CVS Group Plc
Your pets, our priority

CVS Group plc
Annual Report
for the year ended 30 June 2016

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

363 veterinary practices, four diagnostic laboratories, seven pet crematoria and an on-line dispensary.

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

2016 highlights

Revenue £m

£218.1m +30.4%

	£m
'16	218.1
'15	167.3
'14	142.9

Proposed dividend per share p

3.5p +16.7%

	p
'16	3.5
'15	3.0
'14	2.5

Adjusted EBITDA[1] £m

£32.8m +42.5%

	£m
'16	32.8
'15	23.0
'14	18.3

Operating profit £m

£11.8m +20.0%

	£m
'16	11.8
'15	9.8
'14	7.5

Adjusted profit before income tax[2] £m

£24.9m +36.2%

	£m
'16	24.9
'15	18.2
'14	14.3

Profit before income tax £m

£9.1m +6.0%

	£m
'16	9.1
'15	8.5
'14	6.3

Adjusted earnings per share[3] p

32.4p +31.2%

	p
'16	32.4
'15	24.7
'14	19.0

Basic earnings per share p

11.6p —

	p
'16	11.6
'15	11.6
'14	8.3

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

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.

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

Our national coverage

Our acquisitions have further strengthened our geographical coverage.

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

A	Scotland and North East	49	—	3
B	Yorkshire	12	—	—
C	North West	28	—	2
D	East Midlands	30	—	—
E	West Midlands	25	—	—
F	East of England	39	2	—
G	South West and Wales	53	1	1
H	London	2	—	—
I	South East	123	1	1
J	Northern Ireland	2	—	—
	Total	**363**	**4**	**7**

At the heart of our business

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

VETERINARY PRACTICE DIVISION

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

LABORATORY DIVISION

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

CREMATORIA DIVISION

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

ANIMED DIRECT

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

An outstanding Group performance

I am delighted to report an outstanding performance by CVS with a record year for revenue and operating profits.

Highlights

- Revenue grew 30.4% to £218.1m
- Operating profit increased to £11.8m from £9.8m

Results

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

Revenue grew by 30.4% to £218.1m (2015: £167.3m). Adjusted EBITDA increased by 42.5% to £32.8m (2015: £23.0m) and adjusted EPS grew by 31.2% to 32.4p (2015: 24.7p).

Operating profit rose by 20.0% to £11.8m (2015: £9.8m), cash generated from operations increased 51.1% to £33.6m (2015: £22.2m) and profit before tax increased by 6.0% to £9.1m (2015: £8.5m). Basic EPS was unchanged at 11.6p (2015: 11.6p) due to the increase in the number of Ordinary shares in issue.

Business initiatives

In 2016 we acquired 67 surgeries, three crematoria, the VetShare buying group and the VETisco instrumentation business. This is much more than we have ever completed in a year before. In total these businesses are expected to generate revenue of approximately £50.0m per annum. The acquisitions included the Highcroft business, which includes a strong and rapidly developing referrals business in Bristol and the Dovecote referral centre in Castle Donington. These, together with the opening of our state-of-the-art Lumbry Park referral centre in October 2015, moved our referral strategy forward significantly.

Subsequent to the year end a further three surgeries have been acquired.

Like-for-like sales grew by 4.8% (2015: 6.8%) with growth in all areas except Animed Direct, which had a difficult year.

253,000
Healthy Pet Club members as of 30 June 2016

Our "MiPet" own brand label is unique in the veterinary industry and, as well as giving us a pricing advantage, it helps to bond our customers to our practices. The launch of our own brand flea and worming treatments in the spring of 2015 significantly improved our margins in the Veterinary Practice Division. Further products have been added under the MiPet name including pet food and waiting room retail accessories. These additional products are lower volume than the flea and worming treatments and so will not improve the margin to the same extent.

Our Healthy Pet Club scheme continued its strong growth with an additional 40,000 (18.8%) members over the year.

The Laboratory Division grew very strongly for a second consecutive year with revenue increasing by 12.8% to £14.8m (2015: £13.1m).

The acquisition of three crematoria in Larkhall, Durham and Scunthorpe has improved our geographic coverage greatly. This will allow us to improve the service to customers and to achieve greater benefits of scale.

Our people

The Group remains the largest employer in the UK's veterinary profession with approximately 4,300 staff as at today (2015: 3,400), including around 1,040 vets (2015: 822). It is a credit to all of our people that they have delivered the increased scale of acquisitions and, at the same time, continued to develop the like-for-like business. I would like to thank them all, including those new to CVS, for their expertise and professionalism in providing the best possible care and service to all our customers and their 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 3.5p per share in December 2016, a 16.7% increase on the 3.0p per share paid in 2015. Our pipeline of acquisitions remains strong and the Board believes that there remain significant opportunities for organic growth. 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 9 December 2016 to shareholders on the register on 25 November 2016. The ex-dividend date will be 24 November 2016.

Outlook

The Group's exposure to the potential impacts of "Brexit" appears to be limited 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.

Investment in a number of longer-term initiatives will have a slightly negative impact on our profits in the short term before generating positive returns. These include the development of a small number of greenfield sites, the introduction of our own brand insurance and the introduction of an additional layer of management in the Veterinary Practice Division in order to enhance the support of the practices and maximise their potential.

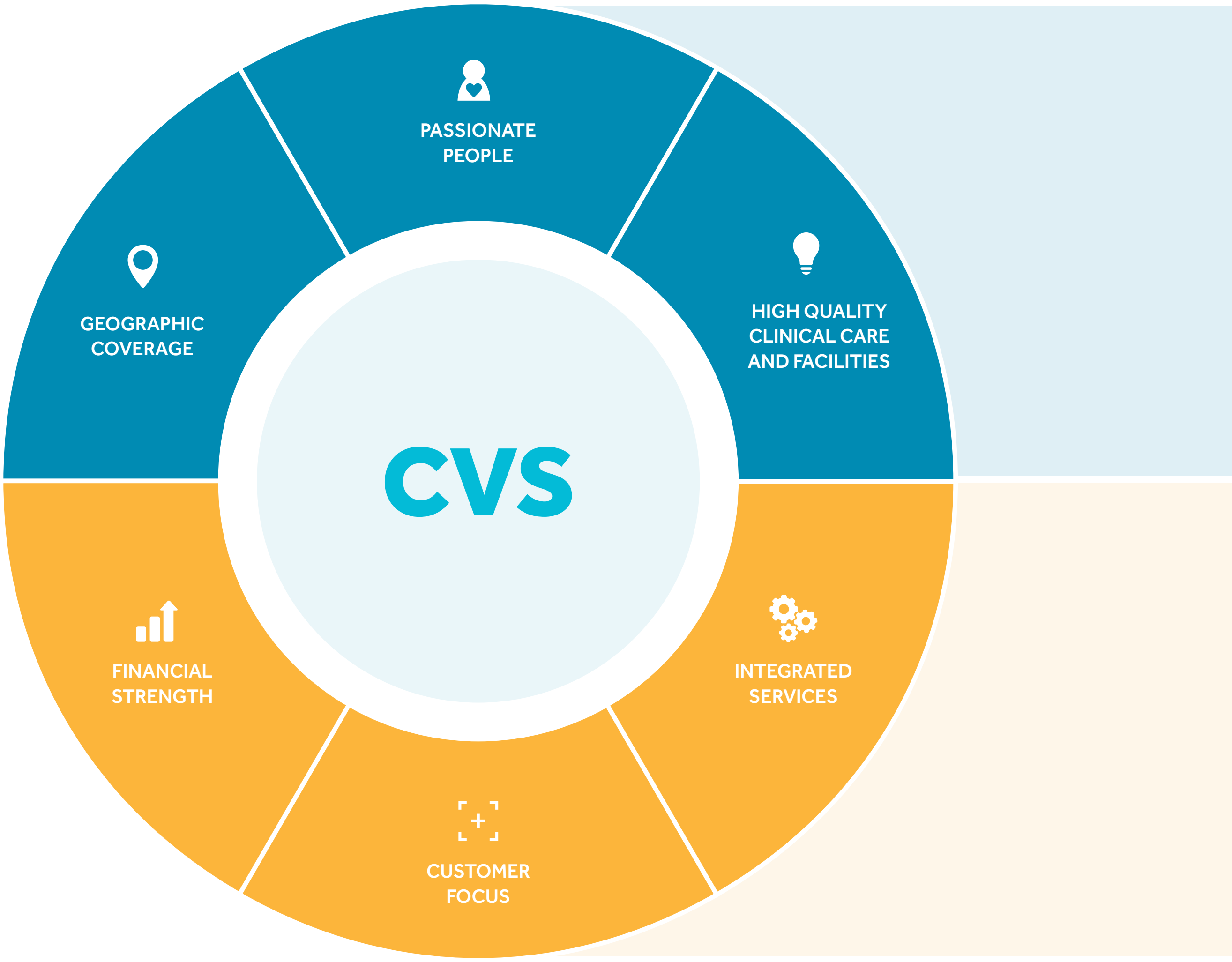
Like-for-like sales growth in the second half of the year ending 30 June 2016 was strong and pleasingly this has continued into the early part of 2017. Initiatives such as the benefits arising from the introduction of our own brand products, the expansion of out-of-hours sites and the development of Lumbry Park will continue to deliver benefits in 2017. In addition the acquisition pipeline remains buoyant.

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

Richard Connell
Non-Executive Chairman
23 September 2016

What sets us apart

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



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

Geographic coverage
We have 363 surgeries, four laboratories and seven crematoria providing coverage across England, Scotland, Wales and Northern Ireland.

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

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

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

Customer focus
Our staff are dedicated to providing a quality service with the highest levels of clinical care.

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

See our strategy on pages 8 and 9

Progressing towards our goals

Our vision is underpinned by four strategic pillars.

Excellent customer service and care

Our performance
- We employ recognised specialists, including 18 diploma holders and five board-eligible vets
- We recruited 240 graduate vets in the last three years
- We launched MiNurse Academy in January 2015
- We employ 30 clinical pathologists in our Laboratory Division

Our focus
- Customer service is one of our core values. It underpins all of our training and development
- Clinical development remains a core aspect of our training
- We develop our managerial and operational abilities through programmes such as our Aspirational Leadership and LEAP programmes

Meeting all of our customers' needs

Our performance
- We own 363 surgeries across the UK, four laboratories and seven crematoria
- There are 253,000 members of our HPC scheme
- We invested £10.8m in our surgeries
- We operate six specialist referral centres, including the greenfield Lumbry Park facility opened in October 2015
- We opened another out-of-hours centre during the year

Our focus
- Continue to deliver fast and efficient laboratory testing, using in-house analysers at our practices and advanced testing at our diagnostic laboratories
- Development of additional complex testing capability at our diagnostic laboratories
- Development of further capacity in our crematoria business
- Expansion of our own out-of-hours centres, thereby reducing reliance on third-party providers
- Development and expansion of our MiPet brand of products

Expanding our business through acquisitions

Our performance

- 67 surgeries acquired during the year
- Three crematoria acquired during the year
- Three surgeries acquired since the year end

Our focus

- The opportunity for growth and consolidation is significant
- We aim to continue to grow our business through acquisitions
- We will consider acquisitions of small and large animal and equine surgeries. We will also consider acquisitions of crematoria and laboratories where they fit a geographical or knowledge gap

Building on our strengths to provide services to external practices

Our performance

- Our laboratories performed 380,000 tests in 2016, of which 271,000 were for third parties
- Our crematoria performed 118,000 cremations, of which 71,000 were for third parties
- 14 new own brand MiPet products launched, available through HPC and MiVetClub
- VetShare buying group and VETisco instrumentation businesses acquired in the year
- Rollout of own brand waiting room retail and pet food range

Our focus

- Development of external sales of our laboratory analyser units will be an increasing focus
- MiVetClub and VetShare have significant long-term potential. Our aim is not only to allow practices to benefit from our buying power but also to provide other services such as health and safety expertise, administering loyalty club schemes and access to MiPet products

Delivering growth throughout the years

The initiatives we progressed in 2016 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 Healthy Pet Club scheme

GROWTH THROUGH ACQUISITIONS

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

FINANCE

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

Our timeline

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

1999

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

2002

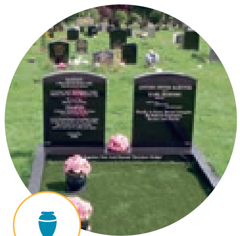
- **First laboratory:** Finn Pathologists, Norfolk

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

Our recent acquisitions

We added 67 surgeries and three crematoria during the year and added three surgeries since the year end.

