We are CVS

CVS Group plc Annual Report for the year ended 30 June 2018

CVS Group plc
Passionate about animal care

We are CVS
Laboratories

We are CVS
Practices

We are CVS
Animed Direct

We are CVS
Crematoria

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

We are passionate about animal care.

Financial highlights

Revenue (£m)

£327.3m

+20.4%

18	327.3
17	271.8
16	218.1
15	167.3

Adjusted EBITDA[1] (£m)

£47.6m

+13.3%

18	47.6
17	42.1
16	32.8
15	23.0

Adjusted profit before tax[2] (£m)

£36.0m

+7.1%

18	36.0
17	33.5
16	24.9
15	18.2

Adjusted earnings per share[3] (p)

42.4p

-0.9%

18	42.4
17	42.8
16	32.4
15	24.7

Proposed dividend per share (p)

5.0p

+11.1%

18	5.0
17	4.5
16	3.5
15	3.0

Operating profit (£m)

£17.7m

+2.8%

18	17.7
17	17.2
16	11.8
15	9.8

Profit before tax (£m)

£14.1m

-3.2%

18	14.1
17	14.5
16	9.1
15	8.5

Basic earnings per share (p)

16.0p

-13.5%

18	16.0
17	18.5
16	11.6
15	11.6

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.

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

CVS at a glance

We are continuing to expand our European coverage with further acquisitions in the Netherlands and first acquisitions in the Republic of Ireland.

The Group has four main business areas:

Veterinary Practices

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

Our business in action

We aim to meet all of our customers' needs so that we can ensure a consistent high quality of treatment. Our practices are increasingly providing their own night services rather than them being provided by a third party and we are rapidly developing our referral centres so that our own experts provide all our veterinary service to our customers' animals. Our veterinary practices provide preventative healthcare either as and when required or through our preventative care scheme called Healthy Pet Club. We also have a number of own brand MiPet medicines and products.

P14 Veterinary Practices review

Laboratories

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

Our business in action

We pride ourselves in our outstanding customer service, fast turnaround times and scientific excellence. We employ a team of experts specialising in a variety of veterinary disciplines, each bringing a unique and highly respected set of skills to the table.

Our Laboratories Division offers an extensive range of tests, with the ability to tailor specific profiles to our customers' needs. Our pathologists specialise in all areas of the laboratory and their aim is to offer a level of service and expertise beyond your expectation.

P15 Laboratories review

Crematoria

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

Our business in action

We aim to provide our clients with a dignified and personal service. We offer a range of services to help our clients in remembering and saying goodbye to their pets.

P16 Crematoria review

Animed Direct

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

Our business in action

We aim to ensure our customers receive great quality products at the best prices available. We can do this because we are the biggest seller of animal medicines to pet owners in the UK.

We offer the same products available from veterinary practices but at significantly lower prices. We deliver prescription and non-prescription medicines, premium pet foods and an ever increasing range of pet care products directly to our customers' door, saving them time as well as money.

P17 Animed review

* Revenue share before intercompany sales between practice and other divisions.

Benefits of CVS

UK's largest integrated provider of veterinary practices

Consistent growth in a more competitive environment

Complementary businesses to internalise margins and maximise revenues

6,150
dedicated and trained staff who are committed to excellent clinical care

Our geographical coverage

Our acquisitions have further strengthened our geographical coverage in 2018.

×491 ×7 ×4

1 Scotland & North East
- 60 veterinary practices
- 3 crematoria

2 Northern Ireland
- 10 veterinary practices

3 North West
- 39 veterinary practices
- 2 crematoria

4 Yorkshire
- 22 veterinary practices

5 East Midlands
- 42 veterinary practices

6 West Midlands
- 43 veterinary practices

7 East of England
- 47 veterinary practices
- 2 laboratories

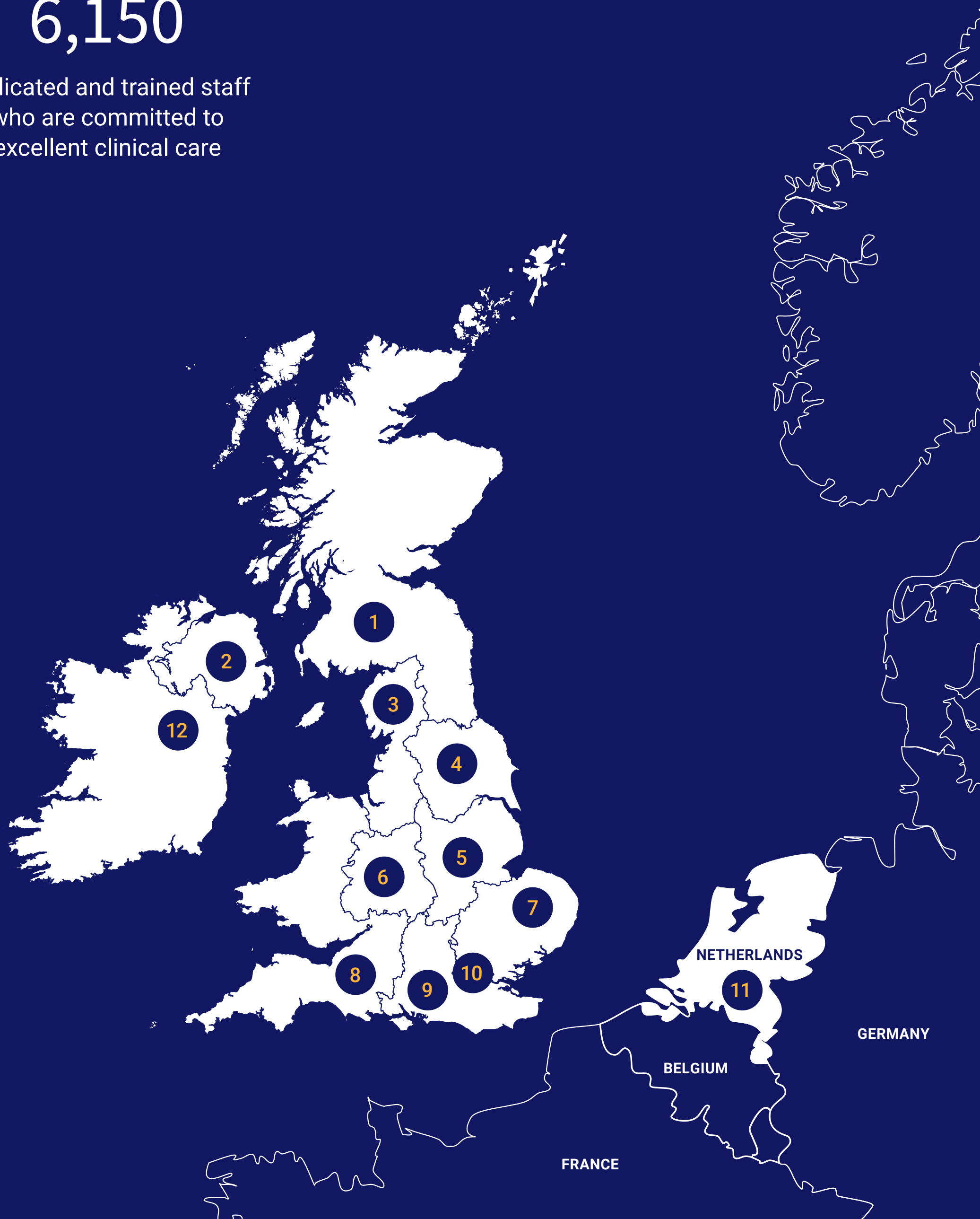
8 South West & Wales
- 71 veterinary practices
- 1 crematorium
- 1 laboratory

9 South East
- 130 veterinary practices
- 1 crematorium
- 1 laboratory

10 London
- 2 veterinary practices

11 The Netherlands
- 22 veterinary practices

12 The Republic of Ireland
- 3 veterinary practices



Chairman's statement
Richard Connell

We are delivering a strong Group performance.

> Like-for-like sales grew by 4.9% (2017: 6.3%) with growth in all areas, in particular Animed Direct which continued to perform exceptionally.

Highlights

The Group continued to build its coverage in the Netherlands and acquired its first practices in the Republic of Ireland

We acquired 52 surgeries during the year

Subsequent to the year end we acquired Slate Hall, one of the largest and most respected poultry vets in England

Results

I am delighted to report a strong performance by CVS with another record year for revenue and operating profits across the Group. Strong like-for-like growth of 4.9% was enhanced by further acquisitions in our Veterinary Practices Division. We continued to increase our investment in equipment, premises, our services and our staff.

Revenue grew by 20.4% to £327.3m (2017: £271.8m). Adjusted EBITDA increased by 13.3% to £47.6m (2017: £42.1m). Adjusted EPS fell slightly to 42.4p (2017: 42.8p) as a consequence of the placing in February, as the timing of acquisitions has not yet fully offset the increase in shares from the placing in February.

Operating profit rose by 2.8% to £17.7m (2017: £17.2m), cash generated from operations increased 30.4% to £46.7m (2017: £37.2m) and profit before tax fell by 3.2% to £14.1m (2017: £14.5m). Basic EPS fell by 13.5% to 16.0p (2017: 18.5p) in part due to the slight fall in profit before tax but primarily as a consequence of the placing.

Business initiatives

In 2018 we acquired 52 surgeries, following on from the 62 acquired in 2017. In total these businesses are expected to generate revenue of over £40.0m per annum. Subsequent to the year end a further 16 surgeries have been acquired.

Of particular note are the acquisitions of Troytown GreyAbbey Equine Veterinary Services and Gilabbey Veterinary Hospital, our first acquisitions in the Republic of Ireland. Troytown GreyAbbey is one of the largest and most renowned equine practices in Ireland. Together with the other equine acquisitions this will significantly develop our equine business.

Subsequent to the year end we acquired Slate Hall, one of the largest and most respected poultry vets in England. This acquisition adds significant credibility to our farm business and should assist in its further expansion. We also acquired Vet Direct, which provides veterinary supplies other than medicines. This acquisition will allow us to further consolidate our buying and reduce costs.

Our referrals business strategy progressed further with the acquisition of Weighbridge Referrals and Lumbry Park now being cash generative, less than three years after opening.

Like-for-like sales grew by 4.9% (2017: 6.3%) with growth in all areas, in particular Animed Direct, which continued to perform exceptionally. Like-for-like sales were adversely impacted by about 0.3% due to the harsher than usual snow at the start of March and this reduced sales by an estimated £1.0m.

Our Healthy Pet Club scheme continued its strong growth with a membership increase of 56,000 (+18.3%) members over the year.

The Laboratories Division again grew very strongly with revenue increasing by 10.2% to £17.9m (2017: £16.3m). The Crematoria Division increased revenue by 4.7% to £6.6m (2017: £6.3m) and Animed Direct by almost 45% to £18.8m (2017: £13.0m).

In August 2017, we launched our own brand pet insurance under the name of MiPet Cover. This is the only pet insurance in the UK that is designed by vets. It provides top of the range cover at a competitive price. Reaction from customers and our own staff, who were involved in its design, has been very positive. Sales have been promising but it is expected to be a couple of years before the business is profitable.

> “The acquisition of Troytown GreyAbbey significantly enhances our equine business and establishes CVS in the Republic of Ireland.”

In February 2018 we raised £58.9m in net proceeds through the placing of shares to fund future acquisitions. Since then we have spent £55.0m on acquisitions, but most of this was subsequent to the year end and only a small benefit from these acquisitions is reflected in the results for the year ended 30 June 2018. As a consequence, the placing has had a dilutive impact on earnings per share in 2018; however, we expect substantial benefit from these and further acquisitions to flow into the results in the year ending 30 June 2019.

On 21 September 2018 the Group increased its facility with the existing banking syndicate to £190.0m comprising a £95.0m loan and a revolving credit facility of £95.0m. This increase will provide further funds for acquisitions and general business development.

Our people

The Group now employs over 6,150 staff (2017: 5,150), including 1,570 vets (2017: 1,270). Our staff have continued to develop the business at the same time as meeting the challenge of integrating the high volume of acquisitions. I would like to thank them all, including those new to CVS, for their efforts and for their expertise and professionalism in providing the best possible care and service to all our customers and their animals.

The development of our staff and of our clinical and non-clinical training continues to be a priority. In January we increased the salaries of some vets and nurses by substantially more than inflation in order to improve retention and recruitment. Since then there has been a noticeable improvement in vacancy rates, in particular for nurses. We continue to develop our internal training programmes, both clinical and managerial, and believe that this benefits our customers, our staff and the business.

Richard Fairman joined the Board on 1 August 2018. His wealth of experience in multi-site, consumer-facing, acquisitive organisations will bring significant benefit to the Group and we look forward to working with him going forward. Richard will replace Nick Perrin as Group Finance Director following the announcement of these results. I would like to thank Nick for his invaluable contribution to the Company over the past five and a half years. Nick has played an important part in driving the business forward and we wish him well in the future.

Dividends

It is proposed to pay a dividend of 5.0p per share in December 2018, a 11.1% increase on the 4.5p per share paid in 2017. 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 7 December 2018 to shareholders on the register on 23 November 2018. The ex-dividend date will be 22 November 2018.

Outlook

The Group's exposure to the potential impacts of Brexit appears to be limited. The greatest impact could be in the employment of European vets. We have not seen any significant impact on employment so far but, together with other major employers in the industry and the Royal College of Veterinary Surgeons, we are lobbying the UK Government to mitigate against any such potential adverse impacts. Clearly, Brexit issues create some uncertainty for the pace of growth in the UK economy over the next couple of years, but the Board believes that the characteristics of our business make it relatively resilient.

Like-for-like sales growth has remained robust since the year end. The acquisition pipeline remains strong and the recent acquisitions in the Republic of Ireland and in our farm business provide further avenues for development.

Initiatives such as the introduction of own brand products, the expansion of dedicated out-of-hours sites and the development of our referrals business are expected to continue to deliver benefits in 2019. We expect our Healthy Pet Club to continue to increase its membership and our MiPet Cover business to grow steadily. We will continue to launch a small number of greenfield sites and expect those recently opened to move towards profitability. Our laboratories will continue to expand their services through the increased sales of analysers and related consumables as well as growing the farm and equine testing. Animed Direct is expected to grow further.

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

Richard Connell
Non-Executive Chairman
27 September 2018

Our markets

We are developing our market opportunities.

