CVS Group Plc
Your pets, our priority

CVS Group plc
Annual Report
for the year ended 30 June 2015

The UK's most comprehensive and integrated provider of veterinary services to animal owners

298 veterinary surgeries,
5 diagnostic laboratories,
4 pet crematoria and an
on-line dispensary.

In the past year, we have made excellent progress in all divisions. We have continued with strong organic growth and this has been enhanced by further acquisitions.

2015 HIGHLIGHTS

REVENUE £m

£167.3m +17.0%[4]

15	167.3
14	142.9
13	120.1

OPERATING PROFIT £m

£9.8m +29.8%[4]

15	9.8
14	7.5
13	6.7

ADJUSTED EBITDA[1] £m

£23.0m +25.9%[4]

15	23.0
14	18.3
13	15.8

PROFIT BEFORE INCOME TAX £m

£8.5m +34.8%[4]

15	8.5
14	6.3
13	5.5

ADJUSTED PROFIT BEFORE INCOME TAX[2] £m

£18.2m +28.6%[4]

15	18.2
14	14.3
13	12.1

PROPOSED DIVIDEND PER SHARE p

3.0p +20.0%[4]

15	3.0
14	2.5
13	2.0

ADJUSTED EARNINGS PER SHARE[3] p

24.7p +30.0%[4]

15	24.7
14	19.0
13	16.2

BASIC EARNINGS PER SHARE p

11.6p +39.8%[4]

15	11.6
14	8.3
13	7.1

Read more in our financial review
on pages 21 to 23

1 Adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) is profit before income tax, net finance expense, depreciation, amortisation and costs relating to business combinations. The definition of the adjusted EBITDA measure has been revised since that previously reported in the 30 June 2014 consolidated financial statements. Adjusted EBITDA is now stated after share-based payments for consistency with the adjusted earnings per share calculation. The comparative information has been restated.

2 Adjusted profit before income tax is calculated as profit on ordinary activities before amortisation, taxation and costs relating to business combinations.

3 Adjusted earnings per share is calculated as adjusted profit before income tax less applicable taxation divided by the weighted average number of Ordinary shares in issue in the period.

4 Percentage increases have been calculated throughout this document based on the underlying values.

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Find out more on-line
www.cvsgroupplc.com

At the heart of our business

The Group has four main divisions: veterinary practice, laboratory, crematoria and Animed Direct, our on-line business.

VETERINARY PRACTICE DIVISION

298	SURGERIES
764	VETS
1,116	NURSES
213,000	HEALTHY PET CLUB ("HPC") MEMBERS

Our Veterinary Practices Division includes first-opinion practices and four referral practices providing first-class specialist treatment. We treat small companion animals, equine and large animals.

Read more on our veterinary practices **on page 8**

LABORATORY DIVISION

5	LABORATORIES
368,000	TESTS
172	STAFF
31	PATHOLOGISTS

Our laboratories provide diagnostic services to CVS veterinary practices and third parties.

Read more on our laboratories **on page 9**

CREMATORIA DIVISION

4	CREMATORIA
68,000	CREMATIONS
26	ACRES OF CEMETERIES AND MEMORIAL GARDENS

Our crematoria provide pet cremation services to veterinary practices and directly to pet owners.

Read more on our crematoria **on page 10**

ANIMED DIRECT

322,000	CUSTOMERS
4,200	PRODUCT LINES

Our on-line business was established in 2010 and has grown rapidly.

Read more on Animed Direct **on page 11**

OUR NATIONAL COVERAGE

Our vision is to continue to be the largest and most comprehensive provider of veterinary services to pet owners in the UK.

SURGERIES
298

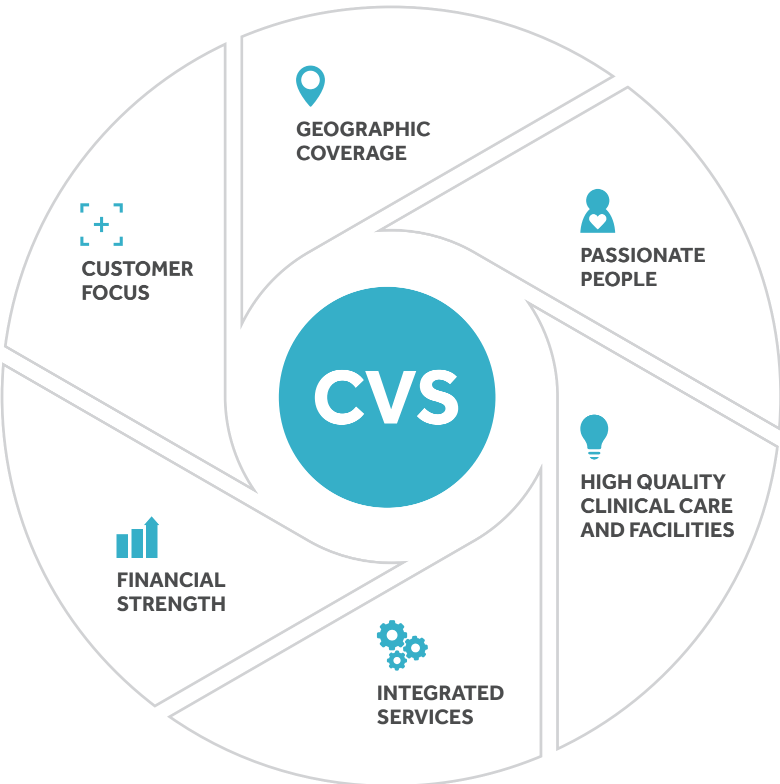
LABORATORIES
5

CREMATORIA
4

What sets us apart

Our vision is to continue to be the most comprehensive and integrated provider of veterinary services to animal owners in the UK, whilst providing growing returns to our shareholders.

We continue to deliver our vision through like-for-like growth and the acquisition of veterinary practices, diagnostic laboratories and pet crematoria. Our business model focuses on creating value through the provision of integrated services and the best customer care.



BUSINESS MODEL COMPONENTS

GEOGRAPHIC COVERAGE

We have 298 surgeries, five laboratories and four crematoria providing coverage across England, Scotland and Wales

PASSIONATE PEOPLE

We employ dedicated and trained professionals who are committed to excellent clinical care

HIGH QUALITY CLINICAL CARE AND FACILITIES

All of our practices are registered with the RCVS Practice Standards Scheme and are committed to investing in and using modern diagnostic techniques

INTEGRATED SERVICES

We deliver first-opinion consultations, laboratory diagnostic testing, complex referral procedures, out-of-hours services and cremations

FINANCIAL STRENGTH

We continue to deliver growth in revenues, profits, earnings per share and operating cash generation

CUSTOMER FOCUS

Our staff are dedicated to providing quality service with the highest levels of customer care

Progressing towards our goals

OUR STRATEGY	OUR PERFORMANCE	OUR FOCUS
EXCELLENT CUSTOMER SERVICE AND CARE	We employ recognised specialists, including 17 diploma holders and ten board-eligible vets We recruited 106 graduate vets in the last two years We launched MiNurse Academy in January 2015 We employ 31 clinical pathologists in our Laboratory Division	Customer service is one of our core values. It underpins all of our training and development Clinical development remains a core aspect of our training We develop our managerial and operational abilities through programmes such as our Aspirational Leadership and LEAP programmes
MEETING ALL OF OUR CUSTOMERS' NEEDS	We own 298 surgeries, five laboratories and four crematoria across the UK There are 213,000 members of our HPC scheme We invested £4.7m in new premises and equipment We operate four specialist referral centres, with the fifth due to open in October 2015 We opened another out-of-hours centre during the year	Continue to deliver fast and efficient laboratory testing, using in-house analysers at our practices and advanced testing at our diagnostic laboratories Development of additional complex testing capability at our diagnostic laboratories Development of further capacity in our crematoria business Expansion of our own out-of-hours centres, thereby reducing reliance on third-party providers Development and expansion of our MiPet brand of products
EXPANDING OUR BUSINESS THROUGH ACQUISITIONS	29 surgeries acquired during the year Eight surgeries acquired since the year end, including a referral centre One crematorium acquired during the year	The opportunity for growth and consolidation is significant We aim to continue to grow our business through acquisitions We will consider acquisitions of small, large animal and equine surgeries. We will also consider acquisitions of crematoria and laboratories where they fit a geographical or knowledge gap
BUILDING ON OUR STRENGTHS TO PROVIDE SERVICES TO EXTERNAL PRACTICES	Our laboratories performed 368,000 tests in 2015, of which 266,000 were for third parties Our crematoria performed 68,000 cremations, of which 36,000 were for third parties Five new own brand MiPet products launched, available through HPC and MiVetClub	Development of external sales of our laboratory analyser units will be an increasing focus MiVetClub has significant long-term potential Our aim is not only to allow practices to benefit from our buying power but also through providing other services such as health and safety expertise and administering loyalty club schemes We have begun to roll out our own brand waiting room retail range and this will be completed during 2016. Further product launches are planned
GROWING OUR SHARE PRICE AND RETURN TO OUR SHAREHOLDERS	Market capitalisation was £382.5m (646p per share) at 30 June 2015 compared to £190.5m (327p per share) at the previous year end	

Delivering growth throughout the years

> "Revenue grew by 17% in 2015 and like-for-like sales increased by 6.8%."
>
> **Simon Innes**
> **Chief Executive**

2015

OUR RECENT ACQUISITIONS

We added 29 surgeries and one crematorium during the year. A further 8 surgeries have been acquired since the year end.

No.	Name	Date	Location	Type
1.	HIGHCLIFFE VETERINARY PRACTICE	28 Jul 2014	Ipswich	Nº surgeries: 2
2.	WEST END VETERINARY GROUP	5 Aug 2014	Edinburgh	Nº surgeries: 3
3.	ANRICH VETS	12 Aug 2014	Huddersfield	Nº surgeries: 1
4.	BATCHELOR, DAVIDSON AND WATSON	13 Oct 2014	Edinburgh	Nº surgeries: 2
5.	WESTMOOR VETERINARY HOSPITAL	20 Oct 2014	Tavistock	Nº surgeries: 1
6.	AYLSHAM VETS	3 Nov 2014	Acle	Nº surgeries: 1
7.	TOWNSEND VETERINARY PRACTICE	2 Feb 2015	Rubery, Bromsgrove and Droitwich	Nº surgeries: 3
8.	WOODLANDS VETERINARY GROUP	9 Mar 2015	Plymouth	Nº surgeries: 2
9.	YOURVETS	30 Mar 2015	Birmingham, Coventry and Essex	Nº surgeries: 7
10.	KNOX AND DEVLIN VETERINARY SURGEONS	30 Mar 2015	Whaley Bridge	Nº surgeries: 1
11.	WHITLEY BROOK CREMATORIUM FOR PETS	27 Apr 2015	Runcorn	Crematorium
12.	A CROOKS & PARTNERS VETERINARY SURGEONS	5 May 2015	Rotherham & Hackenthorpe	Nº surgeries: 2
13.	PETHERTON VETERINARY CLINICS	11 May 2015	Barry and Cardiff	Nº surgeries: 2
14.	MARLBOROUGH ROAD VETERINARY CENTRES	27 May 2015	Cardiff	Nº surgeries: 2

OUR TIMELINE

Our vision is to be the largest and most comprehensive provider of veterinary services in the UK.

1999

- *Company was established*
- *First surgery* – Barton Veterinary Hospital and Surgery, *Canterbury*

2002

- *First laboratory* – PHI, *Norfolk*

2006

- *50th surgery* – Harris, Hill and Gibbons, *Wiltshire*
- *First dedicated equine practice* – Scott Dunn's Equine Clinic, *Berkshire*

2007

- *100th surgery* – Regans, *Manchester*

2008

- *Second laboratory* – Axiom, *Devon*
- *First crematorium* – Rossendale Pet Crematorium, *Lancashire*
- *150th surgery* – Marske, *Cleveland*

2016

OUTLOOK

The initiatives we progressed in 2015 will serve us well in the future, leading us to expect further growth in all divisions.

EXISTING BUSINESS

- Development of referral services
- Introduction of more own brand products
- Growth and development of HPC scheme
- Expansion of e-commerce in the UK and overseas

GROWTH THROUGH SELECTIVE ACQUISITIONS

- Continue to acquire to further strengthen geographical coverage
- Large opportunity with only 12% market share in small animal sector
- Further growth opportunities in large animal and equine sector

FINANCE

- Continue to maintain strong cash flow and healthy balance sheet
- Further investment in core business activities
- Significant investment in referral business

POST-YEAR END ACQUISITIONS

15. DOVECOTE VETERINARY HOSPITAL

20 Jul 2015
Castle Donington
Nº surgeries: 1

16. ROSEMULLION

11 Aug 2015
Helston, Penryn and Falmouth
Nº surgeries: 4

17. TORBRIDGE VETERINARY GROUP

21 Sep 2015
Bideford, South Molton and Torrington
Nº surgeries: 3

2010

Commenced on-line trading
Animed Direct

Third laboratory
Greendale, *Surrey*

Major acquisition
Pet Doctors

200th surgery
Cedar, *Hampshire/Dorset*

2012

Second crematorium
Valley Pet Crematorium, *Devon*

2013

250th surgery
West Mount Vets, *Halifax*

2014

Third crematorium
Silvermere Haven, *Surrey*

2015

Fourth crematorium
Whitley Brook, *Cheshire*

Major acquisition
YourVets

Fourth referral centre
Dovecote, *Castle Donington*

Dovecote, Castle Donington.

Veterinary Practice Division

- www.cvsukltd.co.uk
- www.thehealthypetclub.co.uk
- www.petmedicrecruitment.co.uk
- www.mivetclub.co.uk

"The acquisition of Dovecote and the opening of Lumbry Park will establish CVS as the largest provider of specialist treatment in the UK."

Professor John Innes
Referrals Director

CVS operates 298 surgeries across the UK. The practices trade under locally established brand names. In addition to running practices, the Division has several other innovative services:

– HPC loyalty scheme;

– Pet Medic Recruitment, recruiting locums and permanent staff;

– MiPet own brand products; and

– MiVetClub buying group, using our buying strength to provide a unique offering to third-party practices.

REVENUE £m

£147.5m +16.7%

15	147.5
14	126.4
13	108.0
12	98.8
11	93.8

EBITDA £m

£25.3m +15.1%

15	25.3
14	21.9
13	20.2
12	18.6
11	17.7

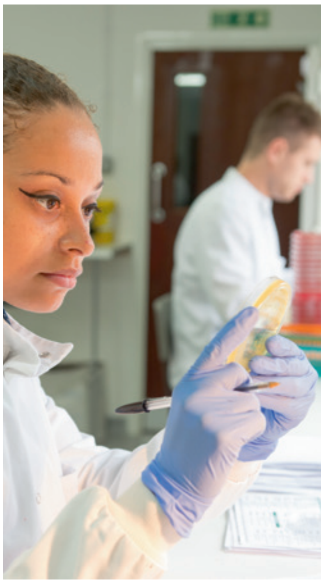
NO. OF HPC CUSTOMERS

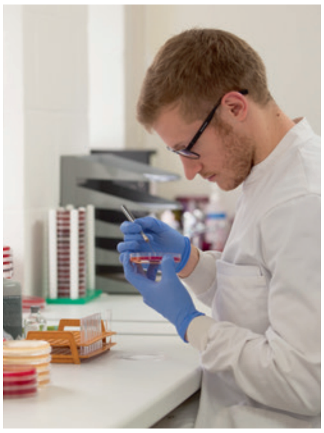
213,000 +31.5%

15	213,000
14	162,000
13	112,000
12	66,000
11	28,000

YourVets, Nuneaton.

Finn Pathologists, Norfolk.





Laboratory Division

- www.axiomvetlab.co.uk
- www.finnpathologists.co.uk
- www.greendale.co.uk

"Innovation is the most effective way to develop our service."

Martyn Carpenter
Director of Laboratory Division

CVS operates five laboratories covering the UK. 368,000 tests were performed in 2015 (2014: 354,000), of which 266,000 were for third parties.

The Division offers biochemistry, haematology, histology, serology and advanced allergy testing.

The Division also provides in-house analyser units to all of our practices for simple blood and urine testing.

REVENUE £m

£13.1m +23.2%

15	13.1
14	10.6
13	9.1
12	8.5
11	8.6

EBITDA £m

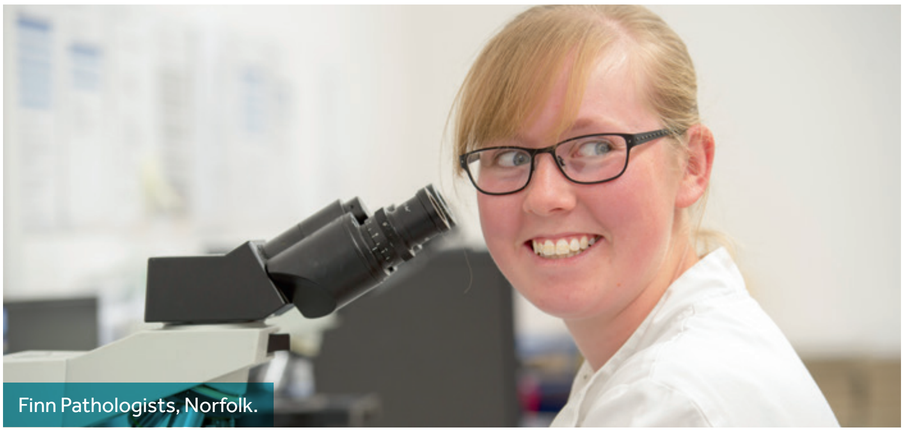
£2.2m +100.4%

15	2.2
14	1.1
13	1.1
12	1.1
11	1.0

TESTS

367,707 +3.9%

15	367,707
14	353,860
13	324,335
12	296,778
11	279,567



Finn Pathologists, Norfolk.

Rossendale Pet Cemetery, Lancashire.