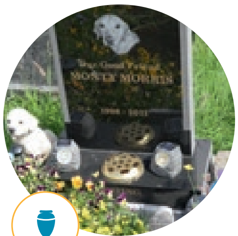
CVS continues to acquire more veterinary practices and associated businesses but each one is considered with care to ensure that it is compatible with the CVS culture. The key attributes of the practices are their location, their current standing in the local community, their overall performance and the willingness of the existing practice team to embrace the CVS approach to business.

Scotland and North East	18	—	3
Yorkshire	—	—	—
North West	—	—	—
East Midlands	5	—	—
West Midlands	—	—	—
East of England	1	—	—
South West and Wales	31	—	—
London	—	—	—
South East	13	—	—
Northern Ireland	2	—	—
Total	**70**	**—**	**3**

2010

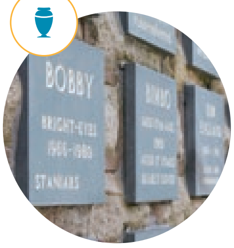
- **Commenced on-line trading:** Animed Direct
- **Third laboratory:** Greendale Veterinary Diagnostics, Surrey
- **Major acquisition:** Pet Doctors
- **200th surgery:** Cedar Veterinary Group, Hampshire

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

2016

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

Veterinary Practice Division

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

Our Veterinary Practice Division is the heart of our business. We added a further 67 surgeries during the year and three since year end.

SERVICES

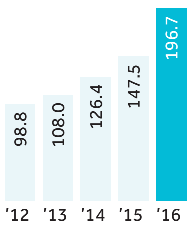
- 363 first-opinion and referral surgeries across the UK, trading under locally established brand names
- Healthy Pet Club ("HPC") loyalty scheme
- Pet Medic Recruitment, recruiting locums and permanent staff for the division
- MiPet own brand products
- MiVetClub and VetShare buying groups, using our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

KEY NUMBERS

- 363 surgeries
- 1,040 vets
- 1,550 nurses
- 253,000 HPC members

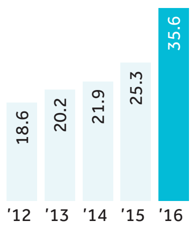
Revenue £m

£196.7m
+33.4%



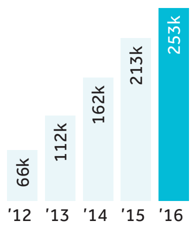
EBITDA £m

£35.6m
+40.9%



HPC customers #

253k
+18.8%



Laboratory Division

www.axiomvetlab.com
www.finnpathologists.co.uk
www.greendale.co.uk

Our laboratories provide diagnostic services to CVS veterinary practices and third parties. Over 380,000 tests were performed in 2016 (2015: 368,000), of which 271,000 (2015: 266,000) were for third parties.

SERVICES

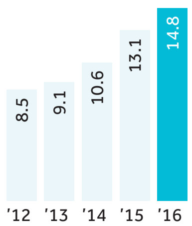
- Four diagnostic laboratories covering the UK
- Biochemistry, haematology, histology, serology and advanced allergy testing
- In-house analyser units at all CVS practices for simple blood and urine testing

KEY NUMBERS

- Four laboratories
- 380,000 tests
- 196 staff
- 30 pathologists

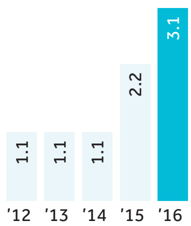
Revenue £m

£14.8m
+12.8%



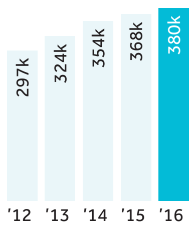
EBITDA £m

£3.1m
+38.5%



Tests #

380k
+3.3%



Crematoria Division

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

Our crematoria provide pet cremation services and clinical waste collection for veterinary practices and directly to pet owners.

SERVICES

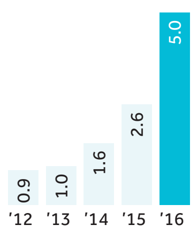
- Seven crematoria covering the UK
- Pet cemeteries and memorial gardens at the Rossendale and Silvermere Haven sites
- Capacity expanded in the year with the acquisition of The Pet Crematorium in Durham and Lanarkshire and Green Acres in Scunthorpe

KEY NUMBERS

- Seven crematoria
- 118,000 cremations
- 26 acres of cemeteries and memorial gardens

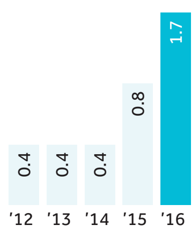
Revenue £m

£5.0m
+90.7%



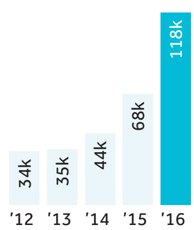
EBITDA £m

£1.7m
+120.2%



Cremations #

118k
+73.5%



Animed Direct

www.animeddirect.co.uk

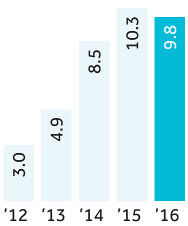
Animed Direct sells prescription and non-prescription drugs, pet food and other animal related products via its website.

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

KEY NUMBERS
- 335,000 customers
- 3,500 product lines
- £31.00 average order value

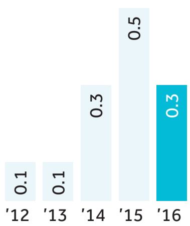
Revenue £m

£9.8m
-4.6%



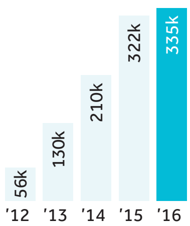
EBITDA £m

£0.3m
-45.3%



Customers #

335k
+4.0%



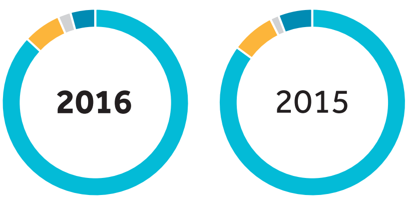
Excellent progress on our strategic priorities

Our recent acquisitions helped us further develop our large animal and equine businesses and dramatically enhanced our buying group.

Highlights

- 5.4% growth in like-for-like sales in our Veterinary Practice Division
- Record £10.8m investment in our surgeries
- 12.8% increase in Laboratory Division revenue
- Crematoria Division revenue almost doubled to £5.0m

Revenue by division £m



	30 June 2016	30 June 2015
Practice	**196.7**	147.5
Laboratory	**14.8**	13.1
Crematoria	**5.0**	2.6
Animed Direct	**9.8**	10.3
Intra-group eliminations	**-8.2**	-6.2
Total Group	**218.1**	167.3

Introduction

CVS Group is managed across four divisions: Veterinary Practice, Laboratory, Crematoria and Animed Direct, our on-line dispensary and retailer. The Veterinary Practice Division is the core of our business but all areas of the Group made excellent progress towards our strategic priorities during 2016.

Veterinary Practice

	2016 £m	2015 £m
Like-for-like revenue	**148.1**	139.8
2015 acquisitions	**22.7**	7.7
2016 acquisitions	**25.9**	—
Total revenue	**196.7**	147.5
Adjusted EBITDA £m	**35.6**	25.3
EBITDA margin %	**18.1**	17.1

Revenue amounted to £196.7m (2015: £147.5m), an increase of 33.4% on the prior year. Adjusted EBITDA increased by 40.9% from £25.3m to £35.6m and profit before income tax increased from £15.4m to £21.3m. These increases include the impact of acquisitions in both 2015 and 2016.

In the year CVS acquired 67 surgeries, operating as 18 practices, as well as the VetShare buying group and the VETisco instrumentation business. These businesses contributed £25.9m of revenue and £4.1m of EBITDA in the year. Practices acquired during the year and after the year end are set out in note 15.

Adjusted EBITDA as a percentage of sales increased by 1.0% from 17.1% in 2015 to 18.1% in 2016. This was primarily due to an improvement in the gross margin percentage, from 83.8% to 84.7%, which was particularly helped by the introduction of the MiPet own brand range of treatments.

Like-for-like sales grew by 5.4% for the year as a whole (2015: 5.6%), with the second half showing significantly higher growth than in the first 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 sq. ft. 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. Revenue is developing steadily with referrals being obtained from both CVS and third-party practices.

Early in the year we acquired the Dovecote referral centre in Castle Donington and, in December 2015, the acquisition of the Highcroft business, with its rapidly developing referral centre in Bristol. These new locations provide us with excellent teams and facilities to service our customers' needs rather than referring them to specialists outside of CVS. As a medium-term objective the Group will be seeking other locations around the UK in which to establish further referral centres. The refit of our Chestergates referral site is planned for 2017 as is the opening of Manchester Veterinary Surgeons. These developments will further enhance our referral abilities in the North West of England.

In the last quarter of 2015 we extended our "MiPet" own brand range to include high volume flea and worm treatments. With other smaller own brand medicines launched around the 2016 year end, we now have fourteen own brand medicines. This had a beneficial impact on our margins after drugs costs. We began the rollout of our own brand pet food and waiting room retail range during the year and will complete this in the first half of 2017. 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. It both protects our margins and helps us retain our competitiveness by limiting price increases.

The Healthy Pet Club loyalty scheme continued its excellent growth in the year. Over 40,000 pets were added to the scheme, increasing membership by over 18.8% and bringing the total membership to 253,000. 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 £24.0m (2015: £18.8m). At the year end, the monthly run rate represented 12.3% (2015: 13.0%) of practice revenue; however, in the like-for-like practices the figure was 16.3% (2015: 13.5%), 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 eight out-of-hours sites and plan to open several more during 2017. 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, except for the most recently opened site, all of our out-of-hours centres are now profitable. We continue to perform out-of-hours work for other veterinary practices and will seek to develop further centres as our growing density in an area makes this effective.

Our acquisitions during the year helped us further develop our large animal and equine businesses. In particular, the Alnorthumbria practice has substantial large animal and equine custom and Valley Equine, in Lambourn, will link well with our existing Scott Dunn's practice near Wokingham.

Our investment in our surgeries was at record levels during the year. In addition to the £3.3m spent on fitting out Lumbry Park, we have spent £1.8m on new practice sites and £3.6m on refurbishing and maintaining sites. We opened two small surgeries at Beccles (part of the Coastline practice) and Lawley (part of the Haygate practice). Both are trading well. Amongst many other developments, we extended the Beaumont site at Kidlington and the Nine Mile site at Wokingham and completely redeveloped the Oaklands equine and small animal site in Yarm, providing it with a state-of-the-art equine theatre and stabling.

In addition to refurbishments, we spent £2.2m on new equipment in our practices, including expenditure on installation of a CT scanner at Beechwood, Doncaster, a further 50 installations of digital x-ray equipment and further installations of in-house analysers. This equipment improves our diagnostic capability and our ability to serve our customers in a professional environment.

The development of our buying group has been dramatically enhanced by the acquisition of VetShare as part of the Albavet group acquisition. Since completing this acquisition, we have already negotiated additional annual rebates for members of over £0.3m and have begun to sell our own brand products to members. VetShare provides the opportunity for us to offer members a two-tier buying group with MiVetClub being somewhat more restrictive in that it requires members to adhere to our dedicated and preferred list of medicines, but providing a greater return to members. MiVetClub also now has the ability to allow its members to purchase from two wholesalers.

Veterinary Practice *continued*

Our strategy in the Veterinary Practice Division is dependent on our team, which will always be one of our most valuable assets and one that we aim to continue to develop. The growth of the Veterinary Practice Division has necessitated the further development of its management structure in order to enhance the support of the practices and maximise their potential. This will lead to some additional fixed costs, although in the medium term these will be offset by the available margin opportunity and will better support the further expansion of the Veterinary Practice Division. The new structure has been substantially recruited through the promotion of our own staff previously working in practice.

We have continued to develop our staff training and career opportunities. Our Nurse Academy, successfully launched in January 2015, is now well into its second year, with a further 270 nurses learning specialised skills. 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 240 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 Advanced Veterinary Practitioner and diplomas. Increasingly, this training is carried out in house by our own experts.