Continued growth

Market opportunities
- Continued consolidation by corporate operators
- Significant investment in veterinary services market
- Advancement of corporate model in the Netherlands

Our strategic response
- Continue to acquire to further strengthen UK geographical coverage
- Large opportunity with only 15% market share in small animal sector
- Further growth opportunities in farm animal and equine sectors
- Further expansion in the Netherlands and Republic of Ireland

Maximising revenues

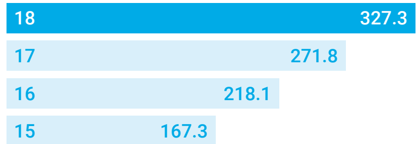
Market opportunities
- Opportunities to extend service offering to meet all of our customers' needs, for example further expansion of our own pet insurance and night services
- Continued expansion of our referral centres

Our strategic response
- Continue to maintain strong cash flow and a healthy balance sheet to support development and growth
- Further investment in core business activities

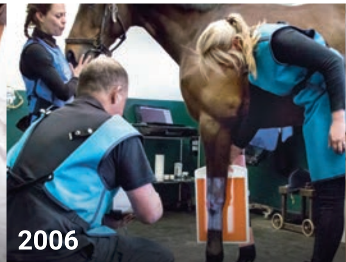
Revenue (£m)

£327.3m

+20.4%



Our progress



1999
- **Company was established**
- **First surgery**: Barton Veterinary Hospital, Canterbury

2002
- **First laboratory**: Finn Pathologists, Norfolk

2006
- **First dedicated equine practice**: Scott Dunn's Equine Clinic, Berkshire

2007
- **100th surgery**: Regan Veterinary Group, Manchester

2008
- **Second laboratory**: Axiom Veterinary Laboratories, Devon
- **First crematorium**: Rossendale Pet Crematorium, Lancashire

2010
- **Commenced on-line trading**: Animed Direct
- **Third laboratory**: Greendale Veterinary Diagnostics, Surrey
- **Major acquisition**: Pet Doctors
- **200th surgery**: Cedar Veterinary Group, Hampshire

Our integrated services model

Market opportunities

- In the UK the small animal market is advanced in terms of corporate consolidation
- Significant opportunities exist to expand and develop service offering in farm and equine in the UK
- Integrated model is at an early stage of development in the Netherlands and Republic of Ireland

Our strategic response

- Continuing development of referral services
- Introduction of more own brand products
- Growth and development of the Healthy Pet Club scheme and MiPet Cover
- Development of greenfield locations and relocations of existing practices
- Expansion of farm animal business, including poultry through Slate Hall acquisition

Industry update

- Consolidation of the UK veterinary market continues apace
- Consolidation of the Netherlands market is in its early stages
- CVS continues to be the largest integrated provider of veterinary services
- CVS continues to develop its range of services, including own brand products and insurance
- CVS continues to expand its European coverage

2012

Second crematorium: Valley Pet Crematorium, Devon

2014

Third crematorium: Silvermere Haven, Surrey

2015

Fourth crematorium: Whitley Brook, Cheshire

Major acquisition: YourVets

Fourth referral centre: Dovecote, Castle Donington

Launched MiPet own brand products

2016

Greenfield referral centre: Lumbry Park, Hampshire

Major acquisitions: Alnorthumbria, Highcroft and Albavet

Fifth and sixth crematoria: The Pet Crematorium, Durham and Lanarkshire

2017

Major acquisition: Severn Edge Veterinary Group

New referral centre: Manchester Veterinary Specialists

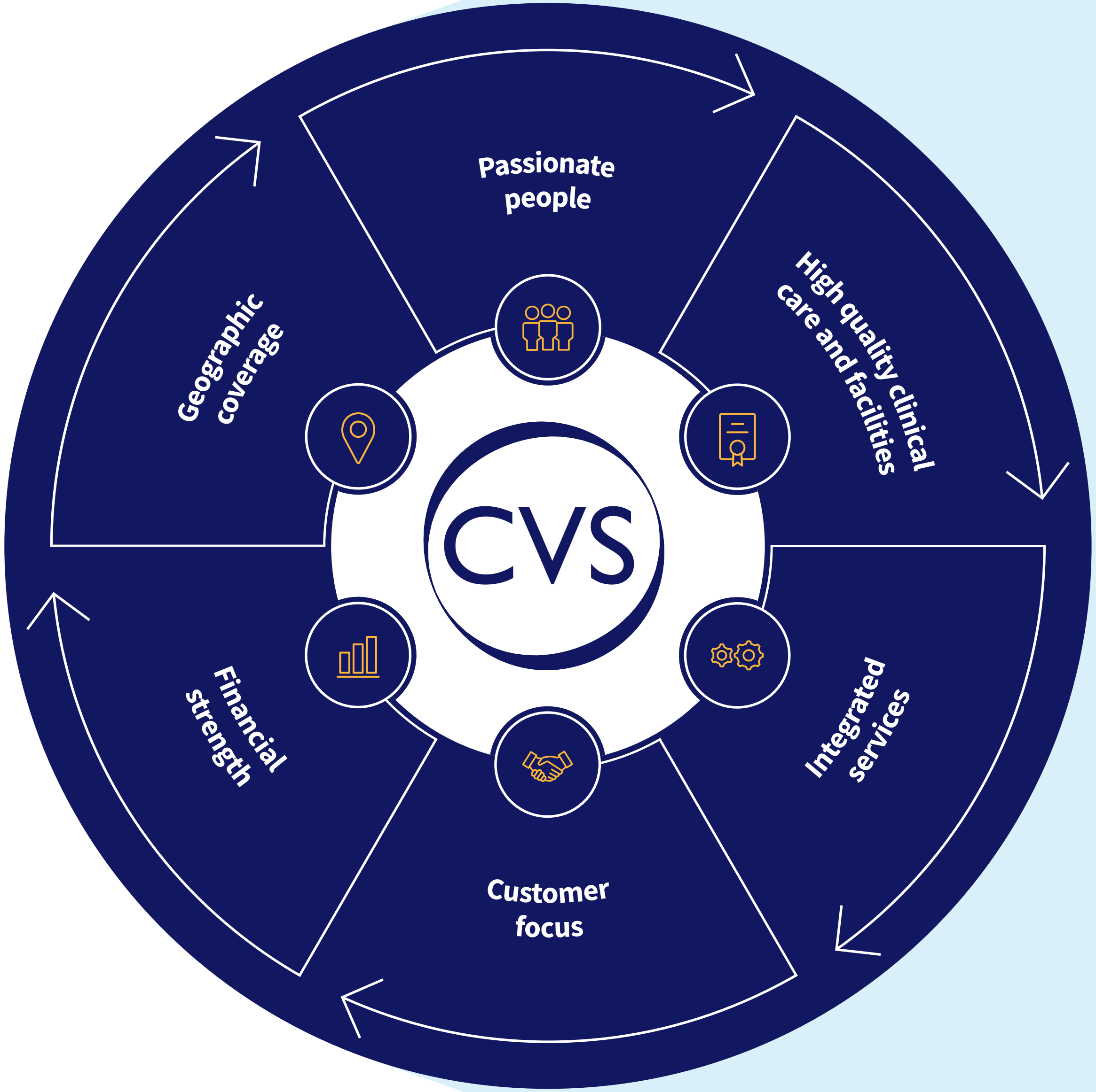
Launched own brand pet insurance in August 2017

2018

Major acquisitions: B&W Equine Ltd, Troytown GreyAbbey (Republic of Ireland) and Slate Hall, poultry vets, shortly after year end

Our business model

We are delivering our vision.



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, together with expanding our opportunities in the Netherlands and three in the Republic of Ireland.

We continue to deliver our vision through like-for-like growth and the acquisition of veterinary practices, diagnostic laboratories, pet crematoria and further expansion of Animed Direct, whilst using our expertise to expand our own brand products range and launching our own pet insurance. Our business model focuses on creating value through the provision of integrated services and the best customer care.

Our business model is underpinned by our core values

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

P22 Our culture and values

Geographic coverage
As at the date of this report we have 491 surgeries, four laboratories and seven crematoria providing coverage of England, Scotland, Wales, the Netherlands, Northern Ireland and the Republic of Ireland. During the year we also expanded our geographical coverage outside the UK to Europe with 22 sites in the Netherlands and three in the Republic of Ireland.

491 surgeries

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

6,150 staff

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. We invest in clinical training and advanced qualifications.

57 veterinary diploma holders

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

19 dedicated out-of-hours services

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

362,000 Healthy Pet Club members

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

£17.7m operating profit

Creating value for Customers
We aim to meet all our customers' needs so that we can ensure a consistent high quality of treatment through our veterinary practices, and through providing the all-round complete service through our integrated services.

Creating value for Shareholders
We have continued to deliver substantial growth to our shareholders in the past five years with earnings per share increasing by 92.8% from 8.3p to 16.0p.

Creating value for Colleagues
Development of our staff and of our clinical and non-clinical training continues to be a priority. We continue to develop our internal training programmes, both clinical and managerial, and believe this benefits our customers, our staff and the business.

Creating value for the Community
Our nominated charity of the year for 2018 is The Dogs Trust. We encourage our practices to engage with the community to support both our nominated charity of the year and local charities which helps foster relationships between us and the local communities.

Our strategy

We are progressing towards our goals.

1 Excellent customer service and care

478
graduate vets in four years

36
clinical pathologists employed

How we performed

- 57 of our vets are diploma holders, the highest recognised qualification.
- A further 103 vets have been recruited in our graduate programme during the year bringing the total to 478 over a four-year period. A further 78 have already signed up for the 2018/19 course.
- 168 nurses have enrolled on our new Nursing Excellence Award run by the Royal Veterinary College.
- 36 clinical pathologists are employed in our Laboratories 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.
- We also sponsor further qualifications for our vets such as RCVS Advanced Veterinary Practitioner and Diplomas.

Links to key performance indicators A B C D E F G
P12 Key performance indicators

Links to risks 1 2 3 4 5 6 7 8
P24 Principal risks and uncertainties

2 Meeting all of our customers' needs

491
surgeries

362,000
members of our HPC scheme

How we performed

- We own 491 surgeries across the UK, the Netherlands (22) and the Republic of Ireland (three), four laboratories and seven crematoria.
- There are 362,000 members in our HPC scheme.
- We invested £3.1m in developing our surgeries to improve facilities.
- We operate seven specialist referral centres, including the Manchester Veterinary Specialists, which opened in February 2017, Weighbridge Referrals and Gilabbey Veterinary Hospital in the Republic of Ireland, which we acquired during the year.
- We opened another five out-of-hours centres during the year bringing the total to 19.

Our focus

- Development of our own brand pet insurance, MiPet Cover.
- Further expansion of our referrals business.
- Development of additional complex testing capability at our diagnostic laboratories.
- Investment in our crematoria business to increase capacity.
- Expansion of our own out-of-hours centres, thereby reducing reliance on third-party providers.
- Further development and expansion of our MiPet brand of products.
- Further expansion of our farm and equine businesses.

Links to key performance indicators A B C D E F G
P12 Key performance indicators

Links to risks 1 2 3 4 5 6 7 8
P24 Principal risks and uncertainties

3 Expanding our business

52
surgeries acquired in the year

16
surgeries acquired post year end

How we performed

- 52 surgeries acquired during the year.
- Two greenfield sites opened during the year.
- 16 surgeries acquired since the year end.

Our focus

- We aim to continue to grow our business through acquisitions and greenfield development sites.
- We will consider acquisitions of small animal, farm animal and equine surgeries. We will also consider acquisitions of crematoria and laboratories where they fit a geographical or knowledge gap.
- We aim to continue our expansion into the Netherlands and the Republic of Ireland, in both small and farm animal along with equine surgeries.

Links to key performance indicators A B C D E F G
P12 Key performance indicators

Links to risks 1 2 3 4 5 6 7 8
P24 Principal risks and uncertainties

4

Building on our strengths to provide services to external practices

14
own brand products available

290,000
tests performed by our labs for third parties

How we performed

- Our laboratories performed 424,000 tests in 2018, of which 290,000 were for third parties.
- Our crematoria performed 135,000 cremations, of which 62,000 were for third parties.
- 14 high quality own brand MiPet products available through HPC and MiVetClub.
- Healthy Pet Club available to buying group members.

Our focus

- Development of external sales of our laboratory analyser units.
- Expansion of the service offering of our buying groups. Our aim is not only to allow practices to benefit from our buying power but also through providing other services such as health and safety expertise, administering loyalty club schemes and access to MiPet products.

Key performance indicators

- A Revenue
- B Like-for-like sales performance
- C Healthy Pet Club revenue
- D Gross margin before clinical staff cost
- E Adjusted EBITDA
- F Adjusted EPS
- G Cash generated from operations

Risks

1 Key staff
2 Economic environment
3 Competition
4 Adverse publicity
5 Information technology
6 Changes in regulations
7 Reliance on one supplier of medicines
8 Ability to source and integrate acquisitions

Links to key performance indicators A B C D E F G
P12 Key performance indicators

Links to risks 1 2 3 4 5 6 7 8
P24 Principal risks and uncertainties

We are developing our businesses

We are expanding our UK and European operations

The acquisition of further practices in the UK has continued the geographic development of the Group across the country and has further developed the farm animal and equine as well as the small animal businesses. The acquisitions in Northern Ireland bring our total number of sites there to ten whilst the acquisitions in the Netherlands bring our total there to 22. We also acquired our first three practices in the Republic of Ireland. The acquisition of B&W Equine in the UK, Dierenkliniek Emmeloord, our first equine business in the Netherlands, and Troytown GreyAbbey in the Republic of Ireland significantly enhances our equine business.

The pipeline of acquisitions remains strong and CVS expects to continue to complete acquisitions in the UK, Netherlands and the Republic of Ireland throughout this year and beyond. Our diverse, integrated model means that acquired businesses not only contribute towards our continuing success, but also benefit from being part of a larger integrated group better able to serve all our customers' needs.

22
surgeries in the Netherlands

3
in the ROI

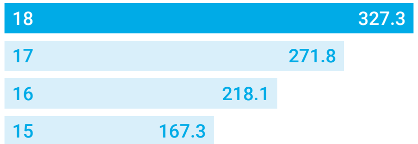
Key performance indicators

We are monitoring progress against the Group strategy by reference to the following financial KPIs.

A

Revenue (£m)

£327.3m



Definition
Total revenue of the Group.

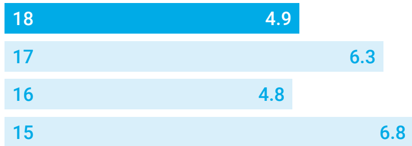
Changes in 2018
- Total revenue increased by £55.5m.
- Revenue before the impact of prior year and current year acquisitions was £284.1m, a £14.7m increase compared with 2017. Factors contributing to the increase are noted in the like-for-like sales performance.
- Acquisitions in the year and the full year impact of the prior year's acquisitions generated additional revenue of £46.2m.
- Intercompany sales eliminated on consolidation increased by £1.8m, principally due to the impact of internal crematoria and laboratory sales to practices acquired in 2017 and 2018.

Links to strategy 1 2 3 4
P10 Strategy

B

Like-for-like sales performance (%)

4.9%



Definition
Revenue generated from like-for-like operations compared to the prior year. Revenue for 2018 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 2016, revenue is included from September 2017 in the like-for-like calculation.