Crematoria Division

- www.rossendalepetcrem.co.uk
- www.silvermerehaven.co.uk
- www.valleypetcrematorium.co.uk
- www.whitleybrook.com

"The acquisition of Whitley Brook enables CVS to deliver a nationwide service to pet owners."

Duncan Francis
Director of Crematoria Division

CVS operates four crematoria. The Rossendale and Silvermere Haven sites both have pet cemeteries and memorial gardens.

The Division expanded its capacity in the year with the strategic acquisition of Whitley Brook, in Cheshire.

The Crematoria Division also collects clinical waste from practices.

REVENUE	£m
£2.6m	+63.5%
15	2.6
14	1.6
13	1.0
12	0.9
11	0.8

EBITDA	£m
£0.8m	+101.7%
15	0.8
14	0.4
13	0.4
12	0.4
11	0.3

CREMATIONS	
68,086	+55.9%
15	68,086
14	43,660
13	34,570
12	33,989
11	33,091

Rossendale Pet Cemetery, Lancashire.

Animed Direct

www.animeddirect.co.uk

"The launch of the Animed France website marks the start of our European roll out programme."

Tracy Martin
Animed E-commerce Manager

Animed Direct sells prescription drugs, non-prescription drugs, pet food and other animal-related products via its website. During 2015 a website was launched in France.

Animed also distributes our own MiPet brand products to our practices.

REVENUE	£m
£10.3m	+21.0%
15	10.3
14	8.5
13	4.9
12	3.0
11	0.9

EBITDA	£m
£0.5m	+97.5%
15	0.5
14	0.3
13	0.1
12	0.1
11	0.0

NUMBER OF CUSTOMERS	
322,000	+53.3%
15	322,000
14	210,000
13	130,000
12	56,000
11	19,000

Animed Direct Pharmacy.

Another record year in all divisions

HIGHLIGHTS

- Revenue grew by 17.0% to £167.3m
- Like-for-like sales increased by 6.8%
- Operating profit rose to £9.8m
- 29 surgeries and one crematorium acquired in 2015

Results

I am delighted to report an excellent performance by CVS with a record year for revenue and profits in all divisions. Strong organic growth was enhanced by further acquisitions in our Veterinary Practice and Crematoria Divisions. We increased investment in the development of our services, our staff and our premises, and further improved our customer service in all areas.

Revenue grew by 17.0% to £167.3m (2014: £142.9m) and like-for-like sales increased by 6.8% (2014: 6.9%). Adjusted EBITDA increased by 25.9% to £23.0m (2014: £18.3m) and adjusted earnings per share ("EPS") grew by 30.0% to 24.7p (2014: 19.0p).

Operating profit rose to £9.8m (2014: £7.5m) and cash generated from operations increased to £22.2m (2014: £20.7m).

Business initiatives

2015 was a very significant year for acquisitions with 29 surgeries and one crematorium acquired. In total these businesses are expected to generate revenue of £24.0m per annum. As well as a number of acquisitions of a normal scale for CVS, we acquired YourVets, which alone has a turnover of almost £10.0m. YourVets brings with it the skills of opening greenfield locations, which we are keen to utilise.

Subsequent to the year end, a further eight surgeries have been acquired including the Dovecote referral centre in Castle Donington.

The Group further progressed its strategic priorities and grew like-for-like sales by 6.8% with excellent growth in all areas.

Our referrals business grew strongly during the year and the Lumbry Park major multi-disciplinary referral centre will begin trading in October 2015. The recently acquired Dovecote referral practice is a substantial practice in its own right but we will grow it further by feeding into it work that our practices in the vicinity have previously sent to third parties.

The launch of our own brand flea and worming treatments was of particular significance. Our own brand label is unique in the veterinary industry and as well as giving us a pricing advantage we expect that it will help to bond our customers to our practices. Our Healthy Pet Club scheme grew by a further 51,000 members over the period and all the out-of-hours businesses established in the last two years grew strongly.

After the laboratory results dipped slightly in 2013 due to intense competition, the strong growth in like-for-like sales over the last two years and the introduction of the in-house analyser business have seen profits double in the period.

The integration of Silvermere Haven crematorium and the acquisition of Whitley Brook have provided significant impetus to the division. They have allowed us to perform in house all of the crematoria work from our own practices.

OVERVIEW

Our people

The Group remains the largest employer in the UK's veterinary profession with approximately 3,400 staff today, including around 822 vets. It is through our people that we have delivered these excellent results for the year and they remain our most important asset. I would like to thank them all, including those new to CVS, for their expertise and professionalism in providing the best possible care and service to all our customers and their pets.

The development of our staff and of our clinical and non-clinical training continues to be a priority. No other veterinary group has the knowledge, expertise and ability to provide so much training internally and this is an area where CVS distinguishes itself from its competition.

During the year we launched our values and behaviours. They set out how we behave, with our customers, staff and suppliers, rather than just what we do. Our focus on excellent customer service remains a key element.

"The Group further progressed its strategic priorities and grew like-for-like sales by 6.8%."

Dividends

It is proposed to pay a dividend of 3.0p per share in December 2015, a 20% increase on the 2.5p per share paid in 2014. With a strong pipeline of acquisitions, as well as significant opportunities for organic growth, the Board believes that shareholder value can best be grown by reinvesting the majority of operational cash flow back into the business. However, the increased scale and growth of our business can also support a meaningful increase in the level of dividend.

If approved at the Annual General Meeting, the dividend will be paid on 11 December 2015 to shareholders on the register on 27 November 2015. The ex-dividend date will be 26 November 2015.

Outlook

The outlook for CVS remains very promising. Whilst like-for-like sales growth in the Veterinary Practice Division returned to more normal levels in the second half of the year and has continued at this level into 2016 this still represents a good performance. Other initiatives, such as the benefit of our own brand products and the opening of Lumbry Park, our major multi-disciplinary referral centre, will begin to deliver significant benefits in 2016. In addition the acquisition pipeline remains very buoyant.

The Board is optimistic about the Group's future. It estimates that CVS only has a 12% share of the UK small animal veterinary market and a negligible share of the equine and large animal veterinary market. This demonstrates the major opportunity for further growth and consolidation and we expect to make further practice acquisitions.

Richard Connell
Non-Executive Chairman
25 September 2015

Excellent progress on our strategic priorities

HIGHLIGHTS

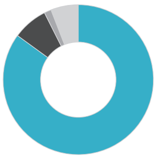
- Veterinary Practice Division revenue increased 16.7% to £147.5m and EBITDA 15.1% to £25.3m
- Laboratory Division revenue increased 23.2% to £13.1m and EBITDA 100.4% to £2.2m
- Crematoria Division revenue increased 63.5% to £2.6m and EBITDA 101.7% to £0.8m
- Animed Direct revenue increased 21.0% to £10.3m and EBITDA 97.5% to £0.5m

Introduction

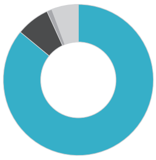
CVS Group is managed across four divisions: Veterinary Practice, Laboratory, Crematoria and Animed Direct, our on-line dispensary and retailer. The Veterinary Practice Division is the core of our business but all areas of the Group made excellent progress towards our strategic priorities during 2015.

Divisional EBITDA figures in this section are all now stated net of costs that were previously included in central costs. All comparatives have been restated.

Revenue by division



30 June 2015	
Practices	147.5
Laboratory	13.1
Crematoria	2.6
Animed Direct	10.3
Intra-Group sales	-6.2
Total Group	167.3



30 June 2014	
Practices	126.4
Laboratory	10.6
Crematoria	1.6
Animed Direct	8.5
Intra-Group sales	-4.2
Total Group	142.9

Veterinary Practice Division

	2015 £m	2014 £m
Like-for-like revenue	**126.5**	119.9
2014 acquisitions	**13.3**	6.5
2015 acquisitions	**7.7**	—
Total revenue	**147.5**	126.4
Adjusted EBITDA	**25.3**	21.9
EBITDA margin (%)	**17.1**	17.4

Revenue amounted to £147.5m (2014: £126.4m), an increase of 16.7% on the prior year. Adjusted EBITDA increased by 15.1% from £21.9m to £25.3m. These increases include the impact of acquisitions in both 2014 and 2015.

In the year, CVS acquired 29 surgeries operating as 13 practices. These practices contributed £7.7m of revenue and £1.0m of EBITDA in the year. Practices acquired during the year and after the year end are set out on pages 6 and 7. The acquisitions were predominantly of small animal businesses but included some large animal surgeries.

Adjusted EBITDA as a percentage of sales fell slightly in the year from 17.4% in 2014 to 17.1% in 2015. This was primarily due to the lower EBITDA percentage from the recently acquired YourVets where two sites are relatively immature and therefore have lower profitability. Within the like-for-like businesses, a small fall in the gross margin percentage, from 84.8% to 84.4%, was offset by efficiencies in manpower and overhead costs.

Like-for-like sales grew by 5.6% for the year as a whole, with the first half of the year showing exceptional growth but the second half returning to more normal levels. This growth was supported by a number of successful initiatives.

The development of our referrals business, and the expertise that this requires, has been and remains a key strategic priority for CVS. During the year we recruited six diploma holders, bringing the total that we now employ to 17. Some of these are based at our existing referral centres whilst others were hired in preparation for the opening of Lumbry Park in October 2015.

This 13,000 square foot site is a state of the art, major multi-disciplinary referral centre in Alton, Hampshire. It provides a full range of specialisms, using the most modern equipment including both a Computerised Tomography ("CT") and a Magnetic Resonance Imaging ("MRI") scanner.

Subsequent to the year end we acquired the Dovecote referral centre in Castle Donington. These two new locations provide us with an excellent team and facilities to service our customers' needs rather than referring them to specialists outside of CVS. As a medium-term objective we will be seeking other locations around the UK in which to establish further referral centres.

In the last quarter of 2015 we extended our MiPet own brand range to include high volume flea and worming treatments. We have begun to roll out our own brand waiting room retail range and this will be completed during 2016. Further product launches are planned.

The own brand range has been well received by both our customers and our staff. MiPet products are available only in our surgeries and to our MiVetClub members and, hence, their introduction differentiates CVS in the market. It both protects our margins and helps us retain our competitiveness by limiting price increases.

The Healthy Pet Club loyalty scheme continued its excellent growth in the year. Over 51,000 pets were added to the scheme increasing membership by over 32% and bringing the total membership to 213,000. The scheme provides preventive medicine to our customers' pets as well as a range of discounts and benefits. We gain from improved customer loyalty, encouraging clinical compliance, protecting revenue generated from drug sales, and bringing more customers into our surgeries. Monthly subscription revenue generated in the year increased to £18.8m (2014: £13.9m) and the year-end run rate represented 13.0% of practice revenue.

During the year we opened another out-of-hours centre in addition to the four we opened in 2014. This further reduces our reliance on third parties for the 24-hour cover that vets are required to provide to their customers. Satisfying the requirement ourselves significantly improves the experience of our customers and their pets and, except for the most recently opened site, all of our out-of-hours centres are now profitable.

We continue to perform out-of-hours work for other veterinary practices and will seek to develop further centres as our growing density in an area makes this effective.

The development of our veterinary practice management systems continued during the year. Key data from all practices except the most recent acquisitions is now linked and we can now perform analysis at divisional, rather than just practice, level. This will further improve our understanding and management of the business.

We continued to invest strongly in our surgeries, spending over £2.3m on refurbishing and extending a number of premises including Beaumont in Killington, and Nine Mile in Wokingham. We extended the surgery at Twyford in order that animals no longer have to be transported to the main practice site. We will continue to spend significant amounts on developing our estate to provide a welcoming experience for our customers and to generate revenue growth.

In addition to refurbishments, we spent £2.4m on equipment in our practices. At Beechwood in Doncaster we have recently installed a CT scanner and will install several more at other locations over the next year.

We now have digital x-ray equipment at almost 100 sites. This technology provides substantially quicker results than traditional x-ray and allows us to avoid the use of unpleasant and potentially dangerous chemicals. All this equipment improves our diagnostic capability and our ability to serve our customers in a professional environment.

MiVetClub, our buying group, has found it challenging to prise vets away from their existing suppliers and buying groups. However, in recent months we have signed up three new members bringing our total to five. We are in discussions with a number of other potential members. The business continues to add modestly to our profitability and we believe that it has significant long-term potential, not only by allowing practices to benefit from our buying power but also through providing other services such as health and safety expertise and administering loyalty club schemes.

Our own recruitment business, Pet Medic Recruitment, has primarily focused on providing locums for the Veterinary Practice Division. This helps to deliver our continuing aims of improving service and reducing costs. The business also provides a small number of locums to third parties and sources permanent staff.

Our team within the Veterinary Practice Division will always be one of our most valuable assets and one that we aim to continue to develop. The two essential skills of retail management experience and clinical expertise are combined through our Director of Practice Operations being supported by both our Director of Clinical Services and our Director of Referrals. They are supported by regional and local practice managers. Many of the regional managers are vets with many years' experience of operating in practice.

We continually aim to improve our staff training and career opportunities and in January 2015 we launched our Nurse Academy. This provides nurses with advanced training in one of four areas: medicine, surgery, emergency and critical care, and clinical nursing. It is designed to fill a gap which exists across the profession in the post-qualification training of nurses.

Our vet graduate training scheme continues to grow and 106 graduates have gone through the scheme in the past two years. The scheme is designed to assist newly qualified vets in making the challenging transition from university to day-to-day practice.

Clinical development remains a core aspect of our training. All of our vets and nurses are provided with a wide range of training on surgical procedures, nutrition and drugs both through in-house expertise and external courses. We also sponsor further qualifications for vets such as certificates and diplomas. Increasingly this training is carried out in house by our own experts.

Laboratories

	2015 £m	2014 £m
Revenue	**13.1**	10.6
Adjusted EBITDA	**2.2**	1.1
EBITDA margin (%)	**17.0**	10.5

The Laboratory Division generated revenue of £13.1m, a 23.2% increase on the prior year figure of £10.6m. Adjusted EBITDA doubled from £1.1m to £2.2m.

Laboratories *continued*
Like-for-like revenue in the laboratory diagnostics business increased by 10.7% following a similar increase in the previous year. The growth in the analyser business reflected the rollout of the analysers across the whole CVS estate as well as a few external sales. Now that the internal rollout is complete the development of external sales will be an increasing focus. Despite the growing analyser business having a lower gross margin percentage than the laboratory diagnostics business, the gross margin percentage for the division rose significantly from 75.2% to 80.6%. This reflected some easing in price pressures and success in encouraging customers to perform more tests.

Overall EBITDA as a percentage of sales showed substantial growth from 10.5% to 17.0%, reflecting the margin improvement and the operational efficiencies gained from the substantial increase in revenue.

Crematoria

	2015 £m	2014 £m
Like-for-like revenue	**1.6**	1.4
Acquisitions	**1.0**	0.2
Total revenue	**2.6**	1.6
Adjusted EBITDA	**0.8**	0.4
EBITDA margin (%)	**29.6**	24.0

The Crematoria Division delivered revenue of £2.6m (2014: £1.6m), an increase of 63.5%. Like-for-like sales were 11.8% higher, the increase being generated across all aspects of the business: from CVS' own practices, other veterinary practices and customers visiting the crematoria themselves.

The increased revenue from acquisitions was primarily at Silvermere Haven, which had a full year of trading in 2015 but only five months in 2014. In addition, Silvermere Haven took on more crematoria and waste collection work from CVS practices.

Adjusted EBITDA doubled to £0.8m. EBITDA as a percentage of sales improved from 24.0% to 29.6% as the leverage of the increased level of revenue took effect.

The Crematoria Division now carries out all of the work for our own practices except for a few recent acquisitions. The recent acquisition of Whitley Brook crematorium frees up some capacity at Rossendale and provides some efficiency through reduced transport costs. The extension of our geographic spread of crematoria across the UK remains a strategic priority.

Animed Direct

	2015 £m	2014 £m
Revenue	**10.3**	8.5
Adjusted EBITDA	**0.5**	0.3
EBITDA margin (%)	**4.8**	3.6

Animed Direct, our on-line dispensary and retailer, had another good year. Revenue was £10.3m, a 21.0% increase on the prior year figure of £8.5m. Adjusted EBITDA increased from £0.3m to £0.5m.

The business focuses on prescription and non-prescription medicines where the Group's buying power allows it to be extremely competitive. The business now has a customer database of over 322,000 people. The average value of each purchase during the year was £28.94 (2014: £29.91).

Sales in the first half of the year were very strong but growth was minimal in the second half because a major internet search engine, without explanation, cut off its shopping feed. This was restored just before the year end but sales growth will take some time to pick up.

In April 2015 the business launched its first local language website in French and selling in Euros. This was delayed initially due to the plethora of different regulations and medicine licences across Europe and then because of legal challenges about selling drugs on-line in France. All these obstacles have been overcome and in doing so we have learnt a lot that will help us as we plan further European sites. Revenue from the French site is modest and these European sales are not initially expected to generate any additional profit as we broadly aim to break even in the first few years of trading.

Central administration
Central administration costs include those of the central finance, IT, human resources, purchasing, legal and property functions. Total costs were £5.8m (2014: £5.4m), representing 3.5% of revenue (2014: 3.8%).

The continued growth and development of the Group have required increased costs to support it and to establish a firm foundation for growth over the next few years.

All functions have taken on additional staff to assist with the integration of acquisitions and the ongoing management of the enlarged business. Focus has remained on developing our support systems to continue to improve efficiency and effectiveness. The resilience of our IT systems has been improved, our intranet was launched during the year and our new Group website was launched just after the year end. Budgeting and analysis systems have been further developed and we have recently begun several initiatives to introduce self-service functions on our payroll and human resources systems.

The increased scale of our support functions necessitates the move to a larger head office and this move is expected to take place in October 2015. In due course we will move Animed Direct onto the same site.

Simon Innes
Chief Executive
25 September 2015

Strong results

The Directors monitor progress against the Group's strategy by reference to the following financial KPIs.

REVENUE £m

£167.3m

15	167.3
14	142.9

Definition
Total revenue of the Group.

