#thisisCVS

CVS Group plc
Annual Report for the year ended 30 June 2017

CVS Group plc
Passionate about animal care

#thisisCVS

We are proud to be the UK's most comprehensive and integrated provider of veterinary services to animal owners

Cover
Right: Ella and Bilbo
Ella is a nurse at The Old Golfhouse

Bottom: Becka and Pumpkin
Becka is an administrator at the CVS office in Diss

Inside front cover
Jan and Harold
Jan is a theatre technician at The Grove

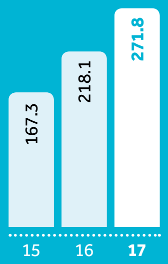
Find out more on-line
www.cvsukltd.co.uk

Financial highlights

Like-for-like sales grew by 6.3% with growth in all divisions.

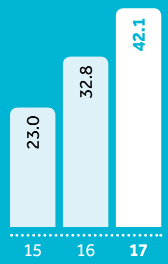
Revenue £m

£271.8m
+24.6%



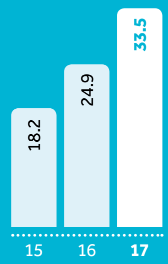
Adjusted EBITDA[1] £m

£42.1m
+28.2%



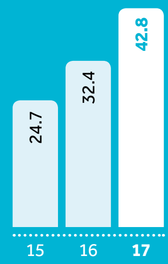
Adjusted profit before tax[2] £m

£33.5m
+34.8%



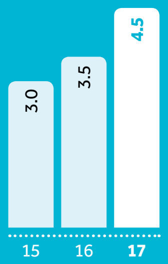
Adjusted earnings per share[3] p

42.8p
+32.1%



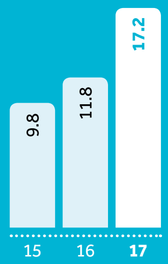
Proposed dividend per share p

4.5p
+28.6%



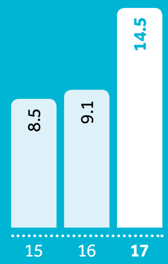
Operating profit £m

£17.2m
+46.2%



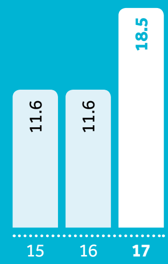
Profit before tax £m

£14.5m
+58.4%



Basic earnings per share p

18.5p
+59.5%



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.

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.

This is CVS

We remain the largest employer in the UK's veterinary profession with approximately 5,150 staff today, including around 1,270 vets.

Phil and Tinker
Phil is a vet at
The Old Golfhouse

Our business

The Group has four main business areas: our Veterinary Practice, Laboratory and Crematoria Divisions and Animed Direct.

Veterinary Practice

First-opinion and referral practices providing specialist treatment for companion animals, equine and farm animals.

Laboratory

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

Crematoria

Our crematoria provide pet cremation and clinical waste services to our veterinary practices, third-party practices and directly to pet owners.

Animed Direct

Our on-line pharmacy and retail business sells prescription and non-prescription medicines, pet food and other animal related products.

Our geographical coverage at 30 June 2017

Our acquisitions have further strengthened our geographical coverage in 2017. We also acquired nine new surgeries in the Netherlands.

1 Scotland and North East
Veterinary practices 57
Crematoria 3

2 Northern Ireland
Veterinary practices 4

3 North West
Veterinary practices 32
Crematoria 2

4 Yorkshire
Veterinary practices 15

5 East Midlands
Veterinary practices 39

6 West Midlands
Veterinary practices 38

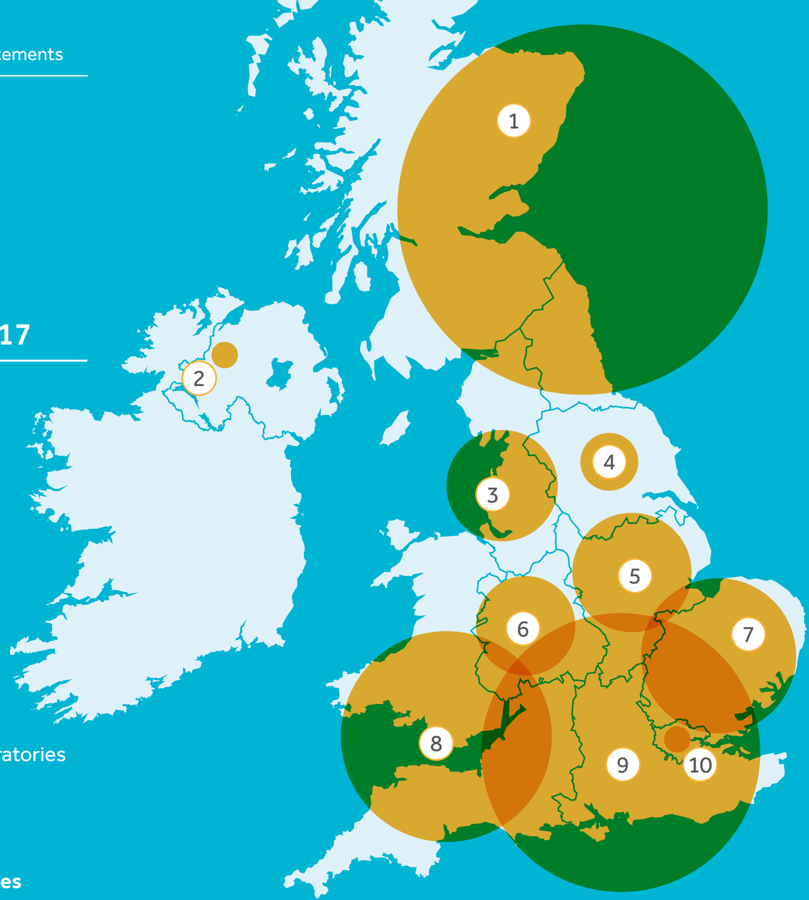
7 East of England
Veterinary practices 44
Laboratories 2

8 South West and Wales
Veterinary practices 54
Laboratories 1
Crematoria 1

9 South East
Veterinary practices 128
Laboratories 1
Crematoria 1

10 London
Veterinary practices 2

11 The Netherlands
Veterinary practices 9



This is **success**

> I am delighted to report a further outstanding performance by CVS with another record year for revenue and operating profits across the Group.

Highlights

Revenue grew 24.6% to £271.8m

Operating profit increased to £17.2m from £11.8m

Results

I am delighted to report a further outstanding performance by CVS with another record year for revenue and operating profits across the Group. Strong like-for-like growth of 6.3% was enhanced by further acquisitions in our Veterinary Practice Division. We increased our investment in equipment, premises, our services and our staff.

Revenue grew by 24.6% to £271.8m (2016: £218.1m). Adjusted EBITDA increased by 28.2% to £42.1m (2016: £32.8m) and adjusted EPS grew by 32.1% to 42.8p (2016: 32.4p).

Operating profit rose by 46.2% to £17.2m (2016: £11.8m), cash generated from operations increased 10.8% to £37.2m (2016: £33.6m) and profit before tax increased by 58.4% to £14.5m (2016: £9.1m). Basic EPS increased by 59.5% to 18.5p (2016: 11.6p).

Chairman's statement with Richard Connell

Business initiatives

In 2017 we acquired 62 surgeries, following on from the 67 acquired in 2016. In total these businesses are expected to generate revenue of approximately £38.0m per annum. Subsequent to the year end a further ten surgeries have been acquired.

Of particular note were our first acquisitions in the Netherlands, which give us a foothold to develop a business similar to that which we have in the UK. In the UK, our equine business expanded strongly with the acquisitions of Bell Equine during the year and B&W Equine subsequent to the year end. Severn Edge Veterinary Group gives CVS a strong presence in Shropshire in small animal and farm animal and further expands our equine capability.

We have continued to progress our strategy in our referrals business. After some challenges, our state-of-the-art multi-disciplinary referral centre at Lumbry Park improved its performance significantly and is now close to breaking even. Manchester Veterinary Specialists opened in February 2017 and is already profitable. The substantial refurbishment at Chestergates Veterinary Specialists was completed in September 2017 and now has the capacity to significantly grow its business.

Like-for-like sales grew by 6.3% (2016: 4.8%) with growth in all areas, in particular Animed Direct which performed exceptionally.

It is pleasing to note that the new Veterinary Practice Division management team introduced at the end of 2016 has settled in well and has driven performance of the business forward.

Our Healthy Pet Club scheme continued its strong growth with an additional 53,000 (20.9%) members over the year.

The Laboratory Division again grew very strongly with revenue increasing by 10.2% to £16.3m (2016: £14.8m).

Following the acquisition of three crematoria in 2016, the Crematoria Division has increased revenue by 27.1% to £6.3m.

In August 2017, we launched our own brand pet insurance under the name of MiPet Cover. This is the only pet insurance in the UK that is designed by vets. It provides top of the range cover at a competitive price. Whilst it is too early to fully assess the response from customers, their initial reaction and that from our own staff, who were involved in its design, has been very positive.

Our people

The Group remains the largest employer in the UK's veterinary profession with approximately 5,150 staff as at today (2016: 4,300), including around 1,270 vets (2016: 1,040). Yet again, our staff have risen to the challenge of delivering and integrating the high volume of acquisitions whilst continuing to develop the business. I would like to thank them all, including those new to CVS, for their efforts and for their expertise and professionalism in providing the best possible care and service to all our customers and their animals.

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 our competition.

Dividends

It is proposed to pay a dividend of 4.5p per share in December 2017, a 28.6% increase on the 3.5p per share paid in 2016. The increased scale and growth of our business can support a meaningful increase in the level of dividend whilst retaining sufficient funds to continue to grow the business.

If approved at the Annual General Meeting, the dividend will be paid on 8 December 2017 to shareholders on the register on 24 November 2017. The ex-dividend date will be 23 November 2017.

Outlook

The Group's exposure to the potential impacts of Brexit appears to be limited. The greatest impact could be in the employment of European vets. We have not seen any significant impact on employment so far but, together with other major employers in the industry and the Royal College of Veterinary Surgeons, we are lobbying the UK Government to ensure that there are no adverse impacts. Clearly, Brexit issues create some uncertainty for the pace of growth in the UK economy over the next couple of years, but the Board believes that the characteristics of our business make it relatively resilient.

Like-for-like sales growth has remained robust since the year end. The acquisition pipeline remains strong and the recent acquisition of B&W Equine will allow for further developments in our equine business. Further acquisitions in the Netherlands will continue the development of our business in Europe.

The recent launch of our MiPet Cover insurance is an exciting development which has significant long-term potential, although it is not expected to generate a profit in the current financial year.

Initiatives such as the introduction of own brand products, the expansion of out-of-hours sites and the development of our referrals business are expected to continue to deliver benefits in 2018.

The Board therefore believes that the outlook for CVS remains very promising.

Richard Connell
Non-Executive Chairman
29 September 2017

Thisispassion

What sets us apart

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

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

Our business model is underpinned by our core values:

- Customer focus
- Commitment to excellence
- Success through our people
- Honesty and integrity

Read more on our values on pages 22 and 23

Geographic coverage
As at the date of this report we have 422 surgeries, four laboratories and seven crematoria providing coverage of the UK. Additionally during the year we also expanded our geographic coverage outside the UK to Europe with ten sites in the Netherlands.

432
Surgeries

Passionate people
We employ dedicated and trained professionals, who are committed to excellent clinical care.

5,150
Total number of employees

High quality clinical care and facilities
All of our practices are registered with the RCVS Practice Standards Scheme, have excellent clinical governance and are committed to investing in and using modern diagnostic techniques.

46
Number of veterinary diploma holders

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

£17.2m
Operating profit for the year

Customer focus
Our staff are dedicated to providing the highest quality of service to our customers and their animals.

+20.9%
306,000 Healthy Pet Club members

Integrated services
We deliver first-opinion treatments, complex referral procedures, laboratory diagnostic testing, out-of-hours services, cremations, on-line dispensary, own brand medicines, Healthy Pet Club and insurance.

24
Number of dedicated emergency out-of-hours services, diagnostic laboratories and crematoria

CVS expands its acquisitions in Europe

We see many parallels between small animal practice in the Netherlands and the UK. In November 2016 we acquired our first practice in the Netherlands. The level of interest has been encouraging and we are delighted to have acquired ten surgeries in the Netherlands so far.

“During 2018, we will continue to explore opportunities to extend our activities into the Netherlands.

Our strategy

Our strategy is designed to increase growth and improve our long-term financial performance.

Priority	Our performance
1 Excellent customer service and care	• 46 of our vets are diploma holders, the highest recognised qualification • 375 vets have been recruited in our graduate programme in the last four years • 316 nurses have enrolled in our MiNurse Academy since its launch in January 2015 • 32 clinical pathologists are employed in our Laboratory Division
2 Meeting all of our customers' needs	• We own 422 surgeries across the UK and ten in the Netherlands, four laboratories and seven crematoria • There are 306,000 members on our HPC scheme • We invested £12.0m in developing our surgeries to improve facilities • We operate 14 specialist referral centres, including the greenfield Lumbry Park facility and our newest facility, Manchester Veterinary Specialists, which opened in February 2017 • We opened another six out-of-hours centres during the year • We launched our own brand pet insurance, MiPet Cover, in July 2017 • We achieved ISO 17025 accreditation for farm animal testing
3 Expanding our business through acquisitions	• 62 surgeries acquired during the year • Ten surgeries acquired since the year end
4 Building on our strengths to provide services to external practices	• Our laboratories performed 405,000 tests in 2017, of which 284,000 were for third parties • Our crematoria performed over 142,000 cremations, of which 72,000 were for third parties • 13 high quality own brand MiPet products available through HPC and MiVetClub

	Our focus
375 graduate vets in the last four years **32** clinical pathologists employed	• 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 • We also sponsor further qualifications for our vets such as RCVS Advanced Veterinary Practitioner and Diplomas
432 surgeries **306,000** members of our HPC scheme	• Development of our own brand pet insurance, MiPet Cover • Further expansion of our referrals business • Development of additional complex testing capability at our diagnostic laboratories • Investment in our crematoria business to increase capacity in the current financial year • Expansion of our own out-of-hours centres, thereby reducing reliance on third-party providers • Further development and expansion of our MiPet brand of products
62 surgeries acquired during the year **10** surgeries acquired since the year end	• We aim to continue to grow our business through acquisitions • We will consider acquisitions of small, farm animal and equine surgeries. We will also consider acquisitions of crematoria and laboratories where they fit a geographical or knowledge gap • We aim to continue our expansion into the Netherlands, in both small and farm animal along with equine surgeries
13 new own brand MiPet products launched **284,000** tests performed by our laboratories for third parties	• Development of external sales of our laboratory analyser units • Expansion of the service offering of our buying groups. 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, administering loyalty club schemes and access to MiPet products

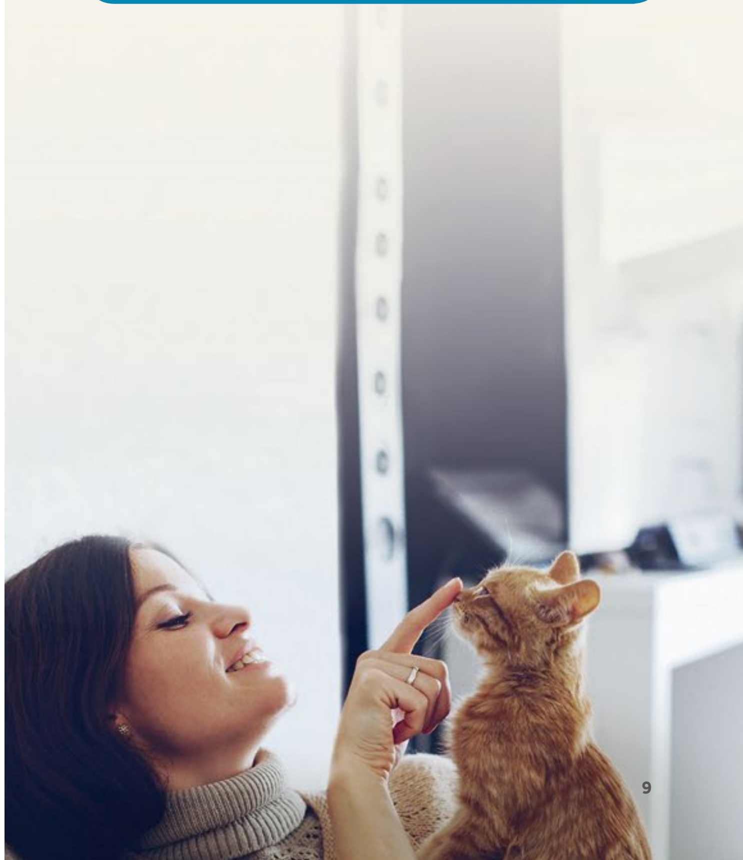
MiPetCover
insurance designed by vets

A new breed of pet insurance

MiPet Cover is the only pet insurance in the UK designed by vets

As one of the largest providers of veterinary services in the UK, we use our knowledge to make sure our customers' pets have access to the highest possible standard of care.

Working with our vets and veterinary staff around the country, we designed and developed our own pet insurance cover.

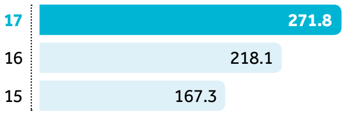


Key performance indicators

The Directors monitor progress against the Group strategy by reference to the following financial KPIs. Performance during the year is set out below.

Revenue £m

£271.8m



Definition

Total revenue of the Group.

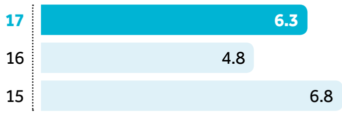
Changes in 2017

- Total revenue increased by £53.7m.
- Revenue before the impact of prior year and current year acquisitions was £216.5m, a £17.3m increase compared with 2016. Factors contributing to the increase are noted in the like-for-like sales performance.
- Acquisitions in the year and the full year impact of the prior year's acquisitions generated additional revenue of £39.9m.
- Intercompany sales eliminated on consolidation increased by £3.5m, principally due to the impact of internal crematoria and laboratory sales to practices acquired in 2016 and 2017.

Link to strategy 1 2 3

Like-for-like sales performance %

6.3%



Definition

Revenue generated from like-for-like operations compared to the prior year. Revenue for 2017 is included in the like-for-like calculation with effect from the month in which it was acquired in the previous year; for example, for a practice acquired in September 2015, revenue is included from September 2016 in the like-for-like calculation.

This measure is calculated using a measure of Group revenue after deducting revenue from current year acquisitions and greenfield developments (£14.2m) and after adjusting for prior year acquisitions such that revenue is included for a comparable number of months with 2016 (£29.7m).

Changes in 2017

- The like-for-like increase reflected strong performances in all divisions with a particular improvement in Animed Direct against a difficult comparative period.
- The improved like-for-like sales growth compared with 2016 was due to the significant growth in the first half of the year (7.2% compared with 3.0% in 2016).