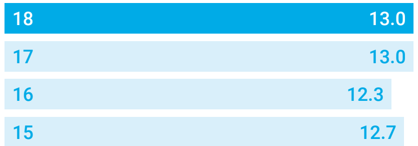
Changes in 2018
- The like-for-like performance reflects strong performances in all divisions with an exceptional performance by Animed Direct.
- The like-for-like sales performance compared with 2017 was slightly impacted by about 0.3% due to harsher than normal snow at the start of March which reduced sales by approximately £1.0m.

Links to strategy 1 2 3 4
P10 Strategy

C

Healthy Pet Club revenue (% of practice revenue)

13.0%



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

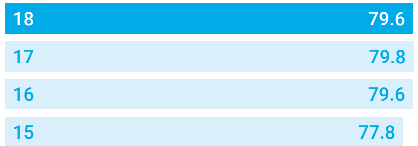
Changes in 2018
- The growth of Healthy Pet Club membership from 306,000 to 362,000 led to an increase in revenue for the year but the percentage of sales remained constant.

Links to strategy 1 2 3 4
P10 Strategy

D

Gross margin before clinical staff costs (%)

79.6%



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

Gross margin was £151.6m, after deducting £109.0m of clinical staff costs.

Changes in 2018
- The marginal decrease in the gross margin is principally due to the short-term impact of greenfield development, the impact of the farm animal work and the lower margin in our Dutch practices.

Links to strategy 1 2 3 4
P10 Strategy

E

Adjusted EBITDA (£m)

£47.6m

18	47.6
17	42.1
16	32.8
15	23.0

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

Changes in 2018
- The improvement in adjusted EBITDA is explained by like-for-like growth (£2.3m) together with the full year impact of prior year acquisitions (£3.0m) and acquisitions in the current year (£1.1m), partly offset by a £0.9m increase in central costs incurred to build a foundation for further development and expansion of the Group.

Links to strategy 1 2 3 4
P10 Strategy

F

Adjusted EPS (p)

42.4p

18	42.4
17	42.8
16	32.4
15	24.7

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 2018
- The slight decrease reflects the slight decrease in profit before tax and the effects of the share issue of 5,581,395 new shares in February 2018 to raise £58.9m in net proceeds.

Links to strategy 1 2 3 4
P10 Strategy

G

Cash generated from operations (£m)

£46.7m

18	46.7
17	37.2
16	33.6
15	22.2

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

Changes in 2018
- The increase primarily reflects the improvement in EBITDA of the business, together with the decrease in other receivables partially offset by the increase in stock reflecting the growth of the Group.

Links to strategy 1 2 3 4
P10 Strategy

Our strategic priorities

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

Our business

Veterinary Practices

Our Veterinary Practices Division is the heart of our business. We added a further 52 surgeries during the year and 16 since the year end.

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

Our services

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

Revenue (£m)

£297.5m
+19.9%

18	297.5
17	247.9
16	198.1
15	147.5
14	126.4

EBITDA (£m)

£50.1m
+12.1%

18	50.1
17	44.7
16	35.6
15	25.3
14	21.9

HPC customers ('000)

362,000
+18.3%

18	362
17	306
16	253
15	213
14	162

Laboratories

Our laboratories provide diagnostic services to CVS veterinary practices and third parties. Over 424,000 tests were performed in 2018, of which 290,000 were for third parties.

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

Our services

- Four diagnostic laboratories covering the UK
- Biochemistry, haematology, histology, serology and advanced allergy testing
- Large animal ISO 17025 accredited
- Equine testing
- In-house laboratory equipment and consumable supplier

Revenue (£m)

£17.9m
+10.2%

18	17.9
17	16.3
16	14.8
15	13.1
14	10.6

EBITDA (£m)

£3.9m
+9.0%

18	3.9
17	3.6
16	3.1
15	2.2
14	1.1

Lab tests performed ('000)

424,000
+4.7%

18	424
17	405
16	380
15	368
14	354

Our business continued

Crematoria

Our crematoria provide pet cremation services and clinical waste collection for veterinary practices and pet owners. Over 135,000 cremations were performed in 2018 (2017: 142,000), of which 62,000 (2017: 72,000) were for third parties.

Our services

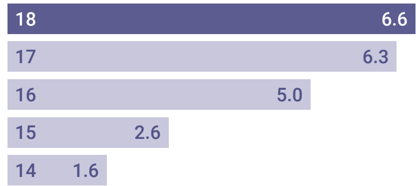
- Seven crematoria covering the UK
- Pet cemeteries and memorial gardens at the Rossendale and Silvermere Haven sites
- Clinical waste collection services
- Small animal and equine cremations

w

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

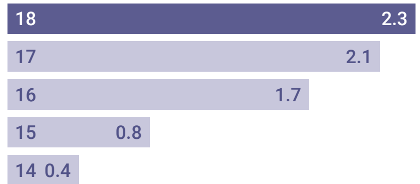
Revenue (£m)

£6.6m
+4.7%



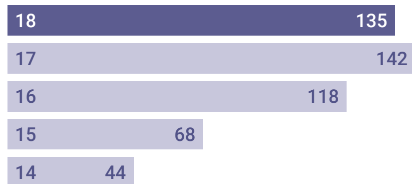
EBITDA (£m)

£2.3m
+10.3%



Cremations ('000)

135,000
-4.9%



Animed Direct

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

5.5% revenue share

animeddirect.co.uk

Our services

- On-line retailer serving UK pet owning population
- Full prescription medicine delivery service

Revenue (£m)

£18.8m
+44.9%

18	18.8
17	13.0
16	8.4
15	10.3
14	8.5

EBITDA (£m)

£1.2m
+66.3%

18	1.2
17	0.7
16	0.3
15	0.5
14	0.3

Unique customers ('000)

204,000
+20.0%

18	204
17	170
16	125
15	139
14	136

Business review
Simon Innes

We are making excellent progress on our strategic priorities.

"CVS Group is managed across four divisions: Veterinary Practices, Laboratories, Crematoria and Animed Direct. The Veterinary Practices Division is the core of our business but all areas of the Group made excellent progress towards our strategic priorities during 2018."

Highlights

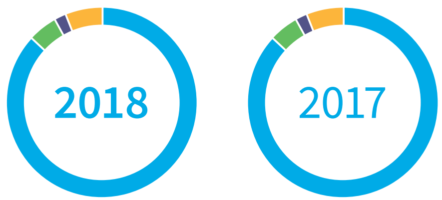
Animed Direct performed excellently during the year, growing revenue by 44.9%

The development of our referrals business remains a key strategic priority

Our equine and farm operations have grown significantly

Our new in-house laboratory business has performed exceptionally well

Revenue by division
£m



	30 June 2018 £m	30 June 2017 £m
Veterinary Practices	**297.5**	247.9
Laboratories	**17.9**	16.3
Crematoria	**6.6**	6.3
Animed Direct	**18.8**	13.0
Head Office	**(13.5)**	(11.7)
Total Group	**327.3**	271.8

Veterinary Practices Division

	2018 £m	2017 £m
Practices like for like*	**240.9**	234.0
2017 acquisitions and greenfields	**37.5**	13.9
2018 acquisitions and greenfields	**19.1**	–
Total revenue	**297.5**	247.9
Adjusted EBITDA	**50.1**	44.7
EBITDA margin %	**16.9**	18.0

* This includes all businesses owned throughout the years ended 30 June 2017 and 2018.

Revenue amounted to £297.5m (2017: £247.9m), an increase of 20.0% on the prior year; like-for-like sales grew by 3.0% for the year as a whole (2017: 5.2%). Adjusted EBITDA increased by 12.1% from £44.7m to £50.1m and profit before income tax increased from £28.1m to £29.3m. These increases include the impact of acquisitions in both 2017 and 2018.

In the year CVS acquired 52 surgeries operating as 32 businesses. These businesses contributed £18.9m of revenue and £1.6m of EBITDA in the year. Practices acquired during the year and after the year end are set out in note 14. Greenfield businesses in 2018 include two new sites (in Bracknell and Norwich) and the MiPet Cover insurance business, which together generated £0.2m of revenue. These businesses are expected to take two or three years to become profitable.

Adjusted EBITDA as a percentage of sales fell from 18.0% to 16.9%. Most of this reduction is due to the loss-making greenfield businesses (MiPet Cover and three greenfield sites) and lower than normal returns on acquisitions made in 2017 and 2018. A number of acquisitions have encountered the staffing challenges experienced in the wider business leading to a lower than anticipated level of sales. Conversely, some locations have taken on additional staff in anticipation of increased sales which have not materialised to the extent anticipated. Action has been taken to address the issues and the performance of the acquisitions is expected to recover to more normal levels in 2019. The slightly different nature of the business results in EBITDA percentage returns in the Netherlands being lower than in the UK (and this is taken into account in the price paid for these businesses).

Within the like-for-like practices the EBITDA percentage remained the same although it fell in the buying groups due to the increased sales of our own brand MiPet range which is at a lower margin than other buying group sales.

The development of our referrals business, and the expertise that this requires, has been and remains a key strategic priority for CVS. Lumbry Park, which opened in October 2015, developed strongly during the year and is now profitable. Manchester Veterinary Specialists, which opened in February 2017, is also trading profitably. We acquired Weighbridge Referrals during the year and anticipate we will continue to gradually expand our referrals capacity.

Our MiPet own brand range includes a number of prescription-only and non-prescription medicines. During the year we added Petalexin, a prescription-only antibiotic, and Easecto, a new generation oral tick and flea treatment. Further product launches are planned in the current year, including two further prescription-only medicines and a nutraceutical. Own brand equine products are also planned. The own brand range is supported well 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. Significant progress was made during the year in selling the MiPet range to our buying group members and this is expected to develop further.

We are building successful careers in farm practice

We are CVS Farm

CVS Farm has grown in the last 18 months with 100 vets across 22 practices nationwide which range from traditional mixed practices to large farm-specific practices. Our aim is to be able to provide a comprehensive, progressive and caring service to every type of farm enterprise.

Polly Gray is a Farm Vet at Coast2Coast Vets in Cornwall and works flexibly.

"The opportunity to work flexibly is increasingly important given levels of burn-out and a growing number of female veterinary professionals who struggle to balance their career with young children. I found CVS to be accommodating – even welcoming – of my wish to work flexibly two days a week and, with careful planning, I now have time for both work and family. I still contribute equally to the on-call rota and have a great relationship with my full-time colleagues. Even better, I have enthusiasm and energy for my job once more."

Polly Gray
BSc, BVM&S, MRCVS

Farm Vet,
Coast2Coast Farm Vets

Business review continued

We are rapidly expanding

We are CVS Equine

CVS Equine is a rapidly expanding group of equine practices focused on driving clinical and management excellence. Julian Samuelson was one of the original members of Bell Equine 27 years ago and has been the Managing Partner for the last 17 years.

What influenced the decision to sell Bell Equine to CVS?
Selling the business to CVS was the perfect solution to the issues that were troubling us most; access to capital for further investment in the business, a succession plan, but most importantly, a secure and sustainable future. In our discussions with CVS we gained increasing confidence that we shared a vision for the development of a group of equine practices and equine vets working together in a way that would achieve outstanding care for our clients and a lifestyle for our team that we simply could never achieve by remaining independent.

What worried you at the time?
Initial concerns over how things would change post acquisition were unfounded – the culture and ethos at the heart of the business, the things that matter most to us, are as strong as ever.

What is the vision for the future of CVS Equine?
We already have an astonishingly talented group of equine practices and each new business is selected to ensure that it adds incrementally to the group to ensure that the value of the whole is greater than the sum of the parts. Our ambition is to grow the business to a size where the already apparent economies of scale really start to multiply, providing better service to our clients and a better working environment for the teams behind the business. CVS Equine now has in excess of 130 equine vets.

Julian Samuelson
MA, VetMB, MBA, MRCVS

Equine Acquisitions and Integration Director

Veterinary Practices Division continued

The Healthy Pet Club loyalty scheme continued its exceptional growth in the year. Over 56,000 pets were added to the scheme increasing membership by 19.9% and bringing the total membership to 362,000. 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 £38.0m (2017: £32.5m). At the year end, the monthly run rate represented 13.0% (2017: 13.0%) of practice revenue; however, in the like-for-like practices the figure was 16.6% (2017: 16.9%), 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 19 emergency out-of-hours sites. These reduce our reliance on third parties for the 24-hour cover that vets are required to provide to their customers. Satisfying the requirement ourselves significantly improves the experience of our customers and their pets and all of our out-of-hours centres are profitable. We continue to perform out-of-hours work for other veterinary practices and will seek to develop further centres as our growing density in an area makes this effective.

Our acquisitions during the year and subsequent to the year end further developed our geographic spread and continued the development of the different business areas. We now have 22 surgeries in the Netherlands covering small animal, equine and farm animals. Of particular note were the acquisitions of Troytown GreyAbbey Equine Veterinary Services and Gilabbey Veterinary Hospital, our first acquisitions in the Republic of Ireland. Troytown GreyAbbey is one of the largest and most renowned equine practices in Ireland. Together with the other equine acquisitions this will significantly develop our equine business. Subsequent to the year end we acquired Slate Hall, one of the largest and most respected poultry vets in England. This acquisition adds significant credibility to our farm business and should assist in its further expansion. We also acquired Vet Direct, which provides veterinary supplies other than medicines. This acquisition will allow us to further consolidate our buying and reduce costs.

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

We have continued to invest significantly in our surgeries. We opened new sites in Norwich and Bracknell during the year as well as one in Smethwick in January 2017. We continue to relocate sites that have outgrown their existing locations and our major relocations during the year of Springfield and Okeford have performed well since their relocation.

> "Subsequent to the year end we acquired Slate Hall, one of the largest and most respected poultry vets in England."

In addition to refurbishments, we spent £7.6m on new equipment in our practices. This equipment continues to improve our diagnostic capability and our ability to serve our customers in a professional environment.

Our MiPet Cover insurance business was launched in August 2017. This is the only own brand pet insurance in the UK which has been developed by a veterinary business. Our own staff were closely involved in and contributed to its development. The product is high quality and excellent value and is now established in our practices. We expect it to take two or three more years until the business is profitable.

We continue to place significant emphasis on staff training and career opportunities. Uptake in our apprenticeship programme continues to increase within the business. We currently have over 155 active learners, with a further 85 who have started in September 2018. The majority of our apprentices are student veterinary nurses completing their level 3 diploma. We were also involved in the trailblazer group to transfer the veterinary nursing apprenticeship framework into a new approved standard. This ensures the future of veterinary nursing studies through apprenticeship frameworks as the government intends to phase out all frameworks by 2020.

The graduate programme has also evolved in line with the demands of the business and the needs of our graduates. We now offer three full clinical streams, small animal, equine and large animal. Equine and large animal have five dedicated clinical days run by CVS experts. The equine programme provides a highly practical environment in which to learn and practise new skills. Our large animal programme focuses on five species, while the well established small animal programme continues to provide robust clinical skills. We have increased the number of days from 13 to 20 over the two-year programme as well as the number of graduates we have taken on demonstrating our commitment to their learning. We have taken on board feedback from our graduates to incorporate professional skills as well as to ensure we help build resilience, consultation skills and communication.