Changes in 2015
Acquisitions in the year and the full-year impact of the prior year's acquisitions generated additional revenue of £22.0m.

Other significant factors were as for like-for-like sales performance noted below.

LIKE-FOR-LIKE SALES PERFORMANCE %

6.8%

15	6.8
14	6.9

Definition
Revenue generated from all operations compared to prior year on a pro-forma basis (i.e. including unaudited pre-acquisition revenues in respect of acquisitions in the current and comparative periods).

Changes in 2015
The like-for-like increase reflected strong performances in all divisions. It was helped by the growth in referrals work and HPC membership, the development of Animed Direct and higher volumes in the Laboratory Division. Significant competitive pressures continued at some locations, reducing their revenue.

HEALTHY PET CLUB REVENUE %

13.0%

15	13.0
14	11.8

Definition
Revenue received from HPC members as a percentage of total revenue for the year.

Changes in 2015
The growth of Healthy Pet Club membership from 162,000 to 213,000 led to the increase for the year.

GROSS MARGIN AFTER MATERIALS PERCENTAGE %

82.8%

15	82.8
14	82.9

Definition
Gross margin after deducting the cost of drugs and other goods sold or used by the business from revenue expressed as a percentage of total revenue.

Changes in 2015
The marginal fall in this percentage primarily reflects the higher level of growth of Animed Direct and other businesses compared to the Veterinary Practice Division and the lower gross profit margin in practices acquired. As these businesses have a relatively low margin, the Group margin has fallen.

KEY PERFORMANCE INDICATORS
Continued

ADJUSTED EBITDA £m

£23.0m

15	23.0
14	18.3

Definition
Earnings before income tax, net finance expense, depreciation, amortisation and costs relating to business combinations.

Changes in 2015
A £3.4m increase in adjusted EBITDA in the Veterinary Practice Division and smaller increases in the other divisions have been partly offset by increased central costs incurred to build a foundation for further development of the Group.

ADJUSTED EPS p

24.7p

15	24.7
14	19.0

Definition
Earnings adjusted for amortisation, costs relating to business combinations and non-recurring tax credits net of the notional tax impact of the above, divided by the weighted average number of issued shares.

Changes in 2015
The increase primarily reflects the improvement in adjusted EBITDA.

CASH GENERATED FROM OPERATIONS £m

£22.2m

15	22.2
14	20.7

Definition
Cash inflow before payments of taxation and interest, acquisitions, purchase of property, plant, equipment and intangible assets, payments of dividends, debt issue costs, increase/repayment of bank loans and proceeds from issue of shares.

Changes in 2015
The increase primarily reflects the improvement in EBITDA of the business.

RETURN ON INVESTMENT ON ACQUISITIONS MADE DURING THE YEAR %

18.7%

15	18.7
14	20.9

Definition
Annualised adjusted EBITDA relating to acquisitions during the year compared to the consideration paid.

Changes in 2015
The reduction in Return on Investment ("ROI") is reflective of the higher average EBITDA multiples being paid for acquisitions.

Managing our risks

The Group's businesses are subject to a wide variety of risks. Some of the most significant risks are explained below together with details of actions that have been taken to mitigate these risks.

Risk	Description	Mitigating factors
ECONOMIC ENVIRONMENT	A poor economic environment poses a risk to the Group through reduced consumer spending on veterinary, laboratory, crematoria and on-line services.	The improvement in the UK economy in the last few years has helped the business to improve revenue and profitability but the Group seeks to become more resilient to future downturns in economic conditions. The expansion of the Group's business to provide a broader-based service including referrals, out-of-hours, equine and large animal services spreads the risk of a downturn in any one business. The Veterinary Practice Division has continued to grow its Healthy Pet Club loyalty schemes during the year as one way of mitigating this risk. The scheme has the significant benefits of stimulating customer loyalty, ensuring clinical compliance in preventive medicine, protecting revenue from drug sales, and bringing customers into the surgery. The further development of an own brand product range will help to reduce the risk of customers buying drugs on-line, whilst the growth of Animed Direct protects the Group further as customers switching to buying on-line will still be buying from CVS.
COMPETITION	The Group is exposed to risk through the actions of competitors.	The geographic spread of the Group's businesses and the fragmented nature of the market help mitigate this risk. Furthermore, the expansion of the Group's Healthy Pet Club loyalty schemes, the expansion into other business areas and the growth of Animed Direct, our on-line dispensary and pet shop, provide further mitigation against the risk of competition.
ADVERSE WEATHER	In common with many businesses the Group's revenue is adversely affected during sustained periods of severe winter weather.	The increasing proportion of income through the Healthy Pet Club and on-line through Animed Direct reduces the risk of lost income through poor weather. As the Group widens its geographical presence the exposure to this risk will be further mitigated.
KEY PERSONNEL	The Group has limited risk in relation to the ability to attract and retain appropriately qualified veterinary surgeons.	The Group is committed to the development of its employees and will continue to recruit specialist and qualified professionals to promote its services. Our graduate recruitment scheme is recognised across the industry and our Aspirational Leadership Programme helps to develop and retain senior staff. The involvement of senior personnel is encouraged through the operation of the Group's Long Term Incentive Plan ("LTIP"). An annual Save As You Earn ("SAYE") scheme, available to all staff, aids the retention of other staff.

PRINCIPAL RISKS AND UNCERTAINTIES
Continued

Risk	Description	Mitigating factors
CLINICAL STANDARDS	If clinical standards expected by customers, industry forums and regulatory authorities are not maintained the Group is at risk of losing revenue.	The Group has established a formal organisation structure such that clinical policies and procedures are developed by veterinary experts. Day-to-day monitoring and staff training ensures compliance. The Group has further mitigated risk by ensuring that suitable insurance policies are taken out at both an individual and a corporate level.
ADVERSE PUBLICITY	Adverse publicity could result in a reduction in customer numbers and in revenue.	The Group has policies and procedures in place to ensure that high standards of customer service and clinical excellence are maintained. The individual branding of our practices reduces the risk of publicity at one practice impacting on another.
CHANGES IN VETERINARY REGULATIONS	Changes in veterinary regulations could impact on the work we are allowed to perform and the way we work.	No significant proposed changes are known. Any changes are likely to impact our competitors in the same way they impact the Group.
CHANGES IN TAXATION	Most changes in taxation cannot be predicted and the impact of any change can be variable.	The only change in taxation that has been proposed and impacts on the Group is a reduction in the corporation tax rate from 20% to 19% from 1 April 2017 and to 18% in 2020. This will benefit the Group. Changes in taxation are likely to impact our competitors in the same way they impact the Group.
RELIANCE ON ONE SUPPLIER OF MEDICINES	The majority of medicines are purchased through one wholesaler.	A two-year supply agreement was signed in April 2015 to secure the provision of medicines. Three wholesalers can supply most medicines; hence, supply is available if the existing CVS wholesaler were to withdraw. CVS also has direct relationships with many manufacturers which would enable direct supply should any difficulties occur.

FINANCE REVIEW
with Nick Perrin

Further growth in EBITDA and a healthy balance sheet

HIGHLIGHTS

- Adjusted EBITDA increased from £18.3m to £23.0m
- Cash generated from operations was £22.2m
- Adjusted EPS increased to 24.7p

Financial highlights

CVS has continued to deliver growth in revenues, profits and earnings per share. Key financial highlights are shown below:

	2015	2014	Change %
Revenue (£m)	**167.3**	142.9	17.0
Adjusted EBITDA (£m)	**23.0**	18.3	25.9
Adjusted profit before tax (£m)	**18.2**	14.3	28.6
Adjusted earnings per share (p)	**24.7**	19.0	30.0
Operating profit (£m)	**9.8**	7.5	29.8
Profit before tax (£m)	**8.5**	6.3	34.8
Basic earnings per share (p)	**11.6**	8.3	39.8

Management uses adjusted EBITDA and adjusted EPS as the basis for assessing the underlying financial performance of the Group. These figures exclude certain non-recurring and non-trading items and hence assist in understanding the underlying performance of the Group. These terms are not defined by International Financial Reporting Standards and therefore may not be directly comparable with other companies' adjusted profit measures.

An explanation of the difference between the reported operating profit figure and adjusted EBITDA is shown below:

	2015 £m	2014 £m
Operating profit as reported	**9.8**	7.5
Adjustments for:		
Amortisation and depreciation	**12.0**	10.1
Costs of business acquisitions	**1.2**	0.7
Adjusted EBITDA	**23.0**	18.3

The £4.7m (25.9%) improvement in the adjusted EBITDA figure compared with the prior year arises primarily from the underlying growth within the Veterinary Practice Division (£1.0m) and the Laboratory Division (£1.1m), acquisitions during the year (£1.0m) and the full-year effect of prior year acquisitions (£1.4m) offset by an increase in central administration costs (£0.4m).

Adjusted EBITDA as a percentage of revenue (adjusted EBITDA margin) increased from 12.8% in 2014 to 13.8%. This primarily reflects increased margins in the Laboratory, Crematoria and Animed Direct Divisions.

Adjusted earnings per share (as defined in note 11 to the financial statements) increased 30.0% to 24.7p (2014: 19.0p). Basic earnings per share was 39.8% higher than the prior year at 11.6p (2014: 8.3p).

The Group has generated consistent growth in the scale of its business and profits over recent years

Financial highlights *continued*

Profit before tax for the year increased from £6.3m to £8.5m. Adjusted profit before tax excludes the impact of amortisation of intangible assets and one-off transaction costs. We believe this more fairly reflects the underlying performance of the business and shows a 28.6% increase in the year from £14.3m to £18.2m.

Long-term growth

The Group has generated consistent growth in the scale of its business and profits over recent years. A summary of the compound annual growth rates ("CAGR") over the past five years in key financial figures is as follows:

	2015	2010	CAGR %
Revenue (£m)	**167.3**	85.5	14.4
Adjusted EBITDA (£m)	**23.0**	12.5	13.0
Adjusted profit before tax (£m)	**18.2**	8.8	15.8
Adjusted earnings per share (p)	**24.7**	12.7	14.2

Cash flow and net debt

Cash generated from operations was £22.2m (2014: £20.7m). The increase reflects the growth in EBITDA.

Net debt increased by £14.9m to £46.2m (2014: £31.3m) largely as a consequence of higher acquisition activity and continued investment in the business. The movement in net debt is explained as follows:

	2015 £m	2014 £m
Cash generated from operations	**22.2**	20.7
Capital expenditure	**(6.5)**	(5.3)
Taxation paid	**(2.3)**	(2.5)
Interest paid	**(1.3)**	(1.2)
Free cash flow	**12.1**	11.7
Acquisitions	**(25.3)**	(12.4)
Proceeds from Ordinary shares	**0.3**	0.5
Dividends paid	**(1.5)**	(1.1)
Debt issuance costs	**(0.5)**	—
Increase in net debt	**(14.9)**	(1.3)

Cash available for discretionary expenditure ("free cash flow") increased from £11.7m to £12.1m.

Capital expenditure included £2.3m spent on the refurbishments across the Group, £1.2m on the development of Lumbry Park, £1.4m on maintaining and improving equipment, £0.6m on laboratory analysers, £0.6m on IT systems development, £0.2m on vehicles and £0.2m on land and property.

£22.8m was paid for the 29 surgeries and one pet crematorium which were acquired during 2015 and £2.5m of loan notes were issued as part of the consideration for the YourVets acquisition. £1.7m related to the repayment of bank loans inherited with the acquisition of YourVets. The acquired businesses have been integrated into the Group and are trading as expected.

Taxation paid increased in line with the profits of the Group. The interest payment of £1.3m was similar to last year and reflects both stable interest rates and the overall debt levels of the Group.

Proceeds from Ordinary shares were primarily from the exercise of options under the Group's approved SAYE scheme which allows staff to save regular amounts each month over a three-year period and benefit from increases in the Group's share price over that time.

£0.5m debt issuance costs were paid to the Group's existing lender following the agreement of an increased bank facility.

The Group's net debt comprises the following:

	2015 £m	2014 £m
Borrowings repayable:		
within one year	**14.1**	3.6
after more than one year	**35.1**	29.9
Total borrowings	**49.2**	33.5
Cash in hand and at bank	**(3.0)**	(2.2)
Net debt	**46.2**	31.3

The £49.2m of borrowings is principally the £31.7m term loan (net of unamortised issue costs), £15.0m Revolving Credit Facility ("RCF") and £2.5m loan notes issued in respect of the YourVets acquisition. The term loan is repayable in one bullet payment in 2017 and the loan notes are repayable in 2018.

On 28 March 2015 the Group entered into a new bank facility with its existing lender. These facilities replaced the existing bank loan arrangements on more favourable terms, including a lower interest rate. The facilities comprise the following elements: a fixed term loan of £32.0m, repayable on 27 January 2017 via a single bullet repayment; a five-year RCF of £48.0m that runs to 27 March 2020; and a £5.0m overdraft facility renewable annually. The facility provides an option for the Group to refinance the repayment of the £32.0m fixed term loan through an additional RCF.

The two main financial covenants associated with the Group's bank facilities are based on Group borrowings to EBITDA and Group EBITDA to interest ratios.

£33.0m of the RCF remained unutilised at 30 June 2015 but is available to fund business development including further acquisitions. The Board remains committed to expanding the Group through further acquisitions in all divisions, as well as through organic growth. The opportunities for acquisitions in all areas of the Group's business remain strong.

The Board considers that maintaining a reasonably leveraged balance sheet is appropriate for the Group, given the strong, stable and improving nature of its cash flows and the opportunities to acquire businesses that enhance profitability. The loan agreements allow a borrowings to EBITDA ratio of up to 3.0 times. Given the relatively high free cash flow of the Group, the Board is comfortable with operating at close to this level.

The Group manages its banking arrangements centrally. Funds are swept daily from its various bank accounts into deposit accounts to optimise interest generation.

Interest rate risk is also managed centrally and derivative instruments are used to mitigate this risk. The bank facility agreement requires that at least 60% of the interest rate exposure on the term loan is hedged and the hedge has been maintained at approximately 60% throughout the year.

Taxation

The Group's effective tax rate was 20.1% (2014: 24.5%). The principal reason for the significant decrease is the change in the standard taxation rate. A reconciliation of the expected tax charge at the standard rate to the actual charge in millions of pounds and as a percentage of profit before tax is shown below:

	£m	%
Profit before tax	**8.5**	
Expected tax at standard rate of tax	**1.8**	20.8
Expenses not deductible for tax	**0.3**	3.2
Adjustments to prior year tax charge	**(0.2)**	(2.8)
Benefit of tax rate change	**(0.2)**	(1.1)
Actual charge/effective rate of tax	**1.7**	20.1

All of the Group's revenues and the majority of expenses are subject to corporation tax. The main expenses which are not deductible for tax are costs relating to acquisitions. Tax relief against some expenses, mainly depreciation, is received over a longer period than that for which the costs are charged in the financial statements.

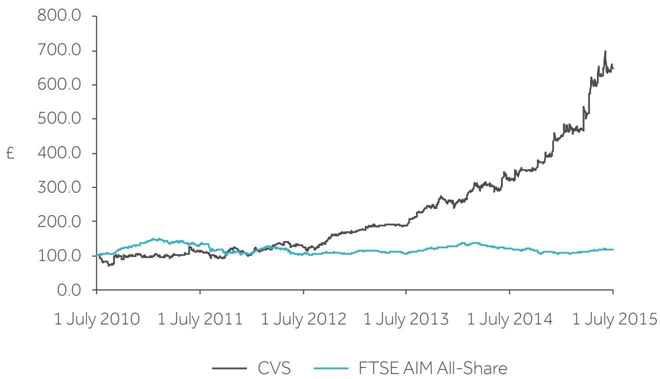
The tax charge has increased £0.2m on the previous year despite an increase in profitability of £2.2m. This is due to the tax on the increased profit being partially offset by the reduction in the standard rate of corporation tax which not only reduces the corporation tax charge for the year but has led to a one-off reduction in the deferred tax liability to reflect the reduced rate.

Impact of increase to the National Living Wage ("NLW")

The summer budget increased the NLW from £6.50 to £7.20 per hour for workers aged over 25, effective from April 2016. The change in legislation also increased the national minimum for apprentices, workers aged 16–21 and workers aged 21–25. The after-tax impact on the Group's profit is £0.3m; however, the potential impact of maintaining salary differentials has not been quantified.

Share price performance

At the year end the market capitalisation was £382.5m (646p per share) compared to £190.5m (327p per share) at the previous year end. The graph below shows the total shareholder return performance compared to the FTSE AIM All-Share Index. The values indicated in the graph show the share price movement based on a hypothetical £100 holding in Ordinary shares from 1 July 2010 to 30 June 2015.



Key contractual arrangements

The Directors consider that the Group has only one significant third-party supplier contract which is for the supply of veterinary drugs. In the event that this supplier ceased trading the Group would be able to continue in business without any disruption in trading by purchasing from alternative suppliers.

Forward-looking statements

Certain statements in this Annual Report are forward looking. Although the Board believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

Nick Perrin
Finance Director
25 September 2015

The Strategic Report on pages 2 to 23 was authorised by the Board of Directors on 25 September 2015 and was signed on its behalf by:

Nick Perrin
Finance Director
25 September 2015

A strong leadership team

1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1. RICHARD CONNELL (60)

A N R

Non-Executive Chairman

Richard Connell is a Chartered Accountant and worked in investment management with 3i Group, Invesco and HSBC. In addition to his role with CVS, he is chairman of a number of other companies and was previously chairman of Dignity plc, Mercury Pharma and Ideal Stelrad Group. Richard is Chairman of the Audit Committee and the Nominations Committee.

2. SIMON INNES (55)

Chief Executive

Simon Innes was appointed as Chief Executive in January 2004. Prior to this he was chief executive of Vision Express from 2000 to 2004, over which time he built the business up to £220m turnover and 205 practices, and reversed a loss-making position to create one of the most profitable corporate optical operators in the UK. Prior to Vision Express, Simon was on the board of Hamleys PLC as operations director and gained ten years' management experience at Marks & Spencer. He also served seven years in the British Army, achieving the rank of Captain in the Royal Engineers.