Link to strategy 1 2

Healthy Pet Club revenue %

13.0%

Definition

Revenue received from Healthy Pet Club members as a percentage of total practice revenue for the year.

Changes in 2017

- The growth of Healthy Pet Club membership from 253,000 to 306,000 led to the increase for the year.

Link to strategy 2 3

Gross margin before clinical staff costs %

79.8%

Definition

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

Gross margin was £124.5m, after deducting £90.0m of clinical staff costs.

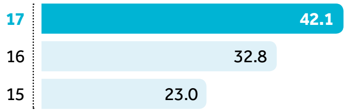
Changes in 2017

- The increase in the gross margin is principally due to improvements in the Veterinary Practice Division, marginally offset by a reduction in the Laboratory Division and Animed Direct. Further details are provided on pages 18 to 21 in the Business Review.

Link to strategy 1 2

Adjusted EBITDA £m

£42.1m



Definition

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

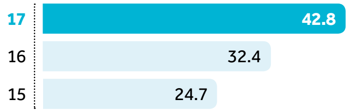
Changes in 2017

- The improvement in adjusted EBITDA is explained by like-for-like growth (£3.2m) together with the full year impact of prior year acquisitions (£5.0m) and acquisitions in the current year (£2.2m), partly offset by a £1.2m increase in central costs incurred to build a foundation for further development and expansion of the Group.

Link to strategy 1 2 3 4

Adjusted EPS p

42.8p



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.

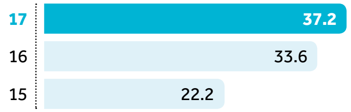
Changes in 2017

- The increase primarily reflects the improvement in the adjusted EBITDA and the effects of the share issue of 3,019,500 new shares in December 2016 to raise £30.2m in gross proceeds.

Link to strategy 1 2 3 4

Cash generated from operations £m

£37.2m



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 the proceeds from issue of shares.

Changes in 2017

- The increase primarily reflects the improvement in EBITDA of the business, partially offset by increases in other receivables reflecting the growth of the Group.

Link to strategy 1 2 3 4

Our strategic priorities

1. Excellent customer service and care
2. Meeting all of our customers' needs
3. Expanding our business through acquisitions
4. Building on our strengths to provide services to external practices

This is our story

The initiatives we progressed in 2017 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 the Healthy Pet Club scheme and MiPet Cover
- Development of greenfield locations and relocations of existing practices

Growth through acquisitions

- Continue to acquire to further strengthen UK geographical coverage
- Large opportunity with only 14% market share in small animal sector
- Further growth opportunities in farm animal and equine sectors
- Further expansion in the Netherlands

Finance

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

1999

- **Company was established**
- **First surgery:** Barton Veterinary Hospital, Canterbury

2002

- **First laboratory:** Finn Pathologists, Norfolk

2006

- **First dedicated equine practice:** Scott Dunn's Equine Clinic, Berkshire

2007

- **100th surgery:** Regan Veterinary Group, Manchester

2008

- **Second laboratory:** Axiom Veterinary Laboratories, Devon
- **First crematorium:** Rossendale Pet Crematorium, Lancashire

2010

- **Commenced on-line trading:** Animed Direct
- **Third laboratory:** Greendale Veterinary Diagnostics, Surrey
- **Major acquisition:** Pet Doctors
- **200th surgery:** Cedar Veterinary Group, Hampshire

2012

- **Second crematorium:** Valley Pet Crematorium, Devon

2014

- **Third crematorium:** Silvermere Haven, Surrey

2015

- **Fourth crematorium:** Whitley Brook, Cheshire
- **Major acquisition:** YourVets
- **Fourth referral centre:** Dovecote, Castle Donington
- **Launched** MiPet own brand products

2016

- **Greenfield referral centre:** Lumbry Park, Hampshire
- **Major acquisitions:** Alnorthumbria, Highcroft, Albavet
- **Fifth and sixth crematoria:** The Pet Crematorium, Durham and Lanarkshire

2017

- **Major acquisition:** Severn Edge Veterinary Group
- **New referral centre:** Manchester Veterinary Specialists
- **Launched** own brand pet insurance in August 2017

Veterinary Practice

Our Veterinary Practice Division is the heart of our business. We added a further 62 surgeries during the year and ten since the year end.

Talia and Dora
Talia is a groomer at Larwood and Kennedy

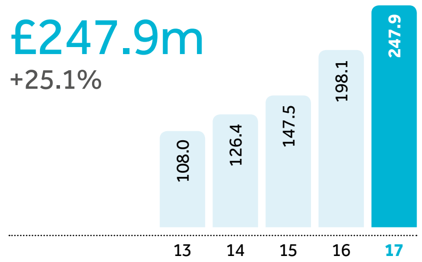
Services

- 432 first-opinion and referral surgeries across the UK and the Netherlands, trading under locally established brand names
- HPC loyalty scheme
- Pet Medic Recruitment, recruiting locums and permanent staff
- MiPet own brand products
- MiVetClub and VetShare buying groups, using our buying strength to provide a unique offering to third-party practices
- VETisco, providing surgical kits and instruments for our own and third-party practices
- MiPet Cover own brand insurance

www.cvsukltd.co.uk
www.thehealthypetclub.co.uk
www.petmedicrecruitment.co.uk
www.mivetclub.co.uk
www.vetshare.co.uk
www.vetisco.com
www.mipetcover.com

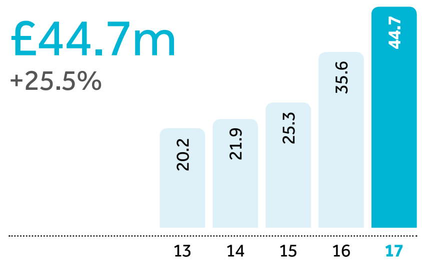
Revenue £m

£247.9m
+25.1%



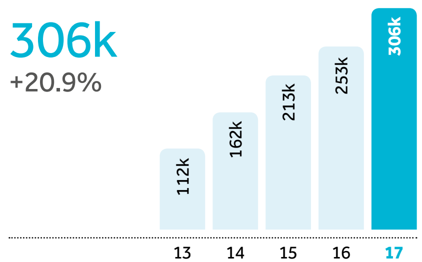
EBITDA £m

£44.7m
+25.5%



HPC customers #

306k
+20.9%



Laboratory

Our laboratories provide diagnostic services to CVS veterinary practices and third parties. Over 405,000 tests were performed in 2017 (2016: 380,000), of which 284,000 (2016: 271,000) were for third parties.

Services

- Four diagnostic laboratories covering the UK
- Biochemistry, haematology, histology, serology and advanced allergy testing
- In-house analyser units installed at all CVS practices for simple blood and urine testing
- Large animal ISO 17025 accreditation obtained in March 2017

www.axiomvetlab.com

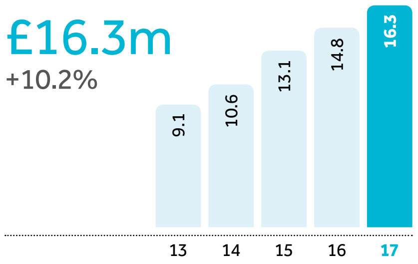
www.finnpathologists.co.uk

www.greendale.co.uk

Revenue £m

£16.3m

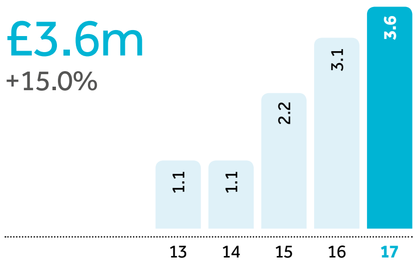
+10.2%



EBITDA £m

£3.6m

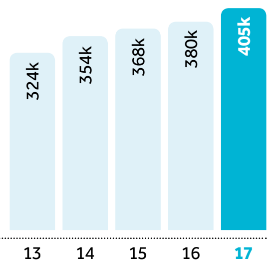
+15.0%



Tests #

405k

+6.6%



Crematoria

Our crematoria provide pet cremation services and clinical waste collection for veterinary practices and pet owners. Over 142,000 cremations were performed in 2017 (2016: 118,000), of which 72,000 (2016: 64,000) were for third parties.

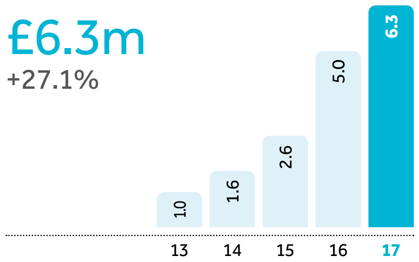
Services

- Seven crematoria covering the UK
- Pet cemeteries and memorial gardens at the Rossendale and Silvermere Haven sites
- Clinical waste collection services
- Small animal and equine cremations

www.rossendalepetcrem.co.uk
www.silvermerehaven.co.uk
www.valleypetcrematorium.co.uk
www.whitleybrook.com
www.pet-crematorium.co.uk
www.greenacrespetcrematorium.co.uk

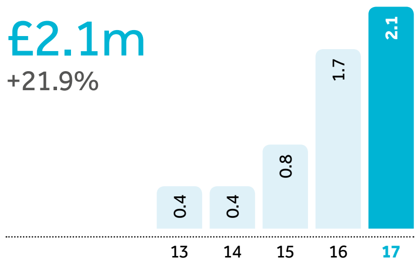
Revenue £m

£6.3m
+27.1%



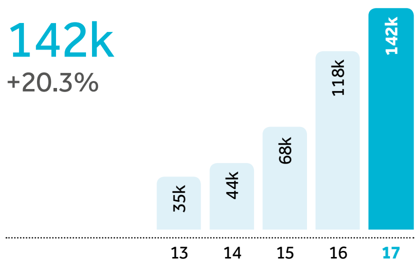
EBITDA £m

£2.1m
+21.9%



Cremations #

142k
+20.3%



Animed Direct

Animed Direct sells prescription and non-prescription drugs, pet food and other animal related products via its website.

Services

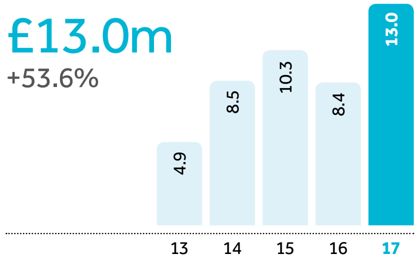
- On-line business to customer sales
- Distribution of MiPet own brand drugs and pet food

www.animeddirect.co.uk

Revenue £m

£13.0m

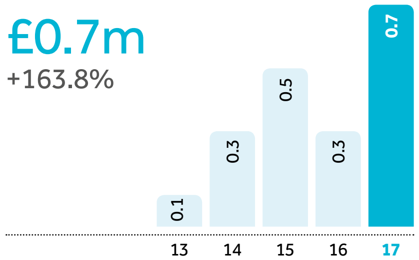
+53.6%



EBITDA £m

£0.7m

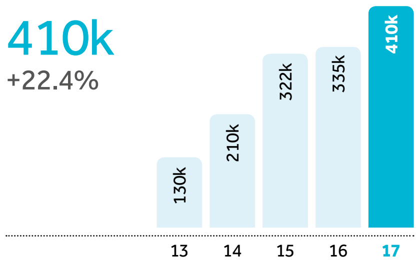
+163.8%



Customers #

410k

+22.4%

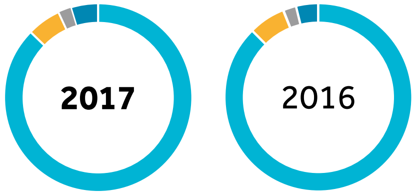


This is **progress**

"Our investment in our surgeries again reached record levels during the year."

Highlights

Revenue by division £m



	30 June 2017	30 June 2016
Practice	**247.9**	198.1
Laboratory	**16.3**	14.8
Crematoria	**6.3**	5.0
Animed Direct	**13.0**	8.4
Head office	**(11.7)**	(8.2)
Total Group	**271.8**	218.1

6.3% like-for-like sales growth

Expansion into Europe with ten sites acquired in the Netherlands

Record £12.0m investment in our surgeries

MiPet Cover insurance launched in August 2017

Introduction

CVS Group is managed across four divisions: Veterinary Practice, Laboratory, Crematoria and Animed Direct. The Veterinary Practice Division is the core of our business but all areas of the Group made excellent progress towards our strategic priorities during 2017.

Veterinary Practice

	2017 £m	*Restated 2016 £m
Practices excluding acquisitions	**182.8**	172.2
2016 acquisitions	**51.7**	25.9
2017 acquisitions	**13.4**	—
Total revenue	**247.9**	198.1
Adjusted EBITDA	**44.7**	35.6
EBITDA margin %	**18.0**	18.0

* Refer to note 4 Segmental Reporting.

Revenue amounted to £247.9m (2016: £198.1m), an increase of 25.1% on the prior year. Adjusted EBITDA increased by 25.5% from £35.6m to £44.7m and profit before income tax increased from £21.3m to £28.1m. These increases include the impact of acquisitions in both 2016 and 2017.

In the year CVS acquired 62 surgeries operating as 25 businesses. These businesses contributed £13.4m of revenue and £2.1m of EBITDA in the year. Practices acquired during the year and after the year end are set out in note 14.

Adjusted EBITDA as a percentage of sales remained constant at 18.0%.

Like-for-like sales grew by 5.2% for the year as a whole (2016: 5.4%), with the first half showing significantly higher growth than the second half.

The development of our referrals business, and the expertise that this requires, has been and remains a key strategic priority for CVS. In October 2015 we opened Lumbry Park. This 13,000 square foot greenfield development is a state-of-the-art major multi-disciplinary referral centre in Alton, Hampshire, providing a full range of specialisms, using the most modern equipment including both a CT ("Computerised Tomography") and an MRI ("Magnetic Resonance Imaging") scanner. Whilst there were a number of challenges through most of the year, significant improvements were made towards the year end and revenue grew strongly. The business is not yet trading profitably but we expect it to become so on a run-rate basis during the current financial year.

Manchester Veterinary Specialists opened in February 2017 and its performance has been excellent. Revenue has exceeded expectations and it is already trading profitably. The refurbishment of Chestergates Veterinary Specialists was completed in September 2017. More space has been created for expansion, and a new modern MRI scanner and a CT scanner has been installed for the first time. The site will now be able to grow its business further.

During the year we extended our MiPet own brand range to include two further medicines and MiPetFood treats. Dual language packaging (English and Dutch) has begun to be introduced so that we can also sell our own brand products in the Netherlands.

The rollout of our own brand pet food and waiting room retail range was completed during the year. 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 those of our buying group members and hence they differentiate CVS in the market. The MiPet range both protects our margins and helps us retain our competitiveness by limiting price increases.

The Healthy Pet Club loyalty scheme continued its exceptional growth in the year. Over 53,000 pets were added to the scheme increasing membership by 20.9% and bringing the total membership to 306,000. The scheme provides preventative medicine to our customers' pets as well as a range of discounts and benefits. We gain from improved customer loyalty, the encouragement of clinical compliance, protecting revenue generated from drug sales, and bringing more customers into our surgeries. Monthly subscription revenue generated in the year increased to £32.5m (2016: £24.0m). At the year end, the monthly run rate represented 13.4% (2016: 12.3%) of practice revenue; however, in the like-for-like practices the figure was 16.9% (2016: 16.3%), demonstrating the potential for further subscription revenue within the more recently acquired practices into which Healthy Pet Club is also being introduced.

We now have 14 emergency out-of-hours sites. These reduce 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 all of our out-of-hours centres are 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.

We now have ten sites in the Netherlands and expect to acquire more in the short term.

Veterinary Practice *continued*

Our acquisitions during the year particularly helped us develop our geographic spread of surgeries (including into the Netherlands and in Northern Ireland) and expand our equine business significantly. We now have ten sites in the Netherlands (nine acquired during the year and one since the year end) and expect to acquire more in the short term. This will provide us with a base from which to establish an integrated business in the Netherlands in a similar way to our UK business. In Northern Ireland we acquired three surgeries bringing the total to four. Two of these acquisitions were of mixed practices.

Our equine business has grown well over the past year. The acquisition of Bell Equine, a practice with an excellent reputation, in January 2017 was a significant start. The acquisition of Severn Edge, a large mixed practice with substantial equine revenue, in April 2017 was followed by the acquisition of B&W Equine after the year end. B&W Equine is one of the largest equine practices in the UK, with an excellent reputation. These acquisitions provide us with equine capability along almost the length of the M5 to add to our practices along the M4 and in the North East.

The development of our buying group was dramatically enhanced by the acquisition of VetShare in 2016. We have negotiated additional annual rebates for members and sell our own brand products to them. We expect the membership of veterinary buying groups in the UK to fall as the number of practices in corporate hands, and therefore not members of buying groups, increases. Our own buying groups face this challenge but by adding in new services our objective is to develop the best buying group in the market.

Our investment in our surgeries again reached record levels during the year. We opened a new site in Smethwick in January 2017 and two further greenfield sites, in Norwich and Bracknell, are under development. We continue to relocate sites that have outgrown their existing locations and our major relocations during the year of Gorleston, Stechford and Carrick have performed strongly since their relocation.

In addition to refurbishments, we spent £2.3m on new equipment in our practices. This equipment continues to improve our diagnostic capability and our ability to serve our customers in a professional environment.

After much research and planning, our MiPet Cover insurance was launched in August 2017. This is the only own brand pet insurance in the UK which has been developed by a veterinary business. Our own staff were closely involved in and contributed to its development. The product is high quality and excellent value. Our initial plan is to establish the product in our practices before considering its wider marketing. The launch has been exceedingly well received by our own staff. Whilst it is too early to fully assess the reaction of customers, the initial response has been encouraging. The product will take some time to establish and accordingly we do not expect trading to be profitable in the current financial year.

We have continued to develop our staff training and career opportunities. Our MiNurse Academy, successfully launched in January 2015, is now well into its third year with a further 43 nurses learning specialised skills, bringing the total since its launch to over 300. The academy 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 375 graduates have gone through the scheme in the past three years. The scheme is designed to assist newly qualified vets make 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 RCVS Advanced Veterinary Practitioner Certificates and Diplomas, to which two of our vets passed during the year. Increasingly, this training is carried out in-house by our own experts.

Laboratory

	2017 £m	2016 £m
Revenue	**16.3**	14.8
Adjusted EBITDA	**3.6**	3.1
EBITDA margin %	**22.1**	21.2

The Laboratory Division generated revenue of £16.3m, a 10.2% increase on the prior year figure of £14.8m. Adjusted EBITDA grew by 15.0% from £3.1m to £3.6m and profit before tax increased from £2.5m to £2.9m.

We are pleased that our Laboratory Division achieved ISO 17025 accreditation in March 2017 and as a result of achieving this status, our laboratories are able to undertake the farm diagnostic testing which was previously delivered by the Government's Animal and Plant Health Agency. Farm diagnostics are expected to be another area of growth for the business. The acquisition of Bell Equine during the year created the opportunity for the development of equine testing and the two businesses have already begun to work together.