With the support of our experts and feedback from our graduates, we ensure that this ever evolving programme provides a high level of practical clinical training, as well as the right mix of professional skills and mentoring, to support our graduates as they embark on their career with CVS.

We also sponsor further qualifications for vets such as RCVS Advanced Veterinary Practitioner Certificates and Diplomas. Increasingly, this training is carried out in house by our own experts and bringing more of this in house will be an area of focus over the next year.

Laboratories Division

	2018 £m	2017 £m
Revenue	17.9	16.3
Adjusted EBITDA	3.9	3.6
EBITDA margin %	21.9	22.1

The Laboratories Division generated revenue of £17.9m, a 10.2% increase on the prior year figure of £16.3m. Adjusted EBITDA grew by 9.0% from £3.6m to £3.9m and profit before tax increased from £2.9m to £3.3m.

The diagnostics testing business has grown steadily during the year. The acquisition of Bell Equine in the previous year created the opportunity to develop equine testing and revenue has grown strongly, although from a small base, with increases in both internal and external sales. Farm diagnostics have also shown good growth from a small base. Both these areas are expected to grow in importance.

The sales of analysers and related consumables grew strongly during the year. The business installs its analysers in new and acquired CVS practices; however, third-party sales have continued to develop well. Because the analyser machines have an economic life of several years, the sale of the machines leads to consumable sales for several further years.

The Laboratories Division gross margin percentage fell marginally from 65.4% in 2017 to 65.0% primarily because the faster growing analyser business has a lower gross margin percentage. EBITDA as a percentage of sales fell slightly from 22.1% to 21.9%.

Crematoria Division

	2018 £m	2017 £m
Revenue	6.6	6.3
Adjusted EBITDA	2.3	2.1
EBITDA margin %	34.6	32.8

The Crematoria Division had a good year with sales growing by 4.7%. The Crematoria Division benefits from becoming the supplier to veterinary practices that we have acquired in both the current and prior year but loses business when other corporates acquire practices that are our customers and switch them to their usual supplier. The high net growth level reflects the high standard of service and the consequent ability to attract new customers. The division has continued to see a market shift to individual cremations, which generate higher revenue.

Adjusted EBITDA grew by 10.3% to £2.3m (2017: £2.1m). EBITDA as a percentage of sales improved from 32.8% to 34.6%, primarily due to a small improvement in employment costs. Profit before tax remained at £1.9m.

Animed Direct

	2018 £m	2017 £m
Revenue	18.8	13.0
Adjusted EBITDA	1.2	0.7
EBITDA margin %	6.4	5.6

Animed Direct, our on-line dispensary and retailer, focuses on prescription and non-prescription medicines where the Group's buying power allows it to be extremely competitive.

The business performed excellently during the year, with revenue growing by 44.9% to £18.8m (2017: £13.0m) and adjusted EBITDA rose 66.3% to £1.2m (2017: £0.7m). The new website was launched late in the year and this will allow the business more flexibility in providing a range of offers to customers and is expected to provide the opportunity for further growth.

The gross margin percentage improved slightly from 17.4% to 17.9%.

The business now has an active customer database of over 204,000 (2017: over 170,000) people, with the average value of each purchase during the year up to £46.00 (2017: £40.00). Profit before tax increased from £0.6m to £1.2m.

Head Office

Central administration costs include those of the central finance, IT, human resource, purchasing, legal and property functions. Total costs were £9.9m (2017: £9.0m), representing 3.0% of revenue (2017: 3.3%).

The significant growth and development of the Group requires continued additional investment to maintain an appropriate level of control and to support further growth over the next few years. All central functions have taken on additional staff to assist with the integration of acquisitions, including those in the Netherlands and the Republic of Ireland, and the ongoing management of the enlarged business. Ensuring that we maintain control of the business is a priority and as part of that aim we have replaced our outdated accounting system. We continue to base support staff in the regions where they can more easily provide the close support that the operations teams require.

Simon Innes
Chief Executive
27 September 2018

Our culture and values

We are placing culture and values at the heart of our business.

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.

Our gender diversity

Customer focus

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

Our dedication to our customers shows in everything we do.

Commitment to excellence

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

We constantly strive to achieve the highest possible standards.

Success through our people

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

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

Honesty and integrity

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

We treat our employees and customers with honesty and respect.

We are focusing on developing opportunities at CVS.

New graduate programme

478 graduates in four years

Designed to assist newly qualified vets make the challenging transition from university to day-to-day practice.

The graduate programme has also evolved in line with the demands of the business and the needs of our graduates. We now offer three full clinical streams, small animal, equine and large animal.

Equine and farm animal have five dedicated clinical days run by CVS experts. The equine programme provides a highly practical environment in which to learn and practise new skills. Our farm animal programme focuses on five species, while the well established small animal programme continues to provide robust clinical skills.

We have increased the number of days from 13 to 20 over the two-year programme as well as the number of graduates we have taken on demonstrating our commitment to their learning. We have taken on board feedback from our graduates to incorporate professional skills as well as to ensure we help build resilience, consultation skills and communication.

Apprenticeships

155 active learners

Providing exciting development opportunities and valuable skills for our existing employees and new recruits, whilst supporting the growth of our business.

Uptake in our apprenticeship programme continues to increase within the business. We have over 155 active learners, with a further 85 who started in September 2018. The majority of our apprentices are student veterinary nurses completing their level 3 diploma. Interest in the variety of other apprenticeships is gathering a strong momentum across the business as we explore additional possibilities. This will provide exciting development opportunities and valuable skills for our existing employees and new recruits, whilst supporting the growth of our business. We were involved in the trailblazer group to transfer the veterinary nursing apprenticeship framework into a new approved standard. This ensures the future of veterinary nursing studies through apprenticeship frameworks as the government intends to phase out all frameworks by 2020.

Nursing Excellence Award

168 nurses have enrolled on our new Nursing Excellence Award

CVS Nursing has recently entered into a new partnership with the Royal Veterinary College, University of London, to deliver accredited CPD for nurses.

Our Director of Nursing, Belinda Andrews-Jones, has worked with the RVC to develop a new "Nursing Excellence Course". This will provide access to the fantastic clinical nursing modular CPD, run by the RVC, and will provide an accredited certificate in a particular subject area. These modules are run entirely on-line over six weeks and use a blended/deep learning approach to deliver high quality content, which encourages learners to think critically about their work, not to just engage in box-ticking CPD hours.

At the end of the module, nurses will gain up to 18 CPD hours and a certificate from the University of London, Royal Veterinary College, London.

We are offering opportunities

We are developing people

We want our colleagues to build a long-term, satisfying career with us and, as the largest and most comprehensive provider of veterinary services in the UK, the variety of opportunities we can offer to veterinary professionals ensures that we deliver on this goal.

"CVS offers a pathway for every area of special clinical interest and professional advancement is actively encouraged and supported. The company helped to fund my Advanced Diploma in Clinical Veterinary Nursing and RCVS Advanced Nursing Diploma. I'm a better nurse and clinical coach to my students as a result."

Helen Molyneux
RVN DipAVN, DipHECVN, CertVNECC

Head Nurse, Rees Veterinary Group

"Training and mentoring from CVS have enabled me to follow an exciting career path, first in a clinical role and now in a position which is completely non-clinical. As a Regional Director, I focus on developing the practices in my region and still enjoy the challenge of learning something new every day."

Emma Gray
BSc (Hons), MA, VetMB, MRCVS

Regional Director, CVS Group

Principal risks and uncertainties

We are managing and mitigating risks.

The Group's businesses are subject to a variety of risks.

Some of the most significant risks are explained opposite together with details of actions that have been taken to mitigate these risks.

Risk	Description	Mitigating factors
1 **Key staff**	The Group is exposed to risk in relation to the ability to attract and retain key staff, in particular appropriately qualified veterinary surgeons. The market for veterinary surgeons is highly competitive.	• The Group is committed to maintaining salaries for its staff that are competitive in the marketplace. To this end, salary increases significantly in excess of inflation were given to a number of categories of veterinary surgeons and nurses during the year. Remuneration is benchmarked against industry data. • The retention of senior personnel is encouraged through the operation of the Group's LTIP scheme. An annual SAYE scheme, available to all staff, aids the retention of other staff. • The training and development of the Group's employees is a key focus. This covers not only technical, e.g. veterinary skills, but also management skills. Our graduate recruitment scheme is recognised across the industry and a wide and increasing range of other courses helps to develop and retain senior staff. • Staff surveys and exit interviews are carried out, through which the Group identifies common reasons for staff leaving the business and allows the Group to address relevant matters. • A highly qualified, central recruitment team is in place to assist in recruitment of staff from the UK and from overseas.
Links to strategy P10 Strategy	1 2 3 4	
2 **Economic environment**	A poor economic environment poses a risk to the Group through reduced consumer spending on veterinary, laboratory, crematoria and on-line services.	• The Board believes that the characteristics of our business make it relatively resilient to economic fluctuations. • The Group seeks to become more resilient to future downturns in economic conditions and to the actions of competitors through the diversification of its services and by bonding customers to them. • The range of businesses within the Group, and our geographic expansion, reduces the risk of the impact of any economic downturn. The small animal, farm animal and equine veterinary markets have slightly different characteristics. Similarly, there will be differing economic cycles in different countries. The growth of Animed Direct protects the Group further as customers switching to buying on-line may still be buying from CVS. • The impact of Brexit, and therefore of the Group's exposure to the potential impacts, remains uncertain. The Board believes that the main risk to the Group of Brexit stems from any reduction in economic growth. Since the veterinary industry appears to be relatively resilient to economic downturns the Board believes that the impact of, and economic downturn as a result of, Brexit is likely to be less than for many industries.
Links to strategy P10 Strategy	1 2 3 4	

Risk	Description	Mitigating factors
3 Competition	The actions of competitors are aimed to divert customers to their businesses rather than those of the Group.	• The actions of competitors are constantly monitored and actions are taken to mitigate them. The expansion of the Group's business to provide all of the veterinary services required by our customers acts to bond them to the practice. These services include referrals, out-of-hours (provided internally), MiPet Cover insurance and the Healthy Pet Club preventative medicine scheme. Our own brand product range, only available in surgeries, helps to reduce the risk of customers buying drugs on-line. • The Group aims to maintain its properties as a welcoming environment for customers and we train our staff to provide an excellent customer experience.
Links to strategy P10 Strategy	1 2 3 4	
4 Adverse publicity	Adverse publicity could result in a reduction in customer numbers and in revenue or in the number of people wishing to work for the Group.	• 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. • Within the veterinary industry, the Group aims to be prominent in its representation on national bodies and at industry events so as to continue to build its reputation and credibility within the industry.
Links to strategy P10 Strategy	1 2 3 4	
5 Information technology	The Group is dependent on various aspects of IT technology for the continued operation of its business. These primarily relate to the security of data and the continuing availability of systems.	• The Group has a number of policies in place that are aimed at ensuring the stability and security of our networks and systems, whilst at the same time supporting the growth of the business. • Access to networks, applications and data is limited to those who require it. Where possible, physical access to equipment is restricted. Access to networks and applications is restricted by passwords which are changed regularly. Permissions are set so that access within networks and applications are limited as appropriate. • Network security is regularly enhanced with external reviews being performed periodically to identify areas of risk. Networks and equipment are automatically monitored to identify risks and issues and failover systems are in place in key areas. A scheduled programme of equipment and software replacement takes place to help ensure that the latest security features are available. • Procedures are in place over the development of systems. These require full testing on test platforms and, where relevant on a number of test sites, before the full implementation of any changes. • Systems are regularly backed up to the cloud and the recovery of those systems is tested. • The main system used by operations is the practice management system in our surgeries. One well established and well maintained practice management system is primarily used. Each practice system is independent of others and most practices can operate for a short period of time without access to the internet. This reduces the risk of any issues impacting on the business. This system is continually developed to meet the needs of the business.
Links to strategy P10 Strategy	1 2 3 4	

Our risk management framework

The Board has overall responsibility for ensuring risk is appropriately managed across the Group. The day-to-day identification, management and mitigation of risk is delegated to the Group's executive management. This process is overseen by the Group Internal Audit Manager.

Risk registers are prepared which evaluate the risks most likely to impact the Group. Staff across the business are involved in the process to ensure all potential areas of risk are adequately identified and recorded. Controls that are currently in place are assessed in order to determine the extent to which they mitigate risk and actions are determined where it is considered appropriate to reduce risk further.

Our strategic priorities

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

Principal risks and uncertainties continued

Risk	Description	Mitigating factors
6 **Changes in regulations** **Links to strategy** P10 Strategy 1 2 3 4	The Group is subject to a wide range of legislation and regulations. Non-compliance with regulations could lead to limitations on certain areas of the business or fines and penalties.	• The Group is subject to general legislation in the same way as other businesses (e.g. on corporate governance, health and safety and employment law). The Group has clearly defined policies in all relevant areas which are communicated to staff and on which staff are trained as appropriate. Suitably qualified experts are employed, checks on compliance are carried out and policies and practices are updated as new legislation and regulations are introduced. • Specific regulations apply to different parts of the business. Policies and procedures are maintained in all areas as appropriate. In particular, the practices are subject to various clinical regulations. An experienced Director of Clinical Governance is responsible for ensuring that policies and procedures are in place and that appropriately high standards are maintained. Every practice employs an individual responsible for clinical governance.
7 **Reliance on one supplier of medicines** **Links to strategy** P10 Strategy 1 2 3 4	The majority of medicines are purchased through one wholesaler.	• A two-year supply agreement was signed in April 2017 to secure the provision of medicines. Three wholesalers can supply most medicines; hence, supply is available if the existing CVS wholesaler were to withdraw. CVS also has direct relationships with many manufacturers which would enable direct supply should any difficulties occur.
8 **Ability to source and integrate acquisitions** **Links to strategy** P10 Strategy 1 2 3 4	The growth of the Group at the pace seen in recent years has, in part, been due to the acquisition of businesses, in particular veterinary practices. To continue this pace of growth will require further acquisitions to be made and successfully integrated.	• The Group is actively acquiring veterinary practices that provide services for small, equine and farm animals. In the UK each of these parts of the veterinary industry are at different stages of consolidation with a low level of consolidation in the equine and farm sectors. • CVS made its first acquisition in the Netherlands in 2016 and recently made its first acquisitions in the Republic of Ireland. Both of these markets, whilst smaller than the UK market, are substantially less consolidated and together provide significant scope for further growth through acquisition. The Group will consider entering other geographic markets where they are considered attractive. • CVS has continued to increase the resources that it has both to make and to integrate acquisitions and will increase them further if necessary to ensure that acquisitions can be pursued and successfully integrated. During the year a number of roles have been developed so that they are dedicated to the various stages of the acquisition and integration process, rather than them being involved in other aspects of the business. The results of acquisitions are reported and monitored separately at Board level.