3. MIKE McCOLLUM (48)

A N R

Non-Executive Director

Mike McCollum is chief executive officer of Dignity plc, a FTSE 250-listed provider of funeral services. Like CVS this is a multi-site, acquisitive service business. As finance director he was a prime mover in the 2002 leveraged buyout, the whole-business securitisation in 2003 and the IPO in 2004. He became chief executive in 2009. Mike is a solicitor and holds an MBA from the University of Warwick. He is Chairman of the Remuneration Committee.

4. NICK PERRIN (55)

Finance Director

Nick Perrin was appointed as Finance Director in January 2013. He has extensive experience in multi-site retail and service businesses. During 2012 Nick was interim chief financial officer at Praesepe plc, a leading UK bingo and gaming centre operator and from 2008 to 2010 was finance and IT director at Genting UK plc, which operated the largest number of casinos in the UK. He previously spent nine years at The Co-operative Group, initially as group financial controller and then as finance director of the Specialist Retail division.

5. REBECCA CLEAL (34)

Company Secretary

Rebecca Cleal joined CVS in July 2009 as the Group's first in-house solicitor, specialising in commercial property. Prior to this she worked for three years in private practice in both Kent and Norfolk. Rebecca has a master's degree from the University of Kent and was appointed as Company Secretary on 1 January 2013.

KEY

- Chairman
- Member

- A Audit Committee
- R Remuneration Committee
- N Nominations Committee

Complying with corporate governance best practice

REBECCA CLEAL
Company Secretary

Principles of corporate governance

The Directors are committed to maintaining high standards of corporate governance and, as far as is considered practicable and appropriate for a public company of CVS' size, seek to apply the principles of good governance set out in the UK Corporate Governance Code issued in September 2012. However, we do not fully comply with the UK Corporate Governance Code but we have reported on our corporate governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the Company, even though it is not compulsory for AIM-listed companies.

Board of Directors

The Board of Directors consists of four members, including a Non-Executive Chairman and a Non-Executive Director.

The business of the Company and its subsidiaries is the combined responsibility of the Board, which is responsible for controlling and leading the Group. The Board's responsibilities include:

- setting the strategy of the Group and making major strategic decisions;
- approving other significant operational matters;
- agreeing annual budgets and monitoring results;
- monitoring funding requirements;
- reviewing the risk profile of the Group and ensuring adequate internal controls are in place;
- approving all acquisitions and major capital expenditure; and
- proposing dividends to shareholders.

All Directors are able to take independent professional advice on the furtherance of their duties if necessary. They also have access to the advice and services of the Company Secretary, and, where it is considered appropriate and necessary, training is made available to Directors. All Directors receive updates on the duties and responsibilities of being a Director of a listed company. This covers legal, accounting and tax matters as required. The Company maintains appropriate insurance cover in respect of any legal action against its Directors. The level of cover is currently £20.0m for any one claim.

Both the Chairman, R Connell, and M McCollum have been independent Non-Executive Directors throughout the year and the Board identifies M McCollum as the Senior Independent Non-Executive Director. Mindful of their other commitments they have formally confirmed to the Board that they have sufficient time to devote to their responsibilities as Directors of the Group.

The Board has appointed three Committees: the Audit Committee, the Remuneration Committee and the Nominations Committee. All operate within defined terms of reference. Details of the Committees are set out below.

THE AUDIT COMMITTEE

The Committee consists of two Non-Executive Directors, R Connell and M McCollum. R Connell is a Chartered Accountant and M McCollum has worked previously as the CFO for a FTSE 250 business. The Board considers that both members of the Audit Committee have significant financial expertise.

Those attending and the frequency of Board and Committee meetings held in the financial year were as follows:

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings	10	2	2	1
R Connell	10	2	2	1
S Innes	10	2*	2*	1*
N Perrin	10	2*	2*	1*
M McCollum	10	2	2	1

* In attendance by invitation of the respective Committee.

CORPORATE GOVERNANCE STATEMENT
Continued

THE AUDIT COMMITTEE *continued*

The Audit Committee's duties primarily concern financial reporting, internal control and risk management systems, whistle-blowing procedures, internal audit and external audit arrangements (including auditor independence).

The Committee is responsible for ensuring that the financial performance of the Group is properly monitored and reported on, for meeting with the external auditors and for reviewing their reports relating to financial statements and internal control matters. The Chief Executive and the Finance Director are invited to attend such meetings, but the Committee also meets with the auditors without the Chief Executive and the Finance Director being present at least once annually. Other members of management are invited to present such reports as are required for the Committee to discharge its duties.

The agenda of each meeting is linked to the reporting requirements of the Group and the Group's financial calendar. Each Audit Committee member has the right to require reports on matters relevant to its terms of reference in addition to the regular items.

In the year ended 30 June 2015 and up to the date of this report the actions taken by the Audit Committee to discharge its duties included:

- reviewing the 2015 Annual Report and financial statements and the Interim Report issued in March 2015. As part of these reviews the Committee received a report from the external auditors on their audit of the annual financial statements;
- reviewing the effectiveness of the Group's internal controls and disclosures made in the Annual Report and financial statements;
- meeting with the external auditors, without management being present, to discuss any issues arising from the audit;
- agreeing the fees to be paid to the external auditors for their audit of the 2015 financial statements;
- considering the need for an internal audit function; and
- reviewing the performance and independence of the external auditors.

The Audit Committee has a programme for reviewing its effectiveness.

THE REMUNERATION COMMITTEE

The Chairman of the Remuneration Committee is M McCollum and its other member is R Connell. It reviews the performance of Executive Directors, sets the scale and structure of their remuneration and reviews the basis of their service agreements with due regard to the interests of the shareholders, utilising the services of external consultants as appropriate.

The Remuneration Committee also makes recommendations to the Directors concerning any long-term incentive plans including the award of share options to Directors and senior employees; it also reviews the ongoing appropriateness and relevance of the Company's remuneration. The Chief Executive and Finance Director are invited to attend meetings as appropriate but are not permitted to participate in discussions relating to their own remuneration.

The Remuneration Committee Report can be found on pages 28 to 31.

THE NOMINATIONS COMMITTEE

The Chairman of the Nominations Committee is R Connell and its other member is M McCollum. It meets at least once annually. The Nominations Committee is responsible for reviewing the structure, size and composition including skills, knowledge and experience of the CVS Board. It is also responsible for the co-ordination of the annual evaluation of the performance of the Board and of its Committees.

It is responsible for making recommendations to the CVS Board on all CVS Board appointments and on the succession plans for both Executive Directors and Non-Executive Directors.

Relations with shareholders

Copies of the Annual Report and financial statements are issued to all shareholders and copies are available on the Group's website (www.cvsgroupplc.com). The Group also uses its website to provide information to shareholders and other interested parties. The Company Secretary also deals with correspondence as and when it arises throughout the year.

At the Annual General Meeting the shareholders are entitled to raise questions and queries, and the Chairman along with the Chief Executive and other Directors are available before and after the meeting for further discussions with shareholders.

The Chief Executive and the Finance Director have regular meetings with institutional investors, private client brokers, individual shareholders, fund managers and analysts to discuss information made public by the Group.

The Chairman and the Non-Executive Directors are always available to shareholders on all matters relating to governance and strategy. They may be contacted through the Company Secretary at company.secretary@cvsvets.com.

Internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness on an ongoing basis.

The system is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key risk management processes and internal control procedures include the following:

- the close involvement of the Executive Directors in all aspects of the day-to-day operations, including regular meetings with senior staff from across the Group and a review of the monthly operational reports compiled by senior management;
- clearly defined responsibilities and limits of authority. The Board has responsibility for strategy and has adopted a schedule of matters which are required to be brought to it for decision;
- a comprehensive system of financial reporting, forecasting and budgeting. Detailed budgets are prepared annually for all parts of the business. Reviews occur through the management structure culminating in a Group budget which is considered and approved by the Board. Group management accounts are prepared monthly and submitted to the Board for review. Variances from the budget and the prior year are closely monitored and explanations are provided for significant variances. Independent of the budget process, the Board regularly reviews revised profit, cash flow and bank covenant compliance forecasts which are updated to reflect actual performance trends;
- a continuous process for identifying, evaluating and managing significant risks across the Group together with a comprehensive annual review of risks which covers both financial and non-financial areas; and
- a central team that checks clinical, health and safety compliance in all parts of the Group.

The Board is committed to maintaining high standards of business conduct and ethics, and has an ongoing process for identifying, evaluating and managing any significant risks in this regard.

The internal control procedures are delegated to the Executive Directors and senior management and are reviewed in the light of the ongoing assessment of the Group's significant risks.

Internal audit

The Audit Committee has reviewed the key risk management processes and internal control procedures described above and is satisfied that the processes and controls currently in place are appropriate for a public company of CVS' size. As a consequence, the Audit Committee is of the opinion that there is currently no need for an internal audit function, but they will continue to consider this going forward.

Going concern

At the balance sheet date the Group had cash balances of £3.0m and an unutilised overdraft facility of £5.0m. A £48.0m Revolving Credit Facility was signed on 28 March 2015, of which £15.0m was utilised at the year end. Since the year end, the Group has continued to trade profitably and to generate cash. Although the Group had net current liabilities of £20.3m at 30 June 2015, the Directors consider that the £5.0m overdraft and the £48.0m Revolving Credit Facility enable them to meet all current liabilities when they fall due. After consideration of market conditions, the Group's financial position (including the level of headroom available within the bank facilities), its profile of cash generation and the timing and amount of bank borrowings repayable, the Directors have formed a judgement at the time of approving the financial statements that both the Company and the Group have adequate resources available to continue operating in the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

By order of the Board

Rebecca Cleal
Company Secretary
25 September 2015

Linking remuneration to performance

MIKE McCOLLUM
Chairman of the Remuneration Committee

As an AIM-quoted company, the information provided is disclosed to fulfil the requirements of AIM rule 19. CVS Group plc is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The information is unaudited.

Remuneration policy

Remuneration policy in respect of Executive Directors is designed to ensure that the Group achieves its potential and increases shareholder value. In respect of basic salary, the objective is to ensure that the Group attracts and retains high calibre executives with the skills, experience and motivation necessary to direct and manage the affairs of the Group. Annual bonuses and long-term incentive plans are seen as an important part of each Director's total remuneration and are designed to drive and reward exceptional performance. The policy also provides for post-retirement benefits through contributions to Executive Directors' personal pension schemes, together with other benefits such as a company car and life and medical insurance.

The Remuneration Committee reviews the policy in light of market conditions, performance and developments in good corporate governance.

Remuneration consists of the following elements:

Base pay

Executive Directors' base pay is designed to reflect the experience, capabilities and role within the business. Salary levels are reviewed annually and are benchmarked against similar listed companies.

Annual bonus

All Executive Directors participate in the Group's annual bonus scheme, which is based on the achievement of adjusted EBITDA performance. This is intended to align management incentives with shareholders' objectives. The bonus is awarded up to a maximum of 100% of base pay for the Chief Executive and 50% of base pay for the Finance Director.

Pension and other benefits

The Chief Executive also participates in a defined contribution pension arrangement. The Finance Director participated in a defined contribution pension arrangement up until 31 March 2014 when this was replaced by a payment in lieu of a pension. Both Executive Directors participate in other benefits, including the provision of a company car and medical and life insurance.

Long Term Incentive Plan ("LTIP")

Both Executive Directors and certain other senior employees are entitled to be considered for the grant of awards under the LTIP. After due consideration, the Remuneration Committee makes awards to selected participants. The awards take the form of nominal cost options over a specified number of Ordinary shares. Awards are not transferable or assignable.

The Long Term Incentive Plan rewards the future performance of the Executive Directors and certain other employees by linking the size of the award to the achievement of Group performance targets.

Details of plans at reporting date that have not yet vested are set out below.

Award	Grant date	Vesting period	Adjusted EPS real growth performance conditions
LTIP6	23 July 2012	3 years	Less than 2.0% cumulative annual growth rate ("CAGR") – no award 2.0% to 3.5% CAGR – awarded on a straight line basis between 35% and 80% of total award 3.5% to 4.0% CAGR – awarded on a straight line basis between 80% and 100% of total award More than 4.0% CAGR – full award
LTIP7	5 December 2013	3 years	Less than 6.0% CAGR – no award 6.0% to 10.0% CAGR – awarded on a straight line basis between 40% and 100% of total award More than 10.0% CAGR – full award
LTIP8	24 September 2014	3 years	Adjusted EPS growth: Less than 8.0% CAGR – no award 8.0% to 12.0% CAGR – awarded on a straight line basis between 40% and 100% of total award More than 12.0% CAGR – full award

The adjusted EPS measure for the purposes of monitoring the achievement of performance targets for LTIP6 reflects adjustments for amortisation of intangibles, income tax, share-based payments, exceptional items and fair value adjustments in respect of derivative financial instruments and available-for-sale assets. The adjusted EPS measure for the purposes of monitoring the achievement of performance targets for LTIP7 and LTIP8 is as for LTIP6 except that it does not reflect an adjustment for share-based payments. The CAGR targets stated above are over and above the increase in the Retail Price Index over the related three-year vesting period.

In addition and irrespective of the adjusted earnings per share performance target, no award will vest unless in the opinion of the Remuneration Committee the underlying performance of the Group has been satisfactory over the measurement period.

In the event that a Director ceases employment and is a "good leaver" (i.e. he leaves by reason of his death, disability, redundancy, injury, or because the business or Company for which he works is sold out of the Group), he will receive a number of Ordinary shares calculated as above, but scaled down to take account of length of service since the date of award as a proportion of the measurement period. At the discretion of the Committee, participants who leave for other reasons may, exceptionally, be treated as a good leaver for this purpose.

Save As You Earn ("SAYE")

The Group operates an incentive scheme for all staff, including the Executive Directors, being the CVS SAYE plan, an HM Revenue & Customs approved scheme. A SAYE scheme is operated for each year. Under all schemes, awards are made at a 20% discount to the closing mid-market price on the day preceding the date of invitation, vesting over a three-year period. There are no performance conditions attached to any of the SAYE schemes.

Service agreements

S Innes entered into his service agreement on 4 October 2007 and N Perrin entered into his on 1 January 2013. Both agreements can be terminated by either party on twelve months' notice. As well as an annual salary, the service contracts also detail the provision of other benefits including performance related bonuses, medical and life insurance, car allowance and contributions to personal pension plans.

R Connell has a letter of appointment for an initial term and secondary term of three years, consecutively from 4 October 2007. M McCollum has a letter of appointment for a three-year term from 2 April 2013. Their appointments can be terminated by the Company or the Non-Executive Directors by giving six months' notice.

Directors' emoluments

	Basic salary, allowance and fees £'000	Benefits in kind £'000	Performance related bonus £'000	**2015 Total £'000**	2014 Total £'000
Non-Executive Chairman					
R Connell	105	—	—	**105**	103
Executive Directors					
S Innes	330	33	350	**713**	644
N Perrin	198	15	104	**317**	295
Non-Executive Director					
M McCollum	43	—	—	**43**	40
	676	48	454	**1,178**	1,082

S Innes participated in a defined contribution pension arrangement. During the year, the Group contributed £50,000 (2014: £46,000). N Perrin received a payment in lieu of pension of £21,000 (2014: £22,000).

Benefits in kind include the provision of a company car and medical and life insurance for each Executive Director.

No Director waived emoluments in respect of the years ended 30 June 2015 or 30 June 2014.

The remuneration of the Executive Directors of CVS Group plc is borne by the subsidiary company, CVS (UK) Limited, without recharge to CVS Group plc.

Directors' interests in shares

The interests of the Directors as at 30 June 2015 in the shares of the Company were:

	Ordinary shares of 0.2p each Number
R Connell	83,891
M McCollum	50,000
S Innes	246,475
N Perrin	10,000

Apart from the interests disclosed above and the interests in share options disclosed on page 31, the Directors had no other interest in shares of Group companies.

Share options

Options over Ordinary shares awarded to Executive Directors under the LTIP and SAYE schemes in place at 25 September 2015 are as follows:

Scheme	Date of grant	Market price of shares on date of grant	Earliest exercise date and date of vesting	Exercise price	Number of shares
S Innes					
LTIP6	23 July 2012	123p	30 June 2015*	0.2p	301,020
LTIP7	5 December 2013	250p	30 June 2016	0.2p	121,200
LTIP8	24 September 2014	352p	30 June 2017	0.2p	88,169
SAYE7	27 November 2014	370p	1 January 2018	296p	6,081
N Perrin					
LTIP7	5 December 2013	250p	30 June 2016	0.2p	92,500
LTIP8	24 September 2014	352p	30 June 2017	0.2p	53,570
SAYE6	29 November 2013	269p	1 January 2017	215p	4,186
SAYE7	27 November 2014	370p	1 January 2018	296p	3,041

* These awards have now vested.

At 30 June 2015, the market price of the Ordinary shares was 646p.

No share options lapsed during the year. The following options have been exercised during the year:

	Scheme	Number of shares	Exercise date	Exercise price	Share price at exercise date
S Innes	LTIP5	337,710	9 October 2014	0.2p	370p
	SAYE4	9,430	2 January 2015	95.4p	446p

Gains arising on the exercise of options for S Innes amounted to £1,281,819.

On behalf of the Remuneration Committee

Mike McCollum
Non-Executive Director
25 September 2015

The Directors present their Annual Report together with the audited consolidated financial statements for the year ended 30 June 2015

Principal activities and results
The principal activities of the Group are to operate animal veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an on-line dispensary business. The principal activity of CVS Group plc is that of a holding company.

The Group made a profit after taxation of £6.8m (2014: £4.8m).

Business review
The information that fulfils the requirements of the business review, including details of the 2015 results, key performance indicators, principal risks and uncertainties and the outlook for future years, is set out in the Chairman's Statement (pages 12 to 13), the Business Review (pages 14 to 16) and the Finance Review (including key performance indicators and principal risks and uncertainties) (pages 17 to 23).