The sales of analysers and related consumables grew strongly during the year. Whilst the business installs its analysers in new CVS practices, its main focus is now on third-party sales and these have grown strongly during the year. Because the analyser machines have an economic life of several years, the sale of the machines leads to consumable sales for several further years.

The Laboratory Division gross margin percentage fell from 66.5% in 2016 to 65.4%. EBITDA as a percentage of sales showed growth from 21.2% to 22.1%. These changes are primarily due to the higher growth in the immature analyser business, which has a lower gross margin percentage but a higher EBITDA percentage.

Crematoria

	2017 £m	2016 £m
Like-for-like revenue	**4.4**	3.9
2016 and 2017 acquisitions	**1.9**	1.1
Total revenue	**6.3**	5.0
Adjusted EBITDA	**2.1**	1.7
EBITDA margin %	**32.8**	34.2

The Crematoria Division had another strong year with like-for-like sales growing by 14.4%. The Crematoria Division benefits from becoming the supplier to veterinary practices that we have acquired in both the current and prior year, but loses business when other corporates acquire practices that are our customers and switch them to their usual supplier. The high net growth level reflects the high standard of service and the consequent ability to attract additional customers. The division has also seen a continuing market shift to individual cremations, which generate higher revenue.

Adjusted EBITDA grew by 21.9% to £2.1m (2016: £1.7m). EBITDA as a percentage of sales fell slightly from 34.2% to 32.8%, primarily due to a small increase in manpower costs as the structure required to run the enlarged division was established. Profit before tax increased from £1.4m to £1.9m.

Animed Direct

	2017 £m	*Restated 2016 £m
Revenue	**13.0**	8.4
Adjusted EBITDA	**0.7**	0.3
EBITDA margin %	**5.6**	3.3

* See note 4 Segmental reporting.

Animed Direct, our on-line dispensary and retailer, focuses on prescription and non-prescription medicines where the Group's buying power allows it to be extremely competitive. The business performed excellently during the year bouncing back strongly from the weaker performance in 2016. Revenue grew by 53.6% to £13.0m (2016: £8.4m) and adjusted EBITDA rose to £0.7m (2016: £0.3m). The new management team, introduced at the start of the year, has reviewed all aspects of the business and brought in further expertise in on-line businesses. In March 2017 the business relocated to a much larger warehouse in Diss allowing for further growth and expansion of the product range. A new website will be launched later in the calendar year.

The gross margin percentage decreased from 20.8% to 17.4%. In May 2017 a delivery fee was introduced and a free delivery threshold was introduced in the second half of the year. This has seen positive improvement on the gross margin percentage since its introduction.

The business now has a customer database of over 410,000 (2016: over 335,000) people, with the average value of each purchase during the year up at £38.00 (2016: £31.00). Profit before tax increased from £0.3m to £0.6m.

Head office

Central administration costs include those of the central finance, IT, human resource, purchasing, legal and property functions. Total costs were £9.0m (2016: £7.9m), representing 3.3% of revenue (2016: 3.6%).

The significant growth and development of the Group requires continued additional investment to maintain an appropriate level of control and to support further growth over the next few years. All central functions have taken on additional staff to assist with the integration of acquisitions, including those in the Netherlands, and the ongoing management of the enlarged business. Ensuring that we maintain control of the business is a priority and we have continued to strengthen our IT systems and enhance our management reporting. During the year we also established an internal audit function. An increasing number of support staff are now based in the regions where they can more easily provide the close support that the operations teams require.

Simon Innes
Chief Executive
29 September 2017

“

The Animed Direct business performed excellently during the year bouncing back strongly from the weaker performance in 2016.

Our culture and values

Our culture and values reflect our vision to be the most comprehensive and integrated provider of veterinary services to animal owners in the UK.

At CVS we employ guiding principles that underpin our approach to how we work. These behaviours embed the CVS values in our everyday working lives, and support delivery of our vision to continue to be the most comprehensive and integrated provider of veterinary services to animal owners in the UK.

Individual attitudes and behaviours are key to our success. These values not only make us different, they also provide us with a sense of direction for consistent behaviour. They act as a foundation for our evolving culture as well as a guide describing what we can expect of each other and what our employees, customers and the communities in which we work can expect of us.

Our values are at the heart of how we work and they provide the inextricable link that ties all of these things together.

Customer focus

- We value all our customers and treat them all with warmth and respect
- We communicate with our customers regularly
- We keep our commitments
- We understand and manage customer expectations
- We are focused on our customers' and their animals' needs
- We make all our customers feel welcome
- We appreciate and act upon feedback

Our dedication to our customers shows in everything we do.

Commitment to excellence

- We get things right the first time
- We encourage employees to be innovative to improve the way we work
- We accept feedback in a positive way and act upon it
- We deliver a high quality service that differentiates us from others
- We hold accreditations for our high standards of quality
- We strive to find better ways of working, both individually and in teams
- We demonstrate professionalism at all times

We constantly strive to achieve the highest possible standards.

Success through our people

- New starters have a full induction and we give staff annual appraisals
- We train everybody to do their job and provide progressive learning and development opportunities
- We advertise all vacancies internally
- We provide employees with the correct tools/resources to do their job
- We value employee feedback via our consultation groups and surveys
- We foster a collaborative and mutually supportive working environment for our staff
- We assist all our employees in achieving their career aspirations

We attract, develop and retain the best people for our profession.

Honesty and integrity

- We are accessible to all
- We are fair and transparent
- We act with integrity in all we do
- We ensure a safe workplace
- We are open to feedback
- We keep our commitments
- We trust each other to do a good job and give praise and encouragement
- We value long-term relationships with our customers and suppliers
- We own up to our mistakes

We treat our employees and customers with honesty and respect.

The people at the heart of our business

Joining CVS has given me the opportunity to use and develop my clinical skills in a state-of-the-art environment, while also enabling me to lead a growing team of dedicated colleagues who share my passion for equine veterinary care. I could only have achieved this with the support and training given to me by CVS. It has been a steep learning curve, but I am now enjoying my career more than ever.

CVS has nurtured and developed my passion for equine practice.

Ben Jacklin
Equine Director and Consultant Equine Surgeon, Member of the European College of Veterinary Surgeons ("ECVS")

With thanks to my colleagues I was nominated on two separate occasions as a finalist for Crematorium Employee of the Year at the annual CVS Conference.

I have been able to progress my career and was promoted to the position of Office Manager over three crematoria, which has brought with it many new challenges and responsibilities, such as staff training and management.

CVS's support has enabled me to take my career to the next level.

Alison Morris
Office Manager, Rossendale Pet Crematorium and Memorial Gardens

I joined CVS in late 2015 and the Company's New Graduate Programme has suited me perfectly. Having mentors within my practice has been invaluable in helping me to manage my new responsibilities. They always make time to talk through difficult cases and support me when I need it.

Thanks to the CVS New Graduate Programme, I'm really enjoying the start of my veterinary career.

Beth Montgomery
New Graduate Veterinary Surgeon, Pet Doctors, Botley and Chandlers Ford, Hampshire

This is risk management

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.

Our risk management framework

The Board has overall responsibility for ensuring risk is appropriately managed across the Group. The day-to-day identification and management of risk is delegated to the Group's Executive Committee. During the year the Group established an internal audit function, which is currently embedding itself within the CVS Group and ensuring the processes and controls are appropriate for a public company of CVS's size.

Following the establishment of the internal audit function, significant progress has been made in the development of a risk register for each segment of the business. These registers have evaluated the risks most likely to impact the Group. Staff across the business have been involved in the process to ensure all potential areas of risk were adequately identified and recorded, along with the controls currently in place. This presented the opportunity to strengthen controls already in place and implement new controls.

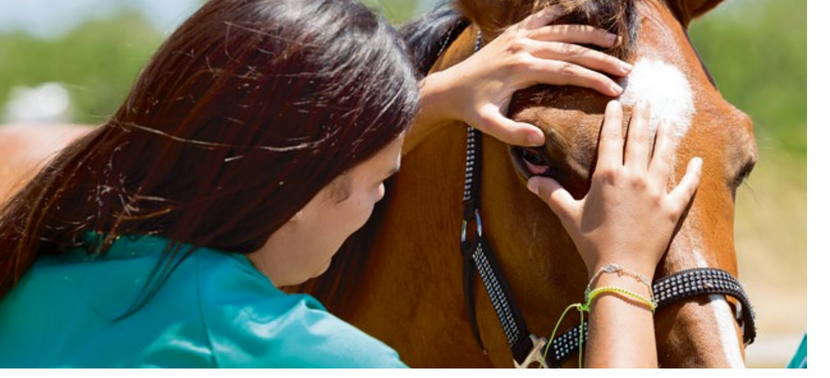
Principal risks and uncertainties

Risk	Economic environment	Competition	Key staff	Clinical standards
Description	A poor economic environment poses a risk to the Group through reduced consumer spending on veterinary, laboratory, crematoria and on-line services.	The Group is exposed to risk through the actions of competitors.	The Group is exposed to risk in relation to the ability to attract and retain appropriately qualified veterinary surgeons.	If clinical standards expected by customers, industry forums and regulatory authorities are not maintained the Group is at risk of losing revenue.
Mitigating factors	• The Group seeks to become more resilient to future downturns in economic conditions through further diversification of its services. The Group's exposure to the potential impacts of Brexit are still being assessed and, whilst the referendum vote to leave the EU creates some uncertainty for the pace of growth in the UK economy over the next couple of years, the Board believes that the characteristics of our business make it relatively resilient. • The expansion of the Group's business to provide a broader-based service including referrals, out-of-hours, equine and farm 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 may still be buying from CVS.	• 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, provide further mitigation against the risk of competition.	• 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 LTIP scheme. An annual SAYE scheme, available to all staff, aids the retention of other staff.	• The Group has established a formal organisational 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 corporate level.

Risk	Adverse publicity	Changes in veterinary regulations	Reliance on one supplier of medicines
Description	Adverse publicity could result in a reduction in customer numbers and in revenue.	Changes in veterinary regulations could impact on the work we are allowed to perform and the way we work.	The majority of medicines are purchased through one wholesaler.
Mitigating factors	• The Group has policies and procedures in place to ensure that high standards of customer service and clinical excellence are maintained. The behaviours promoting excellent customer care and clinical standards are embedded within our core values (see page 22). The individual branding of our practices reduces the risk of publicity at one practice impacting on another.	• No significant proposed changes are known. Any changes are likely to impact on our competitors in the same way they impact on the Group.	• A two-year supply agreement was signed in April 2017 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.

This is growth

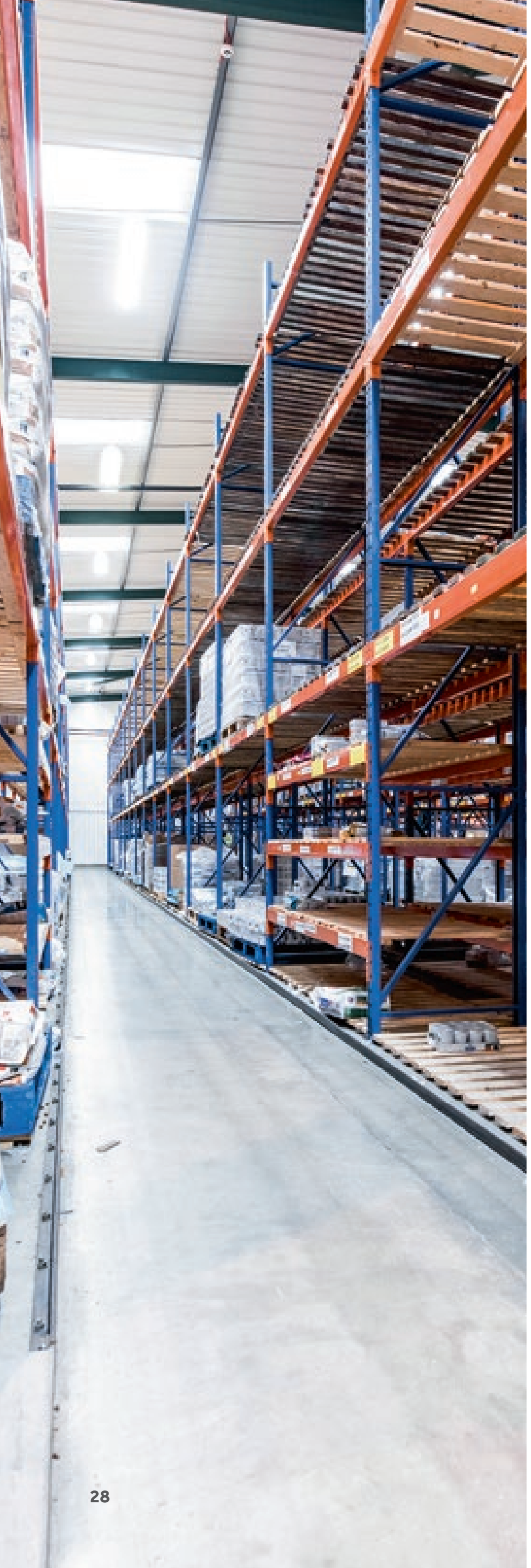
Financial highlights



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

	2017	2016	Change %
Revenue (£m)	**271.8**	218.1	24.6
Adjusted EBITDA (£m)*	**42.1**	32.8	28.2
Adjusted profit before tax (£m)*	**33.5**	24.9	34.8
Adjusted earnings per share (p)*	**42.8**	32.4	32.1
Operating profit (£m)	**17.2**	11.8	46.2
Profit before tax (£m)	**14.5**	9.1	58.4
Basic earnings per share (p)	**18.5**	11.6	59.5

* Adjusted financial measures are defined on page 1 of this Annual Report and reconciled to the financial measures defined by International Financial Reporting Standards ("IFRS") below and on page 63 (adjusted profit before tax and adjusted earnings per share).



Financial highlights *continued*

Management uses adjusted EBITDA and adjusted earnings per share ("EPS") as the basis for assessing the financial performance of the Group. These figures exclude costs relating to business combinations and hence assist in understanding the performance of the Group. These terms are not defined by IFRS 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:

	2017 £m	2016 £m
Operating profit as reported	**17.2**	11.8
Adjustments for:		
Amortisation and depreciation	**21.9**	18.9
Costs of business acquisitions	**3.0**	2.1
Adjusted EBITDA	**42.1**	32.8

The £9.3m (28.6%) improvement in adjusted EBITDA compared with the prior year arises primarily from the organic growth within the Veterinary Practice Division (£2.2m), the Laboratory Division (£0.5m), the Crematoria Division (£0.1m), the Animed Direct Division (£0.4m), acquisitions during the year (£2.1m) and the full year effect of previous year acquisitions (£5.1m), offset by an increase in central administration costs (£1.1m).

Adjusted EBITDA as a percentage of revenue (adjusted EBITDA margin) increased from 15.0% in 2016 to 15.5%. This was driven by an increased margin in the Laboratory Division and Animed Direct Division, and a reduction in head office costs as a percentage of revenue.

Profit before tax for the year increased from £9.1m to £14.5m (58.4%). Basic EPS increased 59.5% to 18.5p (2016: 11.6p).

Adjusted profit before tax showed a 34.8% increase in the year from £24.9m to £33.5m. Adjusted EPS (as defined in note 10 to the financial statements) increased 32.1% to 42.8p (2016: 32.4p). Adjusted profit before tax and adjusted EPS exclude the impact of amortisation of intangible assets and business combinations costs.

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:

	2017	2012	CAGR %
Revenue (£m)	**271.8**	108.7	20.1
Adjusted EBITDA (£m)	**42.1**	15.1	22.8
Adjusted profit before tax (£m)	**33.5**	9.7	28.1
Adjusted EPS (p)	**42.8**	12.8	27.3

Bank facilities

In July 2017 the Group increased its available bank facilities through exercising the accordion contained within the November 2015 bank facility agreement. Total facilities of £152.5m are available to support the Group's organic and acquisitive growth initiatives over the coming years. These facilities are provided by a syndicate of three banks: RBS, HSBC and AIB, and comprise the following elements:

- a fixed term loan of £67.5m, repayable on 23 November 2021 via a single bullet repayment; and
- a six-year revolving credit facility ("RCF") of £85.0m that runs to 23 November 2021.

In addition the Group has a £5.0m overdraft facility renewable annually.

Cash flow

Cash flow from operating activities was £37.2m (2016: £33.6m). The increase reflects the growth in EBITDA.

Net debt increased by £6.9m to £100.0m (2016: £93.1m) largely as a consequence of higher acquisition activity and continued investment in the business. The successful placing of Ordinary shares during the year generated net proceeds of £29.6m. The movement in net debt is explained as follows:

	2017 £m	2016 £m
Cash generated from operations	**37.2**	33.6
Capital expenditure – maintenance	**(5.9)**	(5.1)
Taxation paid	**(5.4)**	(3.3)
Interest paid	**(2.1)**	(2.4)
Free cash flow	**23.8**	22.8
Capital expenditure – development	**(7.9)**	(6.4)
Acquisitions	**(48.4)**	(61.3)
Proceeds from Ordinary shares	**30.6**	0.2
Purchase of own shares	**(2.1)**	—
Dividends paid	**(2.1)**	(1.8)
Debt issuance costs movement	**(0.8)**	(0.4)
Increase in net debt	**(6.9)**	(46.9)

Cash available for discretionary expenditure ("free cash flow") increased from £22.8m to £23.8m due to increased capital expenditure on maintenance.

The analysis of capital expenditure in the table above reflects a broad split between expenditure that we expect to increase profit and that which we believe will primarily maintain profit. This split can only ever be approximate. Development capital expenditure includes expenditure on new sites, relocations, significant extensions and significant new equipment. All other expenditure is included as maintenance.

Development capital expenditure included £2.3m on the relocations of The Veterinary Hospital Gorleston and the Carrick Chesterfield practice, £1.1m on a new surgery at Smethwick and £3.0m on major refurbishments at Chestergates and Pet Medics.

£47.0m was paid (including £1.5m repayment of acquired bank debt) for the 62 surgeries acquired during 2017. £0.2m of consideration was payable at 30 June 2017 in respect of completion net asset adjustments. The acquired businesses are trading as expected. In addition to £47.0m paid for businesses acquired in the year, £0.4m was paid in respect of completion net asset adjustments for business acquired in the 30 June 2016 financial year and £1.0m deferred consideration was paid in respect of the acquisition of Highcroft Pet Care.

No corporation tax relief is received on the majority of the amortisation and transaction costs which are deducted in arriving at the unadjusted profit before taxation figure. Therefore, taxation paid increases broadly in line with the adjusted profit before tax of the Group. The interest payment of £2.1m was lower than last year (£2.4m) reflecting the benefit of the cash generated from the share placing and the lower cost of borrowing as a result of the debt refinancing in December 2015.

Proceeds from Ordinary shares arose due to the placing of 3,019,500 shares in December 2016 and 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.