“Risk registers are prepared which evaluate the risks most likely to impact the Group. Staff across the business are involved in the process to ensure all potential areas of risk are adequately identified and recorded.”

Finance review
Nick Perrin

We are continuing to grow our revenue and operating profit.

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

Financial highlights

CVS has continued to deliver growth in revenues and operating profit

Key financial highlights are shown below

	2018	2017	CAGR %
Revenue (£m)	**327.3**	271.8	20.4
Adjusted EBITDA (£m)*	**47.6**	42.1	13.3
Adjusted profit before tax (£m)*	**36.0**	33.5	7.1
Adjusted earnings per share (p)*	**42.4**	42.8	-0.9%
Operating profit (£m)	**17.7**	17.2	2.8%
Profit before tax (£m)	**14.1**	14.5	-3.2%
Basic earnings per share (p)	**16.0**	18.5	-13.5%

* Adjusted financial measures are defined on page 1 of this Annual Report and reconciled to the financial measures defined by International Financial Reporting Standards ("IFRS") overleaf and on page 60 (adjusted profit before tax and adjusted earnings per share).

Finance review continued

Financial highlights continued

Management uses adjusted EBITDA and adjusted earnings per share ("EPS") as the basis for assessing the financial performance of the Group. These figures exclude costs relating to business combinations and hence assist in understanding the performance of the Group. These terms are not defined by IFRS and therefore may not be directly comparable with other companies' adjusted profit measures.

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

	2018 £m	2017 £m
Operating profit as reported	**17.7**	17.2
Adjustments for:		
Amortisation and depreciation	**26.4**	21.9
Costs of business acquisitions	**3.5**	3.0
Adjusted EBITDA	**47.6**	42.1

The £5.5m (13.2%) improvement in adjusted EBITDA compared with the prior year arises primarily from the underlying organic growth within the Veterinary Practices Division (£1.3m), the Laboratory Division (£0.3m), the Crematoria Division (£0.2m), the Animed Direct Division (£0.5m), acquisitions and greenfield development during the year (£1.1m) and the full year effect of previous year acquisitions and greenfield development (£3.0m), offset by an increase in central administration costs (£0.9m).

Adjusted EBITDA as a percentage of revenue (adjusted EBITDA margin) decreased from 15.5% in 2017 to 14.6%. This was principally driven by lower short-term margins in the Veterinary Practices Division greenfield developments and some of the recent acquisitions. It is expected that these acquisitions will achieve normal levels of performance in 2019 and beyond.

Profit before tax for the year decreased from £14.5m to £14.1m (-3.2%). The decrease in profit before tax is due to the £1.8m increase in amortisation costs as a result of the full year impact of prior year acquisitions. Basic EPS decreased 13.5% to 16.0p (2017: 18.5p) due to the higher number of shares in issue following the share placing in February 2018.

Adjusted profit before tax showed a 7.1% increase in the year from £33.5m to £36.0m. Adjusted EPS (as defined in note 10 to the financial statements) marginally decreased 0.9% to 42.4p (2017: 42.8p). Adjusted profit before tax and adjusted EPS exclude the impact of amortisation of intangible assets and business combination costs.

Long-term growth

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

	2018	2013	CAGR %
Revenue (£m)	**327.3**	120.1	22.2
Adjusted EBITDA (£m)	**47.6**	15.8	24.7
Adjusted profit before tax (£m)	**36.0**	12.1	24.3
Adjusted EPS (p)	**42.4**	16.2	21.2

"Net debt decreased by £31.0m to £69.0m."

Bank facilities

On 21 September 2018 the Group increased its total bank facility through the exercise of the accordion. Total bank facilities of £190.0m are available to support the Group's organic and acquisitive growth initiatives over the coming years. These facilities are provided by a syndicate of three banks, RBS, HSBC and AIB, and comprise the following elements:

- a fixed term loan of £95.0m, repayable on 23 November 2021 via a single bullet repayment; and
- a six-year revolving credit facility ("RCF") of £95.0m that runs to 23 November 2021.

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

Cash flow

Cash flow from operating activities was £46.7m (2017: £37.2m). The increase reflects the growth in EBITDA.

Net debt decreased by £31.0m to £69.0m (2017: £100.0m) largely as a consequence of the successful placing of Ordinary shares during the year which generated net proceeds of £58.9m. The movement in net debt is explained as follows:

	2018 £m	2017 £m
Cash generated from operations	**46.7**	37.2
Capital expenditure – maintenance	**(7.6)**	(5.9)
Taxation paid	**(6.2)**	(5.4)
Interest paid	**(3.1)**	(2.1)
Free cash flow	**29.8**	23.8
Capital expenditure – development	**(3.1)**	(7.9)
Acquisitions	**(52.6)**	(48.4)
Proceeds from Ordinary shares	**61.0**	30.6
Purchase of own shares	**–**	(2.1)
Dividends paid	**(2.9)**	(2.1)
Debt issuance costs amortisation	**(0.4)**	(0.8)
Acquired finance leases	**(0.8)**	—
Decrease/(increase) in net debt	**31.0**	(6.9)

Cash available for discretionary expenditure ("free cash flow") increased from £23.8m to £29.8m due to increased capital expenditure on maintenance.

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

Development capital expenditure included £0.4m on the new surgery site at Norwich, £0.5m on relocations of the Springfield and Okeford practices, £0.3m on the refurbishment work at Chestergates and £0.7m on expansion of the Head Office site at Diss.

£52.3m was paid (including £2.0m repayment of acquired bank debt) for the 52 surgeries acquired during 2017. £1.1m of consideration was payable at 30 June 2018 in respect of completion net asset adjustments. In addition to £52.3m paid for businesses acquired in the year, £0.3m was paid in respect of completion net asset adjustments for business acquired in the 30 June 2017 financial year.

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 £3.1m was higher than last year (£2.1m) reflecting the higher average net debt during the financial year.

Proceeds from Ordinary shares arose due to the placing of 5,581,395 shares in February 2018 and the exercise of options under the Group's approved SAYE scheme which allows staff to save regular amounts each month over a three-year period and benefit from increases in the Group's share price over that time.

The movement in debt issue costs was £0.4m, which represents the amortisation of costs during the year.

Net debt and borrowing covenants

The Group's net debt comprises the following:

	2018 £m	2017 £m
Borrowings repayable:		
Within one year	**0.5**	3.3
After more than one year	**83.5**	103.5
Total borrowings	**84.0**	106.8
Cash in hand and at bank	**(15.0)**	(6.8)
Net debt	**69.0**	100.0

The total borrowings principally consist of:

- £67.5m term loan (gross of unamortised issue costs). The term loan is repayable in one bullet payment in 2021; and
- £17.0m drawn down under the RCF (gross of unamortised issue costs). The RCF is available until 2021.

£68.0m of the RCF remained unutilised at 30 June 2018. 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 2018 it was 15.35.

The covenant levels allow a maximum Group borrowing to EBITDA ratio of 3.0, although it is not the Group's intention to operate at this level. The gearing ratio reduced during the year from 2.26 at 30 June 2017 to 1.44 at 30 June 2018. This reduction in the ratio reflects the benefit of the share placing in February 2018 and a combination of organic EBITDA growth and the realisation of the full benefits of recent acquisitions. The Group aims to continue to expand the business, and has a strong acquisition pipeline and sufficient capacity to fund it. The Group manages its banking arrangements centrally. Funds are swept daily from its various bank accounts into central bank accounts to optimise the Group's net interest payable position.

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

Going concern

At the balance sheet date the Group had cash balances of £15.0m and an unutilised overdraft facility of £5.0m. Total facilities of £190.0m are available to support the Group's organic and acquisitive growth initiatives over the coming years, comprising a term loan of £95.0m and a RCF of £95.0m. The Directors consider that the £5.0m overdraft and the £190.0m facility enable them to meet all current liabilities when they fall due. Since the year end, the Group has continued to trade profitably and to generate cash.

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

We are Gilabbey Veterinary Hospital

We are CVS Small Animal

Gilabbey is a dedicated small animal referral practice in Cork, Ireland, and is our second acquisition in the Republic of Ireland. The practice employs around 38 colleagues, which include seven regularly visiting specialists and consultants.

The previous owners, Shane Guerin MVB MACVSc Cert SAO DVCSc Diplomate ECVS MRCVS, Pat O'Doherty MVB MRCVS and Tom Conway MVB MRCVS, will be staying with the practice. The Veterinary Council of Ireland accredits it to the highest practice standards and it is a centre of excellence for both referrals and first-opinion patients.

Shane Guerin, who will continue as the Clinical Director, said: "The ever expanding range of new equipment and resources required to continue to provide a top-class small animal first-opinion and specialist referral service is a very big challenge. This new partnership will now secure and support our exciting development plans long into the future.

"This new partnership has immediately enabled us to invest in a new CT machine, which will be installed over the coming months in Gilabbey along with other state-of-the-art veterinary equipment, which will significantly enhance the quality and range of services we offer in Gilabbey. We look forward to introducing a dedicated 24-hour emergency care service in the very near future." Simon Innes, Chief Executive at CVS, added: "We are pleased to announce our second acquisition in the Republic of Ireland this summer. This practice is already well known to TV viewers in Ireland and around the world as the home of RTE's The Pet Surgeons and we are looking forward to a long, successful, happy and productive partnership with Gilabbey."

38
colleagues

7
specialists and consultants

Finance review continued

Taxation

The Group's effective tax rate was 24.1% (2017: 20.8%). A reconciliation of the expected tax charge at the standard rate to the actual charge in millions of pounds and as a percentage of profit before tax is shown below:

	£m	%
Profit before tax	**14.1**	
Expected tax at standard rate of tax	**2.7**	**19.0**
Expenses not deductible for tax	**0.6**	**4.2**
Adjustments to prior year tax charge	**0.7**	**4.9**
Benefit of tax rate change	**(0.6)**	**(4.0)**
Actual charge/effective rate of tax	**3.4**	**24.1**

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

The tax charge has increased by £0.4m to £3.4m (2017: £3.0m) whilst profit before taxation has decreased £0.4m from £14.5m to £14.1m.

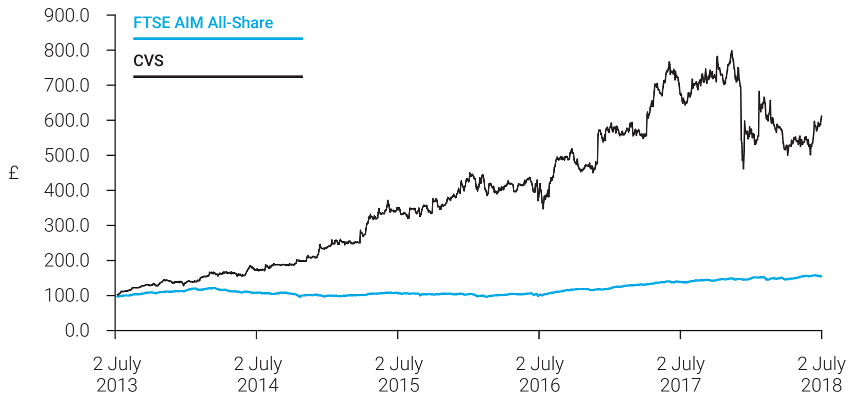
The benefit of the tax rate change reflects the impact of the future reduction in corporation tax rates on the deferred tax liabilities in respect of intangible assets.

Share price performance

At the year end the market capitalisation was £795.5m (1,131p per share), compared to £804.5m (1,259p 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 2012 to 30 June 2018.

Key contractual arrangements

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



Forward-looking statements

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

The Strategic Report on pages 1 to 30 was authorised by the Board of Directors on 27 September 2018 and was signed on its behalf by:

Nick Perrin
Finance Director
27 September 2018

Governance

Financial statements

Board of Directors

We are a strong leadership team.

1. Mike McCollum (51)

Non-Executive Director

Appointment to the Board

Mike McCollum was appointed to the Board in April 2013.

Career and experience

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

Committee membership

He is Chairman of the Remuneration Committee.

2. Deborah Kemp (57)

Non-Executive Director

Appointment to the Board

Deborah Kemp was appointed to the Board in January 2018.

Career and experience

Deborah Kemp has a background of demonstrable commercial success, operating in a variety of roles in the consumer and hospitality sectors. Since 2015, she has been a director of Vennco Limited, a consultancy which specialises in the consumer-facing retail and hospitality sectors, and assists multi-site business through growth, change and transformation. In September 2017, Deborah became interim CEO of private equity-backed Synseal Group, a UK-leading manufacturer and supplier of high quality products to the fenestration industry.

3. Richard Connell (63)

Non-Executive Chairman

Appointment to the Board

Richard Connell was appointed to the Board in September 2007.

Career and experience

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

Committee membership

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

4. Simon Innes (58)

Chief Executive

Appointment to the Board

Simon Innes was appointed as Chief Executive in January 2004.

Career and experience

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

5. Nick Perrin (58)

Finance Director

Appointment to the Board

Nick Perrin was appointed as Finance Director in January 2013.

Career and experience

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

Nick will be stepping down from the Board as Finance Director with effect from 28 September 2018.

6. Richard Fairman (51)

Director

Appointment to the Board

Richard Fairman was appointed as Director in August 2018.

Richard will be taking over as Finance Director with effect from 1 October 2018.

Career and experience

Richard spent six and a half years at the RAC Group, including as CFO since 2016. Prior to this, Richard qualified as a Chartered Accountant at Ernst & Young, later working at PricewaterhouseCoopers, following which Richard held roles including finance director of Virgin Money, CFO of Central Trust and finance director of Virgin Money Giving.

7. Richard Gilligan (38)

Company Secretary

Appointment to the Board

Richard Gilligan was appointed as Company Secretary in September 2017.

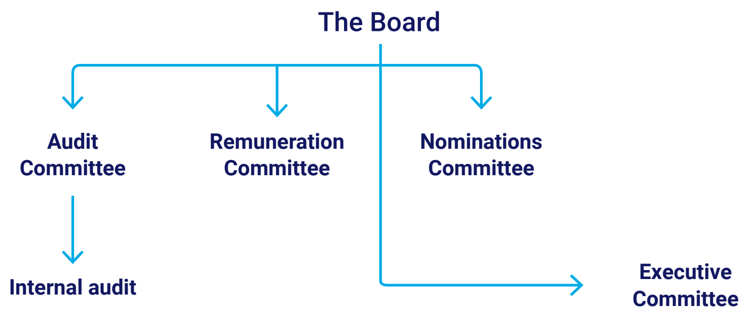
Career and experience

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

Corporate governance statement
Richard Gilligan

We are committed to good corporate governance.

> The Directors are committed to maintaining high standards of corporate governance.