Dividends
The Directors recommend the payment of a dividend of 3.0p per share (2014: 2.5p) amounting to £1.8m (2014: £1.5m). Subject to approval at the Annual General Meeting, the dividend will be paid on 11 December 2015 to shareholders on the register at the close of business on 27 November 2015. The aggregate dividends recognised as distributions in the year ended 30 June 2015 amounted to £1.5m (2014: £1.1m). No interim dividends (2014: £nil) have been paid during the year.

Directors
The following Directors held office during the year and up to the date of signing the financial statements:

R Connell

S Innes

M McCollum

N Perrin

Biographical details of the Directors are provided on page 24.

Re-election of Directors
The Articles of Association of the Company require all Directors to be re-elected at intervals of not more than three years. The Board has decided that it is appropriate for all Directors to be reappointed each year, so in accordance with that decision all Directors will stand for re-election at the Annual General Meeting.

Directors' remuneration and interests
The Remuneration Committee Report is set out on pages 28 to 31. It includes details of Directors' remuneration, interests in the shares of the Company, share options and pension arrangements.

Environment
The Group recognises the significance of environmental responsibility and undertakes clinical compliance reviews to ensure environmental standards are conformed with in addition to providing training to its employees to ensure compliance. Although the Group's activities do not have a major impact on the environment, every effort is made to reduce any effect.

Health and safety
The Group is fully aware of its obligations to maintain high health and safety standards at all times, and the safety of our customers and employees is of paramount importance. The Group's operations are managed at all times in such a way as to ensure, as far as is reasonably practicable, the health, safety and welfare of all of our employees and all other people who may be attending our premises.

Corporate governance
The Board's Corporate Governance Statement is set out on pages 25 to 27.

Financial instruments
Details of the Group's financial risk management objectives and policies are included in note 3 to the financial statements.

Share capital and substantial shareholdings
Details of the share capital of the Company as at 30 June 2015 are set out in note 24 to the financial statements.

At 17 August 2015, the Company has been notified of the following substantial shareholdings comprising 3% or more of the issued Ordinary share capital of the Company:

	Number of shares	% of total issued
Invesco Perpetual	6,625,657	11.19%
BlackRock	6,194,604	10.46%
Octopus Investments	4,890,591	8.26%
Standard Life Investments	3,770,000	6.37%
Hargreave Hale, Stockbrokers (ND)	3,012,643	5.09%
Old Mutual Global Investors	2,371,400	4.01%
Abdiel Capital	2,032,296	3.43%

Employees
Consultation with employees takes place through a number of regional meetings throughout the year and an annual staff survey. The aim is to ensure that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the general progress of their business units and of the Group as a whole. To enhance communication within the Group, a committee is in place which is constituted of regional members from all areas of the business with the aim of improving consultation and communication levels.

Applications for employment by disabled people are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of a disabled person should be, as far as possible, identical to that of a person who does not have a disability.

The Group operates a Long Term Incentive Plan for Executive Directors and senior managers. Details are included in note 8. The Group also has a Save As You Earn scheme, now in its seventh year, under which employees are granted an option to purchase Ordinary shares in the Company in three years' time, dependent upon their entering into a contract to make monthly contributions to a savings account over the relevant period. These savings are used to fund the option exercise value. The exercise price in respect of options issued in the year was at a 20% discount to the share's market value at the date of invitation. The scheme is open to all Group employees including the Executive Directors. Details of the scheme are included in the Remuneration Committee Report on pages 28 to 31.

Market value of land and buildings

The Directors have reviewed the current values of land and buildings and are of the opinion that there is no material difference between market and balance sheet values.

Directors' third-party indemnity provision

A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 was in force during the year and also at the balance sheet date for the benefit of each of the Directors in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a directors' and officers' liability insurance policy throughout the financial year.

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and the parent company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Company and the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

The Directors confirm that so far as each of the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Rebecca Cleal
Company Secretary
25 September 2015

INDEPENDENT AUDITORS' REPORT
to the members of CVS Group plc

We have audited the financial statements of CVS Group plc for the year ended 30 June 2015 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated and Company statements of changes in equity, the consolidated and Company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 33, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

James Brown
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Ipswich
25 September 2015

CONSOLIDATED INCOME STATEMENT
for the year ended 30 June 2015

	Note	2015 £m	2014 £m
Revenue	4	**167.3**	142.9
Cost of sales	6	**(88.2)**	(77.7)
Gross profit		**79.1**	65.2
Administrative expenses	6	**(69.3)**	(57.7)
Operating profit		**9.8**	7.5
Net finance expense	5	**(1.3)**	(1.2)
Profit before income tax	4	**8.5**	6.3
Income tax expense	9	**(1.7)**	(1.5)
Profit for the year attributable to owners of the parent		**6.8**	4.8
Earnings per Ordinary share (expressed in pence per share) ("EPS")			
Basic	11	**11.6p**	8.3p
Diluted	11	**11.3p**	8.0p

The 2014 comparatives for cost of sales and administration expenses have been restated to reclassify salary costs relating to non-clinical staff and other employment costs to administration expenses.

The following table is provided to show the comparative earnings before interest, tax, depreciation and amortisation ("EBITDA") after adjusting for costs relating to business combinations.

Non-GAAP measure: adjusted EBITDA	Note	2015 £m	2014 £m
Profit before income tax		**8.5**	6.3
Adjustments for:			
Net finance expense	5	**1.3**	1.2
Depreciation	14	**3.5**	2.8
Amortisation	13	**8.5**	7.3
Costs relating to business combinations		**1.2**	0.7
Adjusted EBITDA	4	**23.0**	18.3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 30 June 2015

	Note	2015 £m	2014 £m
Profit for the year		**6.8**	4.8
Other comprehensive income – items that will or may be reclassified to (loss)/profit in future periods			
Cash flow hedges:			
Fair value (losses)/gains	17	**(0.1)**	0.2
Other comprehensive income for the year, net of tax		**(0.1)**	0.2
Total comprehensive income for the year attributable to owners of the parent		**6.7**	5.0

CONSOLIDATED AND COMPANY BALANCE SHEETS
as at 30 June 2015

	Note	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Non-current assets					
Intangible assets	13	**79.2**	58.8	**—**	—
Property, plant and equipment	14	**20.0**	14.5	**—**	—
Investments	16	**0.1**	0.1	**64.3**	63.1
Deferred income tax assets	23	**1.8**	1.1	**—**	—
		101.1	74.5	**64.3**	63.1
Current assets					
Inventories	19	**5.8**	4.6	**—**	—
Trade and other receivables	20	**17.1**	13.8	**4.8**	6.2
Cash and cash equivalents	26	**3.0**	2.2	**—**	—
		25.9	20.6	**4.8**	6.2
Total assets	4	**127.0**	95.1	**69.1**	69.3
Current liabilities					
Trade and other payables	21	**(30.4)**	(25.7)	**—**	—
Current income tax liabilities		**(1.7)**	(1.0)	**—**	—
Borrowings	22	**(14.1)**	(3.6)	**—**	—
		(46.2)	(30.3)	**—**	—
Non-current liabilities					
Borrowings	22	**(35.1)**	(29.9)	**—**	—
Deferred income tax liabilities	23	**(6.5)**	(3.7)	**—**	—
Derivative financial instruments	17	**(0.1)**	—	**—**	—
		(41.7)	(33.6)	**—**	—
Total liabilities	4	**(87.9)**	(63.9)	**—**	—
Net assets		**39.1**	31.2	**69.1**	69.3
Shareholders' equity					
Share capital	24	**0.1**	0.1	**0.1**	0.1
Share premium		**9.5**	9.2	**9.5**	9.2
Capital redemption reserve		**0.6**	0.6	**0.6**	0.6
Revaluation reserve	25	**0.1**	0.1	**—**	—
Merger reserve		**(61.4)**	(61.4)	**—**	—
Retained earnings		**90.2**	82.6	**58.9**	59.4
Total equity		**39.1**	31.2	**69.1**	69.3

The notes on pages 40 to 62 are an integral part of these consolidated financial statements.

The financial statements on pages 35 to 62 were authorised for issue by the Board of Directors on 25 September 2015 and were signed on its behalf by:

Nick Perrin
Director

Simon Innes
Director

Company registered number: 06312831

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2015

	Share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 July 2013	0.1	8.7	0.6	0.1	(61.4)	76.6	24.7
Profit for the year	—	—	—	—	—	4.8	4.8
Other comprehensive income							
Cash flow hedges:							
Fair value gains	—	—	—	—	—	0.2	0.2
Total other comprehensive income	—	—	—	—	—	0.2	0.2
Total comprehensive income	—	—	—	—	—	5.0	5.0
Transactions with owners							
Issue of Ordinary shares	—	0.5	—	—	—	—	0.5
Credit to reserves for share-based payments	—	—	—	—	—	1.4	1.4
Deferred tax relating to share-based payments	—	—	—	—	—	0.8	0.8
Deferred tax relating to financial instruments	—	—	—	—	—	(0.1)	(0.1)
Dividends to equity holders of the Company	—	—	—	—	—	(1.1)	(1.1)
Transactions with owners	—	0.5	—	—	—	1.0	1.5
At 30 June 2014	0.1	9.2	0.6	0.1	(61.4)	82.6	31.2

	Share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 July 2014	0.1	9.2	0.6	0.1	(61.4)	82.6	31.2
Profit for the year	—	—	—	—	—	6.8	6.8
Other comprehensive income							
Cash flow hedges:							
Fair value losses	—	—	—	—	—	(0.1)	(0.1)
Total other comprehensive income	—	—	—	—	—	(0.1)	(0.1)
Total comprehensive income	—	—	—	—	—	6.7	6.7
Transactions with owners							
Issue of Ordinary shares	—	0.3	—	—	—	—	0.3
Credit to reserves for share-based payments	—	—	—	—	—	1.2	1.2
Deferred tax relating to share-based payments	—	—	—	—	—	1.2	1.2
Dividends to equity holders of the Company	—	—	—	—	—	(1.5)	(1.5)
Transactions with owners	—	0.3	—	—	—	0.9	1.2
At 30 June 2015	**0.1**	**9.5**	**0.6**	**0.1**	**(61.4)**	**90.2**	**39.1**

COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2015

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2013	0.1	8.7	0.6	59.3	68.7
Loss for the year	—	—	—	(0.2)	(0.2)
Transactions with owners					
Issue of Ordinary shares	—	0.5	—	—	0.5
Credit to reserves for share-based payments	—	—	—	1.4	1.4
Dividends to equity holders of the Company	—	—	—	(1.1)	(1.1)
Transactions with owners	—	0.5	—	0.3	0.8
At 30 June 2014	0.1	9.2	0.6	59.4	69.3

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2014	0.1	9.2	0.6	59.4	69.3
Loss for the year	—	—	—	(0.2)	(0.2)
Transactions with owners					
Issue of Ordinary shares	—	0.3	—	—	0.3
Credit to reserves for share-based payments	—	—	—	1.2	1.2
Dividends to equity holders of the Company	—	—	—	(1.5)	(1.5)
Transactions with owners	—	0.3	—	(0.3)	—
At 30 June 2015	**0.1**	**9.5**	**0.6**	**58.9**	**69.1**

CONSOLIDATED AND COMPANY CASH FLOW STATEMENT
for the year ended 30 June 2015

	Note	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Cash flows from operating activities					
Cash generated from operations	27	**22.2**	20.7	**1.2**	0.6
Taxation paid		**(2.3)**	(2.5)	**—**	—
Interest paid		**(1.3)**	(1.2)	**—**	—
Net cash generated from operating activities		**18.6**	17.0	**1.2**	0.6
Cash flows from investing activities					
Acquisitions (net of cash acquired)	15	**(21.1)**	(12.4)	**—**	—
Purchase of property, plant and equipment	14	**(6.1)**	(4.9)	**—**	—
Purchase of intangible assets	13	**(0.4)**	(0.4)	**—**	—
Net cash used in investing activities		**(27.6)**	(17.7)	**—**	—
Cash flows from financing activities					
Dividends paid		**(1.5)**	(1.1)	**(1.5)**	(1.1)
Proceeds from issue of Ordinary shares	24	**0.3**	0.5	**0.3**	0.5
Debt issuance costs		**(0.5)**	—	**—**	—
Increase/(repayment) of bank loan	26	**11.5**	(2.3)	**—**	—
Net cash used in financing activities		**9.8**	(2.9)	**(1.2)**	(0.6)
Net increase/(reduction) in cash and cash equivalents	26	**0.8**	(3.6)	**—**	—
Cash and cash equivalents at the beginning of the year		**2.2**	5.8	**—**	—
Cash and cash equivalents at the end of the year	26	**3.0**	2.2	**—**	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2015

1. General information
The principal activity of the Group is to operate companion animal veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an on-line pharmacy business. The principal activity of the Company is that of a holding company.

CVS Group plc is a public limited company incorporated and domiciled in England and Wales and its shares are quoted on AIM of the London Stock Exchange.

Companies in the consolidated financial statements
The trading subsidiary undertakings included within the consolidation are as follows:

Name of subsidiary	Principal business
Animed Direct Limited	On-line dispensary
Axiom Veterinary Laboratories Limited	Veterinary diagnostic services
CVS (UK) Limited	Veterinary and diagnostic services
Greendale Veterinary Diagnostics Limited	Veterinary diagnostic services
Mi Vet Club Limited	Veterinary goods and services buying club
Pet Doctors Limited	Veterinary services
Pet Medic Recruitment Limited	Recruitment services
Pet Vaccination Clinic Limited	Veterinary services
Precision Histology International Limited	Veterinary diagnostic services
Rossendale Pet Crematorium Limited	Animal cremation and provision of burial grounds
Silvermere Haven Limited	Animal cremation and provision of burial grounds
Valley Pet Crematorium Limited	Animal cremation
Village Referrals Limited	Veterinary services
Whitley Brook Crematorium for Pets Limited	Animal cremation
YourVets (Holdings) Limited	Holding company

The dormant subsidiary undertakings included within the consolidation are as follows:

Active Vetcare Ltd	CVS Number 2 Ltd	Petherton Veterinary Clinics Ltd
Archway Veterinary Practice Ltd	CVS Number 3 Ltd	Petmedics Ltd
Ark Alliance Ltd	Dacin Ltd	Superstar Pets Ltd
Aylsham Vets Ltd	DE & G Morgan (Cardiff) Ltd	Townsend Veterinary Practice Ltd
Batchelor, Davidson and Watson Ltd	Firstvets Ltd	Veterinary Enterprises & Trading Ltd
Beechwood Veterinary Practice Ltd	Joel Veterinary Clinic Ltd	Veterinary Pathology Partners Ltd
Carrick Veterinary Group Ltd	Melton Veterinary Practice Ltd	Wey Referrals Ltd
Cedar Veterinary Services Ltd	Mipet Ltd	
CVS Number 1 Ltd	Pet Vaccination UK Ltd	

Apart from CVS (UK) Limited, all of the above subsidiaries are indirectly held by CVS Group plc. All Companies are registered in England and Wales, with the exception of Batchelor, Davidson and Watson Ltd, which is registered in Scotland.

All equity shareholdings are wholly owned except for Village Referrals Limited, which is 98% owned.

2. Summary of significant accounting policies
Basis of preparation
The consolidated and Company financial statements of CVS Group plc have been prepared in accordance with EU-adopted International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretation Committee ("IFRIC") interpretations and in line with those provisions of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention, except for certain financial instruments that have been measured at fair value.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing these financial statements. Further details are provided in the Corporate Governance Statement on page 27. The accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these financial statements. The accounting policies which follow relate to the Group and are applied by the Company as appropriate.

2. Summary of significant accounting policies *continued*

Basis of preparation *continued*

Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form a basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Due to the inherent uncertainty involved in making assumptions and estimates, actual outcomes will differ from those assumptions and estimates. The following estimates and judgements have the most significant effect on the amounts recognised in the financial statements.

Intangibles acquired in business combinations

Determining the value of intangibles (patient data records, customer lists and trade names) acquired in business combinations requires a critical judgement based on estimated future cash flows expected to arise from the intangible assets at a suitable discount rate in order to calculate their present value. In addition, an estimate of the useful life of the intangible asset has to be made, over which period the cash flows are expected to be generated. Details of intangibles acquired through business are provided in note 15 to the financial statements.

Impairment of goodwill

Determining whether goodwill is impaired requires the estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires a critical judgement of the future cash flows expected to arise from the cash-generating unit at a suitable discount rate in order to calculate the present value. Details of the impairment review are provided in note 13 to the financial statements.

Determination of discount rates used in business combinations and impairment reviews

The discount rates used in business combinations and impairment reviews are based on the current cost of capital of the business adjusted for management's perception of risk. While management believes the discount rates used are the most appropriate rates, a change in these assumptions could result in an impairment charge. Details of the discount rates used are provided in note 13 to the financial statements.

Changes in accounting policy and disclosure

Standards and interpretations to existing standards (some of which have yet to be adopted by the EU) which are not yet effective and are under review as to their impact on the Group

The following standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2015 or later periods but which the Group has not early adopted:

- IFRS 9 Financial Instruments (IASB effective date 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2017)

Basis of consolidation

The consolidated financial statements include the financial information of the Company and its subsidiary undertakings as at and for the year ended 30 June 2015.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies. The results of companies and businesses acquired are included in the consolidated income statement from the date control passes. They are deconsolidated from the date that control ceases. On acquisition of a company or business, all assets and liabilities that exist at the date of acquisition are recorded at their fair values, reflecting their condition at that date. All changes to those assets and liabilities, and the resulting gains and losses, which arise after the Group has gained control of the company or business, and that arise after the measurement period, are credited or charged to the post-acquisition income statement.

Intra-group transactions and profits are eliminated fully on consolidation. Accounting policies of subsidiaries have been aligned to ensure consistency with the policies adopted by the Group.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision maker ("CODM"). The CODM has been determined to be the Board of Directors, as it is primarily responsible for the allocation of resources to segments and the assessment of the performance of segments. Details of the Group's operating segments are provided in note 4 to the financial statements.