The movement in debt issue costs was £0.8m, which represents the amortisation of costs during the year. The prior year movement of £0.4m reflects the amortisation of costs partially offset by the capitalisation of costs associated with the November 2015 refinancing.

Net debt and borrowing covenants

The Group's net debt comprises the following:

	2017 £m	2016 £m (*restated)
Borrowings repayable:		
Within one year	**3.3**	0.3
After more than one year	**103.5**	99.5
Total borrowings	**106.8**	99.8
Cash in hand and at bank	**(6.8)**	(6.7)
Net debt	**100.0**	93.1

* The prior year comparatives have been restated to classify the Group's RCF as repayable after more than one year. Please refer to note 21 for further details.

The £106.8m of borrowings principally consists of:

- £67.5m term loan (net of unamortised issue costs). The term loan is repayable in one bullet payment in 2021;
- £3.0m loan notes repayable in 2018; and
- £37.0m drawn down under the RCF (net of unamortised issue costs). The RCF is available until 2021.

£10.5m of the RCF remained unutilised at 30 June 2017. As noted earlier, on 3 July 2017 the Group agreed a £37.5m increase to its existing RCF through the utilisation of the accordion clause contained within the facility agreement. The margin payable on the facility increased by 50 basis points. 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 two main financial covenants associated with the Group's bank facilities are based on Group borrowings to EBITDA and Group EBITDA to interest ratios. EBITDA is based on the last twelve months' performance adjusted for the full year impact of acquisitions made during that period. The EBITDA to interest ratio must not be less than 4.5. At 30 June 2017 it was 16.4.

The covenant levels allow a maximum Group borrowing to EBITDA ratio of 3.5 until 31 December 2017 and 3.0 thereafter, although it is not the Group's intention to operate at this level. The gearing ratio reduced during the year from 2.6 at 30 June 2016 to 2.3 at 30 June 2017. This reduction in the ratio reflects the benefit of the share placing in December 2016 and a combination of organic EBITDA growth and the realisation of the full benefits of recent acquisitions. The Group aims to continue to expand the business, and has a strong acquisition pipeline and sufficient capacity to fund it.

The Group manages its banking arrangements centrally. Funds are swept daily from its various bank accounts into central bank accounts to optimise the Group's net interest payable position.

Interest rate risk is also managed centrally and derivative instruments are used to mitigate this risk. On 1 March 2017, the Group entered into a three-year interest rate fixed rate swap arrangement to hedge fluctuations in interest rates on £45.0m of its RCF facility. The swap reduces to £40.0m on 1 March 2018, followed by a further reduction to £35.0m on 1 March 2019.

“

The Board remains committed to expanding the Group through further acquisitions in all divisions, as well as through organic growth.

Going concern

At the balance sheet date the Group had cash balances of £6.8m and an unutilised overdraft facility of £5.0m. Following the increase to the Group's RCF, total facilities of £152.5m are available to support the Group's organic and acquisitive growth initiatives over the coming years, comprising a term loan of £67.5m and a RCF of £85.0m. The Directors consider that the £5.0m overdraft and the £152.5m facility enable them to meet all current liabilities when they fall due. Since the year end, the Group has continued to trade profitably and to generate cash.

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.

Taxation

The Group's effective tax rate was 20.8% (2016: 23.1%). The principal reason for the decrease is the impact of the reduction in the rate of corporation tax to 17% from April 2020. 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	**14.5**	
Expected tax at standard rate of tax	**2.9**	19.8
Expenses not deductible for tax	**0.4**	2.5
Adjustments to prior year tax charge	**0.2**	1.6
Benefit of tax rate change	**(0.5)**	(3.1)
Actual charge/effective rate of tax	**3.0**	20.8

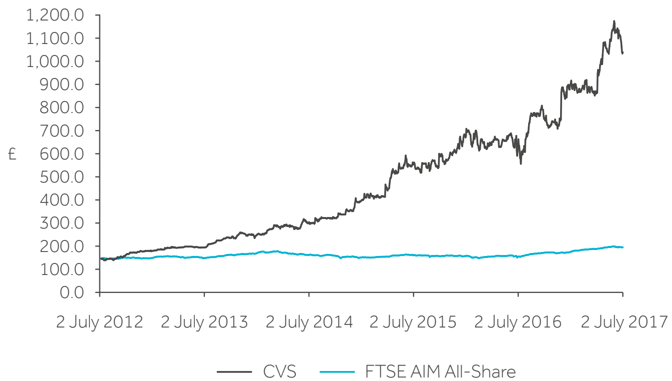
All of the Group's revenues and the majority of its expenses are subject to corporation tax. The main expenses which are not deductible for tax are costs relating to acquisitions. Tax relief against some expenses, mainly depreciation, is received over a longer period than that for which the costs are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

The tax charge has increased by £0.9m to £3.0m (2016: £2.1m) whilst profit before taxation has increased £5.4m from £9.1m to £14.5m.

The benefit of the tax rate change reflects the impact of the future reduction in corporation tax rates on the deferred tax liabilities in respect of intangible assets.

Share price performance

At the year end the market capitalisation was £804.5m (1,259p per share), compared to £467.7m (782p 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 2011 to 30 June 2017.



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 significant 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.

The Strategic Report on pages 1 to 30 was authorised by the Board of Directors on 29 September 2017 and was signed on its behalf by:

Nick Perrin
Finance Director
29 September 2017

This is our leadership

1. Richard Connell (62)
Non-Executive Chairman

Appointment to the Board
Richard Connell was appointed to the Board in September 2007.

Career and experience
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.

Committee membership
Richard is Chairman of the Audit Committee and the Nominations Committee.

2. Simon Innes (57)
Chief Executive

Appointment to the Board
Simon Innes was appointed as Chief Executive in January 2004.

Career and experience
Prior to this role Simon Innes 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 (50)
Non-Executive Director

Appointment to the Board
Mike McCollum was appointed to the Board in April 2013.

Career and experience
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.

Committee membership
He is Chairman of the Remuneration Committee.

4. Nick Perrin (57)
Finance Director

Appointment to the Board
Nick Perrin was appointed as Finance Director in January 2013.

Career and experience
Nick Perrin 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. Richard Gilligan (37)
Company Secretary

Appointment to the Board
Richard Gilligan was appointed as Company Secretary in September 2017.

Career and experience
Before joining CVS, Richard Gilligan was assistant company secretary at Greene King plc for five years and trained as a solicitor with a firm of solicitors in London providing commercial services to GPs and dentists. Richard studied at the University of York and the College of Law and completed the ICSA Chartered Secretary Qualification Scheme in 2013.

This is governance

“

The Directors are committed to maintaining high standards of corporate governance and seek to apply the principles of good governance set out in the UK Corporate Governance Code.

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's size, seek to apply the principles of good governance set out in the UK Corporate Governance Code. However, we have chosen not to 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.

Corporate governance statement with Richard Gilligan

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. The Company considers Chairman R Connell to be independent, notwithstanding that he has served on the Board for more than nine years, and to be independent in character and judgement due to his extensive experience. 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.

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	11	2	3	1
R Connell	11	2	3	1
S Innes	11	2*	3*	1*
N Perrin	11	2*	3*	1*
M McCollum	11	2	3	1

* In attendance by invitation of the respective Committee.

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.

The Audit Committee's duties primarily concern financial reporting, internal control and risk management systems, whistleblowing procedures and 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 auditor and for reviewing its 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 auditor 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 2017 and up to the date of this report the actions taken by the Audit Committee to discharge its duties included:

- organising a tender process for the audit which led to a change in auditor to Deloitte LLP;
- reviewing the 2017 Annual Report and financial statements and the Interim Report issued in March 2017. As part of these reviews the Committee received a report from the external auditor on its audit of the annual financial statements;
- reviewing the effectiveness of the Group's internal controls and reports received from the Group's internal audit function in respect of risk management;
- reviewing the external auditor's audit planning document, with particular reference to the audit approach, planned materiality, significant risks as detailed in the Independent Auditor's Report on pages 43 to 46 and the audit approach to these risks;
- reviewing the external auditor's audit findings memorandum, noting conclusions in respect of identified audit risks, materiality of adjusted and unadjusted misstatements, control observations and suggested improvements in the disclosure provided in the Annual Report;
- considering papers prepared by the Finance Director to support the going concern basis of preparation;
- agreeing the fees to be paid to the external auditor for its audit of the 2017 financial statements; and
- reviewing the performance and independence of the external auditor.

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 the 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 35 to 40.

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.cvsukltd.co.uk). 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 ("AGM") the shareholders are entitled to raise questions and queries, and the Chairman, 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 Director 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;
- an independent internal audit function that reports to the Chairman of the Audit Committee. Given the rapidly growing size and structure of the business, the function commenced during the year ended 30 June 2017 and its focus has been on the financial and related procedures across the Group's many sites. We will continue to review our internal control and risk management structure over the next year to ensure it remains fit for purpose; and
- a central team that checks clinical, health and safety compliance in all parts of the Group.

During the year the Board received a report from the Group's IT function focusing on the cyber security threat within the Group's IT environment. An outcome of the report was the migration to encrypted cloud-based data backup services. CVS engaged a third-party consultant to undertake testing and provide an assessment of progress toward continued data security compliance.

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 light of the ongoing assessment of the Group's significant risks.

Internal audit

The Audit Committee reviewed the key risk management processes and internal control procedures described above in 2016 and, given the increased size of the Company over the twelve months ended 30 June 2016, the Audit Committee recommended that an internal audit function was put in place. The internal audit team is now in place and is currently in the process of being embedded throughout CVS. It is responsible for ensuring that the processes and controls that are in place across the Group are appropriate for a public company of CVS's size.

By order of the Board

Richard Gilligan
Company Secretary
29 September 2017

This is remuneration

This report is for the period to 30 June 2017. It sets out the remuneration policy and the remuneration details for the Executive and Non-Executive Directors of the Company.

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.

Dear shareholder,

I am pleased to introduce the Directors' Remuneration Report for the 2017 financial year.

In light of the continuing development of the Group, the Company has decided to increase the scope and content of its Remuneration Report including the inclusion of this letter from the Chairman of the Remuneration Committee and a table summarising the Executive remuneration policy.

Last year the Company introduced an advisory vote on its Remuneration Report at its AGM. This resolution was supported by 95.4% of the voted shares. An advisory resolution will be put to shareholders at the 2017 AGM alongside a resolution to approve a new Long Term Incentive Plan ("LTIP") which is required because the current LTIP, which was put in place at the time of the Company's IPO in October 2007, will shortly expire.

Remuneration policy

The 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 LTIPs 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.

Performance and decisions on remuneration taken in 2016/17

The Company produced strong financial results for the year with adjusted earnings per share ("EPS") 32.1% above the prior year and basic EPS 58.5% higher.

Adjusted EPS for the year ended 30 June 2017 was 42.8p. This compares to adjusted EPS of 19.0p for the year ended 30 June 2014, a compound annual growth rate ("CAGR") of 31.0%. The target CAGR for full vesting of LTIPs issued in 2014 was 12% above inflation. This target has been substantially exceeded and, therefore, 100% of the options granted have vested.

In December 2016 the Company granted awards under its LTIP to the CEO and the Finance Director with a value of 100% of salary. As in previous years, these awards are subject to an adjusted EPS real growth performance condition measured over three years. Detail on the performance condition is set out later in this report.

Salaries are reviewed annually and benchmarked against similar listed companies with changes effective in January. In light of the increased scale of the Group, its strong performance and that of the Executives, the Remuneration Committee determined to increase the salary of the CEO by 11.1% to £400,000 and to increase the salary of the Finance Director by 11.1% to £250,000.

The annual bonus scheme in which the Executive Directors participate is based on the achievement of adjusted EBITDA performance. For 2016/17, the bonus maximum for the CEO was 100% of base pay and for the Finance Director was 75% of base pay. The maximum bonus was earned by both the CEO and the Finance Director.

Development of remuneration policy

The Remuneration Committee reviews the policy in light of market conditions, performance and developments in good corporate governance whilst taking account of the Company's status as a larger AIM company.

Due to the need to implement a new LTIP plan, the Remuneration Committee reviewed the policy and determined to develop the policy in a number of areas. These changes are reflected in the new LTIP plan and are detailed below and in the summary policy table.

The new LTIP to be put to shareholders at the 2017 AGM is intended to comply with the Investment Association Principles of Remuneration. Full information on the plan is set out in the Notice of AGM.

A summary of the changes to the policy is set out below:

The basic structure of the annual bonus will remain unchanged. The maximum for the CEO will remain at 100% of salary and the maximum will be increased from 75% to 100% for the Finance Director effective 2017/18. Malus and clawback will be introduced from 2018/19.

The Remuneration Committee intends to make 2017 and future LTIP awards under the new plan (if it is approved by shareholders) at 125% of salary for the CEO and 100% of salary for the Finance Director and subject to an adjusted EPS real growth condition. The Remuneration Committee will have flexibility to determine performance conditions each year but in the near term intend to maintain adjusted EPS growth with the target level determined shortly before point of award.

The Company will introduce a shareholding guideline for its Executive Directors at 100% of salary. There will be a restriction on the level of the vested LTIP awards which Executives can sell until the guideline is met. Currently each of the Executive Directors' shareholdings meets this guideline.

The Remuneration Report will contain additional disclosures including this introductory letter and a summary policy table. From 2017/18, disclosures will include performance against annual bonus targets.

The Company has consulted with its largest shareholders on the new LTIP and the changes to the policy outlined above.

I hope that you find the report helpful and informative and I look forward to receiving further feedback from our investors on the information presented.

Mike McCollum
Remuneration Committee Chairman
29 September 2017

Executive Directors' remuneration policy

This part of the Directors' Remuneration Report sets out the remuneration policy of the Company with regard to its Directors.

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Base salary			
Base pay is designed to reflect Executive Directors' experience, capabilities and role within the business. To be set at a level which is sufficiently competitive to recruit and retain individuals of the appropriate calibre to deliver the Company's strategy.	Salaries are reviewed annually and benchmarked against similar listed companies with any changes effective from 1 January. The review takes into account: • Company performance and rapid increase in scale and complexity; • the role, experience and performance of the individual Director; and • average workforce salary adjustments within the Company.	The CEO's base salary was reviewed on 1 January 2017 (the prior review being in January 2016) and was increased by 11.1% to £400,000. The Finance Director's base salary was reviewed on 1 January 2017 (the prior review being in January 2016) and was increased by 11.1% to £250,000.	Not applicable.
Benefits			
To complement basic salary by providing market competitive benefits to attract and retain Executives.	Reviewed from time to time to ensure that benefits, when taken together with other elements of remuneration, remain market competitive. Benefits for the Executive Directors currently include the provision of a company car and medical and life insurance.	The cost of providing these benefits vary year on year depending on the schemes' premiums. The Remuneration Committee monitors the overall cost of the benefits package.	Not applicable.
Pension			
To provide retirement benefits which, when taken together with other elements of the remuneration package, will enable the Company to attract and retain Executives.	The Chief Executive participates in a defined contribution pension arrangement and also receives a payment in lieu of a full pension. The Finance Director receives a payment in lieu of a pension.	The Chief Executive is entitled to a Company pension contribution of 10%. This is taken as a payment in lieu of a pension. The Finance Director is entitled to a Company pension contribution of 12%. This is taken as a payment in lieu of a pension. For both the Chief Executive and the Finance Director, where a payment is taken in lieu of a pension it is reduced by the amount of the Company's liability to pay national insurance on the contribution.	Not applicable.

Executive Directors' remuneration policy *continued*

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Annual bonus			
To drive and reward exceptional performance.	The Executive Directors participate in a discretionary, annual, performance related bonus scheme. Targets are set at the beginning of each year based on the recommendations of the Remuneration Committee. Bonuses are paid in cash based on audited financial results. Commencing financial year 2018/19, annual bonus payments will be subject to a clawback provision.	From 2017/18, for the Executive Directors, the maximum capped bonus potential is 100% of salary.	For the years ended 30 June 2017 and ending 30 June 2018, the targets are based on adjusted EBITDA. The target is adjusted to take account of acquisitions made in the course of the year.
Long Term Incentive Plan ("LTIP")			
To drive and reward exceptional performance. To align the interests of Executives and shareholders.	Both Executive Directors are entitled to be considered for the grant of awards under the LTIP. The awards take the form of nominal cost options over a specified number of Ordinary shares. Awards are not transferable or assignable. Awards are released to participants after a performance period of three years, subject to certain performance and service conditions being met. 40% of awards vest at threshold performance. The LTIP 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. Participation is at the discretion of the Remuneration Committee. Awards will typically be made annually based on a percentage of annual salary. Performance conditions are set by the Remuneration Committee at the time of the award. The 2017 plan rules, amongst other things, include clawback provisions and a limitation to ensure that new shares issued, when aggregated with all other employee share awards, must not exceed 10% of issued share capital over any ten-year period.	From 2018, the Remuneration Committee would in normal circumstances expect to make annual LTIP awards to the CEO and the Finance Director at 125% and 100% of salary, respectively. The maximum annual award permissible under the 2018 plan in exceptional circumstances is 200% of salary.	Currently an adjusted EPS CAGR real growth target is applied to awards. The adjusted EPS reflects adjustments for amortisation of intangibles, costs of business combinations, income tax, exceptional items and fair value adjustments in respect of derivative financial instruments. In addition and irrespective of the adjusted EPS 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.

Executive Directors' remuneration policy *continued*

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 the 2017 scheme the awards were made at a 10% discount to the closing mid-market price on the day preceding the date of invitation. Previous schemes were issued at a 20% discount. All schemes vest over a three-year period. There are no performance conditions attached to any of the SAYE schemes.

Policy on Non-Executive Director remuneration

The Chairman and the other Non-Executive Director's remuneration comprises only fees. They are reviewed annually with changes effective from 1 January each year. The Chairman's and the Non-Executive Director's fees are approved by the Board on the recommendation of the CEO. The Non-Executive Directors are not involved in any decisions about their own remuneration. The Chairman and the other independent Non-Executive Director are entitled to be reimbursed for reasonable expenses.

Details of the fees paid for 2016/17 are set out in the Annual Report on Remuneration. The Directors' fees were increased by 2.0% with effect from January 2017.

The current fees are as follows:

Director	
R Connell	£108,711
M McCollum	£44,161

Executive Directors' 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, a car allowance and contributions to personal pension plans.

Non-Executive Directors' letters of appointment

R Connell was appointed on 4 October 2007. His most recent service agreement is dated 8 April 2017 and is for a one-year term ending on 7 April 2018. M McCollum was appointed on 2 April 2013. His most recent service agreement is for a three-year term ending on 2 April 2019. Their appointments can be terminated by the Company or themselves by giving six months' notice.

Annual Report on Remuneration

Introduction

This Annual Report on Remuneration sets out information about the remuneration of the Directors of the Company for the period ended 30 June 2017.

