resulting from issue of shares or other securities: €20 million Maximum aggregate par value of issues of securities representing Company debt giving access to the capital: €10 million	This authorization was not used in 2016.

6.1.3.10 Composition of capital stock

As of December 31, 2016, the capital stock amounted to €29,704,755 divided into 11,881,902 shares with a par value of €2.50 each. No changes occurred in 2016.

Transaction	Number of shares	Par value	Capital stock
At December 31, 2014	11,881,902	2.5	29,704,755
Exercise of option			
At December 31, 2015	11,881,902	2.5	29,704,755

6.1.3.11 Dividend distribution

The shareholders' general meeting of May 24, 2016 approved the distribution of dividends attributable to FY 2015 amounting to €4,871,579.82, i.e. €0.41 per share (2015: €4,633,941.78 attributable to FY 2014, i.e. €0.39 per share). At the time the dividend was paid, Vetoquinol held a number of its own shares. The dividends attributable to these shares were not paid but were allocated to retained earnings. The total dividends paid out in 2016 amounted to €4,859,854.23 (2015: €4,626,985.35).

6.1.3.12 Bonus share plans

At December 31, 2016, there were no outstanding bonus share plans.

6.1.3.13 Stock options

At December 31, 2016, there were no outstanding stock options.

6.1.3.14 Treasury stock excluding liquidity contract

As of December 31, 2016, Vetoquinol held 24,596 treasury shares (2015: 13,903). These 24,596 treasury shares have not been allocated. The average purchase price in 2016 was €36.05 per share.

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

In 2016, Étienne Frechin, Chairman of the Board of Directors, sold 1,000 shares to Soparfin SCA, a legal entity related to Étienne Frechin, Matthieu Frechin, CEO, and Martine Frechin, director.

6.2 SIMPLIFIED GROUP ORGANIZATIONAL CHART AS OF DECEMBER 31, 2016

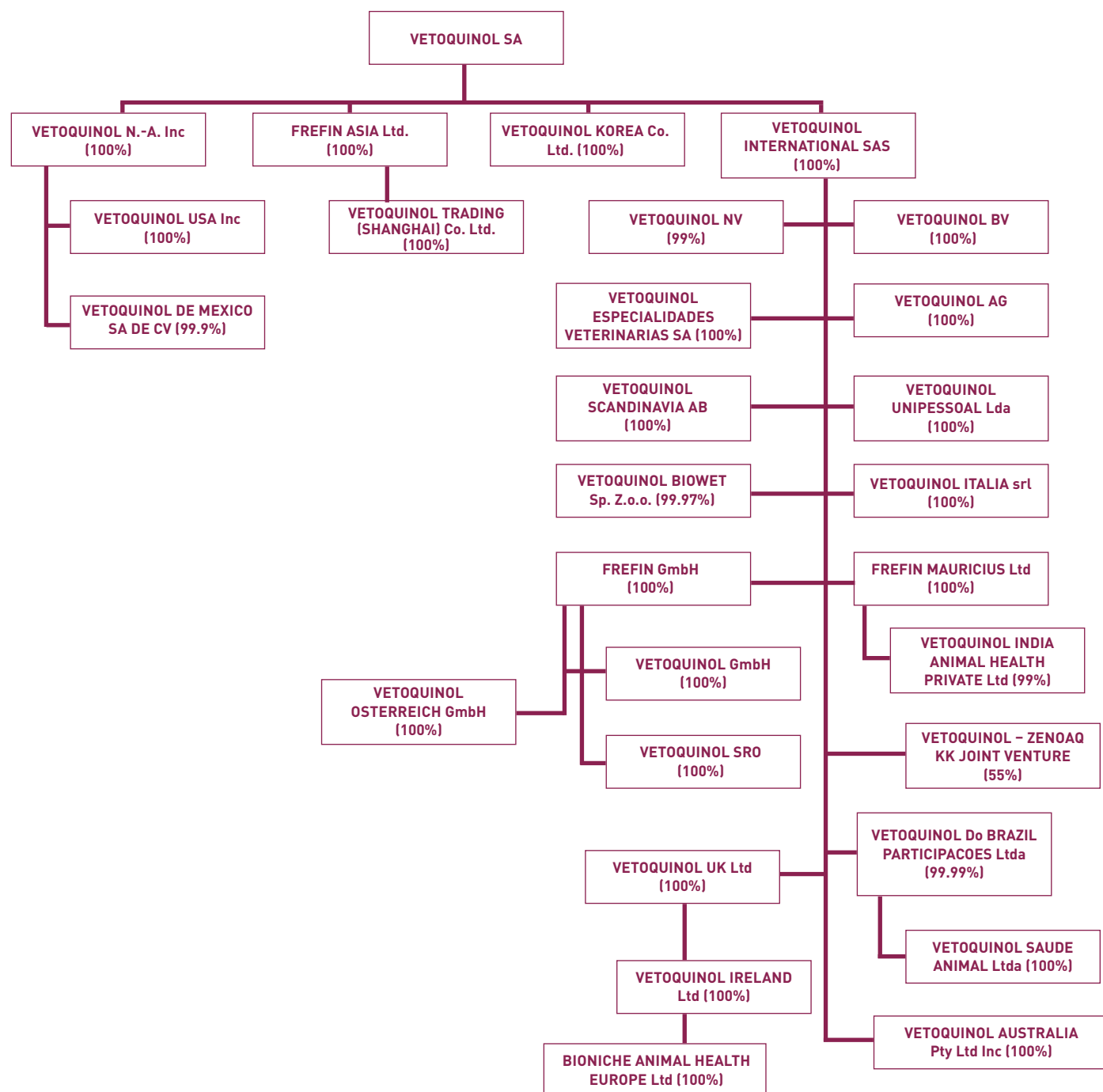
Section 1.2 provides an overview of the Group's business.