Property, plant and equipment

Property, plant and equipment are stated at cost (being the purchase cost, together with any incidental costs of acquisition) less accumulated depreciation and any accumulated impairment losses. The assets' residual values and useful lives are reviewed annually, and adjusted as appropriate. Depreciation is provided so as to write off the cost of property, plant and equipment, less their estimated residual values, over the expected useful economic lives of the assets in equal annual instalments at the following principal rates:

Freehold buildings	2% straight line
Leasehold improvements	Straight line over the life of the lease
Fixtures, fittings and equipment	20%–33% straight line
Motor vehicles	25% straight line

Freehold land is not depreciated on the basis that it has an unlimited life.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2015 *continued*

2. Summary of significant accounting policies *continued*

Intangible assets

Goodwill

With the exception of the acquisition of CVS (UK) Limited, which was accounted for using the principles of merger accounting, all business combinations are accounted for by applying the acquisition method. Goodwill arising on acquisitions that have occurred since 1 July 2004 is stated after separate recognition of intangible assets and represents the difference between the fair value of the purchase consideration and the fair value of the Group's share of the identifiable net assets of an acquired entity. In respect of acquisitions prior to 1 July 2004 goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous Generally Accepted Accounting Practice. Goodwill is carried at cost less accumulated impairment losses, and is subject to annual impairment testing.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software. These costs are amortised over their estimated useful lives of three years. Costs associated with maintaining computer software programs are recognised as an expense as incurred.

Patient data records, customer lists and trade names

Acquired patient data records, customer lists and trade names are recognised as intangible assets at the fair value of the consideration paid to acquire them and are carried at historical cost less provisions for amortisation and impairment. The fair value attributable to these items acquired through a business combination is determined by discounting the expected future cash flows to be generated from that asset at the risk-adjusted post-tax weighted average cost of capital for the Group. The residual values are assumed to be £nil. Patient data records, customer lists and trade names are reviewed for impairment if conditions exist that indicate a review is required. Amortisation is provided so as to write off the cost over the expected economic lives of the asset in equal instalments at the following principal rates:

Patient data records	10% per annum
Customer lists	6.67% per annum
Trade names	10% per annum

Impairment of non-current assets

Assets that have an indefinite useful life are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGUs"). Recoverable amounts for CGUs are based on value in use, which is calculated from cash flow projections using data from the Group's latest internal forecasts, being a one-year detailed forecast and extrapolated forecasts thereafter, the results of which are approved by the Board. The key assumptions for the value in use calculations are those regarding discount rates and growth rates.

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Impairment losses in respect of goodwill are not reversed.

Inventories

Inventories comprise goods held for resale and are stated at the lower of cost and net realisable value on a first in first out basis. Net realisable value is based on estimated selling price less further costs expected to be incurred to disposal. Where necessary, provision is made for obsolete, slow moving or defective inventory.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(a) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the excess of the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of any loss is recognised in the income statement within administrative expenses. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

(b) Investments

Gains and losses arising from changes in the fair value of available-for-sale investments in equity instruments that have a quoted market price are recognised directly in other comprehensive income until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net result for the year.

In accordance with IAS 39 Financial Instruments: Recognition and Measurement, available-for-sale investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost. The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Dividends on an available-for-sale equity instrument are recognised in the income statement when the Group's right to receive payment is established.

In the Company's financial statements, investments in subsidiary undertakings are initially stated at cost. Provision is made for any permanent impairment in the value of these investments.

2. Summary of significant accounting policies *continued*

Financial instruments *continued*

(c) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are recorded initially at fair value and subsequently at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in profit or loss. A financial liability is derecognised only when the obligation is extinguished. An equity instrument is any contract that gives a residual interest in the assets of the Group after deducting all of its liabilities.

(d) Interest-bearing borrowings

Interest-bearing bank loans and overdrafts are initially recorded as the proceeds received, net of associated transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

(e) Trade and other payables

Trade and other payables are not interest bearing and are stated at their amortised cost.

(f) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(g) Derivative financial instruments and hedging activities

The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from financing activities. The Group does not hold or issue derivative financial instruments for trading purposes; however, if derivatives do not qualify for hedge accounting they are accounted for as such.

Derivative financial instruments are recognised and stated at fair value. The fair value of derivative financial instruments is determined by reference to market values for similar financial instruments, by discounted cash flows, or by the use of option valuation models. The fair value of interest rate swap arrangements is calculated as the present value of the estimated future cash flows. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the income statement.

Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months and as a current asset or liability when the remaining maturity of the hedged item is less than twelve months.

Cash flow hedging

Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement where material. Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects the income statement. The classification of the effective portion when recognised in the income statement is the same as the classification of the hedged transaction. Any element of the remeasurement of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the income statement within finance costs.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the income statement when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the cash flow statement.

Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Where the intrinsic value of a share option exceeds the fair value, the corresponding deferred tax on the excess is recognised directly in equity.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2. Summary of significant accounting policies *continued*

Revenue

Revenue represents amounts receivable from customers for veterinary services, related veterinary products, the sale of products on-line and crematoria services provided during the year. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured; typically this is when a diagnostic procedure, a veterinary consultation or a cremation is completed. Revenue is measured at the fair value of the consideration received or receivable, excluding value added tax.

In respect of customer loyalty schemes, where monies are received by way of monthly subscriptions, appropriate adjustments are made through deferred and accrued income to recognise revenue when the underlying service has been performed. Revenue in respect of customer loyalty schemes is recognised net of a provision for expected cancellations based on historic cancellation data.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful economic life of the asset and the lease term.

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight line basis over the lease term.

Share-based payments

Certain employees of the Group receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The fair values of equity-settled transactions are measured indirectly at the dates of grant using option pricing models, taking into account the terms and conditions upon which the awards are granted. The fair value of share-based payments under such schemes is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted at each reporting date for the effect of non market-based vesting conditions. The fair value of options awarded to employees of subsidiary undertakings is recognised as a capital contribution and recorded in investments on the Company balance sheet.

Foreign currency translation

Functional and presentational currency

The financial information in this report is presented in Sterling, the functional currency of the Company and its subsidiaries, rounded to the nearest £0.1m.

Transactions and balances

Transactions denominated in foreign currencies are translated into Sterling (the functional currency of the Company and its subsidiaries) at the rate of exchange ruling at the date of transaction. All realised foreign exchange differences are taken to the income statement. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date and any gain or loss on these transactions is recognised in the income statement.

Retirement benefit costs

The Group makes contributions to stakeholder and employee personal pension defined contribution schemes in respect of certain employees. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Net financing costs

Net financing costs comprise interest payable on borrowings, interest receivable on cash and cash equivalents, debt finance costs and gains and losses on derivative financial instruments that are recognised in the income statement.

Interest income and expense is recognised in the income statement as it accrues, using the effective interest method.

Use of non-GAAP measures

Adjusted EBITDA, adjusted profit before tax ("adjusted PBT") and adjusted EPS

The Directors believe that adjusted EBITDA, adjusted PBT and adjusted EPS provide additional useful information for shareholders on underlying trends and performance. These measures are used for internal performance analysis. These measures are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted measures. It is not intended to be a substitute for, or superior to, IFRS measurements of profit or earnings per share.

Adjusted EBITDA is calculated by reference to profit before income tax, adjusted for interest (net finance expense), depreciation, amortisation and costs relating to business combinations.

Adjusted profit before income tax is calculated as profit on ordinary activities before amortisation, taxation, costs relating to business combinations and exceptional items.

Adjusted earnings per share is calculated as adjusted profit before income tax less applicable taxation divided by the weighted average number of Ordinary shares in issue in the period.

Like-for-like sales

Like-for-like sales comprise the revenue generated from all operations compared to the prior year (on a pro-forma basis, i.e. including unaudited pre-acquisition revenues in respect of acquisitions in the current and comparative periods), after adjusting for sites under refurbishment and discontinued operating activities.

2. Summary of significant accounting policies *continued*

Share premium

The share premium reserve comprises the premium received over the nominal value of shares for shares issued.

Capital redemption reserve

Upon cancellation of redeemable preference shares on redemption, a capital redemption reserve was created representing the nominal value of the shares cancelled. This is a non-distributable reserve.

Merger reserve

The merger reserve resulted from the acquisition of CVS (UK) Limited and represents the difference between the value of the shares acquired (nominal value plus related share premium) and the nominal value of the shares issued.

3. Financial risk management

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (being interest rate risk and other price risks), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative instruments to manage its exposure to interest rate movements. It is not the Group's policy to actively trade in derivatives.

Given the size of the Group, the Board monitors financial risk management. The policies set by the Board of Directors are implemented by the Group's finance department.

a) Market risk

i) Foreign exchange currency rate risk

The Group has very limited exposure to foreign exchange risk as substantially all of its transactions are denominated in the Company's functional currency of Sterling. The Group has a policy to minimise foreign exchange currency rate risk through the regular monitoring of foreign currency flows. Currency exposures are reviewed regularly and all significant foreign exchange transactions are approved by Group management. The Group does not currently hedge any foreign currency transactions but continues to keep this policy under review.

ii) Cash flow and fair value interest rate risk

The Group has interest-bearing assets and liabilities. The Group's income and operating cash inflows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

At the year end, the Group had interest hedging arrangements in place covering £20.3m of debt. This allows the Group to minimise its exposure to significant interest rate increases whilst enabling the Group to take advantage of interest rate reductions. The strategy for undertaking the hedge is to match the loan liability with a coterminous derivative that allows interest to float within an agreed range and thereby limits the cash flow exposure relating to interest.

Excluding the impact of the interest rate swap arrangement, bank borrowings bear interest at 1.3% to 2.0% above LIBOR. During the year the bank borrowings carried a rate averaging 2.0% above LIBOR.

At 30 June 2015, the Group has considered the impact of movements in interest rates over the past year and has concluded that a 1% movement is a reasonable benchmark. At 30 June 2015, if interest rates on Sterling-denominated borrowings had been 1% higher or lower with all other variables held constant, post-tax profit and the movement in net assets for the year would have been approximately £0.4m (2014: £0.4m) lower or higher, mainly as a result of the movement in interest rates on the floating rate borrowings, net of the hedging derivative instrument in place.

b) Credit risk

The Group has no significant concentrations of credit risk. The Group's principal financial assets are cash and bank balances, and trade and other receivables.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Concentrations of credit risk with respect to trade receivables are limited due to the Group's diverse customer base. The Group also has in place procedures that require appropriate credit checks on potential customers before sales, other than on a cash basis, to be made. Customer accounts are also monitored on an ongoing basis and appropriate action is taken where necessary to minimise any credit risk. The Directors therefore believe there is no further credit risk provision required in excess of normal provision for impaired receivables.

Group management monitors the ageing of receivables which are more than one month overdue and debtor days on a regular basis. At 30 June 2015 gross trade receivables amounted to 5.8% of revenue for the year (2014: 5.0%). Of these gross trade receivables 51% (2014: 52%) were more than one month overdue.

The maximum exposure to credit risk at 30 June 2015 is the fair value of each class of receivable as disclosed in note 18 to the financial statements.

3. Financial risk management *continued*

Financial risk factors *continued*

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. The Group actively maintains cash balances and a mix of long-term and short-term finance facilities that are designed to ensure the Group has sufficient available funds for operations and acquisitions. Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow. The table below summarises the remaining contractual maturity for the Group's financial liabilities. The amounts shown are the contractual undiscounted cash flows which include interest, analysed by contractual maturity. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

30 June 2015	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	Total £m
Non-derivative financial liabilities					
Borrowings	**15.3**	**32.0**	**2.5**	**—**	**49.8**
Trade and other payables	**25.4**	**—**	**—**	**—**	**25.4**
Derivative contracts					
Interest rate swap arrangements	**0.3**	**0.1**	**—**	**—**	**0.4**
	41.0	**32.1**	**2.5**	**—**	**75.6**

30 June 2014	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	Total £m
Non-derivative financial liabilities					
Borrowings	3.9	4.3	26.1	—	34.3
Trade and other payables	20.8	—	—	—	20.8
Derivative contracts					
Interest rate swap arrangements	0.4	0.5	0.2	—	1.1
	25.1	4.8	26.3	—	56.2

Capital risk management

The Group's policy is to maintain a strong capital base, defined as bank facilities plus total shareholders' equity, so as to maintain investor, creditor and market confidence and to sustain future development of the business. Within this overall policy, the Group seeks to maintain an optimum capital structure by a mixture of debt and retained earnings.

The bank facilities include both financial and non-financial covenants. There have been no breaches of the terms of the respective loan agreements, breaches of covenants or defaults during the current or comparative years.

Funding needs are reviewed periodically and also each time a significant acquisition is made. A number of factors are considered which include the net debt/adjusted EBITDA ratio, future funding needs (usually potential acquisitions) and Group banking arrangements.

	2015 £m	2014 £m
Net debt (see note 26)	**46.2**	31.3
Adjusted EBITDA (see note 4)	**23.0**	18.3
Ratio	**2.00**	1.71

There were no changes to the Group's approach to capital management during the year.

The primary source of funding for the Group is internally generated cash. The Group's £5.0m working capital facility and £33.0m of the £48.0m Revolving Credit Facility were undrawn at 30 June 2015.

3. Financial risk management *continued*

Fair value measurement

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2015, by level of fair value hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	30 June 2015			30 June 2014		
	Level 1 £m	Level 2 £m	Total £m	Level 1 £m	Level 2 £m	Total £m
Assets						
Available-for-sale financial assets (note 16)	0.1	—	0.1	0.1	—	0.1
Liabilities						
Derivative financial instruments (interest rate swap arrangements) (note 17)	—	0.1	0.1	—	—	—

4. Segmental reporting

The operating segments are based on the Group's management and internal reporting structure and monitored by the Group's CODM. Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest-bearing borrowings and associated costs, taxation-related assets and liabilities, costs relating to business combinations and head office salary and premises costs.

The business operates predominantly in the UK. It performs a small amount of laboratory work for European-based clients and Animed Direct Limited distributes a small quantity of goods to European countries. In accordance with IFRS 8 Operating Segments no segmental results are presented for trade with European clients as these are not reported separately for management reporting purposes.

Operating segments

The Group is split into four operating segments (Veterinary Practice Division, Laboratory Division, Crematoria Division and Animed Direct) and a centralised support function for business segment analysis. In identifying these operating segments, management generally follows the Group's service lines representing its main products and services.

Each of these operating segments is managed separately as each segment requires different specialisms, marketing approaches and resources.

Year ended 30 June 2015	Veterinary Practice £m	Laboratory £m	Crematoria £m	Animed Direct £m	Head office £m	Group £m
Revenue	147.5	13.1	2.6	10.3	(6.2)	167.3
Profit/(loss) before income tax	15.4	1.7	0.7	0.5	(9.8)	8.5
Adjusted EBITDA	25.3	2.2	0.8	0.5	(5.8)	23.0
Total assets	109.2	7.9	3.6	3.5	2.8	127.0
Total liabilities	(30.2)	(1.9)	(0.8)	(3.0)	(52.0)	(87.9)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	15.4	1.7	0.7	0.5	(9.8)	8.5
Net finance expense	—	—	—	—	1.3	1.3
Depreciation	2.6	0.5	0.1	—	0.3	3.5
Amortisation	6.9	—	—	—	1.6	8.5
Costs relating to business combinations	0.4	—	—	—	0.8	1.2
Adjusted EBITDA	25.3	2.2	0.8	0.5	(5.8)	23.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2015 *continued*

4. Segmental reporting *continued*
Operating segments *continued*

Year ended 30 June 2014	Veterinary Practice (restated[1]) £m	Laboratory (restated[1]) £m	Crematoria (restated[1]) £m	Animed Direct £m	Head office (restated[1]) £m	Group £m
Revenue	126.4	10.6	1.6	8.5	(4.2)	142.9
Profit/(loss) before income tax	13.3	0.9	0.3	0.3	(8.5)	6.3
Adjusted EBITDA	21.9	1.1	0.4	0.3	(5.4)	18.3
Total assets	81.2	6.4	2.3	3.0	2.2	95.1
Total liabilities	(23.0)	(1.7)	(0.6)	(2.8)	(35.8)	(63.9)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	13.3	0.9	0.3	0.3	(8.5)	6.3
Net finance expense	—	—	—	—	1.2	1.2
Depreciation	2.3	0.2	0.1	—	0.2	2.8
Amortisation	6.1	—	—	—	1.2	7.3
Costs relating to business combinations	0.2	—	—	—	0.5	0.7
Adjusted EBITDA	21.9	1.1	0.4	0.3	(5.4)	18.3

1 A number of costs relating to the Veterinary Practice, Laboratory and Crematoria divisions were previously charged to central administration. These are now charged to the appropriate division and figures for comparative periods have been restated.

5. Finance expense

	2015 £m	2014 £m
Interest expense, bank loans and overdraft	**1.1**	1.1
Amortisation of debt arrangement fees	**0.2**	0.1
Finance expense	**1.3**	1.2

6. Expenses by nature

	2015 £m	2014 £m
Amortisation of intangible assets	**8.5**	7.3
Depreciation of property, plant and equipment	**3.5**	2.8
Employee benefit expenses	**74.8**	64.4
Cost of inventories recognised as an expense (included in cost of sales)	**33.8**	25.7
Repairs and maintenance expenditure on property, plant and equipment	**1.8**	1.4
Trade receivables impairment charge	**0.7**	1.5
Operating lease rentals payable	**8.5**	7.8
Other expenses	**25.9**	24.5
Total cost of sales and administrative expenses	**157.5**	135.4

The prior year comparatives for cost of sales and administration expenses have been restated to reclassify salary costs relating to non-clinical staff and other employment costs to administration expenses. £18.6m of employment costs have been reclassified in the 2014 comparatives.