Membership and role of the Remuneration Committee

The Remuneration Committee is appointed by the Board, and comprises M McCollum as Chairman and R Connell. The role of the Remuneration Committee is to determine and recommend to the Board the remuneration policy for the Executive Directors. This includes base salary, annual and long-term incentive awards and pension arrangements.

Advisors

During the year, the Company engaged h2glenfern, a remuneration advisory practice, to undertake a benchmarking exercise for use in considering the remuneration levels of the Executive and Non-Executive Directors and to provide advice on the new LTIP and the overall development on Executive remuneration.

Remuneration of the Executive Directors

Directors' emoluments

		Basic salary, allowance and fees £'000	Benefits in kind £'000	Pension £'000	Performance related bonus £'000	**Total £'000**
Executive Directors						
S Innes	2017	380	36	39	380	**835**
	2016	355	34	50	360	**799**
N Perrin	2017	243	18	25	195	**481**
	2016	216	17	23	169	**425**
Non-Executive Chairman						
R Connell	2017	109	—	—	—	**109**
	2016	106	—	—	—	**106**
Non-Executive Director						
M McCollum	2017	44	—	—	—	**44**
	2016	43	—	—	—	**43**

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 2017 or 30 June 2016.

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.

Annual Report on Remuneration *continued*

Share scheme interests as at 30 June 2017

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

Award	Grant date	Vesting period	Adjusted EPS real growth performance conditions
LTIP8	24 September 2014	3 years	The performance targets for all awards are the same and are based on achieving adjusted EPS growth in excess of inflation as follows: • 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
LTIP9	24 September 2015	3 years	
LTIP10	20 December 2016	3 years	

Options over Ordinary shares awarded to Executive Directors under the LTIP and SAYE schemes in place at 29 September 2017 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					
LTIP8*	24 September 2014	352p	30 June 2017	0.2p	88,169
LTIP9	24 September 2015	699p	30 June 2018	0.2p	57,000
LTIP10	20 December 2016	1,067p	30 June 2019	0.2p	40,000
SAYE7	27 November 2014	370p	1 January 2018	296p	6,081
N Perrin					
LTIP8*	24 September 2014	352p	30 June 2017	0.2p	53,570
LTIP9	24 September 2015	699p	30 June 2018	0.2p	29,500
LTIP10	20 December 2016	1,067p	30 June 2019	0.2p	25,000
SAYE6*	29 November 2013	269p	1 January 2017	215p	4,186
SAYE7	27 November 2014	370p	1 January 2018	296p	3,041
SAYE9	25 November 2016	875p	1 January 2020	790p	318

* These awards have now vested.

Directors' interests in shares

The interests of the Directors as at 30 June 2017 in the shares of the Company were:

	Ordinary shares of 0.2p each Number
R Connell	83,891
M McCollum	77,355
S Innes	246,475
N Perrin	32,000

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

At 30 June 2017, the market price of the Ordinary shares was 1,250p.

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	LTIP7	121,200	24 October 2016	0.2p	875p
N Perrin	LTIP7	92,500	24 October 2016	0.2p	875p
N Perrin	SAYE6	4,186	1 January 2017	215p	1,042p

Gains arising on the exercise of options for S Innes and N Perrin amounted to £1,060,258 and £808,315, respectively.

On behalf of the Remuneration Committee

Mike McCollum
Non-Executive Director
29 September 2017

Directors' report

The Directors present their Annual Report together with the audited consolidated financial statements for the year ended 30 June 2017.

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 pharmacy and retail business. The principal activity of CVS Group plc is that of a holding company.

The Group made a profit after taxation of £11.5m (2016: £7.0m).

Business review

The information that fulfils the requirements of the business review, including details of the 2017 results, key performance indicators, principal risks and uncertainties and the outlook for future years, is set out in the Chairman's Statement (pages 4 and 5), the Business Review (pages 18 to 21) and the Finance Review (pages 27 to 30) (including key performance indicators (pages 10 and 11) and principal risks and uncertainties (pages 24 to 26)).

Dividends

The Directors recommend the payment of a dividend of 4.5p per share (2016: 3.5p) amounting to £2.9m (2016: £2.1m). Subject to approval at the Annual General Meeting, the dividend will be paid on 8 December 2017 to shareholders on the register at the close of business on 24 November 2017. The aggregate dividends recognised as distributions in the year ended 30 June 2017 amounted to £2.1m (2016: £1.8m). No interim dividends (2016: £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 31.

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 35 to 40. 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 32 to 34.

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 2017 are set out in note 23 to the financial statements.

At 31 August 2017, 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
BlackRock	7,535,140	11.79
Standard Life Investments	6,859,909	10.73
Octopus Investments	4,827,658	7.55
Invesco Perpetual	3,244,301	5.08
Hargreave Hale, Stockbrokers (ND)	2,275,990	3.56

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 eighth 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 10% discount to the shares' 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 35 to 40.

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 are required to prepare the Group 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 IFRS 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 auditor

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Deloitte LLP was appointed as auditor during the year and has expressed its willingness to continue in office as auditor. A resolution to reappoint it will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Richard Gilligan
Company Secretary
29 September 2017

Independent auditor's report to the members of CVS Group plc

Report on the audit of the financial statements

Opinion

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 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (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.

We have audited the financial statements of CVS Group plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of changes in equity;
- the consolidated and parent company balance sheets;
- the consolidated and parent company cash flow statements; and
- the related consolidated and parent company notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition – customer loyalty schemes • Acquisition fair value accounting • Valuation of goodwill
Materiality	The materiality that we used in the current year was £1.05 million which was determined based on a blended measure using a combination of profit and asset benchmarks.
Scoping	The scope of our audit was driven by our risk assessment and understanding of the business. This consisted of twenty-three components subjected to full scope audits and six components subjected to analytical procedures at group level.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.	We have nothing to report in respect of these matters.

Report on the audit of the financial statements *continued*

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition – customer loyalty schemes	
Key audit matter description	The group has customer loyalty schemes. Members of customer loyalty schemes, for example Healthy Pet Club ("HPC"), pay monthly subscription fees to the group and receive preventative consultations and treatments over a twelve-month period. The group recognised £32.5 million revenue in respect of customer loyalty schemes in the year and it has 306,000 customer loyalty scheme members as at the year-end. There is a degree of judgement involved in recognising revenue for customer loyalty schemes given members of the schemes receive services at different times and they can also join or leave at different times for a variety of reasons. Therefore we focussed on whether the accounting policy for customer loyalty scheme revenue is in line with IAS 18 "Revenue". In addition, HPC customers receive free vaccines and discounts in product purchase. There is a risk in practices where the staff may record inappropriate discounts to customers as a reduction in revenue. The accounting policy is disclosed in note 2 to the financial statements.
How the scope of our audit responded to the key audit matter	We assessed the appropriateness of revenue recognition policy for customer loyalty schemes, especially whether the profile of revenue recognition reflects timing of service provision and whether inclusion of key estimates such as estimated animal death as reduction in revenue is in line with the requirement of IAS 18. We checked the arithmetic accuracy of management's model in estimating customer loyalty schemes revenue, including the application of the key assumptions. For a sample of customer loyalty scheme discounts given to customers, we checked whether customers were active customer loyalty scheme members with reference to the customer loyalty scheme membership database. We critically assessed the appropriateness of the key assumptions underlying management's model in line with the requirement of IAS 18 "Revenue", by comparing them to historical fact patterns. We reviewed board minutes and post year-end trading information to identify any contradictory evidence.
Key observations	Based on the audit procedures performed, we concluded that revenue recognition in respect of the customer loyalty schemes is in line with the group's accounting policy and IAS 18. Key assumptions used by management fall within the reasonable range.

Acquisition fair value accounting	
Key audit matter description	The group acquired 25 veterinary businesses during the year for a total consideration of £48 million. The fair value consists of separately identifiable customer list intangible assets of £36 million, net liabilities acquired of £3 million, and goodwill of £15 million. The identification and valuation of the separately identifiable intangible assets excluding goodwill requires significant judgement and estimation, including customer attrition rate and long term growth rate for customer list intangible asset. Details of the acquisitions are provided in the Strategic Review, on page 19. Note 2 to the financial statements sets out the group's accounting policy for business combinations and Note 14 to the financial statements outlines details of the acquisitions and the key assumptions in determining fair value of the acquired intangible assets. Note 2 to the financial statements provides details of the critical accounting estimates and judgements.
How the scope of our audit responded to the key audit matter	We audited the considerations paid for all of the acquisitions in the year by reviewing business purchase agreements. With the involvement of our internal valuation specialists we reviewed and challenged management on their intangible asset identification by assessing whether intangible assets identified by management are in line with the requirements of IFRS 3 "Business Combinations" and IAS 38 "Intangible assets". We also performed benchmarking with similar businesses and business combinations. With the involvement of our internal valuation specialists we audited the opening balance sheet of the acquired entities to evaluate whether the fair value of intangible assets excluding goodwill acquired is appropriate.
Key observations	Based on the audit procedures performed, we concur that management has appropriately applied the principles of IFRS 3, including identification and fair valuation of intangible assets excluding goodwill on acquisitions. Key assumptions used by management fall within the reasonable range.

Report on the audit of the financial statements *continued*

Key audit matters *continued*

Valuation of goodwill	
Key audit matter description	The group has a significant goodwill balance (£46.8 million as at 30 June 2017). In conducting the impairment review as required by IAS 36, there are a number of key judgements applied by management in determining the recoverable amounts, including discount rate and growth rates. We specified our risk to the Practice Division which makes up 90% of the goodwill balance. Note 2 to the financial statements sets out the group's accounting policy for goodwill and its impairment assessment and Note 12 to the financial statements outlines the key assumptions involved in goodwill impairment assessment. Note 2 to the financial statements provides details of the critical accounting estimates and judgements around impairment of goodwill.
How the scope of our audit responded to the key audit matter	We checked the arithmetic accuracy of management's goodwill impairment assessment model. We performed sensitivity analysis on the key assumptions to assess goodwill impairment headroom. We obtained cash flow forecasts prepared by management and challenged the reasonableness of the forecast including future growth rates by obtaining historical budgets prepared by management and performing historical forecasting review to assess management's accuracy in preparing reasonable forecast. We obtained market data, such as like-for-like sales change in comparable companies, and incorporated these into our sensitivity analysis. We also reviewed board minutes and post year-end trading information to identify indicators of forecast inaccuracy. With the involvement of our internal valuation specialists we estimated an appropriate discount rate with reference to market data and compared that to the rate used by management.
Key observations	Based on the audit procedures performed, we concur that management has appropriately applied the principles of IAS 36, in relation to assessment of goodwill impairment. Key assumptions used by management fall within the reasonable range.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£1.05 million
Basis for determining materiality	We considered both asset and profit bases in the determination of materiality. Materiality equates to below 2% of net assets and 7.5% of pre-tax profit.
Rationale for the benchmark applied	In addition to a profit-based metric, we incorporated a net asset measure in determining materiality to reflect the significant levels of investments made by the group in recent years.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £52,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

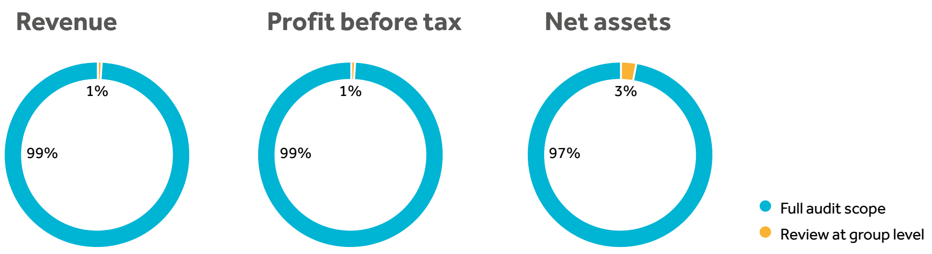
An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

Based on that assessment, we focused our group audit scope primarily on the audit work in the UK. Twenty-three components were subject to a full scope audit by the group audit team. Six components were subject to a review at the group level based on our assessment of the materiality of the group's operations at those components. All components where our group audit was focussed were audited by the group audit team.

The twenty-three components subject either to a full audit or specified audit procedures account for 99% of the group's revenue, 99% of the group's profit before tax and 97% of the group's net assets. The component materiality ranges between £0.4 million to £0.9 million.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.



Report on the audit of the financial statements *continued*

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our auditor's report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.	We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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 auditor's 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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • 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.	We have nothing to report in respect of these matters.
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.	We have nothing to report arising from this matter.

Lee Welham FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Cambridge, United Kingdom
28 September 2017

Consolidated income statement for the year ended 30 June 2017

	Note	2017 £m	*Restated 2016 £m
Revenue	4	**271.8**	218.1
Cost of sales	6	**(147.3)**	(112.2)
Gross profit		**124.5**	105.9
Administrative expenses	6	**(107.3)**	(94.1)
Operating profit		**17.2**	11.8
Finance expense	5	**(2.7)**	(2.7)
Profit before income tax	4	**14.5**	9.1
Income tax expense	9	**(3.0)**	(2.1)
Profit for the year attributable to owners of the parent		**11.5**	7.0
Earnings per Ordinary share (expressed in pence per share) ("EPS")			
Basic	10	**18.5p**	11.6p
Diluted	10	**18.2p**	11.3p

* The prior year comparatives have been restated to reclassify £0.4m of administration expenses to cost of sales.

Reconciliation of adjusted financial measures

The Directors believe that adjusted profit provides additional useful information for shareholders on performance. This is used for internal performance analysis. This measure is not defined by IFRS and is not intended to be a substitute for, or superior to, IFRS measurements of profit. 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	2017 £m	2016 £m
Profit before income tax		**14.5**	9.1
Adjustments for:			
Finance expense	5	**2.7**	2.7
Depreciation	13	**5.9**	5.2
Amortisation and impairment of intangible assets	12	**16.0**	13.7
Costs relating to business combinations		**3.0**	2.1
Adjusted EBITDA	4	**42.1**	32.8

Consolidated statement of comprehensive income for the year ended 30 June 2017

	Note	2017 £m	2016 £m
Profit for the year		**11.5**	7.0
Other comprehensive income – items that will or may be reclassified to loss in future periods			
Cash flow hedges:			
Fair value gains	16	**0.2**	—
Other comprehensive income for the year, net of tax		**0.2**	—
Total comprehensive income for the year attributable to owners of the parent		**11.7**	7.0

Consolidated and Company balance sheets as at 30 June 2017

	Note	**Group 2017 £m**	*Restated Group 2016 £m	**Company 2017 £m**	Company 2016 £m
Non-current assets					
Intangible assets	12	**167.2**	131.5	**—**	—
Property, plant and equipment	13	**43.0**	32.8	**—**	—
Investments	15	**0.1**	0.1	**67.1**	65.6
Deferred income tax assets	22	**2.1**	1.8	**—**	—
Derivative financial instruments	16	**0.1**	—	**—**	—
		212.5	166.2	**67.1**	65.6
Current assets					
Inventories	18	**12.5**	9.7	**—**	—
Trade and other receivables	19	**30.9**	23.8	**31.2**	3.0
Cash and cash equivalents	26	**6.8**	6.7	**—**	—
		50.2	40.2	**31.2**	3.0
Total assets	4	**262.7**	206.4	**98.3**	68.6
Current liabilities					
Trade and other payables	20	**(48.2)**	(43.0)	**—**	—
Current income tax liabilities		**(2.9)**	(2.3)	**—**	—
Borrowings	21	**(3.3)**	(0.3)	**—**	—
		(54.4)	(45.6)	**—**	—
Non-current liabilities					
Borrowings	21	**(103.5)**	(99.5)	**—**	—
Deferred income tax liabilities	22	**(16.8)**	(14.6)	**—**	—
Derivative financial instruments	16	**—**	(0.1)	**—**	—
		(120.3)	(114.2)	**—**	—
Total liabilities	4	**(174.7)**	(159.8)	**—**	—
Net assets		**88.0**	46.6	**98.3**	68.6
Shareholders' equity					
Share capital	23	**0.1**	0.1	**0.1**	0.1
Share premium	25	**38.1**	9.7	**40.2**	9.7
Capital redemption reserve		**0.6**	0.6	**0.6**	0.6
Revaluation reserve	24	**0.1**	0.1	**—**	—
Merger reserve		**(61.4)**	(61.4)	**—**	—
Retained earnings		**110.5**	97.5	**57.4**	58.2
Total equity		**88.0**	46.6	**98.3**	68.6

* Please refer to note 21.

The Company reported a loss for the financial year ended 30 June 2017 of £0.2m (2016: £0.2m).

The notes on pages 53 to 71 are an integral part of these consolidated financial statements.