335,000
Animed Direct customers

Laboratory

	2016 £m	2015 £m
Revenue	**14.8**	13.1
Adjusted EBITDA £m	**3.1**	2.2
EBITDA margin %	**20.9**	17.0

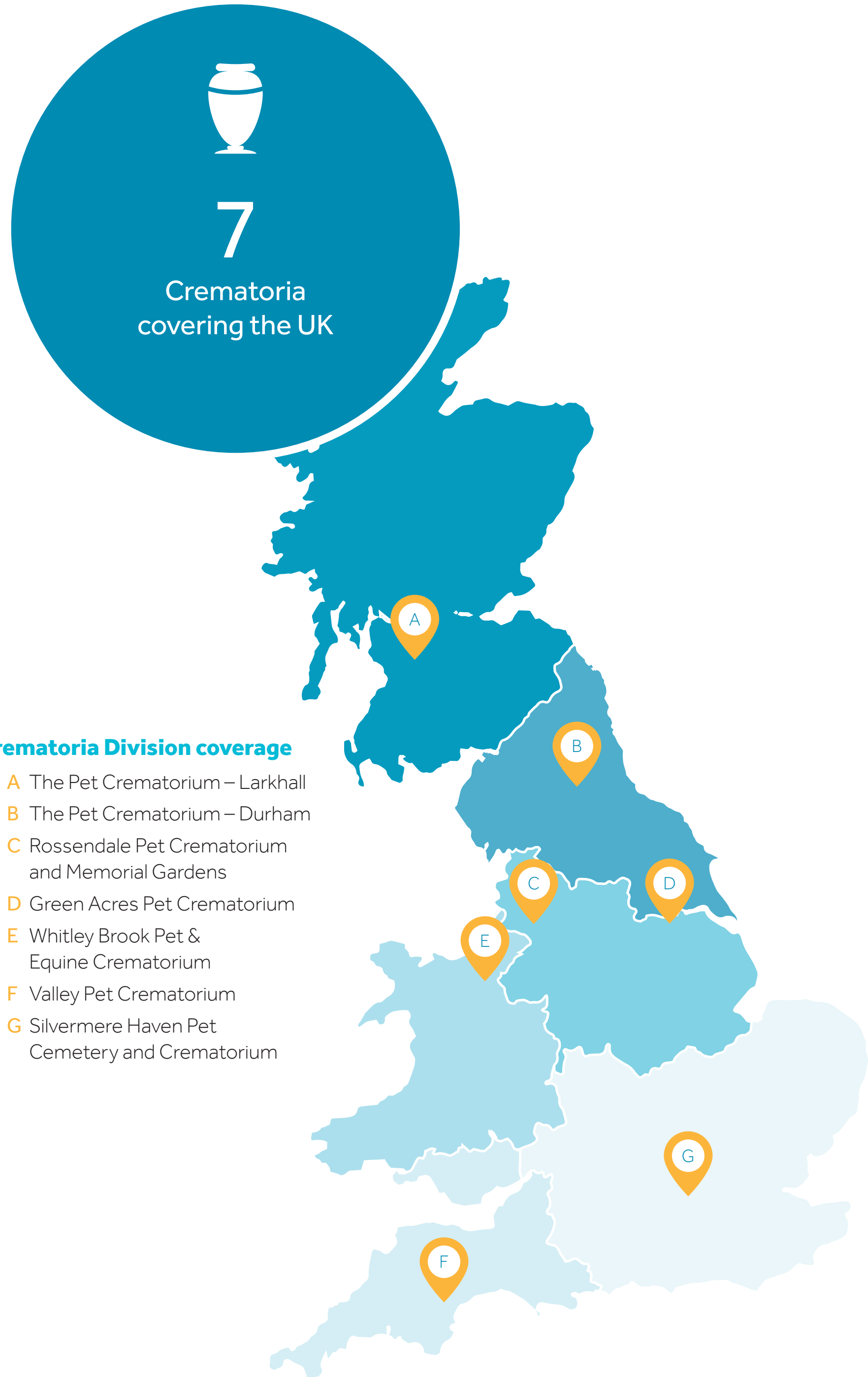
The Laboratory Division generated revenue of £14.8m, a 12.8% increase on the prior year figure of £13.1m. Adjusted EBITDA grew by close to 40.0% from £2.2m to £3.1m and profit before tax increased from £1.7m to £2.5m. In the past two years EBITDA has nearly trebled.

The growth reflects both further development of the diagnostics business and the introduction of the in-house analyser business in 2014. During the year the diagnostic business introduced polymerase chain reaction testing and aims to grow this business substantially. Work has also progressed towards obtaining the ISO accreditations necessary to allow us to substantially increase the amount of large animal testing performed. The sales of analysers and related consumables to third parties grew strongly during the year, albeit from a low base, and further progress is anticipated in 2017.

The Laboratory gross margin percentage remained stable at 73.3% (2015: 73.4%). EBITDA as a percentage of sales showed growth from 17.0% to 20.9%, reflecting the greater rate of growth in the in-house analyser business, which has a higher EBITDA percentage than the diagnostics business.

Crematoria

	2016 £m	2015 £m
Like-for-like revenue	**3.2**	2.5
2015 and 2016 acquisitions	**1.8**	0.1
Total revenue	**5.0**	2.6
Adjusted EBITDA £m	**1.7**	0.8
EBITDA margin %	**34.2**	29.6



The Crematoria Division almost doubled revenue from £2.6m in 2015 to £5.0m. The acquisition of four crematoria in the space of twelve months has considerably enhanced the geographic coverage of the Division with important new locations at Larkhall, near Glasgow, Durham and Scunthorpe. This has allowed collection routes to be organised more efficiently between locations. Like-for-like sales growth of 26.6% arises not only from higher third-party sales but from the benefit of our Crematoria Division becoming the supplier to veterinary practices that we have acquired in both the current and prior year.

The full benefits of this expansion are yet to be seen, with the two Pet Crematorium sites, at Larkhall and Durham, acquired in December 2015 and the Green Acres crematorium at Scunthorpe just a few days prior to the year end.

Adjusted EBITDA more than doubled in the year to £1.7m (2015: £0.8m) and it has increased fourfold in the last two years. EBITDA as a percentage of sales improved from 29.6% to 34.2% as the leverage of the increased revenue continued. Profit before tax increased from £0.7m to £1.4m.

Animed Direct

	2016 £m	2015 £m
Revenue	**9.8**	10.3
Adjusted EBITDA £m	**0.3**	0.5
EBITDA margin %	**3.2**	4.8

Animed Direct, our on-line dispensary and retailer, had a tough year. Revenue fell by 4.6% to £9.8m (2015: £10.3m) and adjusted EBITDA fell to £0.3m (2015: £0.5m). Profit before tax fell from £0.5m to £0.3m. Sales have suffered due to the poor performance of our website on mobile phones and tablets while transactions shifted rapidly to these channels. Our website will be relaunched and further developed during 2017.

The business focuses on prescription and non-prescription medicines where the Group's buying power allows it to be extremely competitive. The business now has a customer database of over 335,000 (2015: over 322,000) people, with the average value of each purchase during the year up at £31.00 (2015: £28.94).

Head office

Central administration costs include those of the central finance, IT, human resource, purchasing, legal and property functions. Total costs were £7.9m (2015: £5.8m), representing 3.6% of revenue (2015: 3.5%).

Crematoria Division coverage

- A The Pet Crematorium – Larkhall
- B The Pet Crematorium – Durham
- C Rossendale Pet Crematorium and Memorial Gardens
- D Green Acres Pet Crematorium
- E Whitley Brook Pet & Equine Crematorium
- F Valley Pet Crematorium
- G Silvermere Haven Pet Cemetery and Crematorium

The significant growth and development of the Group require additional investment to maintain an appropriate level of control and to support further growth over the next few years. Our head office was relocated into larger premises in Diss during 2016 and Animed Direct will relocate to the same site, which includes a 50,000 sq. ft. warehouse, in the current year.

All central functions have taken on additional staff to assist with the integration of acquisitions and the ongoing management of the enlarged business. More support staff are being based in the regions, where they can more easily provide the close support that the operations teams require.

Focus has remained on developing our support systems to improve efficiency, effectiveness and resilience.

Development of our planned own brand insurance offers exciting potential for the Group. The central administration costs include a small amount of initial set-up costs for our proposed insurance business. The detailed specification of products and systems is in progress and we hope to launch our own brand insurance in 2017.

Simon Innes
Chief Executive
23 September 2016

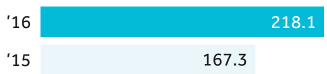
Delivering strong results

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

Revenue

£m

£218.1m



Definition

Total revenue of the Group.

Changes in 2016

Total revenue increased £50.8m.

Revenue before the impact of prior year and current year acquisitions was £175.8m, a £10.2m increase compared with 2015. Factors contributing to the increase are noted in the like-for-like sales performance.

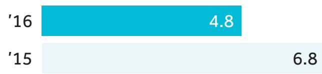
Acquisitions in the year and the full year impact of the prior year's acquisitions generated additional revenue of £42.6m.

Inter-company sales eliminated on consolidation increased by £2.0m, principally due to the impact of internal crematoria and laboratory sales to practices acquired in 2015 and 2016.

Like-for-like sales performance

%

4.8%



Definition

Revenue generated from like-for-like operations compared to the prior year. Revenue for 2016 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 2014, revenue is included from September 2015 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 (£28.1m) and after adjusting for prior year acquisitions such that revenue is included for a comparable number of months with 2015 (£15.3m).

Changes in 2016

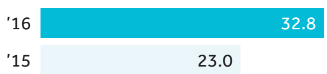
The like-for-like increase reflected strong performances in all divisions except Animed Direct. It was helped by the growth in referrals work and Healthy Pet Club membership, the development of the Crematoria business and higher volumes in the Laboratory Division. Significant competitive pressures continued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

The lower like-for-like sales % increase in 2016 compared with 2015 was due to the sales growth being at more customary levels in the first half of the 2016 financial year (3%) compared with 2015 (10%).

Adjusted EBITDA

£m

£32.8m



Definition

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

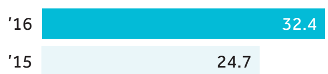
Changes in 2016

The improvement in adjusted EBITDA is explained by organic underlying growth (£4.9m) together with the full year impact of prior year acquisitions (£2.5m) and acquisitions in the current year (£4.5m), partly offset by £2.1m increase in central costs incurred to build a foundation for further development of the Group.

Adjusted EPS

p

32.4p



Definition

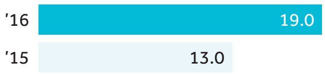
Earnings, adjusted for amortisation, costs relating to business combinations and non-recurring tax credits net of the notional tax impact of the above, divided by the weighted average number of issued shares.

Changes in 2016

The increase primarily reflects the improvement in the adjusted EBITDA.

Healthy Pet Club revenue %

19.0%

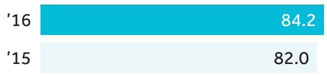


Definition
Revenue received from Healthy Pet Club members as a percentage of total revenue for the year.

Changes in 2016
The growth of Healthy Pet Club membership from 213,000 to 253,000 led to the increase for the year.

Gross margin after materials percentage %

84.2%



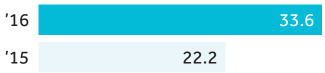
Definition
Gross margin after deducting the cost of drugs and other goods sold or used by the business from revenue, expressed as a percentage of total revenue.

Gross margin was £106.3m, after deducting £66.6m of clinical staff costs and £10.8m of laboratory and cremation costs. Gross margin after materials but before clinical staff costs was £183.7m.

Changes in 2016
The increase in the gross margin is principally due to improvements in the Veterinary Practice Division which was particularly helped by the introduction of the MiPet own brand range of treatments.

Cash generated from operations £m

£33.6m

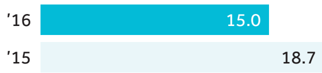


Definition
Cash inflow before payments of taxation and interest, acquisitions, purchase of property, plant, equipment and intangible assets, payments of dividends, debt issue costs, increase/repayment of bank loans and proceeds from issue of shares.

Changes in 2016
The increase primarily reflects the improvement in EBITDA of the business.

Return on investment on acquisition made during the year %

15.0%



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

Changes in 2016
The reduction in Return on Investment ("ROI") is reflective of the higher average EBITDA multiples being paid for acquisitions.

Our people are at the heart of our business

Our culture and values reflect our vision to continue 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 in our day-to-day work and in the quality of services and products we provide.

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.

Managing our risks

The Group's businesses are subject to a wide variety of risks. 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 are delegated to the Group's Executive Committee. The Group is currently establishing an Internal Audit function.

Risks reported this year

Economic environment

Description

A poor economic environment poses a risk to the Group through reduced consumer spending on veterinary, laboratory, crematoria and on-line services.

Mitigating factors

The improvement in the UK economy in the last few years has helped the business to improve revenue and profitability but the Group seeks to become more resilient to future downturns in economic conditions. The Group's exposure to the potential impacts of "Brexit" appears to be limited 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 large animal services, spreads the risk of a downturn in any one business.