Services provided by the Company's auditor and associates
During the year the Group obtained the following services from the Company's auditors at costs as detailed below:

	2015 £'000	2014 £'000
Audit services		
Fees payable to the Group's auditors for the audit of the parent company and consolidated financial statements	**16**	15
Other services		
Tax services	**13**	—
The audit of the Company's subsidiaries pursuant to legislation	**46**	41
All other services	**41**	—
	116	56

7. Employee benefit expense and numbers

Group

Employee benefit expense for the Group	2015 £m	2014 £m
Wages and salaries	**66.5**	57.0
Social security costs	**6.5**	5.6
Other pension costs (note 30)	**0.6**	0.4
Share-based payments (note 12)	**1.2**	1.4
	74.8	64.4

Employee benefit expense included within cost of sales is £47.5m (2014: £42.9m). The balance is recorded within administrative expenses.

The average monthly number of people employed by the Group (including Executive Directors) during the year, analysed by category, was as follows:

	2015 Number	2014 Number
Veterinary surgeons and pathologists	**764**	671
Nurses, practice ancillaries and technicians	**2,165**	1,971
Crematorium staff	**42**	29
Central support	**133**	115
	3,104	2,786

The Company has no employees, other than the Directors. The Directors received remuneration in respect of their services to the Company from a subsidiary company.

8. Directors' remuneration and key management compensation

	Highest paid Director		Directors' emoluments	
	2015 £m	2014 £m	2015 £m	2014 £m
Salaries and other short-term employee benefits	**0.7**	0.6	**1.0**	1.0
Company contributions to money purchase schemes	**—**	—	**0.1**	0.1
	0.7	0.6	**1.1**	1.1

Retirement benefits are accruing to one Director (2014: one) under a personal pension plan. The remuneration of the Executive Directors amounting to £1.0m (2014: £1.0m) is borne by the subsidiary company CVS (UK) Limited, without recharge. The remuneration of the Non-Executive Directors amounting to £0.1m (2014: £0.1m) is borne by the subsidiary company CVS (UK) Limited and recharged to the Company.

Share options

Under the Company's SAYE schemes the Directors have the following options at the balance sheet date:

	SAYE scheme	Date of grant	Earliest exercise date and vesting date	Exercise price	Number of shares
S Innes	SAYE7	27 November 2014	1 January 2018	296p	6,081
N Perrin	SAYE6	29 November 2013	1 January 2017	215p	4,186
N Perrin	SAYE7	27 November 2014	1 January 2018	296p	3,041

Shares awarded to Executive Directors under the Long Term Incentive Plans ("LTIPs") as at the balance sheet date are as follows:

	LTIP	Date of grant	Market price on date of grant	Earliest exercise date and vesting date	Number of shares
S Innes	LTIP6	23 July 2012	123p	30 June 2015	301,020
S Innes	LTIP7	5 December 2013	250p	30 June 2016	121,200
S Innes	LTIP8	24 September 2014	352p	30 June 2017	88,169
N Perrin	LTIP7	5 December 2013	250p	30 June 2016	92,500
S Innes	LTIP8	24 September 2014	352p	30 June 2017	53,570

The exercise price for all shares is 0.2p.

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for the year ended 30 June 2015 *continued*

8. Directors' remuneration and key management compensation *continued*

Share options *continued*

LTIP5 and SAYE4 were exercised in the year; see the Remuneration Committee Report on page 31 for further details.

Details of the above schemes are included in the Remuneration Committee Report on pages 28 to 31.

Key management compensation

Key management is considered to be those on the Executive Committee (being the Executive Directors and other senior management) and Non-Executive Directors. The employment costs of key management are as follows:

	2015 £m	2014 £m
Salaries and other short-term employee benefits	1.9	1.7
Post-employment benefits	0.1	0.1
Share-based payments	1.1	1.3
	3.1	3.1

9. Income tax expense

(a) Analysis of income tax expense recognised in the income statement

	2015 £m	2014 £m
Current tax expense		
UK corporation tax	2.6	2.3
Adjustments in respect of previous years	—	0.2
Total current tax charge	2.6	2.5
Deferred tax expense		
Origination and reversal of temporary differences	(0.5)	(0.7)
Adjustments in respect of previous years	(0.2)	—
Effect of tax rate change on opening deferred tax balance	(0.2)	(0.3)
Total deferred tax credit (note 23)	(0.9)	(1.0)
Total income tax expense	1.7	1.5

Factors affecting the current tax charge

UK corporation tax is calculated at 20.8% (2014: 22.5%) of the estimated assessable profit for the year. The standard rate of UK corporation tax changed from 21% to 20% with effect from 1 April 2015.

(b) Reconciliation of effective income tax charge

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2015 £m	2014 £m
Profit before tax	8.5	6.3
Effective tax charge at 20.8% (2014: 22.5%)	1.8	1.4
Effects of:		
Expenses not deductible for tax purposes	0.3	0.2
Effect of tax rate change on opening deferred tax balance	(0.2)	(0.3)
Adjustments to deferred tax charge in respect of previous years	(0.2)	—
Adjustments to current tax charge in respect of previous years	—	0.2
Total income tax expense	1.7	1.5

The Chancellor of the Exchequer has stated his intention to reduce the main rate of corporation tax from 20% to 19% from 1 April 2017. This change has not been substantively enacted at the balance sheet date and, therefore, is not reflected in these financial statements. Had this change been enacted, then the cumulative effects would have been to decrease the net deferred tax liability provided at the balance sheet date by £0.2m.

10. Profit for the financial year

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's loss for the financial year was £0.2m (2014: £0.2m).

11. Earnings per Ordinary share

(a) Basic

Basic earnings per Ordinary share is calculated by dividing the profit after taxation by the weighted average number of shares in issue during the year.

	2015	2014
Earnings attributable to Ordinary shareholders (£m)	6.8	4.8
Weighted average number of Ordinary shares in issue	58,814,787	57,728,337
Basic earnings per share (p per share)	11.6	8.3

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary shares outstanding to assume conversion of all dilutive potential Ordinary shares. The Company has potentially dilutive Ordinary shares being the contingently issuable shares under the Group's Long Term Incentive Plan schemes and SAYE schemes. For share options, a calculation is undertaken to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2015	2014
Earnings attributable to Ordinary shareholders (£m)	6.8	4.8
Weighted average number of Ordinary shares in issue	58,814,787	57,728,337
Adjustment for contingently issuable shares – Long Term Incentive Plans	1,078,285	1,338,424
Adjustment for contingently issuable shares – SAYE schemes	624,663	470,375
Weighted average number of Ordinary shares for diluted earnings per share	60,517,735	59,537,136
Diluted earnings per share (p per share)	11.3	8.0

Non-GAAP measure: adjusted earnings per share

Adjusted earnings per Ordinary share is calculated as adjusted profit before income tax less applicable taxation divided by the weighted average number of Ordinary shares in issue in the period.

	2015 £m	2014 £m
Earnings attributable to Ordinary shareholders	6.8	4.8
Add back taxation	1.7	1.5
Profit before taxation	8.5	6.3
Adjustments for:		
Amortisation (note 13)	8.5	7.3
Costs relating to business combinations (note 4)	1.2	0.7
Adjusted profit before income tax	18.2	14.3
Tax effect of the above adjustments at 20.8% (2014: 22.5%)	(3.7)	(3.3)
Adjusted profit after income tax and earnings attributable to owners of the parent	14.5	11.0
Weighted average number of Ordinary shares in issue	58,814,787	57,728,337
Weighted average number of Ordinary shares for diluted earnings per share	60,517,735	59,537,136

	Pence	Pence
Adjusted earnings per share	24.7p	19.0p
Diluted adjusted earnings per share	24.0p	18.5p

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2015 *continued*

12. Share-based payments

Long Term Incentive Plans

The Group operates an incentive scheme for certain senior executives, the CVS Group Long Term Incentive Plan ("LTIP").

Under the LTIP scheme awards are made at an effective nil cost, vesting over a three-year performance period conditional upon the Group's earnings per share growth, as adjusted for amortisation of intangibles, exceptional items and fair value adjustments in respect of derivative instruments and available-for-sale assets over the same period. The LTIP scheme arrangements are equity settled.

Details of the share options outstanding during the year under the LTIP schemes are as follows:

	July 2014 scheme ("LTIP8") Number of share awards	July 2013 scheme ("LTIP7") Number of share awards	July 2012 scheme ("LTIP6") Number of share awards	July 2011 scheme ("LTIP5") Number of share awards
Outstanding at 1 July 2014	—	403,700	638,166	651,721
Granted during the year	277,841	—	—	—
Forfeited during the year	(1,136)	(1,600)	(3,266)	—
Exercised during the year	—	—	—	(651,721)*
Outstanding at 30 June 2015	**276,705**	**402,100**	**634,900**	**—**
Exercisable at 30 June 2015	**—**	**—**	**—**	**—**

* The weighted average share price at the date of exercise was £3.70.

Options are exercisable at 0.2p per share.

The options outstanding at the year end under LTIP7 and LTIP6 have a weighted average remaining contractual life of one year and nil years respectively.

The share-based payment charge for the year in respect of the options issued under the LTIP schemes amounted to £0.9m (2014: £1.2m) and has been charged to administrative expenses. National Insurance contributions amounting to £0.6m (2014: £0.5m) have been accrued in respect of the LTIP scheme transactions and are treated as cash-settled transactions.

Further details of the above schemes are included in the Remuneration Committee Report on pages 28 to 31.

Save As You Earn ("SAYE")

The Group operates an incentive scheme for all employees, the CVS Group SAYE plan, an HM Revenue & Customs approved scheme. The SAYE5 scheme was opened for subscription in December 2012 (with options granted in January 2013), the SAYE6 scheme was opened for subscription in December 2013 (with options granted in January 2014) and the SAYE7 scheme was opened for subscription in December 2014 (with options granted in January 2015). Under the SAYE schemes awards have been made at a 20% discount of the closing mid-market price on date of invitation, vesting over a three-year period. There are no performance conditions attached to the SAYE scheme. Details of the share options outstanding during the year under the SAYE schemes are as follows:

	SAYE7 Number of share awards	SAYE6 Number of share awards	SAYE5 Number of share awards	SAYE4 Number of share awards
Outstanding at 1 July 2014	—	609,455	171,692	294,995
Granted during the year	736,541	—	—	—
Forfeited/expired during the year	(17,575)	(71,330)	(15,646)	(468)
Exercised during the year	—	—	—	(294,527)*
Outstanding at 30 June 2015	**718,966**	**538,125**	**156,046**	**—**
Exercisable at 30 June 2015	**—**	**—**	**—**	**—**

* The weighted average share price at the date of exercise was £4.71 for the SAYE4 scheme.

Options are exercisable at 296p for the SAYE7 scheme, 215p per share for the SAYE6 scheme, 130p for the SAYE5 scheme and 95p for the SAYE4 scheme.

The options outstanding at the year end under the SAYE5 and SAYE4 scheme have a weighted average remaining contractual life of one year and five months and nil years and five months respectively.

The net share-based payment charge for the year in respect of the options issued under the SAYE schemes amounted to £0.3m (2014: £0.2m) and has been charged to administrative expenses.

12. Share-based payments *continued*

Save As You Earn (SAYE) *continued*

Options for both schemes were valued using the Black-Scholes option pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

	LTIP8	SAYE7
Grant date	24 September 2014	27 November 2014
Share price at grant date	£3.52	£3.70
Fair value per option	£3.52	£2.96
Exercise price	0.2p	£2.96
Number of employees	25	495
Shares under option at date of grant	277,841	736,541
Vesting period/option life/expected life (years)	3 years	3 years
Weighted average remaining contractual life	2 years	2 years 5 months
Expected volatility*	21.63%	21.63%
Expected dividends expressed as a dividend yield	0.7%	0.7%

* Expected volatility has been determined by reference to the historical share return volatility of CVS Group plc.

13. Intangible assets

	Goodwill £m	Trade names £m	Customer lists £m	Patient data records £m	Computer software £m	Total £m
Cost						
At 1 July 2013	17.1	1.5	4.4	59.8	1.2	84.0
Additions arising through business combinations	1.1	—	0.8	10.3	—	12.2
Other additions	—	—	—	—	0.4	0.4
At 30 June 2014	18.2	1.5	5.2	70.1	1.6	96.6
Additions arising through business combinations (note 15)	3.7	—	0.7	24.1	—	28.5
Other additions	—	—	—	—	0.4	0.4
At 30 June 2015	**21.9**	**1.5**	**5.9**	**94.2**	**2.0**	**125.5**
Accumulated amortisation						
At 1 July 2013	—	0.4	1.6	27.9	0.6	30.5
Amortisation for the year	—	0.2	0.3	6.5	0.3	7.3
At 30 June 2014	—	0.6	1.9	34.4	0.9	37.8
Amortisation for the year	—	0.1	0.4	7.6	0.4	8.5
At 30 June 2015	**—**	**0.7**	**2.3**	**42.0**	**1.3**	**46.3**
Net book amount						
At 30 June 2015	**21.9**	**0.8**	**3.6**	**52.2**	**0.7**	**79.2**
At 30 June 2014	18.2	0.9	3.3	35.7	0.7	58.8
At 1 July 2013	17.1	1.1	2.8	31.9	0.6	53.5

Amortisation expense has been charged to administrative expenses.

The patient data records, customer lists and trade names were acquired as a component of business combinations. See note 15 for further details of current year acquisitions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
for the year ended 30 June 2015 *continued*

13. Intangible assets *continued*

The components of goodwill are disclosed by the grouped cash-generating units shown below:

	2015 £m	2014 £m
Veterinary practices	**18.1**	14.5
Laboratories	**2.2**	2.2
Crematoria	**1.6**	1.5
	21.9	18.2

The pre-tax discount rate applied to the cash flow projections is derived from the Group's post-tax weighted average cost of capital. The risks relating to each segment are considered to be the same and, as such, the discount rate applied to each segment is the same. The Directors consider the growth rate to be consistent between segments; a 1% growth per annum in EBITDA has been assumed for the purposes of assessing net present value of future cash flows, with EBITDA used as an approximation to cash flow. The budget for the next financial year is used as a basis for the cash flow projections. The growth rate is based upon a prudent assessment of market-specific growth assumptions. Further details of the impairment tests are disclosed in note 2.

Estimates are based on past experience and expectations of future changes to the market. Growth rate forecasts are extrapolated based on estimated long-term average growth rates for the markets in which the CGU operates (estimated at 1.0%). The pre-tax discount rate used to calculate value in use is 10.87% at 30 June 2015 (2014: 11.7%). These discount rates are derived from the Group's post-tax weighted average cost of capital. Based on the results of the current year impairment review, no impairment charges have been recognised by the Group in the year ended 30 June 2015 (2014: £nil). Having assessed the anticipated future cash flows the Directors do not consider there to be any reasonably possible changes in assumptions that would lead to such an impairment charge in the year ended 30 June 2015.

14. Property, plant and equipment

	Freehold land and buildings £m	Leasehold improvements £m	Fixtures, fittings and equipment £m	Motor vehicles £m	Total £m
Cost					
At 1 July 2013	1.7	8.0	12.3	1.3	23.3
Additions arising through business combinations	0.5	0.1	0.4	—	1.0
Additions	—	1.7	3.1	0.1	4.9
Disposals	—	—	—	(0.1)	(0.1)
At 30 June 2014	2.2	9.8	15.8	1.3	29.1
Additions arising through business combinations (note 15)	—	0.5	2.4	—	2.9
Additions	1.2	2.3	2.4	0.2	6.1
Disposals	—	—	—	(0.1)	(0.1)
At 30 June 2015	**3.4**	**12.6**	**20.6**	**1.4**	**38.0**
Accumulated depreciation					
At 1 July 2013	0.2	2.6	8.4	0.7	11.9
Charge for the year	0.1	0.9	1.6	0.2	2.8
Disposals	—	—	—	(0.1)	(0.1)
At 30 June 2014	0.3	3.5	10.0	0.8	14.6
Charge for the year	0.1	1.0	2.2	0.2	3.5
Disposals	—	—	—	(0.1)	(0.1)
At 30 June 2015	**0.4**	**4.5**	**12.2**	**0.9**	**18.0**
Net book amount					
At 30 June 2015	**3.0**	**8.1**	**8.4**	**0.5**	**20.0**
At 30 June 2014	1.9	6.3	5.8	0.5	14.5
At 1 July 2013	1.5	5.4	3.9	0.6	11.4

Freehold land amounting to £0.2m (2014: £0.2m) has not been depreciated.

15. Business combinations

Details of business combinations in the year ended 30 June 2015 are set out below (full details of each acquisition are provided in the Year in Review on pages 6 to 7), in addition to an analysis of post-acquisition performance of the respective business combinations, where practicable.

Given the nature of the veterinary surgeries acquired (mainly partnerships or sole traders) and the records maintained by such practices, it is not practicable to disclose the revenue or profit/loss of the combined entity for the year as though the acquisition date for all business combinations effected during the year had been the beginning of that year. It is not practicable to disclose the impact of the business combinations on the consolidated cash flow statement as full ledgers were not maintained for each business combination in relation to all related assets and liabilities following acquisition.

The table below summarises the assets acquired in the year ended 30 June 2015:

	Book value of acquired assets £m	**Adjustments £m**	**Fair value £m**
Property, plant and equipment	**2.9**	**—**	**2.9**
Patient data records	**6.8**	**17.3**	**24.1**
Customer lists	**—**	**0.7**	**0.7**
Goodwill	**—**	**3.7**	**3.7**
Inventory	**0.6**	**(0.1)**	**0.5**
Deferred tax liability (note 23)	**—**	**(4.2)**	**(4.2)**
Trade and other receivables	**1.8**	**—**	**1.8**
Trade and other payables	**(4.5)**	**—**	**(4.5)**
Loans	**(1.7)**	**—**	**(1.7)**
Net assets acquired	**5.9**	**17.4**	**23.3**
Deferred consideration payable via loan notes			**(2.5)**
Consideration paid – cash			**20.8**
Deferred consideration paid in respect of prior year acquisitions			**0.3**
Total consideration paid in year – cash			**21.1**

Post-acquisition revenue and post-acquisition EBITDA were £7.7m and £1.0m respectively. The post-acquisition period is from the date of acquisition to 30 June 2015. Post-acquisition EBITDA represents the direct operating result of practices from the date of acquisition to 30 June 2015 prior to the allocation of central overheads, on the basis that it is not practicable to allocate these.