The financial statements on pages 47 to 71 were authorised for issue by the Board of Directors on 29 September 2017 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 2017

	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 2015	0.1	9.5	0.6	0.1	(61.4)	90.2	39.1
Profit for the year	—	—	—	—	—	7.0	7.0
Other comprehensive income							
Cash flow hedges:							
Fair value gains	—	—	—	—	—	—	—
Total other comprehensive income	—	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	—	7.0	7.0
Transactions with owners							
Issue of Ordinary shares	—	0.2	—	—	—	—	0.2
Credit to reserves for share-based payments	—	—	—	—	—	1.3	1.3
Deferred tax relating to share-based payments	—	—	—	—	—	0.8	0.8
Dividends to equity holders of the Company (note 23)	—	—	—	—	—	(1.8)	(1.8)
Transactions with owners	—	0.2	—	—	—	0.3	0.5
At 30 June 2016	0.1	9.7	0.6	0.1	(61.4)	97.5	46.6

	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 2016	0.1	9.7	0.6	0.1	(61.4)	97.5	46.6
Profit for the year	—	—	—	—	—	11.5	11.5
Other comprehensive income							
Cash flow hedges:							
Fair value gains	—	—	—	—	—	0.2	0.2
Total other comprehensive income	—	—	—	—	—	0.2	0.2
Total comprehensive income	—	—	—	—	—	11.7	11.7
Transactions with owners							
Issue of Ordinary shares	—	30.5	—	—	—	—	30.5
Purchase of own shares	—	(2.1)	—	—	—	—	(2.1)
Credit to reserves for share-based payments	—	—	—	—	—	1.5	1.5
Deferred tax relating to share-based payments	—	—	—	—	—	1.9	1.9
Dividends to equity holders of the Company (note 23)	—	—	—	—	—	(2.1)	(2.1)
Transactions with owners	—	28.4	—	—	—	1.3	29.7
At 30 June 2017	**0.1**	**38.1**	**0.6**	**0.1**	**(61.4)**	**110.5**	**88.0**

Company statement of changes in equity for the year ended 30 June 2017

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2015	0.1	9.5	0.6	58.9	69.1
Total comprehensive income and loss for the year	—	—	—	(0.2)	(0.2)
Transactions with owners					
Issue of Ordinary shares	—	0.2	—	—	0.2
Credit to reserves for share-based payments	—	—	—	1.3	1.3
Dividends to equity holders of the Company (note 23)	—	—	—	(1.8)	(1.8)
Transactions with owners	—	0.2	—	(0.5)	(0.3)
At 30 June 2016	0.1	9.7	0.6	58.2	68.6

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2016	0.1	9.7	0.6	58.2	68.6
Total comprehensive income and loss for the year	—	—	—	(0.2)	(0.2)
Transactions with owners					
Issue of Ordinary shares	—	30.5	—	—	30.5
Credit to reserves for share-based payments	—	—	—	1.5	1.5
Dividends to equity holders of the Company (note 23)	—	—	—	(2.1)	(2.1)
Transactions with owners	—	30.5	—	(0.6)	29.9
At 30 June 2017	**0.1**	**40.2**	**0.6**	**57.4**	**98.3**

Consolidated and Company cash flow statements for the year ended 30 June 2017

	Note	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Cash flows from operating activities					
Cash generated from operations	27	**37.2**	33.6	**(26.4)**	1.6
Taxation paid		**(5.4)**	(3.3)	**—**	—
Interest paid		**(2.1)**	(2.4)	**—**	—
Net cash generated from operating activities		**29.7**	27.9	**(26.4)**	1.6
Cash flows from investing activities					
Acquisitions (net of cash acquired)	14	**(46.9)**	(53.5)	**—**	—
Purchase of property, plant and equipment	13	**(13.3)**	(11.3)	**—**	—
Purchase of intangible assets	12	**(0.5)**	(0.2)	**—**	—
Net cash used in investing activities		**(60.7)**	(65.0)	**—**	—
Cash flows from financing activities					
Dividends paid		**(2.1)**	(1.8)	**(2.1)**	(1.8)
Proceeds from issue of Ordinary shares	23	**30.6**	0.2	**30.6**	0.2
Debt issuance costs		**—**	(1.3)	**—**	—
Purchase of own shares		**(2.1)**	—	**(2.1)**	—
Increase in borrowings	26	**6.5**	51.9	**—**	—
Repayment of borrowings	26	**(1.8)**	(8.2)	**—**	—
Net cash from/(used in) financing activities		**31.1**	40.8	**26.4**	(1.6)
Net increase in cash and cash equivalents	26	**0.1**	3.7	**—**	—
Cash and cash equivalents at the beginning of the year		**6.7**	3.0	**—**	—
Cash and cash equivalents at the end of the year	26	**6.8**	6.7	**—**	—

Notes to the consolidated financial statements for the year ended 30 June 2017

1. General information

The principal activity of the Group is to operate veterinary practices, complementary veterinary diagnostic businesses, pet crematoria and an on-line pharmacy and retail 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
Alnorthumbria Veterinary Practice Limited	Veterinary services
Albavet Limited	Veterinary services and buying club
Animed Direct Limited	On-line dispensary
Axiom Veterinary Laboratories Limited	Veterinary diagnostic services
Cromlynvets Limited	Veterinary services
CVS (Netherlands) B.V.	Veterinary services
CVS (UK) Limited	Veterinary and diagnostic services
Kliniek voor Gezelschapsdieren Dieren B.V.	Veterinary services
Dierenartsenpraktijk Zuid-West Friesland B.V.	Veterinary services
Dierenkliniek Amersfoort B.V.	Veterinary services
Dierenkliniek Hengelo B.V.	Veterinary services
Dierenkliniek Zwolle B.V.	Veterinary services
Dierenziekenhuis Drachten B.V.	Veterinary services
Greenacres Pet Crematorium Limited	Animal cremation
Greendale Veterinary Diagnostics Limited	Veterinary diagnostic services
Highcroft Pet Care Limited	Veterinary services
Mi Vet Club Limited	Veterinary goods and services buying club
Okeford Veterinary Centre Limited	Veterinary services
The Pet Crematorium Limited	Animal cremation
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
Severn Edge Holdings Ltd	Veterinary services
Severn Edge Farm Ltd	Veterinary services
Severn Edge Equine Ltd	Veterinary services
Severn Edge Veterinary Group Ltd	Veterinary services
Silvermere Haven Limited	Animal cremation and provision of burial grounds
Valley Pet Crematorium Limited	Animal cremation
VETisco Limited	Veterinary instrumentation supply
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	Newlands Veterinary Group Ltd	RVG Stevenage Ltd
All Creatures Veterinary Health Centre Ltd	Firstvets Ltd	Seymour Vets Ltd
Ambivet Ltd	Forrest House Veterinary Ltd	Shannon Lodge Veterinary Practice Ltd
Bell Equine Veterinary Clinic Ltd	Grants and Watson Ltd	Superstar Pets Ltd
BTM Kent Ltd	Haven Veterinary Healthcare Ltd	Torbridge Veterinary Hospital Ltd
Buttercross Veterinary Centre Ltd	Joel Veterinary Clinic Ltd	Valley Equine Hospital Lambourn Ltd
Cedar Veterinary Services Ltd	Nottingham Veterinary Care Ltd	Valley Veterinary Group (Ayrshire) Ltd
Church Walk Veterinary Centre Ltd	Pet Vaccination UK Ltd	Veterinary Enterprises & Trading Ltd
Claremont Veterinary Group Ltd	Petmedics Ltd	Village Referrals Ltd
Clifton Villa Veterinary Services Ltd	Phoenix Vets Ltd	Willow Vets Ltd
Dovecote Veterinary Hospital Ltd	Phoenix Vets Sandhurst Ltd	Bell Equine Veterinary Clinic Limited
DVS (Turriff) Ltd	Rosemullion Veterinary Practice 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 DVS (Turriff) Ltd, which is registered in Scotland, and Cromlynvets Limited and All Creatures Veterinary Health Centre Ltd, which are registered in Northern Ireland.

All equity shareholdings are wholly owned.

The registered office for all subsidiary undertakings is CVS House, Owen Road, Diss, Norfolk IP22 4ER with the exception of the following companies:

DVS (Turriff) Ltd	30 Balmellie Street, Turriff, Aberdeenshire AB53 4DU
Cromlynvets Limited	50 Old Coach Road, Hillsborough, County Down BT26 6PB
All Creatures Veterinary Health Centre Ltd	14 Anderson Avenue, Limavady, County Londonderry BT49 0TF

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 pages 32 to 34. 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*

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.

a) Intangibles acquired in business combinations

Determining the value of intangibles (patient data records and customer lists) 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. EBITDA is used as an approximation to cash flow. The EBITDA contained within the acquisition business case is used for year one cash flows and beyond this a growth rate is applied based upon a prudent assessment of market-specific growth assumptions and an appropriate attrition rate for acquired patients. 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 14 to the financial statements.

b) Impairment of intangible assets

Determining whether intangible assets are impaired requires a critical judgement as to whether the carrying value of assets can be supported by the future cash flows expected to arise from the patient data records and customer lists discounted at a suitable rate in order to calculate their present value. In calculating net present value of the future cash flows, certain assumptions are required to be made including management's expectations of growth and discount rates. No impairment charge has been recognised in the year (2016: £727,000). Further details are provided in note 12 to the financial statements.

c) Impairment of goodwill

Determining whether goodwill is impaired requires the calculation 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 12 to the financial statements.

d) Share-based payments

Judgement is required in determining the fair value of shares at the award date. The fair value is calculated using valuation techniques which take into account the award's term, the risk-free interest rate and the expected volatility of the market price of the Company's shares. Judgement and estimation is also required to assess the number of options expected to vest. Details of share-based payments and the assumptions applied are provided in note 11 to the financial statements.

e) Going concern

The Directors have prepared projections of the Group's anticipated future results based upon the budget for the period to June 2018 and forecasts thereafter. The Directors have concluded that the assumption that the Group is a going concern is valid.

f) 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 12 to the financial statements.

Changes in accounting policy and disclosure

Standards, amendments and interpretations adopted by the Group

The Group has not adopted any new and revised standards, amendments and interpretations which have been assessed as having financial or disclosure impact on the numbers presented.

Standards and interpretations to existing standards (all 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 2017 or later periods but which the Group has not early adopted:

- IFRS 9 Financial Instruments (effective 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leasing (effective 1 January 2019)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective 1 January 2018)
- IFRIC 23 Uncertainty over Income Tax Treatments (effective 1 January 2019)
- Disclosure Initiative (Amendments to IAS 7) (effective 1 January 2017)
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (effective 1 January 2018)
- Annual Improvements 2014–2016 Cycle (effective 1 January 2018)

The Directors do not expect that the adoption of IFRS 9 and IFRS 15 above will have a material impact on the financial statements of the Group in future periods. The Directors are currently assessing the impact of IFRS 16 and it is not practicable to provide a reasonable estimate of the effect of this standard until a detailed review has been completed.

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 2017.

Subsidiaries are all entities over which the Group has control. 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.

2. Summary of significant accounting policies *continued*

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. The Group has four operating segments: Veterinary Practice, Laboratory, Crematoria and Animed Direct. Further 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.

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 and charged to administrative expenses. Costs associated with maintaining computer software programs are recognised as an administrative 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 and customer lists	10% per annum
Trade names	10% per annum

Amortisation is charged to administrative expenses.

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.

As permitted by IAS 36 Impairment of Assets for the purposes of assessing impairment, individual cash-generating units ("CGUs") are grouped at a level consistent with the Group's operating segments. 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.

2. Summary of significant accounting policies *continued*

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 less provision for impairment. 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 90 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.

(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.

2. Summary of significant accounting policies *continued*

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits with maturities of three months or less from inception. 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 tax expense represents the sum of the current tax payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes some items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated on the basis of tax laws and tax rates that have been enacted or substantively enacted by 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.

Revenue

Revenue represents amounts receivable from customers for veterinary services, related veterinary products, laboratory diagnostic services, 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. The revenue recognition point is when a diagnostic laboratory test, a veterinary consultation, a veterinary procedure or a cremation is completed. Sales of goods are recognised when goods are dispatched and title has passed; for example, on-line sales are recognised when the goods are dispatched from the warehouse. Revenue is measured at the fair value of the consideration received or receivable, excluding value added tax and discounts.

Members of customer loyalty schemes, for example the Healthy Pet Club, pay monthly subscription fees and receive preventative consultations and treatments over a twelve-month period. The monthly subscription fees are spread evenly over the twelve-month period whereas the services and drugs provided to the customer do not evenly match this profile. Appropriate adjustments are made through deferred and accrued income to recognise revenue when the underlying service has been performed. Revenue is recognised net of a provision to reflect cancellations as a result of animal deaths due to our policy not to invoice our customers in such an event. The provision is calculated based on historic membership cancellation data. All other cancellations are accounted for as an impairment of receivables within administration expenses. Our accounting policy for other cancellations has been revised during the year; the impact on revenue and profit is not material and therefore the change in policy has not been accounted for as prior year adjustment.

Out-of-hours consultations and procedures provided by third parties are not recorded as revenue. The work is completed by the third party and the third-party provider invoices the customer. CVS does not act as principal or agent in this transaction.

Pet Medic Recruitment principally sources locum clinical staff for the Veterinary Practice Division. Revenue is therefore intra-division and eliminated on consolidation within the Veterinary Practice Division.

Rebates received from manufacturers

Rebates received from drug and consumable manufacturers in respect of CVS purchases are deducted from the purchase price within cost of sales.

Rebates negotiated on behalf of our buying group members, MiVetClub and VetShare, are recorded on the Group's balance sheet as a receivable and the corresponding liability for the rebate due to the member is recorded as a payable. The commission receivable by the Group is recorded as revenue in the income statement at the point at which the buying Group member purchases the drugs and consumables.

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.

2. Summary of significant accounting policies *continued*

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 Black-Scholes 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 individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in Sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements, rounded to the nearest £0.1m.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity (attributed to non-controlling interests as appropriate).

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as Sterling-denominated assets and liabilities. Exchange differences arising are recognised in other comprehensive income.

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 in the period to which they relate. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Financing costs

Financing costs comprise interest payable on borrowings, debt finance costs and gains and losses on derivative financial instruments that are recognised in the income statement.

Interest 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 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. Revenue is included in the like-for-like calculation with effect from the month in which it was acquired in the previous year; for example, for a practice acquired in September 2015, revenue is included from September 2016 in the like-for-like revenue calculation.

Share premium

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

Profit for the financial year

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account or statement of comprehensive income for the year. The profit attributable to the Company is disclosed in the footnote to the Company's balance sheet.

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 £45.0m 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 0.95% to 2.2% above LIBOR. The applicable interest rate is dependent upon the net debt to EBITDA ratio. During the year the bank borrowings carried a rate averaging 1.55% above LIBOR.

At 30 June 2017, 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 2017, 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 £1.0m (2016: £0.8m) 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. A large number of receivables are very small, therefore there is not any concentration of credit risk in a single counterparty or group of counterparties with similar characteristics.

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, are 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 2017 gross trade receivables amounted to 5.8% of revenue for the year (2016: 7.0%). Of these gross trade receivables, 48% (2016: 52%) were more than one month overdue.

The maximum exposure to credit risk at 30 June 2017 is the fair value of each class of receivable as disclosed in note 17 to the financial statements.

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.

The Group's revolving credit facility ("RCF") is utilised on 30-day terms; however, the RCF is available for utilisation until November 2021, and therefore the liability is included in due in more than three years but not more than five years.

30 June 2017	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	**3.1**	**—**	**—**	**104.5**	**107.6**
Trade and other payables (excluding social security and other taxes)	**38.7**	**—**	**—**	**—**	**38.7**
Derivative contracts					
Interest rate swap arrangements	**—**	**—**	**—**	**—**	**—**
	41.8	**—**	**—**	**104.5**	**146.3**

30 June 2016	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	—	2.7	—	98.0	100.7
Trade and other payables (excluding social security and other taxes)	34.9	—	—	—	34.9
Derivative contracts					
Interest rate swap arrangements	0.1	—	—	—	0.1
	35.0	2.7	—	98.0	135.7

3. Financial risk management *continued*

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.

	2017 £m	2016 £m
Net debt (see note 26)	**100.0**	93.1
Adjusted EBITDA (see note 4)	**42.1**	32.8
Ratio	**2.38**	2.83

The ratio above is calculated based upon EBITDA disclosed in the Annual Report. The actual ratio calculated for the bank covenants takes account of a twelve-month EBITDA adjustment for businesses acquired; therefore, the ratio for the purposes of the bank covenants is 2.3.

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 £10.5m of the £47.5m revolving credit facility were undrawn at 30 June 2017.

Fair value measurement

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2017 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 2017			30 June 2016		
	Level 1 £m	**Level 2 £m**	**Total £m**	Level 1 £m	Level 2 £m	Total £m
Assets						
Available-for-sale financial assets (note 15)	**0.1**	**—**	**0.1**	0.1	—	0.1
Liabilities						
Derivative financial instruments (interest rate swap arrangements) (note 16)	**—**	**—**	**—**	—	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 Europe-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 and are not considered material for separate disclosure.

Revenue comprises £201.9m of fees and £69.9m of goods. (2016: £157.5m and £60.6m, respectively).

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 (Head Office) 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. Intra-group sales eliminations are included within the Head Office segment. Head Office includes costs relating to the employees, property and other overhead costs associated with the centralised support function together with finance costs arising on the Group's borrowings.

Year ended 30 June 2017	**Veterinary Practice £m**	**Laboratory £m**	**Crematoria £m**	**Animed Direct £m**	**Head Office £m**	**Group £m**
Revenue	**247.9**	**16.3**	**6.3**	**13.0**	**(11.7)**	**271.8**
Profit/(loss) before income tax	**28.1**	**2.9**	**1.9**	**0.6**	**(19.0)**	**14.5**
Adjusted EBITDA	**44.7**	**3.6**	**2.1**	**0.7**	**(9.0)**	**42.1**
Total assets	**232.6**	**13.8**	**8.0**	**6.0**	**2.3**	**262.7**
Total liabilities	**(59.7)**	**(4.2)**	**(1.3)**	**(5.1)**	**(104.4)**	**(174.7)**
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	**28.1**	**2.9**	**1.9**	**0.6**	**(19.0)**	**14.5**
Finance expense	**—**	**—**	**—**	**—**	**2.7**	**2.7**
Depreciation	**4.7**	**0.7**	**0.2**	**0.1**	**0.2**	**5.9**
Amortisation	**10.1**	**—**	**—**	**—**	**5.9**	**16.0**
Costs relating to business combinations	**1.8**	**—**	**—**	**—**	**1.2**	**3.0**
Adjusted EBITDA	**44.7**	**3.6**	**2.1**	**0.7**	**(9.0)**	**42.1**

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

Year ended 30 June 2016	*Restated Veterinary Practice £m	Laboratory £m	Crematoria £m	*Restated Animed Direct £m	Head Office £m	Group £m
Revenue	198.1	14.8	5.0	8.4	(8.2)	218.1
Profit/(loss) before income tax	21.3	2.5	1.4	0.3	(16.4)	9.1
Adjusted EBITDA	35.6	3.1	1.7	0.3	(7.9)	32.8
Total assets	184.5	9.8	6.7	3.8	1.6	206.4
Total liabilities	(52.9)	(2.1)	(1.4)	(3.1)	(100.3)	(159.8)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	21.3	2.5	1.4	0.3	(16.4)	9.1
Finance expense	—	—	—	—	2.7	2.7
Depreciation	4.1	0.6	0.3	—	0.2	5.2
Amortisation	9.4	—	—	—	4.3	13.7
Costs relating to business combinations	0.8	—	—	—	1.3	2.1
Adjusted EBITDA	35.6	3.1	1.7	0.3	(7.9)	32.8

* The prior year comparatives have been restated to reflect the reclassification of the Group's logistics and warehousing operations from Animed Direct to the Veterinary Practice Division. Revenue in the Animed Division decreased by £1.4m and there was a corresponding increase in the revenue of the Veterinary Practice Division. Divisional EBITDA was unaffected by the change. The reclassification had no impact on Group revenue.