The Veterinary Practice Division has continued to grow its Healthy Pet Club loyalty schemes during the year as one way of mitigating this risk. The scheme has the significant benefits of stimulating customer loyalty, ensuring clinical compliance in preventive medicine, protecting revenue from drug sales and bringing customers into the surgery.

The further development of an own brand product range will help to reduce the risk of customers buying drugs on-line, whilst the growth of Animed Direct protects the Group further as customers switching to buying on-line may still be buying from CVS.

Competition

Description

The Group is exposed to risk through the actions of competitors.

Mitigating factors

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.

Adverse weather

Description

In common with many businesses the Group's revenue is adversely affected during sustained periods of severe winter weather.

Mitigating factors

The increasing proportion of income through the Healthy Pet Club and on-line through Animed Direct reduces the risk of lost income through poor weather. As the Group widens its geographical presence the exposure to this risk will be further mitigated.

Key personnel

Description

The Group has limited risk in relation to the ability to attract and retain appropriately qualified veterinary surgeons.

Mitigating factors

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.

380,000
laboratory tests in 2016

Risks reported this year

Clinical standards

Description
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 has established a formal organisational structure such that clinical policies and procedures are developed by veterinary experts. Day-to-day monitoring and staff training ensure compliance. The Group has further mitigated risk by ensuring that suitable insurance policies are taken out at both an individual and corporate level.

Adverse publicity

Description
Adverse publicity could result in a reduction in customer numbers and in revenue.

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.

Changes in veterinary regulations

Description
Changes in veterinary regulations could impact on the work we are allowed to perform and the way we work.

Mitigating factors
No significant proposed changes are known. Any changes are likely to impact on our competitors in the same way they impact on the Group.

Changes in taxation

Description
Most changes in taxation cannot be predicted and the impact of any change can be variable.

Mitigating factors
The only change in taxation that has impact on the Group is a reduction in the corporation tax rate from 20% to 19% from 1 April 2017 and to 18% in 2020. This will benefit the Group.

Changes in taxation are likely to impact on our competitors in the same way they impact on the Group.

Reliance on one supplier of medicines

Description
The majority of medicines are purchased through one wholesaler.

Mitigating factors
A two-year supply agreement was signed in April 2015 to secure the provision of medicines. Three wholesalers can supply most medicines; hence, supply is available if the existing CVS wholesaler were to withdraw. CVS also has direct relationships with many manufacturers which would enable direct supply should any difficulties occur.

Growth in revenue, profits and earnings per share

The Group has generated consistent growth in the scale of its business and profits.

Highlights

- Adjusted EBITDA increased £9.8m to £32.8m
- Adjusted profit before tax increased £6.7m to £24.9m
- Adjusted EPS increased 7.7p to 32.4p
- Cash generated from operations increased £11.4m to £33.6m

Financial highlights

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

	2016	2015	Change %
Revenue (£m)	**218.1**	167.3	30.4
Adjusted EBITDA (£m)*	**32.8**	23.0	42.5
Adjusted profit before tax (£m)*	**24.9**	18.2	36.2
Adjusted earnings per share (p)*	**32.4**	24.7	31.2
Operating profit (£m)	**11.8**	9.8	20.0
Profit before tax (£m)	**9.1**	8.5	6.0
Basic earnings per share (p)	**11.6**	11.6	—

* 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 56 (adjusted profit before tax and adjusted earnings per share).

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:

	2016 £m	2015 £m
Operating profit as reported	**11.8**	9.8
Adjustments for:		
Amortisation and depreciation	**18.9**	12.0
Costs of business acquisitions	**2.1**	1.2
Adjusted EBITDA	**32.8**	23.0

The £9.8m (42.5%) improvement in the adjusted EBITDA figure compared with the prior year arises primarily from the underlying organic growth within the Veterinary Practice Division (£4.0m) and Laboratory Division (£0.9m), acquisitions during the year (£4.5m) and the full year effect of previous year acquisitions (£2.5m), offset by an increase in central administration costs (£2.1m).

Adjusted EBITDA as a percentage of revenue (adjusted EBITDA margin) increased from 13.8% in 2015 to 15.0%. This was driven by an increased margin in the Veterinary Practice Division but there were also increases in the Laboratory and Crematoria Divisions.

Profit before tax for the year increased from £8.5m to £9.1m (6.0%). Basic earnings per share was unchanged at 11.6p (2015: 11.6p) due to the increase in Ordinary shares in issue.

Adjusted profit before tax showed a 36.2% increase in the year from £18.2m to £24.9m. Adjusted EPS (as defined in note 11 to the financial statements) increased 31.2% to 32.4p (2015: 24.7p). Adjusted profit before tax and adjusted EPS exclude the impact of amortisation of intangible assets and business combinations costs.

The increase in profit before tax is relatively small compared to the substantial increase in the adjusted figure. This reflects the increase in the amortisation of intangible assets due to the acquisitions during the year. The amortisation charge also includes the write off of £0.7m of intangible assets in respect of one underperforming business acquired in 2013.

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:

	2016	2011	CAGR %
Revenue (£m)	**218.1**	101.5	16.5
Adjusted EBITDA (£m)	**32.8**	14.1	18.4
Adjusted profit before tax (£m)	**24.9**	7.9	25.8
Adjusted EPS (p)	**32.4**	14.0	18.3

New bank facility

In November 2015 the Group entered into a new bank facility agreement which provides the Group with total facilities of £115.0m 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. They replace the existing banking arrangements on more favourable terms, including a lower interest rate, 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 £47.5m 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 £33.6m (2015: £22.2m). The increase reflects the growth in EBITDA.

Net debt increased by £46.9m to £93.1m (2015: £46.2m) largely as a consequence of higher acquisition activity and continued investment in the business. The movement in net debt is explained as follows:

	2016 £m	2015 £m
Cash generated from operations	**33.6**	22.2
Capital expenditure – maintenance	**(5.1)**	(4.4)
Taxation paid	**(3.3)**	(2.3)
Interest paid	**(2.4)**	(1.3)
Free cash flow	**22.8**	14.2
Capital expenditure – development	**(6.4)**	(2.1)
Acquisitions	**(61.3)**	(25.3)
Proceeds from Ordinary shares	**0.2**	0.3
Dividends paid	**(1.8)**	(1.5)
Debt issuance costs movement	**(0.4)**	(0.5)
Increase in net debt	**(46.9)**	(14.9)

Cash available for discretionary expenditure ("free cash flow") increased from £14.2m to £22.8m.

The analysis of capital expenditure in the table reflects a broad split between expenditure that we expect to increase profit and that 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.

Cash flow *continued*

Development capital included £3.3m spent on the fit-out of the Lumbry Park major multi-disciplinary referral centre, £0.9m on two new surgeries at Beccles and Lawley, £0.5m on a new site under development at Smethwick and £1.4m on major refurbishments including at Kidlington, Nine Mile and Oaklands.

£61.3m was paid (including £7.8m repayment of acquired bank debt) for the 67 surgeries, the VetShare buying group and three pet crematoria which were acquired during 2016. £2.3m of consideration is payable at 30 June 2016 in respect of completion net asset adjustments and deferred consideration. The acquired businesses are trading as expected.

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 £2.4m was higher than last year (£1.3m) reflecting the overall higher debt levels of the Group due primarily to the higher level of acquisitions.

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

£1.3m of costs were incurred to raise the new bank facility (see below). £0.4m of debt issuance costs were amortised during the year.

Net debt and borrowing covenants

The Group's net debt comprises the following:

	2016 £m	2015 £m
Borrowings repayable:		
Within one year	**30.4**	14.1
After more than one year	**69.4**	35.1
Total borrowings	**99.8**	49.2
Cash in hand and at bank	**(6.7)**	(3.0)
Net debt	**93.1**	46.2

The £99.8m of borrowings principally consists of:

- the £67.5m term loan (net of unamortised issue costs) and £2.5m loan notes. The term loan is repayable in one bullet payment in 2021 and the loan notes in 2018; and
- £30.5m drawn down under the RCF (net of unamortised issue costs). The RCF is available until 2021.

£17.0m of the RCF remained unutilised at 30 June 2016 but is available to fund business development including further acquisitions. The Board remains committed to expanding the Group through further acquisitions in all divisions, as well as through organic growth. The opportunities for acquisitions in all areas of the Group's business remain strong.

The 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 2016 it was 13.5.

The new covenant levels allow a maximum Group borrowings to EBITDA ratio of 3.5 until 31 December 2017 and 3.0 thereafter. The high level of larger acquisitions during the 2015 calendar year increased the level of debt and this gearing ratio significantly. At 30 December 2015 the ratio was 2.9 but reduced to 2.5 at 30 June 2016. Without further acquisitions we expect the gearing ratio to moderate through a combination of organic growth and the realisation of the full benefits of recent acquisitions. However, we aim to continue to expand the business and have a strong acquisition pipeline and sufficient capacity to fund it. If the level of acquisitions remains high, appropriate action will be taken to reduce the gearing level.

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.

Taxation

The Group's effective tax rate was 23.3% (2015: 20.1%). The principal reason for the significant increase is the high level of acquisitions during the year leading to a high level of acquisition costs that are not an allowable deduction for corporation tax. 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	**9.1**	
Expected tax at standard rate of tax	**1.8**	20.0
Expenses not deductible for tax	**0.4**	4.4
Adjustments to prior year tax charge	**0.1**	1.1
Benefit of tax rate change	**(0.2)**	(2.2)
Actual charge/effective rate of tax	**2.1**	23.3

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own brand medicines

Taxation *continued*

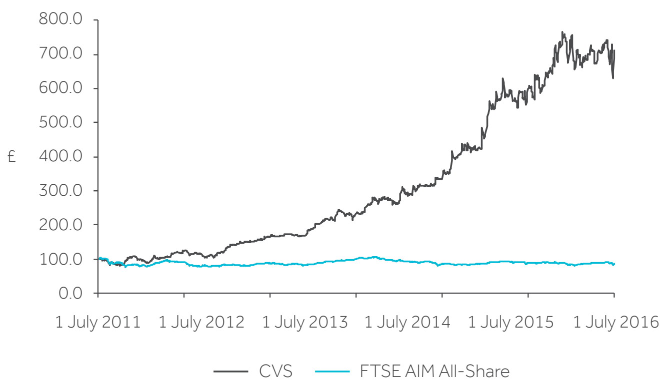
All of the Group's revenues and the majority of expenses are subject to corporation tax. The main expenses which are not deductible for tax are costs relating to acquisitions. Tax relief against some expenses, mainly depreciation, is received over a longer period than that for which the costs are charged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

The tax charge has increased by £0.4m to £2.1m (2015: £1.7m) whilst profit before taxation has increased £0.6m from £8.5m to £9.1m.

The benefit of the tax rate change reflects the impact of the reduction in corporation tax rates from 20.0% to 19.0% in April 2017 on the intangible assets deferred tax liabilities.

Share price performance

At the year end the market capitalisation was £467.1m (782p per share) compared to £382.5m (646p per share) at the previous year end. The graph below shows the total shareholder return performance compared to the FTSE AIM All-Share Index. The values indicated in the graph show the share price movement based on a hypothetical £100 holding in Ordinary shares from 1 July 2010 to 30 June 2016.



Key contractual arrangements

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

Forward-looking statements

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

The Strategic Report on pages 1 to 28 was authorised by the Board of Directors on 23 September 2016 and was signed on its behalf by:

Nick Perrin
Finance Director
23 September 2016

A strong leadership team

Richard Connell (61)
A N R

Non-Executive Chairman

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

Simon Innes (56)

Chief Executive

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

Mike McCollum (49)
A N R

Non-Executive Director

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

Nick Perrin (56)

Finance Director

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

Rebecca Cleal (35)

Company Secretary

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

Key

- Chairman
- Member

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

Complying with corporate governance best practice

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. This covers legal, accounting and tax matters as required. The Company maintains appropriate insurance cover in respect of any legal action against its Directors. The level of cover is currently £20.0m for any one claim.

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

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

The Audit Committee

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

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

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	10	2*	3*	1*
N Perrin	11	2*	3*	1*
M McCollum	11	2	3	1

* In attendance by invitation of the respective Committee.

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

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

In the year ended 30 June 2016 and up to the date of this report the actions taken by the Audit Committee to discharge its duties included:

- reviewing the 2016 Annual Report and financial statements and the Interim Report issued in March 2016. As part of these reviews the Committee received a report from the external auditors on their audit of the annual financial statements;
- reviewing the effectiveness of the Group's internal controls and disclosures made in the Annual Report and financial statements;
- meeting with the external auditors, without management being present, to discuss any issues arising from the audit;
- agreeing the fees to be paid to the external auditors for their audit of the 2016 financial statements; and
- reviewing the performance and independence of the external auditors.