Audit Committee

Key responsibilities
- Review and monitor financial reporting
- Internal control and risk management
- Whistleblowing procedures
- Monitor internal and external audit arrangements

Remuneration Committee

Key responsibilities
- Review Executive Director performance
- Monitor and review Executive remuneration
- Makes recommendations regarding LTIP awards

Nominations Committee

Key responsibilities
- Monitor and review the Board composition
- Co-ordination of annual evaluation of the Board and Committees
- Make recommendations on all Board appointments and succession planning

Principles of corporate governance

The Directors are committed to maintaining high standards of corporate governance. The Directors have elected to adopt the UK Corporate Governance Code ("the Code") published in July 2018. The purpose of this report is to provide our shareholders and stakeholders with information on how the Company is managed, the roles of the Directors and the Committees and to set out the Company's compliance with the Code. The report also sets out the Group's internal management controls while risk management details are available on pages 24 to 26.

Compliance statements

During the year to 30 June 2018, the Company has complied with the principles set out in the Code save as reported in detail in this section. Where the Company feels that it has not complied completely with the principles or the provisions, a full explanation is provided.

Board of Directors

At the 30 June 2018 the Board of Directors consisted of five members, including a Non-Executive Chairman and two Non-Executive Directors. During the year, on the recommendation of the Nominations Committee to address the balance of Executive and independent Non-Executive Directors, the Company was pleased to announce the appointment of Deborah Kemp as an additional independent Non-Executive Director following an extensive recruitment process. As a result of D Kemp's appointment on 2 January 2018, the Board has expanded the knowledge and experience of the Directors and established a balance of Executive and independent Non-Executive Directors (excluding the Chairman). The Board now presents a wide range of experience including customer-facing multi-site companies, mergers and acquisitions, financial, operational and organisational, and no one individual or small group of individuals dominates the Board's decision-making process.

Following the year end, with the appointment of Richard Fairman and during his hand over from N Perrin, the Board comprises six members, three of whom are Executive Directors. The Board believes that the benefits of the handover between R Fairman and N Perrin and the temporary nature outweigh the imbalance.

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 and forecasting;
- reviewing the risk profile of the Group and ensuring adequate internal controls are in place;
- approving acquisitions of more than £1m and all 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 £50.0m for any one claim.

The Chairman R Connell as well as M McCollum and D Kemp were considered to be independent at the time of their appointment and have continued to be independent throughout the year, in the case of D Kemp for the period from her appointment on 2 January 2018. The Board identifies M McCollum as the Senior Independent Non-Executive Director and he is available to shareholders to discuss any matters relating to the Chairman. Although R Connell has served as Chairman for more than ten years, he continues to act in an independent manner and to challenge the Executive Directors. The Non-Executive Directors continue to review the Chairman's performance of his roles and responsibilities and believe that the skills, knowledge and experience that R Connell brings to the role mean he is suitable to continue as Chairman of the Board. The ongoing review of the Chairman's performance and independence will continue throughout the current financial year. Mindful of their other commitments, they have each formally confirmed to the Board that they have sufficient time to devote to their responsibilities as Directors of the Group. Further details of the Directors and their roles on the Board are set out on pages 32 and 33. The Board is committed to promoting diversity on the Board and throughout the Company and all appointments are based on merit.

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

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

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Number of meetings	11	2	3	2
R Connell	10	2	3	2
S Innes	11	2*	3*	2*
N Perrin	11	2*	3*	2*
M McCollum	11	2	3	2
D Kemp[1]	6	1	1	1

* In attendance by invitation of the respective Committee.

1 D Kemp was appointed to the Board on 2 January 2018.

In addition to attendance at the Board and Committee meetings, the Board Directors make themselves available for ad hoc Board calls to discuss, amongst other things, fundraising and proposed acquisitions. The Chairman and the Non-Executive Directors are invited to attend the annual conference and are available to talk to colleagues from across the Group as well as visiting practices, crematoria and laboratories independently throughout the year. This additional exposure to the Group provides the Non-Executive Directors with invaluable experience enabling them to add value to their role on the Board and drive the strategy of the Company.

The Audit Committee

The Committee consists of three Non-Executive Directors, R Connell, M McCollum and D Kemp. R Connell is a Chartered Accountant and M McCollum has worked previously as the CFO for a FTSE 250 business. Although the Chairman of the Board is a member and Chair of the Audit Committee, his significant recent financial experience and, as a smaller company, the Company is only required to have two members on the Audit Committee.

The Board considers that members of the Audit Committee have significant financial expertise.

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

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

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

In the year ended 30 June 2018 and up to the date of this report the actions taken by the Audit Committee to discharge its duties included:

- reviewing the 2018 Annual Report and financial statements and the Interim Report issued in February 2018. As part of these reviews the Committee received a report from the external auditor on its audit of the annual financial statements;

Corporate governance statement continued

The Audit Committee continued

- advising the Board that the Annual Report is fair, balanced and understandable;
- reviewing the effectiveness of the Group's internal controls and reports received from the Group's internal audit function in respect of risk management;
- reviewing the external auditor's audit planning document, with particular reference to the audit approach, planned materiality, significant risks as detailed in the Independent Auditor's Report on pages 45 to 48 and the audit approach to these risks;
- reviewing the external auditor's audit findings memorandum, noting conclusions in respect of identified audit risks, materiality of adjusted and unadjusted misstatements, control observations and suggested improvements in the disclosure provided in the Annual Report;
- considering papers prepared by the Finance Director to support the going concern basis of preparation;
- agreeing the fees to be paid to the external auditor for its audit of the 2018 financial statements; and
- reviewing the performance and independence of the external auditor.

The external auditor was appointed for the year ended 30 June 2017 and its performance is assessed through discussion with and feedback from members of the senior finance team involved in the audit process. The appointment is reviewed and subject to a shareholder vote at the AGM on an annual basis. The Company has adopted a policy of not using the external auditor for non-audit work. Details of the fees paid to Deloitte during the financial year are set out on page 64.

The Audit Committee has a programme for reviewing its effectiveness.

Fair, balanced and understandable

The members of the Audit Committee have reviewed the financial statements and the content of the draft Annual Report to ensure that it is fair, balanced and understandable and, accordingly, the Audit Committee resolved to recommend that the Board makes the statement set out on page 44.

The Remuneration Committee

The Chairman of the Remuneration Committee is M McCollum and its other members are R Connell and D Kemp. It reviews the performance of Executive Directors, sets the scale and structure of their remuneration and reviews the basis of their service agreements with due regard to the interests of the shareholders, utilising the services of external consultants as appropriate. The Remuneration Committee also makes recommendations to the Directors concerning any long-term incentive plans, including the award of share options to Directors and senior employees. It also reviews the ongoing appropriateness and relevance of the Company's remuneration.

The Chief Executive and the Finance Director are invited to attend meetings as appropriate but are not permitted to participate in discussions relating to their own remuneration.

The Remuneration Committee Report can be found on pages 37 to 42.

The Nominations Committee

The Chairman of the Nominations Committee is D Kemp and its other members are R Connell and M McCollum. Prior to D Kemp's appointment, the Chairman of the Nominations Committee was R Connell. 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.

During the year the Nominations Committee has been involved with the appointment of D Kemp and the appointment of R Fairman.

Relations with shareholders

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

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

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

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

Internal control

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

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

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

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

Following the introduction of the function during the previous financial year, the internal audit team has implemented and refined the audit process focusing on financial and related procedure risks primarily across the Veterinary Practices Division. Performance of the internal audit function will continue to be reviewed during the current financial year to ensure it remains fit for purpose and to expand the remit of the function.

By order of the Board

Richard Gilligan
Company Secretary
27 September 2018

Remuneration Committee report
Mike McCollum

We are ensuring the Group achieves its potential.

> This report is for the period to 30 June 2018. It sets out the remuneration policy and the remuneration details for the Executive and Non-Executive Directors of the Company.

As an AIM-quoted company, the information provided is disclosed to fulfil the requirements of AIM Rule 19

CVS Group plc is not required to comply with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008

The information is unaudited

Dear shareholder,

I am pleased to introduce the Directors' Remuneration Report for the 2018 financial year.

In light of the continuing development of the Group in the prior year, the Company decided to increase the scope and content of its Remuneration Report. The increased scope incorporated the inclusion of this letter from the Chairman of the Remuneration Committee and a table summarising the Executive remuneration policy.

Remuneration Committee report continued

Remuneration policy

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

Performance and decisions on remuneration taken in 2017/18

Adjusted EPS for the year ended 30 June 2018 was 42.4p. This compares to adjusted EPS of 24.7p for the year ended 30 June 2015, a compound annual growth rate ("CAGR") of 19.7%. The target CAGR for full vesting of LTIPs issued in 2015 was 12% above inflation. This target has been substantially exceeded and, therefore, 100% of the options granted have vested.

In December 2017 the Company granted awards under its LTIP to the CEO and the Finance Director with a value of 100% of salary. As in previous years, these awards are subject to an adjusted EPS real growth performance condition measured over three years. Detail on the performance condition is set out later in this report.

Salaries are reviewed annually and benchmarked against similar listed companies with changes effective in January. With this in mind, the Remuneration Committee decided to increase the salary of the CEO by 3.0% to £412,000 and to increase the salary of the Finance Director by 3.0% to £267,800.

The annual bonus scheme in which the Executive Directors participate is based on the achievement of adjusted EBITDA performance. For 2017/18, the bonus maximum for the CEO and for the Finance Director was 100% of base pay. Due to more challenging conditions during the year, the targets were not met and no bonus will be payable to either the CEO or the Finance Director.

Development of remuneration policy

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

During the year, the Remuneration Committee reviewed the policy and decided to develop the policy in a number of areas. These changes are reflected in the new LTIP plan and are detailed below and in the summary policy table.

The new LTIP rules developed to comply with the Investment Association Principles of Remuneration were approved by the shareholders at the November 2017 AGM. Full information on the plan was set out in the Notice of AGM.

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

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

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

Alongside the introduction of the new LTIP, the Company has introduced a shareholding guideline requiring its Executive Directors to hold shares equivalent to at least 100% of their salary. The Executive Directors are required to retain a proportion of their vested LTIP awards until the guideline is met and this must be achieved within five years of appointment. Currently S Innes and N Perrin meet the guidelines; R Fairman, who was appointed on 1 August 2018, does not currently meet the shareholding guidelines and will be required to achieve a holding equivalent to 100% of his salary within five years of his appointment.

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

Mike McCollum
Remuneration Committee Chairman
27 September 2018

Executive Directors' remuneration policy

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

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Base salary			
Base pay is designed to reflect Executive Directors' experience, capabilities and role within the business. To be set at a level which is sufficiently competitive to recruit and retain individuals of the appropriate calibre to deliver the Company's strategy.	Salaries are reviewed annually and benchmarked against similar listed companies with any changes effective from 1 January. The review takes into account: • Company performance and rapid increase in scale and complexity; • the role, experience and performance of the individual Director; and • average workforce salary adjustments within the Company.	The CEO's base salary was reviewed on 1 January 2018 (the prior review being in January 2017) and was increased by 3.0% to £412,000. The Finance Director's base salary was reviewed on 1 January 2018 (the prior review being in January 2017) and was increased by 3.0% to £267,800. R Fairman's base salary is £250,000.	Not applicable.
Benefits			
To complement basic salary by providing market competitive benefits to attract and retain Executive Directors.	Reviewed from time to time to ensure that benefits, when taken together with other elements of remuneration, remain market competitive. Benefits for the Executive Directors currently include the provision of a company car and medical and life insurance.	The cost of providing these benefits vary year on year depending on the schemes' premiums. The Remuneration Committee monitors the overall cost of the benefits package.	Not applicable.
Pension			
To provide retirement benefits which, when taken together with other elements of the remuneration package, will enable the Company to attract and retain appropriately qualified Executive Directors.	The Chief Executive participates in a defined contribution pension arrangement and also receives a payment in lieu of a full pension. The Finance Director receives a payment in lieu of a pension.	The Chief Executive is entitled to a Company pension contribution of 10%. This is taken as a payment in lieu of a pension. The Finance Director is entitled to a Company pension contribution of 12%. This is taken as a payment in lieu of a pension. R Fairman is entitled to a Company pension contribution of 12%. For both the Chief Executive and the Finance Director, where a payment is taken in lieu of a pension it is reduced by the amount of the Company's liability to pay National Insurance on the contribution.	Not applicable.

Remuneration Committee report continued

Executive Directors' remuneration policy continued

Purpose and link to strategy	Operation	Potential remuneration	Performance metrics
Annual bonus			
To drive and reward exceptional performance.	The Executive Directors participate in a discretionary, annual, performance related bonus scheme. Targets are set at the beginning of each year based on the recommendations of the Remuneration Committee. Bonuses are paid in cash based on audited financial results. Commencing financial year 2018/19, annual bonus payments will be subject to a clawback provision.	From 2018/19, for the Executive Directors, the maximum capped bonus potential is 100% of salary.	For the years ended 30 June 2018 and ending 30 June 2019, the targets are based on adjusted EBITDA. The target is adjusted to take account of acquisitions made in the course of the year.
Long Term Incentive Plan ("LTIP")			
To drive and reward exceptional performance. To align the interests of Executive Directors and shareholders.	The Executive Directors are entitled to be considered for the grant of awards under the LTIP. The awards take the form of nominal cost options over a specified number of Ordinary shares. Awards are not transferable or assignable. Awards are released to participants after a performance period of three years, subject to certain performance and service conditions being met. 40% of awards vest at threshold performance. The LTIP rewards the future performance of the Executive Directors and certain other employees by linking the size of the award to the achievement of Group performance targets. Participation is at the discretion of the Remuneration Committee. Awards will typically be made annually based on a percentage of annual salary. Performance conditions are set by the Remuneration Committee at the time of the award. The 2017 plan rules, amongst other things, include clawback provisions and a limitation to ensure that new shares issued, when aggregated with all other employee share awards, must not exceed 10% of issued share capital over any ten-year period.	From 2018, the Remuneration Committee would in normal circumstances expect to make annual LTIP awards to the CEO and the Finance Director at 125% and 100% of salary, respectively. The maximum annual award permissible under the 2018 plan in exceptional circumstances is 200% of salary.	Currently an adjusted EPS CAGR real growth target is applied to awards. The adjusted EPS reflects adjustments for amortisation of intangibles, costs of business combinations, income tax, exceptional items and fair value adjustments in respect of derivative financial instruments. In addition and irrespective of the adjusted EPS target, no award will vest unless, in the opinion of the Remuneration Committee, the underlying performance of the Group has been satisfactory over the measurement period.

Save As You Earn ("SAYE")

The Group operates an incentive scheme for all staff, including the Executive Directors, being the CVS SAYE plan. A SAYE scheme is operated for each year. Under the 2018 and 2017 schemes the awards were made at a 10% discount to the closing mid-market price on the day preceding the date of invitation. Discounts of up to 20% are permitted and previously schemes have been issued at this level of discount. All schemes vest over a three-year period. There are no performance conditions attached to any of the SAYE schemes.

Policy on Non-Executive Directors' remuneration

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

Details of the fees paid for 2018/19 are set out in the Annual Report on Remuneration. The Directors' fees were increased by 3.0% with effect from January 2018.