5. Finance expense

	2017 £m	2016 £m
Interest expense, bank loans and overdraft	**2.3**	2.3
Amortisation of debt arrangement fees	**0.4**	0.4
Finance expense	**2.7**	2.7

6. Expenses by nature

	2017 £m	2016 £m
Amortisation and impairment of intangible assets	**16.0**	13.7
Depreciation of property, plant and equipment	**5.9**	5.2
Employee benefit expenses	**127.7**	101.1
Cost of inventories recognised as an expense (included in cost of sales)	**48.5**	39.7
Repairs and maintenance expenditure on property, plant and equipment	**3.4**	3.2
Trade receivables impairment charge	**0.6**	0.9
Operating lease rentals payable	**12.6**	10.5
Other expenses	**39.9**	32.0
Total cost of sales and administrative expenses	**254.6**	206.3

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

	2017 £'000	2016 £'000
Audit services		
Fees payable to the Group's auditor for the audit of the parent company and consolidated financial statements	**30**	28
Other services		
Tax compliance services	**—**	—
The audit of the Company's subsidiaries pursuant to legislation	**155**	104
All other services	**7**	96
	192	228

7. Employee benefit expense and numbers
Group

Employee benefit expense for the Group	2017 £m	2016 £m
Wages and salaries	**115.0**	91.2
Social security costs	**10.1**	7.8
Other pension costs (note 30)	**1.1**	0.8
Share-based payments (note 11)	**1.5**	1.3
	127.7	101.1

Employee benefit expense included within cost of sales is £90.0m (2016: £66.6m). 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:

	2017 Number	2016 Number
Veterinary surgeons and pathologists	**1,153**	1,002
Nurses, practice ancillaries and technicians	**3,421**	2,911
Crematorium staff	**77**	68
Central support	**190**	149
	4,841	4,130

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	
	2017 £m	2016 £m	2017 £m	2016 £m
Salaries and other short-term employee benefits	**0.7**	0.7	**1.3**	1.2
Company contributions to money purchase schemes	**0.1**	0.1	**0.1**	0.1
	0.8	0.8	**1.4**	1.3

Retirement benefits are accruing to one Director (2016: one) under a personal pension plan. The remuneration of the Executive Directors amounting to £1.3m (2016: £1.2m) is borne by the subsidiary company CVS (UK) Limited, without recharge. The remuneration of the Non-Executive Directors amounting to £0.1m (2016: £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
N Perrin	SAYE9	25 November 2016	1 January 2020	790p	318

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	LTIP7	5 December 2013	250p	30 June 2016	121,200
S Innes	LTIP8	24 September 2014	352p	30 June 2017	88,169
S Innes	LTIP9	24 September 2015	699p	30 June 2018	57,000
S Innes	LTIP10	20 December 2016	1,067p	30 June 2019	40,000
N Perrin	LTIP7	5 December 2013	250p	30 June 2016	92,500
N Perrin	LTIP8	24 September 2014	352p	30 June 2017	53,570
N Perrin	LTIP9	24 September 2015	699p	30 June 2018	29,500
N Perrin	LTIP10	20 December 2016	1,067p	30 June 2019	25,000

The exercise price for all shares is 0.2p.

LTIP7 was exercised in the year; see the Remuneration Committee Report on page 40 for further details.

Further details of the above schemes are included in the Remuneration Committee Report on pages 35 to 40.

Key management compensation

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

	2017 £m	2016 £m
Salaries and other short-term employee benefits	**2.7**	2.2
Post-employment benefits	**0.1**	0.1
Share-based payments	**1.3**	1.2
	4.1	3.5

9. Income tax expense

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

	2017 £m	2016 £m
Current tax expense		
UK corporation tax	**4.8**	3.5
Adjustments in respect of previous years	**(0.1)**	(0.1)
Total current tax charge	**4.7**	3.4
Deferred tax expense		
Origination and reversal of temporary differences	**(1.6)**	(1.3)
Adjustments in respect of previous years	**0.3**	0.2
Effect of tax rate change on opening deferred tax balance	**(0.4)**	(0.2)
Total deferred tax credit (note 22)	**(1.7)**	(1.3)
Total income tax expense	**3.0**	2.1

Factors affecting the current tax charge

UK corporation tax is calculated at 19.8% (2016: 20.0%) of the estimated assessable profit for the year. The standard rate of UK corporation tax changed from 20% to 19% with effect from 1 April 2017.

9. Income tax expense *continued*

(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:

	2017 £m	2016 £m
Profit before tax	**14.5**	9.1
Effective tax charge at 19.8% (2016: 20.0%)	**2.9**	1.8
Effects of:		
Expenses not deductible for tax purposes	**0.4**	0.4
Effect of tax rate change on opening deferred tax balance	**(0.5)**	(0.2)
Adjustments to deferred tax charge in respect of previous years	**0.3**	0.2
Adjustments to current tax charge in respect of previous years	**(0.1)**	(0.1)
Total income tax expense	**3.0**	2.1

The main rate of corporation tax will reduce from 19% to 17% from 1 April 2020. This change had been substantively enacted at the balance sheet date and, therefore, it is reflected in these financial statements.

10. 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.

	2017	2016
Earnings attributable to Ordinary shareholders (£m)	**11.5**	7.0
Weighted average number of Ordinary shares in issue	**62,105,419**	59,736,436
Basic earnings per share (p per share)	**18.5**	11.6

(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 LTIP 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.

	2017	2016
Earnings attributable to Ordinary shareholders (£m)	**11.5**	7.0
Weighted average number of Ordinary shares in issue	**62,105,419**	59,736,436
Adjustment for contingently issuable shares – LTIPs	**398,654**	681,294
Adjustment for contingently issuable shares – SAYE schemes	**549,732**	726,215
Weighted average number of Ordinary shares for diluted earnings per share	**63,053,805**	61,143,945
Diluted earnings per share (p per share)	**18.2**	11.3

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.

	2017 £m	2016 £m
Earnings attributable to Ordinary shareholders	**11.5**	7.0
Add back taxation	**3.0**	2.1
Profit before taxation	**14.5**	9.1
Adjustments for:		
Amortisation (note 12)	**16.0**	13.7
Costs relating to business combinations (note 4)	**3.0**	2.1
Adjusted profit before income tax	**33.5**	24.9
Tax charge amended for the above adjustments	**(6.9)**	(5.4)
Adjusted profit after income tax and earnings attributable to owners of the parent	**26.6**	19.5
Weighted average number of Ordinary shares in issue	**62,105,419**	59,736,436
Weighted average number of Ordinary shares for diluted earnings per share	**63,053,805**	61,143,945

	Pence	Pence
Adjusted earnings per share	**42.8p**	32.4p
Diluted adjusted earnings per share	**42.2p**	31.7p

11. Share-based payments

Long Term Incentive Plans ("LTIPs")

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 2016 scheme ("LTIP10") Number of share awards	July 2015 scheme ("LTIP9") Number of share awards	July 2014 scheme ("LTIP8") Number of share awards	July 2013 scheme ("LTIP7") Number of share awards
Outstanding at 1 July 2016	—	150,500	251,438	394,100
Granted during the year	138,566	—	—	—
Forfeited during the year	(1,819)	(4,500)	(8,233)	(1,300)
Exercised during the year*	—	—	—	(392,800)
Outstanding at 30 June 2017	**136,747**	**146,000**	**243,205**	**—**
Exercisable at 30 June 2017	**—**	**—**	**—**	**—**

* The weighted average share price at the date of exercise was £8.75.

11. Share-based payments *continued*

Long Term Incentive Plans ("LTIPs") *continued*

Options are exercisable at 0.2p per share. The weighted average exercise price is 0.2p at the beginning and end of the period.

The options outstanding at the year end under LTIP10, LTIP9 and LTIP8 have a weighted average remaining contractual life of two years, 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 £1.1m (2016: £0.9m) and has been charged to administrative expenses. National Insurance contributions amounting to £0.5m (2016: £0.3m) 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 35 to 40.

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 SAYE6 scheme was opened for subscription in December 2013 (with options granted in January 2014), the SAYE7 scheme was opened for subscription in December 2014 (with options granted in January 2015) and the SAYE8 scheme was opened for subscription in December 2015 (with options granted in January 2016). Under the SAYE schemes awards have been made at a 20% discount for SAYE6, SAYE7 and SAYE8; SAYE9 was at a 10% 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:

	SAYE9 Number of share awards	SAYE8 Number of share awards	SAYE7 Number of share awards	SAYE6 Number of share awards
Outstanding at 1 July 2016	—	221,244	674,654	489,423
Granted during the year	196,550	—	—	—
Forfeited during the year	(4,087)	(22,401)	(47,824)	(5,268)
Exercised during the year*	—	(165)	(844)	(484,155)
Outstanding at 30 June 2017	**192,463**	**198,678**	**625,986**	**—**
Exercisable at 30 June 2017	**—**	**—**	**—**	**—**

* The weighted average share price at the date of exercise was £7.96.

Options are exercisable at 790p for the SAYE9 scheme, 536p for the SAYE8 scheme, 296p for the SAYE7 scheme and 215p per share for the SAYE6 scheme.

The weighted average exercise price at the beginning of the period for the options outstanding was £3.68 and end of the period £6.47.

The options outstanding at the year end under the SAYE9, SAYE8 and SAYE7 schemes have a weighted average remaining contractual life of two years and five months, one year and five months and nil years and five months, respectively.

The share-based payment charge for the year in respect of the options issued under the SAYE schemes amounted to £0.4m (2016: £0.4m) and has been charged to administrative expenses.

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:

	LTIP10	SAYE9
Grant date	5 December 2016	November 2016
Share price at grant date	£10.67	£8.75
Fair value per option	£10.67	£1.28
Exercise price	0.2p	£7.90
Number of employees	33	325
Shares under option at date of grant	136,747	196,550
Vesting period/option life/expected life	3 years	3 years
Weighted average remaining contractual life	2 years	2 years 5 months
Expected volatility*	32.95%	32.95%
Expected dividends expressed as a dividend yield	0.33%	0.33%

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

12. Intangible assets

	Goodwill £m	Trade names £m	Patient data records £m	Computer software £m	Total £m
Cost					
At 1 July 2015	21.9	1.5	100.1	2.0	125.5
Additions arising through business combinations	9.2	—	56.6	—	65.8
Other additions	—	—	—	0.2	0.2
At 30 June 2016	31.1	1.5	156.7	2.2	191.5
Additions arising through business combinations (note 14)	15.7	—	35.0	—	50.7
Fair value adjustment in respect of prior periods	—	—	0.5	—	0.5
Other additions	—	—	—	0.5	0.5
At 30 June 2017	**46.8**	**1.5**	**192.2**	**2.7**	**243.2**
Accumulated amortisation					
At 1 July 2015	—	0.7	44.3	1.3	46.3
Amortisation for the year	—	0.1	12.5	0.4	13.0
Impairment	—	—	0.7	—	0.7
At 30 June 2016	—	0.8	57.5	1.7	60.0
Amortisation for the year	—	0.2	15.6	0.2	16.0
At 30 June 2017	**—**	**1.0**	**73.1**	**1.9**	**76.0**
Net book amount					
At 30 June 2017	**46.8**	**0.5**	**119.1**	**0.8**	**167.2**
At 30 June 2016	31.1	0.7	99.2	0.5	131.5
At 1 July 2015	21.9	0.8	55.8	0.7	79.2

Amortisation expense is charged to administrative expenses. The impairment charge in 2016 relates to the patient data records purchased with one underperforming veterinary practice acquired in 2013.

12. Intangible assets *continued*

The patient data records, customer lists and trade names were acquired as a component of business combinations. See note 14 for further details of current year acquisitions. It is not practical to disclose the carrying amount and remaining life of each intangible asset; however, material business combinations in the current year have been separately disclosed in note 14.

The components of goodwill are disclosed by the grouped cash-generating units ("CGUs") shown below. During the year the Group changed the way in which they assess each CGU. Although each practice, laboratory and crematoria is considered to be an individual CGU the Company monitors and tests for impairment on a group of CGUs that is no bigger than the operational segments.

	2017 £m	2016 £m
Veterinary Practice	**42.1**	26.4
Laboratories	**2.1**	2.2
Crematoria	**2.6**	2.5
	46.8	31.1

Impairment tests

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 of the CGUs are considered to be the same as a result of the Group's operations being entirely focused in the veterinary market and, as such, the discount rate applied to each CGU is the same. The use of the Group's weighted average cost of capital is consistent with the valuation methodology used when determining the offer price for business combinations and therefore is considered an appropriate discount rate. The Directors consider the growth rate to be broadly consistent between CGUs; a 2% 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 given the insignificant impact of working capital adjustments. The budget for the next financial year is used as a basis for the cash flow projections. The growth rate used in the impairment tests 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 2.0%). The pre-tax discount rate used to calculate value in use is 10.8% at 30 June 2017 (2016: 9.82%). 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 charge has been recognised by the Group in the year ended 30 June 2017 (2016: £0.7m). The impairment charge recognised in 2016 is in respect of the patient lists acquired on acquisition of the Crescent business in July 2013; following recognition of this impairment charge, the carrying value of the Crescent intangible asset is £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 further impairment charges in the year ended 30 June 2017. The 2% growth rate is considered the worst case scenario given growth rates experienced in the veterinary market and therefore further sensitivity analysis is not required.

13. Property, plant and equipment

Group	Freehold land and buildings £m	Leasehold improvements £m	Fixtures, fittings and equipment £m	Motor vehicles £m	Total £m
Cost					
At 1 July 2015	3.4	12.6	20.6	1.4	38.0
Additions arising through business combinations	3.0	0.9	2.7	0.2	6.8
Additions	4.0	3.0	4.2	0.1	11.3
Disposals	—	—	(0.4)	—	(0.4)
At 30 June 2016	10.4	16.5	27.1	1.7	55.7
Additions arising through business combinations (note 14)	—	1.3	2.3	—	3.6
Fair value adjustment in respect of prior periods	(0.6)	0.4	(0.2)	—	(0.4)
Additions	3.7	4.9	4.2	0.5	13.3
Disposals	—	—	(0.2)	(0.2)	(0.4)
At 30 June 2017	**13.5**	**23.1**	**33.2**	**2.0**	**71.8**
Accumulated depreciation					
At 1 July 2015	0.4	4.5	12.2	0.9	18.0
Charge for the year	0.2	1.5	3.3	0.2	5.2
Disposals	—	—	(0.3)	—	(0.3)
At 30 June 2016	0.6	6.0	15.2	1.1	22.9
Fair value adjustment in respect of prior periods	—	—	0.2	—	0.2
Charge for the year	0.3	2.1	3.3	0.2	5.9
Disposals	—	—	(0.1)	(0.1)	(0.2)
At 30 June 2017	**0.9**	**8.1**	**18.6**	**1.2**	**28.8**
Net book amount					
At 30 June 2017	**12.6**	**15.0**	**14.6**	**0.8**	**43.0**
At 30 June 2016	9.8	10.5	11.9	0.6	32.8
At 1 July 2015	3.0	8.1	8.4	0.5	20.0

Freehold land amounting to £0.2m (2016: £0.2m) has not been depreciated.

14. Business combinations

Details of business combinations in the year ended 30 June 2017 are set out below, in addition to an analysis of post-acquisition performance of the respective business combinations, where practicable. The reason for each acquisition was to expand the CVS Group business through acquisitions as explained on pages 8 and 9.

Name of business combination	Date of acquisition
Nottingham Veterinary Care Limited	30 August 2016
Buttercross Veterinary Centre Limited	27 September 2016
Church Walk Veterinary Centre Limited	5 October 2016
Batheaston (Trade and Assets)	12 October 2016
DVS (Turriff) Limited	1 November 2016
Haven Veterinary Healthcare Limited	4 November 2016
Forrest House Veterinary Limited	18 November 2016
Dieren Kliniek Dewetering B.V.	21 November 2016
Dierenziekenhuis Drachten B.V.	29 November 2016
O'Reilly & Fee Veterinary Surgery (Trade and Assets)	13 December 2016
Dierenartsenpraktijk Zuid-West Friesland B.V.	11 January 2017
Bell Equine Veterinary Clinic Limited	30 January 2017
Valley Veterinary Group (Ayrshire) Limited	10 February 2017
Pennine Vets (Trade and Assets)	15 February 2017
Ambivet Limited	14 March 2017
Willow Vets Limited	30 March 2017
Champion Vets (Trade and Assets)	31 March 2017
Eagle Veterinary Group (Trade and Assets)	11 April 2017
Severn Edge Holdings Limited	13 April 2017
Severn Edge Farm Limited	13 April 2017
Severn Edge Equine Limited	13 April 2017
Severn Edge Veterinary Group Limited	13 April 2017
BTM Kent Limited	2 May 2017
Dierenkliniek Zwolle B.V.	4 May 2017
Dierenkliniek Hengelo B.V.	4 May 2017
Dierenkliniek Amersfoort B.V.	4 May 2017
Phoenix Vets Limited	11 May 2017
Phoenix Vets Sandhurst Limited	11 May 2017
All Creatures Veterinary Health Centre Limited	16 May 2017
Shannon Lodge Veterinary Practice Limited	22 May 2017
Grants and Watson Limited	23 May 2017

All businesses were acquired via 100% share purchase agreement unless indicated as such in the table above.

Given the nature of the veterinary surgeries acquired 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 at 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 2017:

	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	**3.6**	**—**	**3.6**
Patient data records and customer lists	**5.1**	**29.9**	**35.0**
Inventory	**1.2**	**—**	**1.2**
Deferred tax liability (note 22)	**(0.2)**	**(5.3)**	**(5.5)**
Trade and other receivables	**2.3**	**—**	**2.3**
Trade and other payables	**(4.9)**	**—**	**(4.9)**
Loans	**(1.5)**	**—**	**(1.5)**
Total identifiable assets	**5.6**	**24.6**	**30.2**
Goodwill	**—**	**15.7**	**15.7**
Total initial consideration paid (net of cash acquired)			**45.9**

£1.0m was paid in the year in respect of deferred consideration for which there was no performance criteria and was included in patient data records last year.

£1.0m was paid in the year in respect of deferred consideration has been expensed to the income statement within employment costs. Deferred consideration is expensed to the income statement where payment is dependent upon the recipient being employed by CVS Group.

Goodwill recognised represents the excess of purchase consideration over the fair value of the identifiable net assets. Goodwill reflects the synergies arising from the combination of the businesses; this includes cost synergies arising from shared support functions and buying power synergies. Goodwill includes the recognition of deferred tax in respect of the acquired patient data records and customer lists.

Post-acquisition revenue and post-acquisition EBITDA were £13.4m and £2.1m respectively. The post-acquisition period is from the date of acquisition to 30 June 2017. Post-acquisition EBITDA represents the direct operating result of practices from the date of acquisition to 30 June 2017 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 £1.4m for the year and are included within other expenses in note 6 of the financial statements.

Bell Equine Limited	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	1.1	—	1.1
Patient data records	0.5	3.7	4.2
Inventory	—	—	—
Deferred tax liability	—	(0.8)	(0.8)
Trade and other receivables	0.4	—	0.4
Trade and other payables	(1.0)	—	(1.0)
Loans	(0.1)	—	(0.1)
Total identifiable assets	0.9	2.9	3.8
Goodwill	—	1.0	1.0
Total consideration paid			4.8

14. Business combinations *continued*

Ambivet Limited	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	0.7	—	0.7
Patient data records	0.4	5.3	5.7
Inventory	0.1	—	0.1
Deferred tax liability	(0.1)	(1.0)	(1.1)
Trade and other receivables	0.5	—	0.5
Trade and other payables	(0.6)	—	(0.6)
Loans	(0.4)	—	(0.4)
Total identifiable assets	0.6	4.3	4.9
Goodwill	—	2.7	2.7
Total consideration paid			7.6

Severn Edge Veterinary Group Limited	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	0.6	—	0.6
Patient data records	1.1	5.1	6.2
Inventory	0.2	—	0.2
Deferred tax liability	—	(1.0)	(1.0)
Trade and other receivables	0.8	—	0.8
Trade and other payables	(1.0)	—	(1.0)
Loans	(0.7)	—	(0.7)
Total identifiable assets	1.0	4.1	5.1
Goodwill	—	2.9	2.9
Total consideration paid			8.0

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 2016.