The acquisition costs incurred in relation to the above business combinations amounted to £0.8m for the year and are included within other expenses in note 6 of the financial statements.

Included within the table above is the acquisition of YourVets, which is considered to be material for the purposes of these financial statements and therefore the elements pertaining to the acquisition of YourVets have been separately disclosed in the table below. The fair values of the assets and liabilities are provisional.

	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	1.9	—	1.9
Patient data records	3.5	8.3	11.8
Goodwill	—	3.6	3.6
Inventory	0.2	—	0.2
Deferred tax liability	—	(2.5)	(2.5)
Trade and other receivables	1.3	—	1.3
Trade and other payables	(2.9)	—	(2.9)
Loans	(1.7)	—	(1.7)
Net assets acquired	2.3	9.4	11.7
Deferred consideration payable via loan notes			(2.5)
Consideration paid – cash			9.2
Deferred consideration paid in respect of prior year acquisitions			—
Total consideration paid in year – cash			9.2

15. Business combinations *continued*

Business combinations in previous years

Details of business combinations in the comparative year are presented in the consolidated financial statements for the year ended 30 June 2014.

Business combinations subsequent to the year end

Subsequent to the year end, the Group acquired the share capital of Dovecote Veterinary Hospital, a referral practice based in Castle Donington on 20 July 2015; Rosemullion Veterinary Practice, a four-surgery practice based in Helston, Penryn and Falmouth on 11 August 2015; and Torbridge Veterinary Group, a three-surgery practice based in Bideford, South Molton and Torrington on 21 September 2015 for a total cash consideration of £7.1m. Assets acquired comprised principally intangible patient data records with a provisional fair value of £7.1m.

16. Investments

(a) Available-for-sale financial assets

Available-for-sale financial assets, which are denominated in Sterling, consist of an investment in managed investment funds.

The Group holds an investment in managed investment funds which have a quoted market price in an active market and are accordingly measured at fair value. Gains and losses arising from changes in the fair value are recognised directly in equity until the security is disposed of or deemed to be impaired.

(b) Shares in subsidiary undertakings

Company	£m
Cost and net book amount	
At 1 July 2014	61.7
Options granted to employees of subsidiary undertakings	1.4
At 30 June 2014	63.1
Options granted to employees of subsidiary undertakings	1.2
At 30 June 2015	**64.3**

The principal subsidiary undertakings of CVS Group plc are set out in note 1.

17. Derivative financial instruments

Derivatives are used for hedging in the management of exposure to market risks. This enables the optimisation of the overall cost of accessing debt capital markets, and the mitigation of the market risk which would otherwise arise from movements in interest rates.

There is no material impact on the Group income statement resulting from hedge ineffectiveness. There was no ineffective portion of cash flow hedges in 2015 (2014: £nil).

Cash flow hedges

On 6 December 2011, the Group entered into an interest rate swap arrangement limiting the Group's exposure to interest rate increases. The swap arrangement hedges 60% of a £36.0m term loan facility (£32.0m outstanding at 30 June 2015) by means of an amortising hedge which matches the debt amortisation.

The Group classifies its interest rate swap arrangement as a cash flow hedge and utilises hedge accounting to minimise income statement volatility in relation to movements in the value of the swap arrangement.

The fair values of the Group's interest rate derivatives are established using valuation techniques, primarily discounting cash flows, based on assumptions that are supported by observable market prices or rates.

The fair values of derivative financial instruments have been disclosed in the Group balance sheet as follows:

	2015		2014	
Group	**Assets £m**	**Liabilities £m**	Assets £m	Liabilities £m
Non-current				
Interest rate swap arrangements – cash flow hedges	**—**	**(0.1)**	—	—

The notional principal amount of the outstanding interest rate swap arrangement contract at 30 June 2015 was £19.2m. The outstanding interest rate swap arrangement contract expires on 27 January 2017.

17. Derivative financial instruments *continued*

Movements in fair values

Group	Interest rate swap arrangements £m
Fair value at 1 July 2013	(0.2)
Fair value gain through reserves – hedged	0.2
At 30 June 2014	—
Fair value loss through reserves – hedged	(0.1)
At 30 June 2015	**(0.1)**

18. Financial instruments

	2015			2014		
Group – assets as per balance sheet	**Loans and receivables £m**	**Available for sale £m**	**Total £m**	Loans and receivables £m	Available for sale £m	Total £m
Available-for-sale financial assets	**—**	**0.1**	**0.1**	—	0.1	0.1
Trade and other receivables (excluding prepayments and accrued income)	**10.2**	**—**	**10.2**	7.8	—	7.8
Cash and cash equivalents	**3.0**	**—**	**3.0**	2.2	—	2.2
	13.2	**0.1**	**13.3**	10.0	0.1	10.1

	2015			2014		
Company – assets as per balance sheet	**Loans and receivables £m**	**Available for sale £m**	**Total £m**	Loans and receivables £m	Available for sale £m	Total £m
Trade and other receivables (excluding prepayments)	**4.8**	**—**	**4.8**	6.2	—	6.2
	4.8	**—**	**4.8**	6.2	—	6.2

	2015			2014		
Liabilities as per balance sheet	**Derivatives used for hedging £m**	**Other financial liabilities £m**	**Total £m**	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
Borrowings	**—**	**(49.2)**	**(49.2)**	—	(33.5)	(33.5)
Trade and other payables (excluding social security and other taxes)	**—**	**(25.4)**	**(25.4)**	—	(20.8)	(20.8)
Derivative financial instruments	**(0.1)**	**—**	**(0.1)**	—	—	—
	(0.1)	**(74.6)**	**(74.7)**	—	(54.3)	(54.3)

19. Inventories

All inventories are goods held for resale. The Directors do not consider the difference between the purchase price of inventories and their replacement cost to be material.

20. Trade and other receivables

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Trade receivables:			—	—
Within their due period	4.9	3.5	—	—
Past due (between one and six months old):				
Not impaired	2.8	2.3	—	—
Fully impaired	2.0	1.4	—	—
Total trade receivables	9.7	7.2	—	—
Less: provision for impairment of receivables	(2.0)	(1.4)	—	—
Trade receivables – net	7.7	5.8	—	—
Amounts owed by Group undertakings	—	—	4.8	6.2
Other receivables	2.5	2.0	—	—
Prepayments and accrued income	6.9	6.0	—	—
	17.1	13.8	4.8	6.2

Group

The carrying amount of trade and other receivables is deemed to be a reasonable approximation to fair value. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable above. The Group does not hold any collateral as security. The Group's trade and other receivables are denominated in Sterling.

A provision for impairment is established based on historical experience. The amount of the provision was £2.0m (2014: £1.4m). The individually impaired receivables relate mainly to individual customers who are in unexpectedly difficult economic situations. These amounts continue to be legally pursued for collection notwithstanding they are provided against. Movements on the Group's provision for impairment of trade receivables are as follows:

	2015 £m	2014 £m
At the beginning of the year	1.4	0.9
Charged to the income statement within administrative expenses	0.7	1.5
Utilised in the year	(0.1)	(1.0)
At the end of the year	2.0	1.4

Other receivables do not contain impaired assets.

Company

Amounts owed by Group undertakings are unsecured, interest free and repayable on demand.

21. Trade and other payables

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Current				
Trade payables	17.5	15.4	—	—
Social security and other taxes	5.0	4.9	—	—
Other payables	2.2	1.5	—	—
Accruals	5.7	3.9	—	—
	30.4	25.7	—	—

22. Borrowings

Borrowings comprise bank loans and are denominated in Sterling. The repayment profile is as follows:

Group	2015 £m	2014 £m
Within one year or on demand	**14.1**	3.6
Between one and two years	**32.6**	4.0
Between two and three years	**2.5**	25.9
	49.2	33.5

The balances above are shown net of issue costs of £0.6m (2014: £0.2m), which are being amortised over the term of the bank loans. The carrying amount of borrowings is deemed to be a reasonable approximation to fair value.

On 28 March 2015, the Group entered into a new bank facility agreement with Royal Bank of Scotland ("RBS"). This facility agreement replaced the existing bank loan arrangements with RBS on more favourable terms, including a lower coupon rate. The facilities comprise the following elements: a fixed term loan of £32.0m, repayable on 27 January 2017 via a single bullet repayment; a five-year Revolving Credit Facility of £48.0m that runs to 27 March 2020; and a £5.0m overdraft facility renewable annually. The facility provides an option for the Group to refinance the repayment of the £32.0m fixed term loan through an additional RCF.

The two main financial covenants associated with the Group's bank facilities are based on Group borrowings to EBITDA and Group EBITDA to interest ratios. The bank loans, revolving facility and overdraft are unsecured, although there are cross guarantees in place from most of the Group's trading subsidiaries.

Undrawn committed borrowing facilities

At 30 June 2015 the Group has a committed overdraft facility of £5.0m (2014: £5.0m) and an RCF of £48.0m (2014: £10.0m). The overdraft facility was undrawn at 30 June 2015 and 30 June 2014. £33.0m of the RCF was undrawn at 30 June 2015 (2014: £10.0m).

23. Deferred income tax

Deferred income tax assets comprised:

Group	2015 £m	2014 £m
Tax effect of temporary differences:		
Share-based payments	**1.7**	1.0
Losses	**0.1**	0.1
	1.8	1.1

The Group's deferred tax assets have been recognised based on historical performance and future budgets. The Directors believe that it is probable that there will be sufficient taxable profits against which the assets will reverse.

Deferred income tax liabilities comprise the excess of qualifying depreciation and amortisation over tax allowances.

The movement in the net deferred income tax liabilities is explained as follows:

Group	At 1 July 2014 £m	(Charged)/ credited to income statement £m	Deferred tax gross up on acquisitions £m	Credited to statement of changes in equity £m	At 30 June 2015 £m
Share-based payments	1.0	(0.5)	—	1.2	**1.7**
Unutilised tax losses carried forward	0.1	—	—	—	**0.1**
Excess of qualifying depreciation and amortisation over capital allowances	(2.9)	1.4	—	—	**(1.5)**
Arising on acquisitions	(0.8)	—	(4.2)	—	**(5.0)**
	(2.6)	0.9	(4.2)	1.2	**(4.7)**

23. Deferred income tax *continued*

Group	At 1 July 2013 £m	(Charged)/ credited to income statement £m	Deferred tax gross up on acquisitions £m	Credited/ (charged) to statement of changes in equity £m	At 30 June 2014 £m
Share-based payments	0.5	(0.3)	—	0.8	1.0
Unutilised tax losses carried forward	—	0.1	—	—	0.1
Derivative financial instruments	0.1	—	—	(0.1)	—
Excess of qualifying depreciation and amortisation over capital allowances	(4.1)	1.2	—	—	(2.9)
Arising on acquisitions	—	—	(0.8)	—	(0.8)
	(3.5)	1.0	(0.8)	0.7	(2.6)

The deferred tax balance is non-current.

24. Share capital

	2015 £m	2014 £m
Issued and fully paid		
59,203,483 (2014: 58,248,138) Ordinary shares of 0.2p each	**0.1**	0.1

During the year, 651,721 shares were issued for consideration of £1,303 in respect of the vesting of LTIP5, and 282,313 shares were issued for consideration of £268,197 in respect of SAYE4.

Details of shares under option are provided in note 12 to the financial statements.

Dividends
The Directors have proposed a final dividend of 3.0p (2014: 2.5p) per share (total: £1.8m), payable on 11 December 2015 to shareholders on the register at the close of business on 27 November 2015. The dividend has not been included as a liability as at 30 June 2015. During the year a dividend of 2.5p per share amounting to £1.5m was paid.

25. Revaluation reserve
The revaluation reserve is used to record any surplus following a revaluation of property, plant and equipment. The revaluation reserve arose on the revaluation of a property in the subsidiary undertaking Precision Histology International Limited. The revaluation reserve is not a distributable reserve until realised.

26. Analysis of movement in net debt

Group	At 1 July 2014 £m	Cash flow £m	Non-cash movement £m	**At 30 June 2015 £m**
Cash and cash equivalents	2.2	0.8	—	**3.0**
Borrowings – current	(3.6)	(11.5)	1.0	**(14.1)**
Borrowings – non-current	(29.9)	—	(5.2)	**(35.1)**
Net debt	(31.3)	(10.7)	(4.2)	**(46.2)**

Non-cash movements comprise amortisation of issue costs on bank loans, new finance lease obligations, issue of loan notes, bank debt acquired and transfers between categories of borrowings. Cash and cash equivalents comprise cash at bank and in hand.

27. Cash flow generated from operations

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Profit/(loss) for the year	**6.8**	4.8	**(0.2)**	(0.2)
Taxation	**1.7**	1.5	**—**	—
Total finance costs	**1.3**	1.2	**—**	—
Amortisation of intangible assets	**8.5**	7.3	**—**	—
Depreciation of property, plant and equipment	**3.5**	2.8	**—**	—
(Increase)/decrease in working capital:				
Inventories	**(0.6)**	(0.9)	**—**	—
Trade and other receivables	**(1.9)**	(0.5)	**0.2**	(0.6)
Trade and other payables	**1.7**	3.1	**—**	—
Share option expense	**1.2**	1.4	**1.2**	1.4
Total net cash flow generated from operations	**22.2**	20.7	**1.2**	0.6

28. Guarantees and other financial commitments

Capital commitments

The Group had no capital commitments as at 30 June 2015 (2014: £nil).

Bank guarantees

The Company is a member of the Group banking arrangement under which it is party to unlimited cross guarantees in respect of the banking facilities of other Group undertakings, amounting to £31.9m at 30 June 2015. The Directors do not expect any material loss to the Company to arise in respect of the guarantees.

29. Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2015			2014		
	Property £m	Plant and machinery £m	Total £m	Property £m	Plant and machinery £m	Total £m
Not later than one year	**7.2**	**0.4**	**7.6**	6.4	0.4	6.8
Later than one year and not later than five years	**19.9**	**0.6**	**20.5**	17.7	0.5	18.2
Later than five years	**9.9**	**—**	**9.9**	10.8	—	10.8
Total	**37.0**	**1.0**	**38.0**	34.9	0.9	35.8

Operating lease commitments primarily represent rentals payable by the Group in respect of its veterinary practices and office premises.

30. Pension schemes

The Group contributes to certain employees' personal pension schemes in accordance with their service contracts. The amounts are charged to the income statement as they fall due. The amounts charged during the year amounted to £0.6m (2014: £0.4m). The amount outstanding at the end of the year included in trade and other payables was £0.1m (2014: £0.1m).

31. Related party transactions

Directors' and key management's compensation is disclosed in note 8.

Company

During the year the Company had the following transactions with CVS (UK) Limited:

	2015 £m	2014 £m
Recharge of expenses incurred by CVS (UK) Limited on behalf of the Company	**(0.2)**	(0.2)
Cash advanced to fund payment of dividend	**(1.5)**	(1.1)

The following balances were owed by/due to related companies:

	2015		2014	
	Receivable £m	**Payable £m**	Receivable £m	Payable £m
CVS (UK) Limited	**4.8**	**—**	6.2	—

Amounts owed by CVS (UK) Limited are unsecured, interest free and have no fixed date of repayment.

Transactions with Directors and key management

Annual market-based rent payable to the spouse of S Innes for the rental of premises amounts to £0.1m (2014: £0.1m), of which £0.1m (2014: £0.1m) was paid in the year.

Annual market-based rent payable to Tim Davies, a member of key management, for the rental of premises amounts to £0.1m (2014: £0.1m), of which £0.1m (2014: £0.1m) was paid in the year. During the year the following dividends were paid to the Directors: R Connell £2,100; M McCollum £500; S Innes £13,700; and N Perrin £250.

Ultimate controlling party

The Directors consider there is no ultimate controlling party.

FIVE-YEAR HISTORY

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Revenue	**167.3**	142.9	120.1	108.7	101.5
Gross profit	**79.1**	65.2	41.9	39.1	36.7
Operating profit	**9.8**	7.5	6.7	6.8	6.4
Exceptional finance expenses	**—**	—	—	(1.5)	—
Finance expense	**(1.3)**	(1.2)	(1.2)	(1.5)	(2.1)
Profit before tax	**8.5**	6.3	5.5	3.8	4.3
Income tax expense	**(1.7)**	(1.5)	(1.5)	(0.9)	(0.8)
Profit for the year	**6.8**	4.8	4.0	2.9	3.5
EBITDA					
Adjusted EBITDA	**23.0**	18.3	15.8	15.1	14.1
Adjusted profit before income tax	**18.2**	14.3	12.1	9.7	9.7
Cash generated from operations	**22.2**	20.7	16.7	15.6	17.6
Capital expenditure	**(6.5)**	(5.3)	(4.1)	(3.6)	(1.9)
Acquisitions	**(22.8)**	(12.4)	(7.7)	(3.8)	(4.2)
Loans and borrowings acquired through business combinations	**(2.5)**	—	—	—	—
Taxation paid	**(2.3)**	(2.5)	(2.1)	(2.0)	(1.3)
Interest paid	**(1.3)**	(1.2)	(1.2)	(1.2)	(1.8)
Exceptional interest paid	**—**	—	—	(1.6)	—
Debt issuance costs paid	**(0.5)**	—	—	(0.3)	—
Proceeds from Ordinary shares	**0.3**	0.5	0.1	—	—
Dividends paid	**(1.5)**	(1.1)	(0.8)	(0.5)	—
(Increase)/reduction in net debt	**(14.9)**	(1.3)	0.9	2.6	8.4
Year-end net debt	**46.2**	31.3	30.0	30.9	33.5

	Pence	Pence	Pence	Pence	Pence
Basic earnings per share	**11.6**	8.3	7.1	6.2	5.7
Adjusted basic earnings per share	**24.7**	19.0	16.2	12.8	12.5

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