The Audit Committee has a programme for reviewing its effectiveness.

The Remuneration Committee

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

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

The Remuneration Committee Report can be found on pages 33 to 36.

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 along with the Chief Executive and other Directors are available before and after the meeting for further discussions with shareholders.

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

The Chairman and the Non-Executive 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.

Internal control *continued*

Variances from the budget and the prior year are closely monitored and explanations are provided for significant variances. Independent of the budget process, the Board regularly reviews revised profit, cash flow and bank covenant compliance forecasts which are updated to reflect actual performance trends;

- a continuous process for identifying, evaluating and managing significant risks across the Group together with a comprehensive annual review of risks which covers both financial and non-financial areas; and
- a central team that checks clinical, health and safety compliance in all parts of the Group.

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

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

Internal audit

The Audit Committee has reviewed the key risk management processes and internal control procedures described above and, given the increased size of the Company over the last twelve months, has recommended that an internal audit function is put in place. This is in the process of being established and will be responsible for ensuring that the processes and controls that are in place are appropriate for a public company of CVS's size.

Going concern

At the balance sheet date the Group had cash balances of £6.7m and an unutilised overdraft facility of £5.0m. A new bank facility was signed on 23 November 2015. The facility totals £115.0m, comprising a term loan of £67.5m and a revolving credit facility ("RCF") of £47.5m. At 30 June 2016, all of the term loan and £30.5m of the RCF were utilised. Since the year end, the Group has continued to trade profitably and to generate cash. Although the Group had net current liabilities of £35.5m at 30 June 2016, the Directors consider that the £5.0m overdraft and the £115.0m facility enable them to meet all current liabilities when they fall due.

After consideration of market conditions, the Group's financial position (including the level of headroom available within the bank facilities), its profile of cash generation and the timing and amount of bank borrowings repayable, the Directors have formed a judgement at the time of approving the financial statements that both the Company and the Group have adequate resources available to continue operating in the foreseeable future. For this reason, the going concern basis continues to be adopted in preparing the financial statements.

By order of the Board

Rebecca Cleal
Company Secretary
23 September 2016

3,500
product lines

Linking remuneration to performance

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.

Following feedback from shareholders the Company has decided to include an advisory vote on this report at the AGM.

Remuneration policy

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

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

Remuneration consists of the following elements:

Base pay

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

Annual bonus

All Executive Directors participate in the Group's annual bonus scheme, which is based on the achievement of adjusted EBITDA performance. This is intended to align management incentives with shareholders' objectives. The bonus is awarded up to a maximum of 100% of base pay for the Chief Executive and 75% of base pay for the Finance Director.

Pension and other benefits

The Chief Executive participates in a defined contribution pension arrangement. The Finance Director receives a payment in lieu of a pension. Both Executive Directors participate in other benefits, including the provision of a company car and medical and life insurance.

Long Term Incentive Plan ("LTIP")

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

The 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.

Remuneration policy *continued*

Long Term Incentive Plan ("LTIP") *continued*

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

Award	Grant date	Vesting period	Adjusted EPS real growth performance conditions
LTIP7	5 December 2013	3 years	Less than 6.0% CAGR – no award 6.0% to 10.0% CAGR – awarded on a straight line basis between 40% and 100% of total award More than 10.0% CAGR – full award
LTIP8	24 September 2014	3 years	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	Less than 8.0% CAGR – no award 8.0% to 12.0% CAGR – awarded on a straight line basis between 40% and 100% of total award More than 12.0% CAGR – full award

The adjusted EPS measure for the purposes of monitoring the achievement of performance targets for LTIP7, LTIP8 and LTIP9 reflects adjustments for amortisation of intangibles, costs of business combinations, income tax, exceptional items and fair value adjustments in respect of derivative financial instruments. The CAGR targets stated above are over and above the increase in the Retail Price Index over the related three-year vesting period.

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

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

Save As You Earn ("SAYE")

The Group operates an incentive scheme for all staff, including the Executive Directors, being the CVS SAYE plan, an HM Revenue & Customs-approved scheme. A SAYE scheme is operated for each year. Under all schemes, awards have been made at a 20% discount to the closing mid-market price on the day preceding the date of invitation, vesting over a three-year period.

There are no performance conditions attached to any of the SAYE schemes.

Service agreements

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

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

Directors' emoluments

	Basic salary, allowance and fees £'000	Benefits in kind £'000	Performance related bonus £'000	**2016 Total £'000**	2015 Total £'000
Non-Executive Chairman					
R Connell	106	—	—	**106**	105
Executive Directors					
S Innes	355	34	360	**749**	713
N Perrin	216	17	169	**402**	317
Non-Executive Director					
M McCollum	43	—	—	**43**	43
	720	51	529	**1,300**	1,178

S Innes participated in a defined contribution pension arrangement. During the year, the Group contributed £50,000 (2015: £50,000). N Perrin received a payment in lieu of pension of £23,000 (2015: £21,000).

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

No Director waived emoluments in respect of the years ended 30 June 2016 or 30 June 2015.

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

Directors' interests in shares

The interests of the Directors as at 30 June 2016 in the shares of the Company were:

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

Apart from the interests disclosed above and the interests in share options disclosed on page 36, the Directors had no other interest in shares of Group companies.

Share options

Options over Ordinary shares awarded to Executive Directors under the LTIP and SAYE schemes in place at 23 September 2016 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					
LTIP7	5 December 2013	250p	30 June 2016*	0.2p	121,200
LTIP8	24 September 2014	352p	30 June 2017	0.2p	88,169
LTIP9	24 September 2015	699p	30 June 2018	0.2p	57,000
SAYE7	27 November 2014	370p	1 January 2018	296p	6,081
N Perrin					
LTIP7	5 December 2013	250p	30 June 2016*	0.2p	92,500
LTIP8	24 September 2014	352p	30 June 2017	0.2p	53,570
LTIP9	24 September 2015	699p	30 June 2018	0.2p	29,500
SAYE6	29 November 2013	269p	1 January 2017	215p	4,186
SAYE7	27 November 2014	370p	1 January 2018	296p	3,041

* These awards have now vested.

At 30 June 2016, the market price of the Ordinary shares was 782p.

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	LTIP6	301,020	6 October 2015	0.2p	692p

Gains arising on the exercise of options for S Innes amounted to £2,080,951.

On behalf of the Remuneration Committee

Mike McCollum
Non-Executive Director
23 September 2016

The Group made a profit after tax of £7.0m

The Directors present their Annual Report together with the audited consolidated financial statements for the year ended 30 June 2016.

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 £7.0m (2015: £6.8m).

Business review

The information that fulfils the requirements of the business review, including details of the 2016 results, key performance indicators, principal risks and uncertainties and the outlook for future years, is set out in the Chairman's Statement (pages 4 to 5), the Business Review (pages 16 to 19) and the Finance Review (including key performance indicators and principal risks and uncertainties) (pages 20 to 28).

Dividends

The Directors recommend the payment of a dividend of 3.5p per share (2015: 3.0p) amounting to £2.1m (2015: £1.8m). Subject to approval at the Annual General Meeting, the dividend will be paid on 9 December 2016 to shareholders on the register at the close of business on 25 November 2016. The aggregate dividends recognised as distributions in the year ended 30 June 2016 amounted to £1.8m (2015: £1.5m). No interim dividends (2015: £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 29.

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 33 to 36. 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 30 to 32.

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 2016 are set out in note 24 to the financial statements.

At 31 August 2016, 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	7,290,617	12.15%
Standard Life Investments	6,293,700	10.49%
Invesco Perpetual	6,291,748	10.49%
Octopus Investments	4,733,653	7.89%
Hargreave Hale, Stockbrokers (ND)	2,768,096	4.61%

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 20% discount to the share's market value at the date of invitation. The scheme is open to all Group employees, including the Executive Directors. Details of the scheme are included in the Remuneration Committee Report on pages 33 to 36.

Directors' third-party indemnity provision

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

Directors' responsibilities statement

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

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

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

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

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

Disclosure of information to auditors

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

By order of the Board

Rebecca Cleal
Company Secretary
23 September 2016

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

We have audited the financial statements of CVS Group plc for the year ended 30 June 2016 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company balance sheets, the consolidated and company statements of changes in equity, the consolidated and company cash flow statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' responsibilities statement set out on page 38, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

James Brown
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Ipswich
23 September 2016

Consolidated income statement

for the year ended 30 June 2016

	Note	2016 £m	2015 £m
Revenue	4	**218.1**	167.3
Cost of sales	6	**(111.8)**	(88.2)
Gross profit		**106.3**	79.1
Administrative expenses	6	**(94.5)**	(69.3)
Operating profit		**11.8**	9.8
Finance expense	5	**(2.7)**	(1.3)
Profit before income tax	4	**9.1**	8.5
Income tax expense	9	**(2.1)**	(1.7)
Profit for the year attributable to owners of the parent		**7.0**	6.8
Earnings per Ordinary share (expressed in pence per share) ("EPS")			
Basic	11	**11.6p**	11.6p
Diluted	11	**11.3p**	11.3p

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	2016 £m	2015 £m
Profit before income tax		**9.1**	8.5
Adjustments for:			
Finance expense	5	**2.7**	1.3
Depreciation	14	**5.2**	3.5
Amortisation and impairment of intangible assets	13	**13.7**	8.5
Costs relating to business combinations		**2.1**	1.2
Adjusted EBITDA	4	**32.8**	23.0

Consolidated statement of comprehensive income

for the year ended 30 June 2016

	Note	2016 £m	2015 £m
Profit for the year		**7.0**	6.8
Other comprehensive income – items that will or may be reclassified to loss in future periods			
Cash flow hedges:			
Fair value gains/(losses)	17	**—**	(0.1)
Other comprehensive income for the year, net of tax		**—**	(0.1)
Total comprehensive income for the year attributable to owners of the parent		**7.0**	6.7

Consolidated and Company balance sheets
as at 30 June 2016

	Note	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Non-current assets					
Intangible assets	13	**131.5**	79.2	**—**	—
Property, plant and equipment	14	**32.8**	20.0	**—**	—
Investments	16	**0.1**	0.1	**65.6**	64.3
Deferred income tax assets	23	**1.8**	1.8	**—**	—
		166.2	101.1	**65.6**	64.3
Current assets					
Inventories	19	**9.7**	5.8	**—**	—
Trade and other receivables	20	**23.8**	17.1	**3.0**	4.8
Cash and cash equivalents	26	**6.7**	3.0	**—**	—
		40.2	25.9	**3.0**	4.8
Total assets	4	**206.4**	127.0	**68.6**	69.1
Current liabilities					
Trade and other payables	21	**(43.0)**	(30.4)	**—**	—
Current income tax liabilities		**(2.3)**	(1.7)	**—**	—
Borrowings	22	**(30.4)**	(14.1)	**—**	—
		(75.7)	(46.2)	**—**	—
Non-current liabilities					
Borrowings	22	**(69.4)**	(35.1)	**—**	—
Deferred income tax liabilities	23	**(14.6)**	(6.5)	**—**	—
Derivative financial instruments	17	**(0.1)**	(0.1)	**—**	—
		(84.1)	(41.7)	**—**	—
Total liabilities	4	**(159.8)**	(87.9)	**—**	—
Net assets		**46.6**	39.1	**68.6**	69.1
Shareholders' equity					
Share capital	24	**0.1**	0.1	**0.1**	0.1
Share premium		**9.7**	9.5	**9.7**	9.5
Capital redemption reserve		**0.6**	0.6	**0.6**	0.6
Revaluation reserve	25	**0.1**	0.1	**—**	—
Merger reserve		**(61.4)**	(61.4)	**—**	—
Retained earnings		**97.5**	90.2	**58.2**	58.9
Total equity		**46.6**	39.1	**68.6**	69.1

The notes on pages 45 to 67 are an integral part of these consolidated financial statements.