The overall organization of the Group is centered on the parent company, Vetoquinol SA, which plays the role of Group holding company as well as carrying on a business activity in its own right (see "Group companies", p. 108).

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

of the finished products it manufactures. Vetoquinol SA provides funding to its subsidiaries: for more detail, see the statutory auditors' special report on regulated agreements and commitments in section 7.3 of this report.

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



6.3 GROUP SHAREHOLDERS

6.3.1 Vetoquinol SA shareholders

Shareholders	December 31, 2016		December 31, 2015		December 31, 2014	
	Number of shares held	% of capital held	Number of shares held	% of capital held	Number of shares held	% of capital held
Soparfin SCA	7,415,773	62.40%	7,414,773	62.40%	7,414,773	62.40%
Étienne Frechin family	529,440	4.46%	530,440	4.46%	530,440	4.46%
SUBTOTAL ÉTIENNE FRECHIN FAMILY	7,945,213	66.87%	7,945,213	66.87%	7,945,213	66.87%
FCPE (employee investment fund)	-	0%	-	0%	-	0%
Treasury shares	27,434	0.23%	17,555	0.15%	18,304	0.15%
Float	3,909,255	32.90%	3,919,134	32.98%	3,918,385	32.98%
TOTAL	11,881,902	100%	11,881,902	100.00%	11,881,902	100.00%

6.3.2 Analysis of voting rights

Shareholders	December 31, 2016		December 31, 2015		December 31, 2014	
	Voting rights held	% of voting rights	Voting rights held	% of voting rights	Voting rights held	% of voting rights
Soparfin SCA	14,830,546	72.12%	14,809,546	72.13%	14,787,906	71.78%
Étienne Frechin family	1,058,880	5.15%	1,060,880	5.17%	1,060,880	5.15%
SUBTOTAL ÉTIENNE FRECHIN FAMILY	15,889,426	77.27%	15,870,426	77.29%	15,848,786	76.93%
FCPE (employee investment fund)	-	0%	-	0%	-	0%
Float	4,646,276	22.82%	4,644,844	22.82%	4,733,867	23.00%
THEORETICAL VOTING RIGHTS	20,563,136	-	20,532,825	-	20,600,957	-
EXERCISABLE VOTING RIGHTS	20,535,702	-	20,515,270	-	20,582,653	-

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

No Company employee holds part of the capital stock via a corporate savings plan or employee investment fund. However, 0.4% of the capital stock is held by employees in the form of directly registered shares.

6.3.3 Control of the issuer by another company

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

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

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

6.3.4 Agreement potentially leading to a change of control

No such agreement exists.

6.3.5 Stock market information

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

Share information

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

On the basis of the 2016 closing share price, the Company's market capitalization is €540,982,907 (€468 million as of December 31, 2015).

Vetoquinol, an independent family-owned Group listed on the stock exchange for 10 years



The Vetoquinol share price rose 15.56% during 2016, from €39.40 at December 31, 2015 to €45.53 at December 31, 2016.