The current fees are as follows:

Director	
R Connell	£112,936
M McCollum	£46,000
D Kemp	£46,000

Executive Directors' service agreements

S Innes entered into his service agreement on 4 October 2007, N Perrin entered into his on 1 January 2013 and R Fairman entered into his service agreement on 19 July 2018. All agreements can be terminated by either the Executive Director or the Company giving twelve months' notice. As well as an annual salary, the service contracts also detail the provision of other benefits including performance related bonuses, medical and life insurance, a car allowance and contributions to personal pension plans.

Non-Executive Directors' letters of appointment

R Connell was appointed on 4 October 2007. His most recent service agreement is dated 8 April 2018 and is for a one-year term ending on 7 April 2019. M McCollum was appointed on 2 April 2013. His most recent service agreement is for a three-year term ending on 2 April 2019. D Kemp was appointed on 2 January 2018 for a three-year term ending on 1 January 2021. Their appointments can be terminated by the Company or themselves by giving six months' notice.

Annual Report on Remuneration Introduction

This Annual Report on Remuneration sets out information about the remuneration of the Directors of the Company for the period ended 30 June 2018.

Membership and role of the Remuneration Committee

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

Advisors

During the year, the Company engaged h2glenfern, a remuneration advisory practice, to provide advice on the new LTIP and the overall development on Executive remuneration.

Remuneration of the Executive Directors

Directors' emoluments

		Basic salary, allowance and fees £'000	Benefits in kind £'000	Pension £'000	Performance related bonus £'000	**Total £'000**
Executive Directors						
S Innes	2018	406	38	43	–	**487**
	2017	380	36	39	380	**835**
N Perrin	2018	264	19	28	–	**311**
	2017	243	18	25	195	**481**
Non-Executive Chairman						
R Connell	2018	113	–	–	–	**113**
	2017	109	–	–	–	**109**
Non-Executive Director						
M McCollum	2018	46	–	–	–	**46**
	2017	44	–	–	–	**44**
D Kemp*	2018	23	–	–	–	**23**

* Appointed 2 January 2018.

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 2018 or 30 June 2017.

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

Annual bonus

		Bonus (% of salary)	Range (adjusted EBITDA)	Actual £m	Payout £m
S Innes	2018	100	£47.9m to £50.9m	47.6	–
N Perrin	2018	100	£47.9m to £50.9m	47.6	–

Due to the commercially sensitive nature of the proposed bonus targets, the Committee has decided that the targets will not be disclosed for the current financial year. The Committee intends to publish annual bonus targets in the Annual Report for the year to June 2019.

Remuneration Committee report continued

Annual Report on Remuneration continued

Share scheme interests as at 30 June 2018

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

Award	Grant date	Vesting period	Adjusted EPS real growth performance conditions
LTIP9	24 September 2015	3 years	The performance targets for LTIP9 and LTIP10 are the same and are based on achieving adjusted EPS growth in excess of inflation as follows: • Less than 8.0% CAGR – no award • 8.0% to 12.0% CAGR – awarded on a straight line basis between 40% and 100% of total award • More than 12.0% CAGR – full award
LTIP10	20 December 2016	3 years	
LTIP11	17 January 2018	3 years	The performance targets for LTIP11 are based on achieving adjusted EPS growth in excess of inflation as follows: • Less than 8.0% CAGR – no award • 8.0% to 12.0% CAGR – awarded on a straight line basis between 25% and 100% of total award • More than 12.0% CAGR – full award

Options over Ordinary shares awarded to Executive Directors under the LTIP and SAYE schemes in place at 27 September 2018 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					
LTIP9*	24 September 2015	699p	30 June 2018	0.2p	57,000
LTIP10	20 December 2016	1,067p	30 June 2019	0.2p	40,000
LTIP11	17 January 2018	1,031p	30 June 2020	0.2p	40,000
N Perrin					
LTIP9*	24 September 2015	699p	30 June 2018	0.2p	29,500
LTIP10	20 December 2016	1,067p	30 June 2019	0.2p	25,000
LTIP11	17 January 2018	1,031p	30 June 2020	0.2p	20,800
SAYE9	25 November 2016	875p	1 January 2020	790p	318

* These awards have now vested.

Directors' interests in shares

The interests of the Directors when combined with their spouses holdings as at 30 June 2018 in the shares of the Company were:

	Ordinary shares of 0.2p each Number
R Connell	110,000
M McCollum	38,678
D Kemp	6,559
S Innes	255,266
N Perrin	60,000

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

At 30 June 2018, the market price of the Ordinary shares was 1,138p.

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	LTIP8	88,169	24 September 2017	0.2p	875p
	SAYE7	6,081	16 March 2018	296p	1,057p
N Perrin	LTIP8	53,570	24 September 2017	0.2p	875p
	SAYE7	3,040	23 March 2018	296p	960p

Gains arising on the exercise of options for S Innes and N Perrin amounted to £908,140 and £551,771, respectively.

On behalf of the Remuneration Committee

Mike McCollum
Remuneration Committee Chairman
27 September 2018

Directors' report

The Directors present their Annual Report together with the audited consolidated financial statements for the year ended 30 June 2018.

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 £10.7m (2017: £11.5m).

Business review

The information that fulfils the requirements of the business review, including details of the 2018 results, key performance indicators, principal risks and uncertainties and the outlook for future years, is set out in the Chairman's Statement (pages 4 and 5), the Business Review (pages 18 to 21) and the Finance Review (pages 27 to 30) (including key performance indicators (pages 12 and 13) and principal risks and uncertainties (pages 24 to 26)).

Dividends

The Directors recommend the payment of a dividend of 5.0p per share (2017: 4.5p) amounting to £3.5m (2017: £2.9m). Subject to approval at the Annual General Meeting, the dividend will be paid on 7 December 2018 to shareholders on the register at the close of business on 23 November 2018. The aggregate dividends recognised as distributions in the year ended 30 June 2018 amounted to £2.9m (2017: £2.1m). No interim dividends (2017: £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
- D Kemp (appointed 2 January 2018)
- N Perrin
- R Fairman (appointed 1 August 2018)

Biographical details of the Directors are provided on page 33.

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 37 to 42. 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 34 to 36.

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 2018 are set out in note 23 to the financial statements.

At 31 August 2018, 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
Standard Life Investments	7,658,497	10.88
BlackRock	6,922,646	9.84
Octopus Investments	5,395,520	7.67
Columbia Threadneedle Investments	2,961,420	4.21
Invesco Perpetual	2,795,395	3.97
Canaccord Genuity Wealth Management (ND)	2,257,727	3.21
NN Investment Partners	2,245,806	3.19

Directors' report continued

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 ninth year, under which employees are granted an option to purchase Ordinary shares in the Company in three years' time, dependent upon their entering into a contract to make monthly contributions to a savings account over the relevant period. These savings are used to fund the option exercise value. The exercise price in respect of options issued in the year was at a 10% discount to the shares' market value at the date of invitation. The scheme is open to all Group employees, including the Executive Directors. Details of the scheme are included in the Remuneration Committee Report on pages 37 to 42.

Directors' third-party indemnity provision

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

Directors' responsibilities statement

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

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

In preparing these financial statements, the Directors are required to:

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

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

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

Disclosure of information to auditor

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

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

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

By order of the Board

Richard Gilligan
Company Secretary
27 September 2018

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

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of CVS Group plc (the "parent company") and its subsidiaries (the "group") give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board ('IASB");
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

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

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

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

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

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Revenue recognition – customer loyalty schemes • Acquisition fair value accounting Within this report, any new key audit matters are identified with ↑ and any key audit matters which are the same as the prior year identified with →.
Materiality	The materiality that we used for the Group financial statements was £1.05m which was determined on a blended measure using a combination of profit and asset benchmarks.
Scoping	The scope of our audit was driven by our risk assessment and understanding of the business. This consisted of twenty-seven components subjected to full scope audits and fourteen components subjected to analytical procedures at Group level.
Significant changes in our approach	We identified valuation of goodwill as a key audit matter in the previous year. We no longer consider this to be a key audit matter in the current year because the level of headroom on a grouped CGU basis continues to be significant. There have been no other significant changes in our approach in the current year.

Conclusions relating to going concern

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

Key audit matters

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

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

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

Report on the audit of the financial statements continued
Key audit matters continued

Revenue recognition – customer loyalty schemes

Key audit matter description	The Group has a customer loyalty scheme – Healthy Pet Club ("HPC") – in which customers sign up for a monthly or annual direct debit arrangement in exchange for a range of preventative products and treatments at a discount to the standalone selling price. The Group recognised £38.0m of HPC revenue during the year and has 362,000 active members as at the year end. The accrued revenue in respect of HPC as at the year end is £7.6m. The revenue recognition for this scheme is judgemental since IAS 18 requires revenue to be recorded according to the timing of the costs that are incurred in providing the treatments, which are weighted towards the beginning of the subscription period. Revenue must also be adjusted for anticipated animal deaths (where outstanding fees will be waived) and irrecoverable debts. There is therefore a risk that revenue is not recorded in accordance with IAS 18 Revenue. The accounting policy for HPC revenue is disclosed in note 2 to the financial statements.
How the scope of our audit responded to the key audit matter	We assessed the appropriateness of revenue recognition policy for customer loyalty schemes, especially whether the profile of revenue recognition reflects timing of service provision and whether inclusion of key estimates such as estimated animal deaths as a reduction in revenue is in line with the requirements of IAS 18. We checked the arithmetic accuracy of management's model in estimating customer loyalty schemes revenue, including the application of the key assumptions. We critically assessed the appropriateness of the key assumptions underlying management's model in line with the requirements of IAS 18 Revenue, by comparing them to historical fact patterns. We reviewed Board minutes and post year-end trading information to identify any contradictory evidence.
Key observations	Based on the audit procedures performed, we concluded that revenue recognition in respect of the customer loyalty schemes is materially in line with the Group's accounting policy and IAS 18. Key assumptions used by management fall within the reasonable range.

Acquisition fair value accounting

Key audit matter description	The Group acquired 32 veterinary businesses during the year for a total consideration of £51m. The fair value consists of separately identifiable customer list intangible assets of £33m, net liabilities acquired of £3m, and goodwill of £21m. The identification and valuation of the separately identifiable intangible assets excluding goodwill requires significant judgement and estimation, including the customer attrition rate and long-term growth rate for customer list intangible asset. Details of the acquisitions are provided in the business combinations note 14. Note 2 to the financial statements sets out the Group's accounting policy for business combinations and note 14 to the financial statements outlines details of the acquisitions and the key assumptions in determining fair value of the acquired intangible assets. Note 2 to the financial statements provides details of the critical accounting estimates and judgements.
How the scope of our audit responded to the key audit matter	We audited the consideration paid for all of the acquisitions in the year by reviewing business purchase agreements. With the involvement of our internal valuation specialists we reviewed and challenged management on its intangible asset identification by assessing whether intangible assets identified by management are in line with the requirements of IFRS 3 Business Combinations and IAS 38 Intangible assets. With the involvement of our internal valuation specialists we audited the opening balance sheet of the acquired entities to evaluate whether the fair value of intangible assets excluding goodwill acquired is appropriate.
Key observations	Based on the audit procedures performed, we concur that management has appropriately applied the principles of IFRS 3, including identification and fair valuation of acquisition intangibles. Key assumptions used by management fall within the reasonable range.

Report on the audit of the financial statements continued

Our application of materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£1.05m (2017: £1.05m)	£1.04m (2017: £1.04m)
Basis for determining materiality	We considered both asset and profit bases in the determination of materiality. Materiality equates to below 1% of net assets, 7.5% of pre-tax profit and 2.7% of adjusted pre-tax profit.	Parent company materiality was determined on the basis of 1% of net assets and capped at 99% of Group materiality.
Rationale for the benchmark applied	In addition to a profit-based metric, we incorporated a net asset measure in determining materiality to reflect the significant levels of investments made by the Group in recent years.	As a holding company, net assets was considered the most relevant benchmark for investors.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £52,500 (2017: £52,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

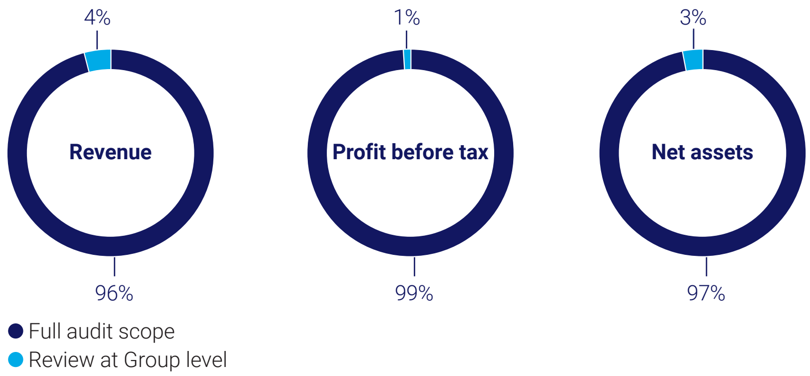
An overview of the scope of our audit

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

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

The twenty-seven components subject either to a full audit or specified audit procedures account for 96% of the Group's revenue, 99% of the Group's profit before tax and 97% of the Group's net assets. The component materiality ranges between £0.4m to £1.0m.

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



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

Report on the audit of the financial statements continued
Other information

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

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

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

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Report on other legal and regulatory requirements
Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and or the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.	We have nothing to report in respect of this matter.