The financial statements on pages 40 to 67 were authorised for issue by the Board of Directors on 23 September 2016 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 2016

	Share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 July 2014	0.1	9.2	0.6	0.1	(61.4)	82.6	31.2
Profit for the year	—	—	—	—	—	6.8	6.8
Other comprehensive income							
Cash flow hedges:							
Fair value losses	—	—	—	—	—	(0.1)	(0.1)
Total other comprehensive income	—	—	—	—	—	(0.1)	(0.1)
Total comprehensive income	—	—	—	—	—	6.7	6.7
Transactions with owners							
Issue of Ordinary shares	—	0.3	—	—	—	—	0.3
Credit to reserves for share-based payments	—	—	—	—	—	1.2	1.2
Deferred tax relating to share-based payments	—	—	—	—	—	1.2	1.2
Dividends to equity holders of the Company (note 24)	—	—	—	—	—	(1.5)	(1.5)
Transactions with owners	—	0.3	—	—	—	0.9	1.2
At 30 June 2015	0.1	9.5	0.6	0.1	(61.4)	90.2	39.1

	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 24)	—	—	—	—	—	(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**

Company statement of changes in equity
for the year ended 30 June 2016

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2014	0.1	9.2	0.6	59.4	69.3
Loss for the year	—	—	—	(0.2)	(0.2)
Transactions with owners					
Issue of Ordinary shares	—	0.3	—	—	0.3
Credit to reserves for share-based payments	—	—	—	1.2	1.2
Dividends to equity holders of the Company (note 24)	—	—	—	(1.5)	(1.5)
Transactions with owners	—	0.3	—	(0.3)	—
At 30 June 2015	0.1	9.5	0.6	58.9	69.1

	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
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 24)	—	—	—	(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**

Consolidated and Company cash flow statement
for the year ended 30 June 2016

	Note	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Cash flows from operating activities					
Cash generated from operations	27	**33.6**	22.2	**1.6**	1.2
Taxation paid		**(3.3)**	(2.3)	**—**	—
Interest paid		**(2.4)**	(1.3)	**—**	—
Net cash generated from operating activities		**27.9**	18.6	**1.6**	1.2
Cash flows from investing activities					
Acquisitions (net of cash acquired)	15	**(53.5)**	(21.1)	**—**	—
Purchase of property, plant and equipment	14	**(11.3)**	(6.1)	**—**	—
Purchase of intangible assets	13	**(0.2)**	(0.4)	**—**	—
Net cash used in investing activities		**(65.0)**	(27.6)	**—**	—
Cash flows from financing activities					
Dividends paid		**(1.8)**	(1.5)	**(1.8)**	(1.5)
Proceeds from issue of Ordinary shares	24	**0.2**	0.3	**0.2**	0.3
Debt issuance costs		**(1.3)**	(0.5)	**—**	—
Increase in bank loan	26	**51.9**	11.5	**—**	—
Repayment of borrowings	26	**(8.2)**	—	**—**	—
Net cash used in financing activities		**40.8**	9.8	**(1.6)**	(1.2)
Net increase in cash and cash equivalents	26	**3.7**	0.8	**—**	—
Cash and cash equivalents at the beginning of the year		**3.0**	2.2	**—**	—
Cash and cash equivalents at the end of the year	26	**6.7**	3.0	**—**	—

Notes to the consolidated financial statements
for the year ended 30 June 2016

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 (UK) Limited	Veterinary and diagnostic services
Green Acres 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
Silvermere Haven Limited	Animal cremation and provision of burial grounds
Valley Pet Crematorium Limited	Animal cremation
VETisco Limited	Veterinary instrumentation supply
Village Referrals Limited	Veterinary services
Whitley Brook Crematorium for Pets Limited	Animal cremation
YourVets (Holdings) Limited	Holding company

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

Active Vetcare Ltd	Joel Veterinary Clinic Ltd	Superstar Pets Ltd
Batchelor, Davidson and Watson Ltd	Pet Vaccination UK Ltd	Torbridge Veterinary Hospital Ltd
Claremont Veterinary Group Ltd	Petmedics Ltd	Veterinary Enterprises & Trading Ltd
Clifton Villa Veterinary Services Ltd	Rosemullion Veterinary Practice Ltd	Veterinary Pathology Partners Ltd
Dovecote Veterinary Hospital Ltd	Roebuck Veterinary Group Stevenage Ltd	
Firstvets Ltd	Seymour Vets Ltd	

On 30 June 2016 the following dormant companies were placed in Members' Voluntary Liquidation and the share capital distributed in specie to CVS (UK) Limited: Archway Veterinary Practice Limited, Ark Alliance Limited, Aylsham Vets Limited, Beechwood Veterinary Practice Limited, Carrick Veterinary Group Limited, CVS Number 1 Limited, CVS Number 2 Limited, CVS Number 3 Limited, Dacin Limited, DE & G Morgan (Cardiff) Limited, Melton Veterinary Practice Limited, Mipet Limited, Petherton Veterinary Clinics Limited, Townsend Veterinary Practice Limited, Veterinary Pathology Partners Limited and Wey Referrals Limited.

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

All equity shareholdings are wholly owned except for Village Referrals Limited, which is 98% owned. Village Referrals Limited was dormant at 30 June 2016 and had net assets of £92,000.

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 30 to 32. 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. In addition, an estimate of the useful life of the intangible asset has to be made, over which period the cash flows are expected to be generated. Details of intangibles acquired through business are provided in note 15 to the financial statements.

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. An impairment charge of £727,000 has been recognised in the year (2015: £nil). Further details are provided in note 13 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 13 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 12 to the financial statements.

e) Revenue from Healthy Pet Club schemes

Calculating the revenue derived from the Healthy Pet Club schemes requires judgement regarding the timing of the performance of services for the purposes of calculating accrued and deferred income. Members pay a monthly subscription fee and receive preventative treatments such as flea, worming and microchipping for their animals over the course of the year. The judgements regarding timing are based upon historical data relating to the profile of attendance at preventative care appointments and customer cancellation rates. Revenue recognised is matched to the profile of the costs incurred in delivering the preventive treatments.

f) Going concern

The Directors have prepared projections of the Group's anticipated future results based upon the budget for the period to June 2017 and forecasts thereafter. The Directors have concluded that the assumption that the Group is a going concern is valid.

g) Determination of discount rates used in business combinations and impairment reviews

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

Changes in accounting policy and disclosure

Standards, 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 2016 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)

2. Summary of significant accounting policies *continued*

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 2016.

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.

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, Laboratories, Pet 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.

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

2. Summary of significant accounting policies *continued*

Impairment of non-current assets *continued*

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

Inventories

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

Financial instruments

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

(a) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost 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.

2. Summary of significant accounting policies *continued*

Financial instruments *continued*

(g) Derivative financial instruments and hedging activities *continued*

Cash flow hedging

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

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

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

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits 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 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 for impairment of the receivable asset. The impairment provision is calculated based on historic membership cancellation data and post-cancellation debtor recoverability success.

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.

2. Summary of significant accounting policies *continued*

Leases

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

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

Share-based payments

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

The fair values of equity-settled transactions are measured indirectly at the dates of grant using 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 financial information in this report is presented in Sterling, the functional currency of the Company and its subsidiaries, rounded to the nearest £0.1m.

Transactions and balances

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

Retirement benefit costs

The Group makes contributions to stakeholder and employee personal pension defined contribution schemes in respect of certain employees. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense 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 2014, revenue is included from September 2015 in the like-for-like revenue calculation.

Share premium

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

Capital redemption reserve

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

Merger reserve

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

3. Financial risk management

Financial risk factors

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

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

a) Market risk

i) Foreign exchange currency rate risk

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

ii) Cash flow and fair value interest rate risk

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

At the year end, the Group had interest hedging arrangements in place covering £15.6m 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 1.85% above LIBOR.

At 30 June 2016, 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 2016, if interest rates on Sterling-denominated borrowings had been 1% higher or lower, with all other variables held constant, post-tax profit and the movement in net assets for the year would have been approximately £0.8m (2015: £0.4m) lower or higher, mainly as a result of the movement in interest rates on the floating rate borrowings, net of the hedging derivative instrument in place.

b) Credit risk

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

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

Concentrations of credit risk with respect to trade receivables are limited due to the Group's diverse customer base. The Group also has in place procedures that require appropriate credit checks on potential customers before sales, other than on a cash basis, 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 2016 gross trade receivables amounted to 7.0% of revenue for the year (2015: 5.8%). Of these gross trade receivables 52% (2015: 51%) were more than one month overdue.

The maximum exposure to credit risk at 30 June 2016 is the fair value of each class of receivable as disclosed in note 18 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; therefore the liability is included as due in less than one year. However, the RCF is available for utilisation until November 2021.

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	30.5	2.7	—	67.5	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
	65.5	2.7	—	67.5	135.7

3. Financial risk management *continued*

Financial risk factors *continued*

c) Liquidity risk *continued*

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

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.

	2016 £m	2015 £m
Net debt (see note 26)	**93.1**	46.2
Adjusted EBITDA (see note 4)	**32.8**	23.0
Ratio	**2.83**	2.00

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 2.5.

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 £17.0m of the £47.5m revolving credit facility were undrawn at 30 June 2016.

Fair value measurement

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2016, 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 2016			30 June 2015		
	Level 1 £m	**Level 2 £m**	**Total £m**	Level 1 £m	Level 2 £m	Total £m
Assets						
Available-for-sale financial assets (note 16)	**0.1**	**—**	**0.1**	0.1	—	0.1
Liabilities						
Derivative financial instruments (interest rate swap arrangements) (note 17)	**—**	**0.1**	**0.1**	—	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 £157.5m of fees and £60.6m of goods.

4. Segmental reporting *continued*

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 2016	Veterinary Practice £m	Laboratory £m	Crematoria £m	Animed Direct £m	Head Office £m	Group £m
Revenue	**196.7**	**14.8**	**5.0**	**9.8**	**(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**

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

5. Finance expense

	2016 £m	2015 £m
Interest expense, bank loans and overdraft	**2.3**	1.1
Amortisation of debt arrangement fees	**0.4**	0.2
Finance expense	**2.7**	1.3

6. Expenses by nature

	2016 £m	2015 £m
Amortisation and impairment of intangible assets	**13.7**	8.5
Depreciation of property, plant and equipment	**5.2**	3.5
Employee benefit expenses	**101.1**	74.8
Cost of inventories recognised as an expense (included in cost of sales)	**39.7**	33.8
Repairs and maintenance expenditure on property, plant and equipment	**3.2**	1.8
Trade receivables impairment charge	**0.9**	0.7
Operating lease rentals payable	**10.5**	8.5
Other expenses	**32.0**	25.9
Total cost of sales and administrative expenses	**206.3**	157.5

6. Expenses by nature *continued*

Services provided by the Company's auditor and associates

During the year the Group obtained the following services from the Company's auditors at costs as detailed below:

	2016 £'000	2015 £'000
Audit services		
Fees payable to the Group's auditors for the audit of the parent company and consolidated financial statements	28	16
Other services		
Tax compliance services	—	13
The audit of the Company's subsidiaries pursuant to legislation	104	46
All other services	96	41
	228	116

7. Employee benefit expense and numbers

Group

Employee benefit expense for the Group	2016 £m	2015 £m
Wages and salaries	91.2	66.5
Social security costs	7.8	6.5
Other pension costs (note 30)	0.8	0.6
Share-based payments (note 12)	1.3	1.2
	101.1	74.8

Employee benefit expense included within cost of sales is £66.6m (2015: £47.5m). 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:

	2016 Number	2015 Number
Veterinary surgeons and pathologists	1,002	764
Nurses, practice ancillaries and technicians	2,911	2,165
Crematorium staff	68	42
Central support	149	133
	4,130	3,104

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	
	2016 £m	2015 £m	2016 £m	2015 £m
Salaries and other short-term employee benefits	0.7	0.7	1.2	1.0
Company contributions to money purchase schemes	0.1	—	0.1	0.1
	0.8	0.7	1.3	1.1

Retirement benefits are accruing to one Director (2015: one) under a personal pension plan. The remuneration of the Executive Directors amounting to £1.2m (2015: £1.0m) is borne by the subsidiary company CVS (UK) Limited, without recharge. The remuneration of the Non-Executive Directors amounting to £0.1m (2015: £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

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

Share options *continued*

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
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

The exercise price for all shares is 0.2p.

LTIP6 was exercised in the year; see the Remuneration Committee Report on page 36 for further details.

Further details of the above schemes are included in the Remuneration Committee Report on pages 33 to 36.

Key management compensation

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

	2016 £m	2015 £m
Salaries and other short-term employee benefits	**2.2**	1.9
Post-employment benefits	**0.1**	0.1
Share-based payments	**1.2**	1.1
	3.5	3.1

9. Income tax expense

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

	2016 £m	2015 £m
Current tax expense		
UK corporation tax	**3.5**	2.6
Adjustments in respect of previous years	**(0.1)**	—
Total current tax charge	**3.4**	2.6
Deferred tax expense		
Origination and reversal of temporary differences	**(1.3)**	(0.5)
Adjustments in respect of previous years	**0.2**	(0.2)
Effect of tax rate change on opening deferred tax balance	**(0.2)**	(0.2)
Total deferred tax credit (note 23)	**(1.3)**	(0.9)
Total income tax expense	**2.1**	1.7

Factors affecting the current tax charge

UK corporation tax is calculated at 20.0% (2015: 20.8%) of the estimated assessable profit for the year.