Business combinations subsequent to the year end

Subsequent to the year end, the Group acquired the trade and assets of Cundall and Duffy Veterinary Surgeons, a one site practice in North Yorkshire, on 1 August 2017, Maatschap Dierenliniek Wolvega, a one site practice in the Netherlands, on 3 August 2017 and Strule Veterinary Services, a two site practice based in Northern Ireland, on 22 August 2017, 100% of the ordinary share capital of B&W Equine Group, a five site practice based in Breadstone, Cardiff, Failand, Willesley and Stretcholt, on 11 September 2017 and 100% of the ordinary share capital of Aire Veterinary Centre Ltd, a one site practice based in Headingley, Leeds, on 28 September 2017 for a total cash consideration of £13.5m. Assets acquired comprised principally goodwill and intangible patient data records with a provisional fair value of £13.5m.

15. 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 2015	64.3
Options granted to employees of subsidiary undertakings	1.3
At 30 June 2016	65.6
Options granted to employees of subsidiary undertakings	1.5
At 30 June 2017	**67.1**

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

16. 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 2017 (2016: £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. At 30 June 2016 £45.0m of debt was hedged, the remainder of the debt was unhedged at the year end.

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 discounted cash flows, based on assumptions that are supported by observable market prices or rates.

16. Derivative financial instruments *continued*

Cash flow hedges *continued*

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

Group	2017 Assets £m	2017 Liabilities £m	2016 Assets £m	2016 Liabilities £m
Non-current				
Interest rate swap arrangements – cash flow hedges	**0.1**	**—**	—	(0.1)

The notional principal amount of the outstanding interest rate swap arrangement contract at 30 June 2016 was £15.6m. The outstanding interest rate swap arrangement contract expires on 27 January 2017.

Movements in fair values

Group	Interest rate swap arrangements £m
Fair value at 1 July 2015	(0.1)
Fair value gain through reserves – hedged	—
At 30 June 2016	(0.1)
Fair value gain through reserves – hedged	0.2
At 30 June 2017	**0.1**

17. Financial instruments

Group – assets as per balance sheet	2017 Derivative instruments in designated hedge accounting relationships £m	2017 Loans and receivables £m	2017 Available for sale £m	2017 Total £m	2016 Derivative instruments in designated hedge accounting relationships £m	2016 Loans and receivables £m	2016 Available for sale £m	2016 Total £m
Available-for-sale financial assets	**—**	**—**	**0.1**	**0.1**	—	—	0.1	0.1
Trade and other receivables (excluding prepayments)	**—**	**21.8**	**—**	**21.8**	—	18.8	—	18.8
Cash and cash equivalents	**—**	**6.8**	**—**	**6.8**	—	6.7	—	6.7
Derivative financial instruments	**0.1**	**—**	**—**	**0.1**	—	—	—	—
	0.1	**28.6**	**0.1**	**28.8**	—	25.5	0.1	25.6

Company – assets as per balance sheet	2017 Loans and receivables £m	2017 Available for sale £m	2017 Total £m	2016 Loans and receivables £m	2016 Available for sale £m	2016 Total £m
Trade and other receivables (excluding prepayments)	**31.2**	**—**	**31.2**	3.0	—	3.0
	31.2	**—**	**31.2**	3.0	—	3.0

Liabilities as per balance sheet	2017 Derivative instruments in designated hedge accounting relationships £m	2017 Other financial liabilities £m	2017 Total £m	2016 Derivative instruments in designated hedge accounting relationships £m	2016 Other financial liabilities £m	2016 Total £m
Borrowings	**—**	**(106.8)**	**(106.8)**	—	(99.8)	(99.8)
Trade and other payables (excluding social security and other taxes)	**—**	**(38.7)**	**(38.7)**	—	(34.9)	(34.9)
Derivative financial instruments	**—**	**—**	**—**	(0.1)	—	(0.1)
	—	**(145.5)**	**(145.5)**	(0.1)	(134.7)	(134.8)

18. 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.

19. Trade and other receivables

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Trade receivables:				
Within their due period	**8.2**	7.3	**—**	—
Past due (between one and six months old):				
Not impaired	**4.4**	5.6	**—**	—
Fully impaired	**3.2**	2.5	**—**	—
Total trade receivables	**15.8**	15.4	**—**	—
Less: provision for impairment of receivables	**(3.2)**	(2.5)	**—**	—
Trade receivables – net	**12.6**	12.9	**—**	—
Amounts owed by Group undertakings	**—**	—	**31.2**	3.0
Other receivables	**3.6**	2.6	**—**	—
Prepayments	**9.1**	5.0	**—**	—
Accrued income	**5.6**	3.3	**—**	—
	30.9	23.8	**31.2**	3.0

19. Trade and other receivables *continued*

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 £3.2m (2016: £2.5m). 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:

	2017 £m	2016 £m
At the beginning of the year	2.5	2.0
Charged to the income statement within administrative expenses	0.7	0.9
Utilised in the year	—	(0.4)
At the end of the year	**3.2**	2.5

Other receivables do not contain impaired assets.

Company

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

20. Trade and other payables

	Group 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Current				
Trade payables	24.5	20.3	—	—
Social security and other taxes	9.6	8.1	—	—
Other payables	2.8	4.5	—	—
Accruals	11.3	10.1	—	—
	48.2	43.0	—	—

21. Borrowings

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

Group	2017 £m	*Restated 2016 £m
Within one year or on demand	3.3	0.3
Between one and two years	—	2.7
After more than two years	103.5	96.8
	106.8	99.8

The balances above are shown net of issue costs of £1.1m (2016: £1.5m), 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.

In July 2017 the Group increased its available bank facilities through exercising the accordion contained within the November 2015 bank facility agreement. Total facilities of £152.5m are available to support Group's organic and acquisitive growth initiatives over the coming years. These facilities are provided by a syndicate of three banks: RBS, HSBC and AIB, and comprise the following elements:

- a fixed term loan of £67.5m, repayable on 23 November 2021 via a single bullet repayment; and
- a six-year revolving credit facility ("RCF") of £85.0m that runs to 23 November 2021.

In addition the Group has a £5.0m overdraft facility renewable annually.

The two main financial covenants associated with these facilities are based on Group borrowings to EBITDA and Group EBITDA to interest. The Group borrowings to EBITDA ratio must not exceed 3.5 for the period up to 31 December 2017 from when it must not exceed 3.0. The Group EBITDA to interest ratio must not be less than 4.5. The facilities require cross guarantees from the most significant of the CVS Group's trading subsidiaries but are not secured on the assets of the Group. EBITDA is based on the last twelve months' performance adjusted for the full year impact of acquisitions made during the period.

Interest rate risk is also managed centrally and derivative instruments are used to mitigate this risk. On 1 March 2017, the Group entered into a three-year interest rate fixed swap arrangement to hedge fluctuations in interest rates on £45.0m of its RCF facility. The swap reduces to £40.0m on 1 March 2018, followed by a further reduction to £35.0m on 1 March 2019.

At the balance sheet date £45.0m of the term loan was hedged using an interest rate swap. The remainder of the debt is not hedged.

* Management has elected to change its accounting policy in relation to the classification of its revolving credit facility ("RCF") to reflect management's intention in relation to repayment rather than solely the legal form of the arrangement. The impact of this is that the £37.0m (2016: £30.5m) RCF has been disclosed as a non-current liability. This change has also been reflected retrospectively to adjust the classification of the RCF from current liabilities to non-current liabilities in the prior periods. This change in accounting policy has no impact on the income statement, earnings per share or any other key performance indicator.

Undrawn committed borrowing facilities

At 30 June 2017 the Group has a committed overdraft facility of £5.0m (2016: £5.0m) and an RCF of £47.5m (2016: £47.5m). The overdraft facility was undrawn at 30 June 2017 and 30 June 2016. £10.5m of the RCF was undrawn at 30 June 2017 (2016: £17.0m).

22. Deferred income tax

Deferred income tax assets comprised:

Group	2017 £m	2016 £m
Tax effect of temporary differences:		
Share-based payments	2.0	1.7
Losses	0.1	0.1
	2.1	1.8

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.

22. Deferred income tax *continued*

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

Group	2017 £m	2016 £m
Tax effect of temporary differences:		
Excess of qualifying depreciation and amortisation	**16.8**	14.6
	16.8	14.6

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

Group	At 1 July 2016 £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 2017 £m
Share-based payments	1.7	(1.6)	—	1.9	**2.0**
Unutilised tax losses carried forward	0.1	—	—	—	**0.1**
Excess of qualifying depreciation and amortisation over capital allowances	(14.6)	3.3	(5.5)	—	**(16.8)**
	(12.8)	1.7	(5.5)	1.9	**(14.7)**

Group	At 1 July 2015 £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 2016 £m
Share-based payments	1.7	(0.8)	—	0.8	1.7
Unutilised tax losses carried forward	0.1	—	—	—	0.1
Excess of qualifying depreciation and amortisation over capital allowances	(6.5)	2.1	(10.2)	—	(14.6)
	(4.7)	1.3	(10.2)	0.8	(12.8)

The deferred tax balance is non-current.

23. Share capital

	2017 £m	2016 £m
Issued and fully paid		
63,903,911 (2016: 59,998,926) Ordinary shares of 0.2p each	**0.1**	0.1

During the year, 392,800 shares were issued for consideration of £703 in respect of the vesting of LTIP7, and 484,155 shares were issued for consideration of £1,040,933 in respect of SAYE6. 3,019,500 shares were issued in December 2016 for consideration of £29,579,055 following a placing.

Details of shares under option are provided in note 11 to the financial statements.

The authorised share capital of the Company is 352,000,000 Ordinary shares of 0.2p each.

Dividends

The Directors have proposed a final dividend of 4.5p (2016: 3.5p) per share total: £2.9m (2016: £2.1m), payable on 8 December 2017 to shareholders on the register at the close of business on 24 November 2017. The dividend has not been included as a liability as at 30 June 2017. During the year a dividend of 3.5p per share amounting to £2.1m was paid.

24. 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.

25. Share premium

During the financial year the Group established an Employee Benefit Trust ("EBT") for the purposes of satisfying the exercise of certain share options vesting under the Group's LTIP and SAYE schemes. The Group has accounted for the purchase of the shares held by the EBT as treasury shares and has deducted these from reserves.

26. Analysis of movement in net debt

Group	At 1 July 2016 £m	Cash flow £m	Non-cash movement £m	At 30 June 2017 £m
Cash and cash equivalents	6.7	0.1	—	**6.8**
Borrowings – current	(0.3)	—	(3.0)	**(3.3)**
Borrowings – non-current	(99.5)	(4.7)	0.7	**(103.5)**
Net debt	(93.1)	(4.6)	(2.3)	**(100.0)**

Non-cash movements comprise amortisation of issue costs on bank loans, new finance lease obligations, 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 2017 £m	Group 2016 £m	Company 2017 £m	Company 2016 £m
Profit/(loss) for the year	**11.5**	7.0	**(0.2)**	(0.2)
Taxation	**3.0**	2.1	**—**	—
Total finance costs	**2.7**	2.7	**—**	—
Amortisation of intangible assets	**16.0**	13.7	**—**	—
Depreciation of property, plant and equipment	**5.9**	5.2	**—**	—
Increase in inventories	**(1.5)**	(1.6)	**—**	—
(Increase)/decrease in trade and other receivables	**(4.5)**	5.2	**(27.7)**	0.5
Increase/(decrease) in trade and other payables	**2.6**	(2.0)	**—**	—
Share option expense	**1.5**	1.3	**1.5**	1.3
Total net cash flow generated from operations	**37.2**	33.6	**(26.4)**	1.6

28. Guarantees and other financial commitments

Capital commitments

The Group had no capital commitments as at 30 June 2017 (2016: £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 £98.0m at 30 June 2017. 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:

	2017			2016		
	Property £m	Plant and machinery £m	Total £m	Property £m	Plant and machinery £m	Total £m
Not later than one year	**10.1**	**0.8**	**10.9**	9.2	0.6	9.8
Later than one year and not later than five years	**27.5**	**1.2**	**28.7**	25.5	0.7	26.2
Later than five years	**15.6**	**—**	**15.6**	13.3	—	13.3
Total	**53.2**	**2.0**	**55.2**	48.0	1.3	49.3

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 £1.1m (2016: £0.8m). The amount outstanding at the end of the year included in trade and other payables was £0.2m (2016: £0.2m).

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:

	2017 £m	2016 £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	**(2.1)**	(1.8)

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

	2017		2016	
	Receivable £m	Payable £m	Receivable £m	Payable £m
CVS (UK) Limited	**31.2**	**—**	3.0	—

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 (2016: £0.1m), of which £0.1m (2016: £0.1m) was paid in the year.

Annual market-based rent payable to Tim Davies, who was a member of key management prior to leaving the business during the year, for the rental of premises amounts to £0.1m (2016: £0.1m), of which £0.1m (2016: £0.1m) was paid in the year. During the year the following dividends were paid to the Directors: R Connell £2,936; M McCollum £2,707; S Innes £8,626; and N Perrin £980.

Ultimate controlling party

The Directors consider there is no ultimate controlling party.

Five-year history

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Revenue	**271.8**	218.1	167.3	142.9	120.1
Gross profit	**124.5**	105.9	79.1	65.2	41.9
Operating profit	**17.2**	11.8	9.8	7.5	6.7
Finance expense	**(2.7)**	(2.7)	(1.3)	(1.2)	(1.2)
Profit before tax	**14.5**	9.1	8.5	6.3	5.5
Income tax expense	**(3.0)**	(2.1)	(1.7)	(1.5)	(1.5)
Profit for the year	**11.5**	7.0	6.8	4.8	4.0
EBITDA					
Adjusted EBITDA	**42.1**	32.8	23.0	18.3	15.8
Adjusted profit before income tax	**33.5**	24.9	18.2	14.3	12.1
Cash generated from operations	**37.2**	33.6	22.2	20.7	16.7
Capital expenditure	**(13.8)**	(11.5)	(6.5)	(5.3)	(4.1)
Acquisitions	**(46.9)**	(53.5)	(21.1)	(12.4)	(7.7)
Loans and borrowings acquired through business combinations	**(1.5)**	(7.8)	(4.2)	—	—
Taxation paid	**(5.4)**	(3.3)	(2.3)	(2.5)	(2.1)
Interest paid	**(2.1)**	(2.4)	(1.3)	(1.2)	(1.2)
Amortisation of debt issue costs	**(0.8)**	(0.4)	(0.5)	—	—
Proceeds from Ordinary shares	**30.6**	0.2	0.3	0.5	0.1
Purchase of own shares	**(2.1)**	—	—	—	—
Dividends paid	**(2.1)**	(1.8)	(1.5)	(1.1)	(0.8)
(Increase)/reduction in net debt	**(6.9)**	(46.9)	(14.9)	(1.3)	0.9
Year-end net debt	**100.0**	93.1	46.2	31.3	30.0

	Pence	Pence	Pence	Pence	Pence
Basic earnings per share	**18.5**	11.6	11.6	8.3	7.1
Adjusted basic earnings per share	**42.8**	32.4	24.7	19.0	16.2

Contact details and advisors

Registered office
CVS House
Owen Road
Diss
Norfolk
IP22 4ER

Nominated advisor and broker
N+1 Singer
One Bartholomew Lane
London
EC2N 2AX

Company Secretary
R Gilligan

Bankers
NatWest Bank Plc
12 High Street
Southampton
SO14 2BF

Royal Bank of Scotland Plc
36 St Andrew Square
Edinburgh
EH2 2YB

HSBC Bank Plc
8 Canada Square
London
E14 5HQ

Independent auditor
Deloitte LLP
1 Station Square
Cambridge
CB1 2GA

Legal advisors
Blake Morgan LLP
New Kings Court, Tollgate
Eastleigh
Hampshire
SO53 3LG

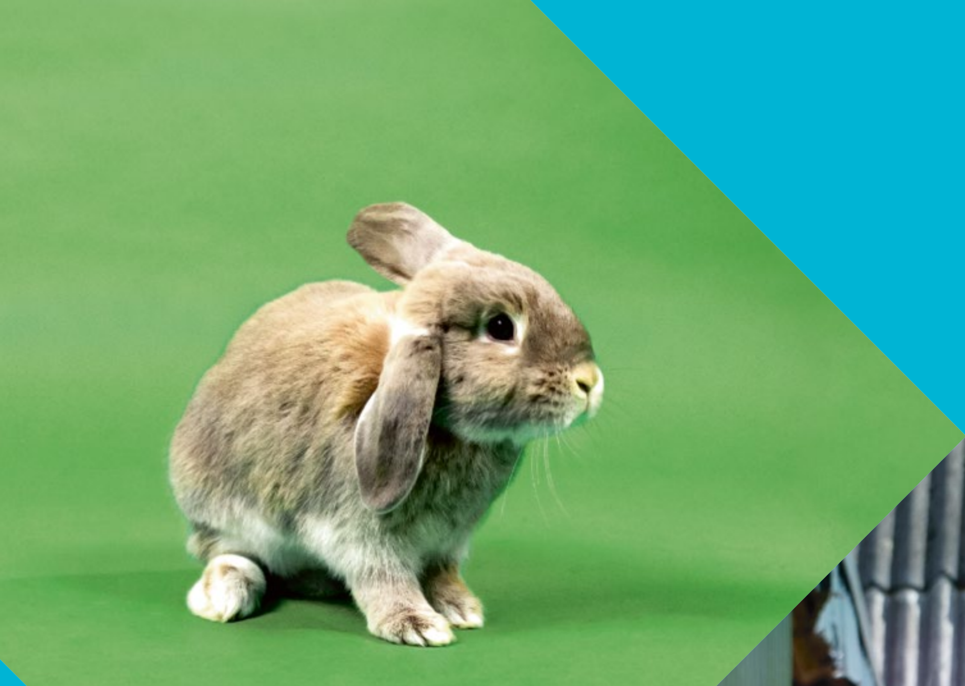
Leathes Prior
74 The Close
Norwich
NR1 4DR

DLA Piper UK LLP
Victoria Square House
Victoria Square
Birmingham
B2 4DL

MIX
Paper from responsible sources
FSC® C011756
www.fsc.org

CVS Group plc is committed to the environmental issues reflected in this Annual Report. The report is printed on Novatech Silk, which is FSC® certified and ECF (Elemental Chlorine Free). Printed in the UK by Pureprint using their environmental printing technology. Both manufacturing mill and the printer are registered to the Environmental Management System ISO14001 and are Forest Stewardship Council® (FSC) chain-of-custody certified.

Produced by
designportfolio



CVS Group plc
Passionate about animal care

CVS Group Plc
CVS House
Owen Road
Diss
Norfolk
IP22 4ER