6.3.6 Financial reporting timetable

January 26, 2017	2016 sales (after market close)
March 23, 2017	2016 results (after market close)
April 13, 2017	Q1 2017 sales (after market close)
May 30, 2017	Shareholders' general meeting
June 6, 2017	Dividend payout
July 27, 2017	H1 2017 sales and results (after market close)
October 17, 2017	Q3 2017 sales (after market close)
January 23, 2018	2017 sales, (after market close)

6.3.7 Investor relations

Vetoquinol fosters a close relationship with investors based on dialog and trust. The Company regularly meets domestic and international investors, thus allowing them to talk to its managers and deepen their understanding of the Company's business and strategy.

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

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

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

The Investor Relations department is ready to deal with all requests submitted by shareholders, whether they be individual or institutional investors.

Shareholder contact

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

VETOQUINOL WORLDWIDE

AUSTRALIA

Vetoquinol Australia Pty Ltd.
Unit 302/2, 6-12 Boronia Road
Da Vinci Business Park
Brisbane Airport, Qld 4008
Tel.: 1800 032 355
sales.australia@vetoquinol.com
www.vetoquinol.com.au

AUSTRIA

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

BELGIUM

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

BRAZIL

Vetoquinol Saude Animal Ltda.
Rua Alcantara, 195 Vila Maria
São Paulo - SP 02110-010
Tel.: +55 11 3568-1111
faleconosco@vetoquinol.com
www.vetoquinol.com.br
Mairipora - site industriel
Tel.: +55 11 4486 8999

CANADA

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

Princeville - site industriel
Tel.: +1-819-364-3073

Belleville - site industriel
Tel.: +1-343-362-0551

Saint-Hyacinthe - Centre R & D
Tel.: 1-450-586-2252

CZECH REPUBLIC

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

FRANCE

• Head Office: Vetoquinol SA
Magny-Vernois BP 189
70204 Lure cedex
Tel.: +33 3 84 62 55 55
vetoquinol@vetoquinol.com
www.vetoquinol.com

France Division

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

GERMANY

Vetoquinol GmbH
Parkstrasse 10
88212 Ravensburg
Tel.: +49 751 35 953 0
info@vetoquinol.de
www.vetoquinol.de

INDIA

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

IRELAND

Vetoquinol Ireland Ltd.
Vetoquinol House - Great Slade
Buckingham Industrial Park
Buckingham - MK18 1PA
Tel.: +44 1280 814 500
office@vetoquinol.ie
www.vetoquinol.co.uk

ITALY

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

JAPAN

Vetoquinol Japan
Saikon 1-13-26, Koriyama City,
Fukushima
JAPAN 963-8862
Mobile : +81-(0)80-6033-2740
Mobile : +33 (0)6 76 86 06 68

MEXICO

Vetoquinol de México S.A. de C.V.
Mariano Escobedo # 748 5º Piso
Int. 2 - Col. - Nueva Anzures
Delegación Miguel Hidalgo
México, D.F. C.P. 11590
Tel.: +52.55.5262.7540
scientes@vetoquinol.mx
www.vetoquinol.mx

NETHERLANDS

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

PEOPLE'S REPUBLIC OF CHINA

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

POLAND

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

PORTUGAL

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

RUSSIA

Moscow Representative Office
of Vetoquinol SA
Gorbunova street, 2 build.3
121596 Moscow
Tel.: +7 495 120 01 51
info.ru@vetoquinol.com
www.vetoquinol.ru

SCANDINAVIA

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

SOUTH KOREA

Vetoquinol Korea Co. Ltd
45 Eunbit-ro, Deogyang-gu,
Goyang-si,
Gyeonggi-do, South Korea
[Zip code : 10477]
Tel.: +82 31 967 8853
webmaster@vetoquinolkorea.com
www.vetoquinol.kr

SPAIN

Vetoquinol Especialidades Veteri-
narias SAU
Carretera de Fuencarral 24
Edificio Europa I
Portal 3 - 2º 5
28108 Alcobendas - Madrid
Tel.: +34 91 490 37 92
marketing.espana@vetoquinol.com
www.vetoquinol.es

SWITZERLAND

Vetoquinol AG
Freiburgstr. 255
3018 Bern
Tel.: +41 31 818 56 56
info@vetoquinol.ch
www.vetoquinol.ch

UNITED KINGDOM

Vetoquinol UK Ltd.
Vetoquinol House - Great Slade
Buckingham Industrial Park
Buckingham - MK18 1PA
Tel.: +44 1280 814 500
office@vetoquinol.com
www.vetoquinol.co.uk

UNITED STATES

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



Vetoquinol SA

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

www.vetoquinol.com

Vetoquinol Head Office - Magny-Vernois - BP 189
70204 Lure Cedex - Tel.: +33 (0)3 84 62 55 55
E-mail : relations.investisseurs@vetoquinol.com