(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:

	2016 £m	2015 £m
Profit before tax	**9.1**	8.5
Effective tax charge at 20.0% (2015: 20.8%)	**1.8**	1.8
Effects of:		
Expenses not deductible for tax purposes	**0.4**	0.3
Effect of tax rate change on opening deferred tax balance	**(0.2)**	(0.2)
Adjustments to deferred tax charge in respect of previous years	**0.2**	(0.2)
Adjustments to current tax charge in respect of previous years	**(0.1)**	—
Total income tax expense	**2.1**	1.7

The main rate of corporation tax will reduce from 20% to 19% from 1 April 2017. This change had been substantively enacted at the balance sheet date and, therefore, it is reflected in these financial statements.

10. Profit for the financial year

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's loss for the financial year was £0.2m (2015: £0.2m).

11. Earnings per Ordinary share

(a) Basic

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

	2016	2015
Earnings attributable to Ordinary shareholders (£m)	**7.0**	6.8
Weighted average number of Ordinary shares in issue	**59,736,436**	58,814,787
Basic earnings per share (p per share)	**11.6**	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.

	2016	2015
Earnings attributable to Ordinary shareholders (£m)	**7.0**	6.8
Weighted average number of Ordinary shares in issue	**59,736,436**	58,814,787
Adjustment for contingently issuable shares – LTIPs	**681,294**	1,078,285
Adjustment for contingently issuable shares – SAYE schemes	**726,215**	624,663
Weighted average number of Ordinary shares for diluted earnings per share	**61,143,945**	60,517,735
Diluted earnings per share (p per share)	**11.3**	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.

	2016 £m	2015 £m
Earnings attributable to Ordinary shareholders	**7.0**	6.8
Add back taxation	**2.1**	1.7
Profit before taxation	**9.1**	8.5
Adjustments for:		
Amortisation (note 13)	**13.7**	8.5
Costs relating to business combinations (note 4)	**2.1**	1.2
Adjusted profit before income tax	**24.9**	18.2
Tax on above adjustments	**(5.4)**	(3.7)
Adjusted profit after income tax and earnings attributable to owners of the parent	**19.5**	14.5
Weighted average number of Ordinary shares in issue	**59,736,436**	58,814,787
Weighted average number of Ordinary shares for diluted earnings per share	**61,143,945**	60,517,735

	Pence	Pence
Adjusted earnings per share	**32.4p**	24.7p
Diluted adjusted earnings per share	**31.7p**	24.0p

12. 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.

12. Share-based payments *continued*

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

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

	July 2015 scheme ("LTIP9") Number of share awards	July 2014 scheme ("LTIP8") Number of share awards	July 2013 scheme ("LTIP7") Number of share awards	July 2012 scheme ("LTIP6") Number of share awards
Outstanding at 1 July 2015	—	276,705	402,100	634,900
Granted during the year	160,750	—	—	—
Forfeited during the year	(10,250)	(25,267)	(8,000)	—
Exercised during the year	—	—	—	(634,900)*
Outstanding at 30 June 2016	**150,500**	**251,438**	**394,100**	**—**
Exercisable at 30 June 2016	**—**	**—**	**—**	**—**

* The weighted average share price at the date of exercise was £6.92.

Options are exercisable at 0.2p per share.

The options outstanding at the year end under LTIP9, LTIP8 and LTIP7 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 £0.9m (2015: £0.9m) and has been charged to administrative expenses. National Insurance contributions amounting to £0.3m (2015: £0.6m) 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 33 to 36.

Save As You Earn ("SAYE")

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

	SAYE8 Number of share awards	SAYE7 Number of share awards	SAYE6 Number of share awards	SAYE5 Number of share awards
Outstanding at 1 July 2015	—	723,349	540,314	157,367
Granted during the year	228,750	—	—	—
Forfeited/expired during the year	(7,506)	(48,695)	(46,194)	—
Exercised during the year	—	—	(4,697)*	(155,846)*
Outstanding at 30 June 2016	**221,244**	**674,654**	**489,423**	**1,521**
Exercisable at 30 June 2016	**—**	**—**	**—**	**1,521**

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

Options are exercisable at 536p for the SAYE8 scheme, 296p for the SAYE7 scheme, 215p per share for the SAYE6 scheme and 130p for the SAYE5 scheme.

The options outstanding at the year end under the SAYE6 and SAYE5 schemes have a weighted average remaining contractual life of 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 (2015: £0.3m) 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:

	LTIP9	SAYE8
Grant date	17 December 2015	November 2015
Share price at grant date	£6.99	£6.70
Fair value per option	£6.99	£1.80
Exercise price	0.2p	£5.34
Number of employees	24	1,036
Shares under option at date of grant	160,750	228,750
Vesting period/option life/expected life	3 years	3 years
Weighted average remaining contractual life	2 years	2 years 5 months
Expected volatility*	23.08%	23.08%
Expected dividends expressed as a dividend yield	0.5%	0.5%

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

13. Intangible assets

	Goodwill £m	Trade names £m	Customer lists £m	Patient data records £m	Computer software £m	Total £m
Cost						
At 1 July 2014	18.2	1.5	5.2	70.1	1.6	96.6
Additions arising through business combinations	3.7	—	0.7	24.1	—	28.5
Other additions	—	—	—	—	0.4	0.4
At 30 June 2015	21.9	1.5	5.9	94.2	2.0	125.5
Additions arising through business combinations (note 15)	9.2	—	30.1	26.5	—	65.8
Other additions	—	—	—	—	0.2	0.2
At 30 June 2016	**31.1**	**1.5**	**36.0**	**120.7**	**2.2**	**191.5**
Accumulated amortisation						
At 1 July 2014	—	0.6	1.9	34.4	0.9	37.8
Amortisation for the year	—	0.1	0.4	7.6	0.4	8.5
At 30 June 2015	—	0.7	2.3	42.0	1.3	46.3
Amortisation for the year	—	0.1	3.5	9.0	0.4	13.0
Impairment	—	—	—	0.7	—	0.7
At 30 June 2016	**—**	**0.8**	**5.8**	**51.7**	**1.7**	**60.0**
Net book amount						
At 30 June 2016	**31.1**	**0.7**	**30.2**	**69.0**	**0.5**	**131.5**
At 30 June 2015	21.9	0.8	3.6	52.2	0.7	79.2
At 1 July 2014	18.2	0.9	3.3	35.7	0.7	58.8

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

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

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

	2016 £m	2015 £m
Veterinary practices	**26.4**	18.1
Laboratories	**2.2**	2.2
Crematoria	**2.5**	1.6
	31.1	21.9

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 9.82% at 30 June 2016 (2015: 10.87%). 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, £0.7m of impairment charges have been recognised by the Group in the year ended 30 June 2016 (2015: £nil). The impairment charge recognised 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 2016. 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.

14. Property, plant and equipment

	Freehold land and buildings £m	Leasehold improvements £m	Fixtures, fittings and equipment £m	Motor vehicles £m	Total £m
Cost					
At 1 July 2014	2.2	9.8	15.8	1.3	29.1
Additions arising through business combinations	—	0.5	2.4	—	2.9
Additions	1.2	2.3	2.4	0.2	6.1
Disposals	—	—	—	(0.1)	(0.1)
At 30 June 2015	3.4	12.6	20.6	1.4	38.0
Additions arising through business combinations (note 15)	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**
Accumulated depreciation					
At 1 July 2014	0.3	3.5	10.0	0.8	14.6
Charge for the year	0.1	1.0	2.2	0.2	3.5
Disposals	—	—	—	(0.1)	(0.1)
At 30 June 2015	0.4	4.5	12.2	0.9	18.0
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**
Net book amount					
At 30 June 2016	**9.8**	**10.5**	**11.9**	**0.6**	**32.8**
At 30 June 2015	3.0	8.1	8.4	0.5	20.0
At 1 July 2014	1.9	6.3	5.8	0.5	14.5

Freehold land amounting to £0.2m (2015: £0.2m) has not been depreciated.

15. Business combinations

Details of business combinations in the year ended 30 June 2016 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 to 9.

Name of business combination	Date of acquisition
Dovecote Veterinary Hospital Limited	17 July 2015
Rosemullion Veterinary Practice Limited	18 August 2015
Torbridge Veterinary Hospital Limited	21 September 2015
Alnorthumbria Veterinary Practice Limited	30 September 2015
Okeford Veterinary Centre Limited	13 October 2015
Highcroft Pet Care Limited	23 October 2015
Albavet Limited	3 December 2015
VETisco Limited	3 December 2015
The Pet Crematorium Limited	3 December 2015
Dart Vale Vets (Trade and Assets)	15 February 2016
Burghfield Vets (Trade and Assets)	9 March 2016
Clifton Villa Veterinary Services Limited	23 March 2016
Valley Equine Hospital Lambourn Limited	12 April 2016
Fern Cottage Vets (Trade and Assets)	3 May 2016
Claremont Veterinary Group Limited	10 May 2016
Lamorna House (Trade and Assets)	24 May 2016
Cromlynvets Limited	7 June 2016
Roebuck Veterinary Group Stevenage Limited	13 June 2016
Seymour Vets Limited	20 June 2016
Putlands Vets (Trade and Assets)	28 June 2016
Green Acres Pet Crematorium Limited	28 June 2016

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

15. Business combinations *continued*

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 2016:

	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	**6.8**	**—**	**6.8**
Patient data records and customer lists	**6.7**	**49.9**	**56.6**
Goodwill	**—**	**9.2**	**9.2**
Inventory	**2.4**	**—**	**2.4**
Deferred tax liability (note 23)	**(0.3)**	**(9.9)**	**(10.2)**
Trade and other receivables	**10.3**	**—**	**10.3**
Trade and other payables	**(11.5)**	**—**	**(11.5)**
Loans	**(7.8)**	**—**	**(7.8)**
Net assets acquired	**6.6**	**49.2**	**55.8**
Total initial consideration paid (net of cash acquired)			**53.5**
Initial consideration payable			**1.3**
Deferred consideration payable			**1.0**
Total consideration payable			**55.8**

£0.4m was paid in the year in respect of deferred consideration which 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 £28.1m and £3.3m respectively. The post-acquisition period is from the date of acquisition to 30 June 2016. Post-acquisition EBITDA represents the direct operating result of practices from the date of acquisition to 30 June 2016 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 £1.3m for the year and are included within other expenses in note 6 of the financial statements.

Included within the table above are the acquisitions of Alnorthumbria Veterinary Practice Limited, Highcroft Pet Care Limited and Albavet Limited, which are each considered to be material for the purposes of these financial statements and therefore the elements pertaining to these acquisitions have been separately disclosed in the tables below. The fair values of the assets and liabilities are provisional. Business combinations for individual consideration of less than £5.0m have not been separately disclosed.

Alnorthumbria Veterinary Practice Limited	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	1.0	—	1.0
Patient data records	—	5.6	5.6
Goodwill	—	1.1	1.1
Inventory	0.3	—	0.3
Deferred tax liability	—	(1.1)	(1.1)
Trade and other receivables	0.8	—	0.8
Trade and other payables	(1.1)	—	(1.1)
Loans	—	—	—
Net assets acquired (net of cash acquired)	1.0	5.6	6.6
Total consideration paid			6.6

15. Business combinations *continued*

Highcroft Pet Care Limited	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	1.1	—	1.1
Patient data records	2.6	6.8	9.4
Goodwill	—	3.3	3.3
Inventory	0.4	—	0.4
Deferred tax liability	(0.1)	(1.8)	(1.9)
Trade and other receivables	0.9	—	0.9
Trade and other payables	(1.8)	—	(1.8)
Loans	(3.4)	—	(3.4)
Net assets acquired	(0.3)	8.3	8.0
Total initial consideration paid (net of cash acquired)			7.0
Deferred consideration payable			1.0
Total consideration payable			8.0

Albavet Limited (and VETisco Limited)	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	0.3	—	0.3
Patient data records	1.7	8.0	9.7
Goodwill	—	3.8	3.8
Inventory	0.8	—	0.8
Deferred tax liability	—	(1.8)	(1.8)
Trade and other receivables	5.9	—	5.9
Trade and other payables	(4.8)	—	(4.8)
Loans	(2.9)	—	(2.9)
Net assets acquired (net of cash acquired)	1.0	10.0	11.0
Total initial consideration paid (net of cash acquired)			10.2
Initial consideration payable			0.8
Total consideration payable			11.0

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 2015.

Business combinations subsequent to the year end

Subsequent to the year end, the Group acquired the share capital of Nottingham Veterinary Care Limited, a three-surgery small animal practice in Nottingham, on 30 August 2016 for initial cash consideration of £0.6m. Assets acquired comprised principally intangible patient data records and plant and equipment with a provisional fair value of £0.6m. Adjustments to consideration are expected following agreement of completion current assets and total liabilities. Due to the date of the acquisition being close to the date of approval of the financial statements, the initial accounting for the business combination is incomplete and therefore the provisional fair values of the current assets and total liabilities is not available.

16. Investments

(a) Available-for-sale financial assets

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

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

(b) Shares in subsidiary undertakings

Company	£m
Cost and net book amount	
At 1 July 2014	63.1
Options granted to employees of subsidiary undertakings	1.2
At 30 June 2015	64.3
Options granted to employees of subsidiary undertakings	1.3
At 30 June 2016	**65.6**

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

17. Derivative financial instruments

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

There is no material impact on the Group income statement resulting from hedge ineffectiveness. There was no ineffective portion of cash flow hedges in 2016 (2015: £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 £15.6m 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 discounting cash flows, based on assumptions that are supported by observable market prices or rates.

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

	2016		2015	
Group	Assets £m	Liabilities £m	Assets £m	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 2014	—
Fair value gain through reserves – hedged	(0.1)
At 30 June 2015	(0.1)
Fair value gain through reserves – hedged	—
At 30 June 2016	**(0.1)**

18. Financial instruments

	2016			2015		
Group – assets as per balance sheet	Loans and receivables £m	Available for sale £m	Total £m	Loans and receivables £m	Available for sale £m	Total £m
Available-for-sale financial assets	—	0.1	0.1	—	0.1	0.1
Trade and other receivables (excluding prepayments)	18.8	—	18.8	10.2	—	10.2
Cash and cash equivalents	6.7	—	6.7	3.0	—	3.0
	25.5	0.1	25.6	13.2	0.1	13.3

	2016			2015		
Company – assets as per balance sheet	Loans and receivables £m	Available for sale £m	Total £m	Loans and receivables £m	Available for sale £m	Total £m
Trade and other receivables (excluding prepayments)	3.0	—	3.0	4.8	—	4.8
	3.0	—	3.0	4.8	—	4.8

18. Financial instruments *continued*

Liabilities as per balance sheet	2016 Derivatives used for hedging £m	2016 Other financial liabilities £m	2016 Total £m	2015 Derivatives used for hedging £m	2015 Other financial liabilities £m	2015 Total £m
Borrowings	**—**	**(99.8)**	**(99.8)**	—	(49.2)	(49.2)
Trade and other payables (excluding social security and other taxes)	**—**	**(34.9)**	**(34.9)**	—	(25.4)	(25.4)
Derivative financial instruments	**(0.1)**	**—**	**(0.1)**	(0.1)	—	(0.1)
	(0.1)	**(134.7)**	**(134.8)**	(0.1)	(74.6)	(74.7)

19. Inventories

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

20. Trade and other receivables

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Trade receivables:				
Within their due period	**7.3**	4.9	**—**	—
Past due (between one and six months old):				
Not impaired	**5.6**	2.8	**—**	—
Fully impaired	**2.5**	2.0	**—**	—
Total trade receivables	**15.4**	9.7	**—**	—
Less: provision for impairment of receivables	**(2.5)**	(2.0)	**—**	—
Trade receivables – net	**12.9**	7.7	**—**	—
Amounts owed by Group undertakings	**—**	—	**3.0**	4.8
Other receivables	**2.6**	2.5	**—**	—
Prepayments	**5.0**	4.2	**—**	—
Accrued income	**3.3**	2.7	**—**	—
	23.8	17.1	**3.0**	4.8

Group

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

A provision for impairment is established based on historical experience. The amount of the provision was £2.5m (2015: £2.0m). 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:

	2016 £m	2015 £m
At the beginning of the year	**2.0**	1.4
Charged to the income statement within administrative expenses	**0.9**	0.7
Utilised in the year	**(0.4)**	(0.1)
At the end of the year	**2.5**	2.0

Other receivables do not contain impaired assets.

Company

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

21. Trade and other payables

	Group 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Current				
Trade payables	**20.3**	17.5	**—**	—
Social security and other taxes	**8.1**	5.0	**—**	—
Other payables	**4.5**	2.2	**—**	—
Accruals	**10.1**	5.7	**—**	—
	43.0	30.4	**—**	—

22. Borrowings

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

Group	**2016 £m**	2015 £m
Within one year or on demand	**30.4**	14.1
Between one and two years	**2.7**	32.6
After more than two years	**66.7**	2.5
	99.8	49.2

The balances above are shown net of issue costs of £1.5m (2015: £0.6m), which are being amortised over the term of the bank loans. The carrying amount of borrowings is deemed to be a reasonable approximation to fair value.

On 23 November 2015 the Group entered into a new bank facility agreement which provides the Group with total facilities of £115.0m. These facilities are provided by a syndicate of three banks: RBS, HSBC and AIB. They replace the existing banking arrangements with RBS on more favourable terms, including a lower interest rate, 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 £47.5m that runs to 23 November 2021.

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

The previous bank facility provided by RBS was entered into on 28 March 2015. The facility was comprised of a fixed term loan of £32.0m and an RCF of £48.0m. The refinancing has been accounted for as a modification of debt reflecting the substance of the transaction. The issue costs associated with the RBS debt continues to be amortised. The refinancing was not a substantial modification; in accordance with IAS 39 no gain or loss arose.

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.

At the balance sheet date £15.6m of the term loan was hedged using an interest rate swap. The remainder of the debt is not hedged.

Undrawn committed borrowing facilities

At 30 June 2016 the Group has a committed overdraft facility of £5.0m (2015: £5.0m) and a RCF of £47.5m (2014: £48.0m). The overdraft facility was undrawn at 30 June 2016 and 30 June 2015. £17.0m of the RCF was undrawn at 30 June 2016 (2015: £33.0m).

23. Deferred income tax

Deferred income tax assets comprised:

Group	**2016 £m**	2015 £m
Tax effect of temporary differences:		
Share-based payments	**1.7**	1.7
Losses	**0.1**	0.1
	1.8	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.

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

Group	**2016 £m**	2015 £m
Tax effect of temporary differences:		
Excess of qualifying depreciation and amortisation	**14.6**	6.5
	14.6	6.5

23. Deferred income tax *continued*

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

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)**

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

The deferred tax balance is non-current.

24. Share capital

	2016 £m	2015 £m
Issued and fully paid		
59,998,926 (2015: 59,203,483) Ordinary shares of 0.2p each	**0.1**	0.1

During the year, 634,900 shares were issued for consideration of £1,270 in respect of the vesting of LTIP6, and 155,846 shares were issued for consideration of £202,599 in respect of SAYE5.

Details of shares under option are provided in note 12 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 3.5p (2015: 3.0p) per share (total: £2.1m), payable on 9 December 2016 to shareholders on the register at the close of business on 25 November 2016. The dividend has not been included as a liability as at 30 June 2016. During the year a dividend of 3.0p per share amounting to £1.8m was paid.

25. Revaluation reserve

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

26. Analysis of movement in net debt

Group	At 1 July 2015 £m	Cash flow £m	Non-cash movement £m	**At 30 June 2016 £m**
Cash and cash equivalents	3.0	3.7	—	**6.7**
Borrowings – current	(14.1)	(43.7)	27.4	**(30.4)**
Borrowings – non-current	(35.1)	—	(34.3)	**(69.4)**
Net debt	(46.2)	(40.0)	(6.9)	**(93.1)**

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 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Profit/(loss) for the year	**7.0**	6.8	**(0.2)**	(0.2)
Taxation	**2.1**	1.7	**—**	—
Total finance costs	**2.7**	1.3	**—**	—
Amortisation of intangible assets	**13.7**	8.5	**—**	—
Depreciation of property, plant and equipment	**5.2**	3.5	**—**	—
(Increase)/decrease in working capital:				
Inventories	**(1.6)**	(0.6)	**—**	—
Trade and other receivables	**5.2**	(1.9)	**0.5**	0.2
Trade and other payables	**(2.0)**	1.7	**—**	—
Share option expense	**1.3**	1.2	**1.3**	1.2
Total net cash flow generated from operations	**33.6**	22.2	**1.6**	1.2

28. Guarantees and other financial commitments

Capital commitments

The Group had no capital commitments as at 30 June 2016 (2015: £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 2016. 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:

	2016			2015		
	Property £m	Plant and machinery £m	Total £m	Property £m	Plant and machinery £m	Total £m
Not later than one year	**9.2**	**0.6**	**9.8**	7.2	0.4	7.6
Later than one year and not later than five years	**25.5**	**0.7**	**26.2**	19.9	0.6	20.5
Later than five years	**13.3**	**—**	**13.3**	9.9	—	9.9
Total	**48.0**	**1.3**	**49.3**	37.0	1.0	38.0

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

30. Pension schemes

The Group contributes to certain employees' personal pension schemes in accordance with their service contracts. The amounts are charged to the income statement as they fall due. The amounts charged during the year amounted to £0.8m (2015: £0.6m). The amount outstanding at the end of the year included in trade and other payables was £0.2m (2015: £0.1m).

31. Related party transactions

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

Company

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

	2016 £m	2015 £m
Recharge of expenses incurred by CVS (UK) Limited on behalf of the Company	**(0.2)**	(0.2)
Cash advanced to fund payment of dividend	**(1.8)**	(1.5)

31. Related party transactions *continued*

Company *continued*

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

	2016		2015	
	Receivable £m	Payable £m	Receivable £m	Payable £m
CVS (UK) Limited	**3.0**	**—**	4.8	—

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 (2015: £0.1m), of which £0.1m (2015: £0.1m) was paid in the year.

Annual market-based rent payable to Tim Davies, a member of key management, for the rental of premises amounts to £0.1m (2015: £0.1m), of which £0.1m (2015: £0.1m) was paid in the year. During the year the following dividends were paid to the Directors: R Connell £2,501; M McCollum £1,500; S Innes £7,394; and N Perrin £300.

Ultimate controlling party

The Directors consider there is no ultimate controlling party.

Five-year history

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Revenue	**218.1**	167.3	142.9	120.1	108.7
Gross profit	**106.3**	79.1	65.2	41.9	39.1
Operating profit	**11.8**	9.8	7.5	6.7	6.8
Exceptional finance expenses	**—**	—	—	—	(1.5)
Finance expense	**(2.7)**	(1.3)	(1.2)	(1.2)	(1.5)
Profit before tax	**9.1**	8.5	6.3	5.5	3.8
Income tax expense	**(2.1)**	(1.7)	(1.5)	(1.5)	(0.9)
Profit for the year	**7.0**	6.8	4.8	4.0	2.9
EBITDA					
Adjusted EBITDA	**32.8**	23.0	18.3	15.8	15.1
Adjusted profit before income tax	**24.9**	18.2	14.3	12.1	9.7
Cash generated from operations	**33.6**	22.2	20.7	16.7	15.6
Capital expenditure	**(11.5)**	(6.5)	(5.3)	(4.1)	(3.6)
Acquisitions	**(53.5)**	(21.1)	(12.4)	(7.7)	(3.8)
Loans and borrowings acquired through business combinations	**(7.8)**	(4.2)	—	—	—
Taxation paid	**(3.3)**	(2.3)	(2.5)	(2.1)	(2.0)
Interest paid	**(2.4)**	(1.3)	(1.2)	(1.2)	(1.2)
Exceptional interest paid	**—**	—	—	—	(1.6)
Amortisation of debt issue costs	**(0.4)**	(0.5)	—	—	(0.3)
Proceeds from Ordinary shares	**0.2**	0.3	0.5	0.1	—
Dividends paid	**(1.8)**	(1.5)	(1.1)	(0.8)	(0.5)
(Increase)/reduction in net debt	**(46.9)**	(14.9)	(1.3)	0.9	2.6
Year-end net debt	**93.1**	46.2	31.3	30.0	30.9

	Pence	Pence	Pence	Pence	Pence
Basic earnings per share	**11.6**	11.6	8.3	7.1	6.2
Adjusted basic earnings per share	**32.4**	24.7	19.0	16.2	12.8

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