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

Lee Welham FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Cambridge, United Kingdom
27 September 2018

Consolidated income statement
for the year ended 30 June 2018

	Note	2018 £m	2017 £m
Revenue	4	**327.3**	271.8
Cost of sales	6	**(175.7)**	(147.3)
Gross profit		**151.6**	124.5
Administrative expenses	6	**(133.9)**	(107.3)
Operating profit		**17.7**	17.2
Finance expense	5	**(3.6)**	(2.7)
Profit before income tax	4	**14.1**	14.5
Income tax expense	9	**(3.4)**	(3.0)
Profit for the year attributable to owners of the parent		**10.7**	11.5
Earnings per Ordinary share (expressed in pence per share) ("EPS")			
Basic	10	**16.0p**	18.5p
Diluted	10	**15.9p**	18.2p

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	2018 £m	2017 £m
Profit before income tax		**14.1**	14.5
Adjustments for:			
Finance expense	5	**3.6**	2.7
Depreciation	13	**8.0**	5.9
Amortisation and impairment of intangible assets	12	**18.4**	16.0
Costs relating to business combinations		**3.5**	3.0
Adjusted EBITDA	4	**47.6**	42.1

Consolidated statement of comprehensive income
for the year ended 30 June 2018

	Note	2018 £m	2017 £m
Profit for the year		**10.7**	11.5
Other comprehensive income – items that will or may be reclassified to loss in future periods			
Cash flow hedges:			
Fair value gains	16	**0.1**	0.2
Other comprehensive income for the year, net of tax		**0.1**	0.2
Total comprehensive income for the year attributable to owners of the parent		**10.8**	11.7

Consolidated and Company balance sheets
as at 30 June 2018

Company registered number: 06312831

	Note	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Non-current assets					
Intangible assets	12	**203.5**	167.2	**–**	–
Property, plant and equipment	13	**47.9**	43.0	**–**	–
Investments	15	**0.1**	0.1	**68.4**	67.1
Deferred income tax assets	22	**0.6**	2.1	**–**	–
Derivative financial instruments	16	**0.2**	0.1	**–**	–
		252.3	212.5	**68.4**	67.1
Current assets					
Inventories	18	**13.5**	12.5	**–**	–
Trade and other receivables	19	**38.2**	30.9	**89.1**	31.2
Cash and cash equivalents	26	**15.0**	6.8	**–**	–
		66.7	50.2	**89.1**	31.2
Total assets	4	**319.0**	262.7	**157.5**	98.3
Current liabilities					
Trade and other payables	20	**(53.9)**	(48.2)	**–**	–
Current income tax liabilities		**(3.6)**	(2.9)	**–**	–
Borrowings	21	**(0.5)**	(3.3)	**–**	–
		(58.0)	(54.4)	**–**	–
Non-current liabilities					
Borrowings	21	**(83.5)**	(103.5)	**–**	–
Deferred income tax liabilities	22	**(19.8)**	(16.8)	**–**	–
		(103.3)	(120.3)	**–**	–
Total liabilities	4	**(161.3)**	(174.7)	**–**	–
Net assets		**157.7**	88.0	**157.5**	98.3
Shareholders' equity					
Share capital	23	**0.1**	0.1	**0.1**	0.1
Share premium	25	**99.1**	38.1	**101.2**	40.2
Capital redemption reserve		**0.6**	0.6	**0.6**	0.6
Revaluation reserve	24	**0.1**	0.1	**–**	–
Merger reserve		**(61.4)**	(61.4)	**–**	–
Retained earnings		**119.2**	110.5	**55.6**	57.4
Total equity		**157.7**	88.0	**157.5**	98.3

The Company reported a loss for the financial year ended 30 June 2018 of £0.2m (2017: £0.2m).

The notes on pages 55 to 75 are an integral part of these consolidated financial statements.

The financial statements on pages 49 to 75 were authorised for issue by the Board of Directors on 27 September 2018 and were signed on its behalf by:

Nick Perrin
Director

Simon Innes
Director

Consolidated statement of changes in equity
for the year ended 30 June 2018

	Share capital £m	Share premium £m	Capital redemption reserve £m	Revaluation reserve £m	Merger reserve £m	Retained earnings £m	Total equity £m
At 1 July 2016	0.1	9.7	0.6	0.1	(61.4)	97.5	46.6
Profit for the year	–	–	–	–	–	11.5	11.5
Other comprehensive income							
Cash flow hedges:							
Fair value gains	–	–	–	–	–	0.2	0.2
Total other comprehensive income	–	–	–	–	–	0.2	0.2
Total comprehensive income	–	–	–	–	–	11.7	11.7
Transactions with owners							
Issue of Ordinary shares	–	30.5	–	–	–	–	30.5
Purchase of own shares	–	(2.1)	–	–	–	–	(2.1)
Credit to reserves for share-based payments (note 11)	–	–	–	–	–	1.5	1.5
Deferred tax relating to share-based payments	–	–	–	–	–	1.9	1.9
Dividends to equity holders of the Company (note 23)	–	–	–	–	–	(2.1)	(2.1)
Transactions with owners	–	28.4	–	–	–	1.3	29.7
At 30 June 2017	0.1	38.1	0.6	0.1	(61.4)	110.5	88.0

	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 2017	0.1	38.1	0.6	0.1	(61.4)	110.5	88.0
Profit for the year	–	–	–	–	–	10.7	10.7
Other comprehensive income							
Cash flow hedges:							
Fair value gains	–	–	–	–	–	0.1	0.1
Total other comprehensive income	–	–	–	–	–	0.1	0.1
Total comprehensive income	–	–	–	–	–	10.8	10.8
Transactions with owners							
Issue of Ordinary shares (note 23)	–	61.0	–	–	–	–	61.0
Credit to reserves for share-based payments (note 11)	–	–	–	–	–	1.3	1.3
Deferred tax relating to share-based payments	–	–	–	–	–	(0.5)	(0.5)
Dividends to equity holders of the Company (note 23)	–	–	–	–	–	(2.9)	(2.9)
Transactions with owners	–	61.0	–	–	–	(2.1)	58.9
At 30 June 2018	**0.1**	**99.1**	**0.6**	**0.1**	**(61.4)**	**119.2**	**157.7**

Company statement of changes in equity
for the year ended 30 June 2018

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2016	0.1	9.7	0.6	58.2	68.6
Total comprehensive income and loss for the year	–	–	–	(0.2)	(0.2)
Transactions with owners					
Issue of Ordinary shares	–	30.5	–	–	30.5
Credit to reserves for share-based payments (note 11)	–	–	–	1.5	1.5
Dividends to equity holders of the Company (note 23)	–	–	–	(2.1)	(2.1)
Transactions with owners	–	30.5	–	(0.6)	29.9
At 30 June 2017	0.1	40.2	0.6	57.4	98.3

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
At 1 July 2017	0.1	40.2	0.6	57.4	98.3
Total comprehensive income and loss for the year	–	–	–	(0.2)	(0.2)
Transactions with owners					
Issue of Ordinary shares (note 23)	–	61.0	–	–	61.0
Credit to reserves for share-based payments (note 11)	–	–	–	1.3	1.3
Dividends to equity holders of the Company (note 23)	–	–	–	(2.9)	(2.9)
Transactions with owners	–	61.0	–	(1.6)	59.4
At 30 June 2018	**0.1**	**101.2**	**0.6**	**55.6**	**157.5**

Consolidated and Company cash flow statements
for the year ended 30 June 2018

	Note	**Group 2018 £m**	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
Cash flows from operating activities					
Cash generated from operations	27	**46.7**	37.2	**(58.0)**	(26.4)
Taxation paid		**(6.2)**	(5.4)	**–**	–
Interest paid		**(3.1)**	(2.1)	**–**	–
Net cash generated from/(used in) operating activities		**37.4**	29.7	**(58.0)**	(26.4)
Cash flows from investing activities					
Acquisitions (net of cash acquired)	14	**(50.3)**	(46.9)	**–**	–
Purchase of property, plant and equipment	13	**(10.2)**	(13.3)	**–**	–
Purchase of intangible assets	12	**(0.5)**	(0.5)	**–**	–
Net cash used in investing activities		**(61.0)**	(60.7)	**–**	–
Cash flows from financing activities					
Dividends paid		**(2.9)**	(2.1)	**(2.9)**	(2.1)
Proceeds from issue of Ordinary shares	23	**61.0**	30.6	**60.9**	30.6
Debt issuance costs		**(0.3)**	–	**–**	–
Purchase of own shares		**–**	(2.1)	**–**	(2.1)
Increase in borrowings	26	**–**	6.5	**–**	–
Repayment of borrowings	26	**(26.0)**	(1.8)	**–**	–
Net cash generated from financing activities		**31.8**	31.1	**58.0**	26.4
Net increase in cash and cash equivalents	26	**8.2**	0.1	**–**	–
Cash and cash equivalents at the beginning of the year		**6.8**	6.7	**–**	–
Cash and cash equivalents at the end of the year	26	**15.0**	6.8	**–**	–

Notes to the consolidated financial statements
for the year ended 30 June 2018

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
B&W Equine Group Limited	Veterinary services
Cromlynvets Limited	Veterinary services
CVS (Ireland) Veterinary Services Limited	Holding company
CVS (Ireland) Veterinary Services No.2 Limited	Veterinary services
CVS (Netherlands) B.V.	Veterinary services
CVS (UK) Limited	Veterinary and diagnostic services
Kliniek voor Gezelschapsdieren Dieren B.V.	Veterinary services
Dierenartsenpraktijk NOP B.V.	Veterinary services
Dierenartsenpraktijk Zuid-West Friesland B.V.	Veterinary services
Dierenkliniek Amersfoort B.V.	Veterinary services
Dierenkliniek Hengelo B.V.	Veterinary services
Dierenkliniek Zwolle B.V.	Veterinary services
Dierenziekenhuis Drachten B.V.	Veterinary services
Diergeneeskundig Centrum Noord Nederland B.V.	Veterinary services
Greenacres Pet Crematorium Limited	Animal cremation
Greendale Veterinary Diagnostics Limited	Veterinary diagnostic services
Highcroft Pet Care Limited	Veterinary services
Mi Vet Club Limited	Veterinary goods and services buying club
Okeford Veterinary Centre Limited	Veterinary services
The Pet Crematorium Limited	Animal cremation
Pet Doctors Limited	Veterinary services
Pet Medic Recruitment Limited	Recruitment services
Pet Vaccination Clinic Limited	Veterinary services
Precision Histology International Limited	Veterinary diagnostic services
Rossendale Pet Crematorium Limited	Animal cremation and provision of burial grounds
Ruddington and East Leake Veterinary Centre Limited	Veterinary services
Severn Edge Holdings Limited	Veterinary services
Severn Edge Farm Limited	Veterinary services
Severn Edge Equine Limited	Veterinary services
Severn Edge Veterinary Group Limited	Veterinary services
Silvermere Haven Limited	Animal cremation and provision of burial grounds
Valley Pet Crematorium Limited	Animal cremation
VETisco Limited	Veterinary instrumentation supply
Weighbridge Referral Service Limited	Veterinary referral services
Whitley Brook Crematorium for Pets Limited	Animal cremation

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

Aire Veterinary Centre Ltd	MSVets Limited
All Creatures Veterinary Centre Limited	Newlands Veterinary Group Limited
All Creatures Veterinary Health Centre Limited	Pet Vaccination UK Limited
Ambivet Ltd	Rosemullion Veterinary Practice Limited
Ashburn Veterinary Centre Limited	Superstar Pets Limited
Beaconvet Limited	Thompsons Vets Limited
Bell Equine Veterinary Clinic Ltd	Three Valleys Veterinary Ltd
BTM Kent Limited	Veterinary Enterprises and Trading Limited
BVCM Limited	Victoria Veterinary Clinic Limited
Dovecote Veterinary Hospital Limited	Wessex Equine Limited
Keown O'Neill Limited	Western Counties Equine Hospital Limited
YourVets (Holdings) Limited	Holding company

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 BVCM Limited, which is registered in Scotland, Cromlynvets Limited, All Creatures Veterinary Health Centre Limited and Keown O'Neill Limited, which are registered in Northern Ireland, CVS (Ireland) Veterinary Services Limited and CVS (Ireland) Veterinary Services No.2 Limited, which are registered in Republic of Ireland, and CVS (Netherlands) B.V., Kliniek voor Gezelschapsdieren Dieren B.V., Dierenartsenpraktijk NOP B.V., Dierenartsenpraktijk Zuid-West Friesland B.V., Dierenkliniek Amersfoort B.V., Dierenkliniek Hengelo B.V., Dierenkliniek Zwolle B.V., Dierenziekenhuis Drachten B.V. and Diergeneeskundig Centrum Noord Nederland B.V., which are registered in the Netherlands.

100% of the Ordinary share capital is owned for all equity shareholdings and all are wholly owned.

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

Axiom Veterinary Laboratories Limited	The Manor House, Brunel Road, Newton Abbot, Devon, TQ12 4PB
BVCM Limited	19–21 High Street, Strichen, Fraserburgh AB43 6SQ
Cromlynvets Limited	50 Old Coach Road, Hillsborough, County Down BT26 6PB
All Creatures Veterinary Health Centre Limited	14 Anderson Avenue, Limavady, County Londonderry BT49 0TF
Keown O'Neill Limited	11 Church Street, Ballygawley, Co. Tyrone BT70 2HA
Precision Histology International Limited	The School House, One Eyed Lane, Weybread, Diss, Norfolk IP21 5TT

The registered office for all Netherlands registered subsidiary undertakings is Postbus 176, 8300 AD Emmeloord. The registered office for all Republic of Ireland registered subsidiary undertakings is KPMG, Dockgate, Dock Road, Galway, H91 V6RR.

Notes to the consolidated financial statements continued
for the year ended 30 June 2018

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 Interpretations 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 34 to 36. 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.

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

a) Intangibles acquired in business combinations
Determining the value of intangibles (patient data records and customer lists) acquired in business combinations requires a critical judgement based on estimated future cash flows expected to arise from the intangible assets at a suitable discount rate in order to calculate their present value. EBITDA is used as an approximation to cash flow. The EBITDA contained within the acquisition business case is used for year one cash flows and beyond this a growth rate is applied based upon a prudent assessment of market-specific growth assumptions and an appropriate attrition rate for acquired patients. In addition, an estimate of the useful life of the intangible asset has to be made, over which period the cash flows are expected to be generated. Details of intangibles acquired through business are provided in note 14 to the financial statements.

b) Impairment of intangible assets
Determining whether intangible assets are impaired requires a critical judgement as to whether the carrying value of assets can be supported by the future cash flows expected to arise from the patient data records and customer lists discounted at a suitable rate in order to calculate their present value. In calculating net present value of the future cash flows, certain assumptions are required to be made including management's expectations of growth and discount rates. No impairment charge has been recognised in the year (2017: £nil). Further details are provided in note 12 to the financial statements.

c) Impairment of goodwill
Determining whether goodwill is impaired requires the calculation of the value in use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires a critical judgement of the future cash flows expected to arise from the cash-generating unit at a suitable discount rate in order to calculate the present value. Details of the impairment review are provided in note 12 to the financial statements.

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

e) Going concern
The Directors have prepared projections of the Group's anticipated future results based upon the budget for the period to June 2019 and forecasts thereafter. The Directors have concluded that the assumption that the Group is a going concern is valid.

f) Determination of discount rates used in business combinations and impairment reviews
The discount rates used in business combinations and impairment reviews are based on the current cost of capital of the business adjusted for management's perception of risk. While management believes the discount rates used are the most appropriate rates, a change in these assumptions could result in an impairment charge. Details of the discount rates used are provided in note 12 to the financial statements.

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

Standards and interpretations to existing standards (all of which have yet to be adopted by the EU) which are not yet effective and are under review as to their impact on the Group
The following standards and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2018 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 Leases (effective 1 January 2019)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective 1 January 2018)
- IFRIC 23 Uncertainty over Income Tax Treatments (effective 1 January 2019)
- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) (effective 1 January 2018)
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective 1 January 2019)
- Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020)

2. Summary of significant accounting policies continued

Changes in accounting policy and disclosure continued

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 continued

The Directors do not expect that the adoption of IFRS 9 and IFRS 15 above will have a material impact on the financial statements of the Group in future periods. IFRS 16 will be effective for the Group for the year ending June 2020 onwards and will significantly affect the presentation of the Group financial statements. All leases with the exception of short-term leases will be recognised within the balance sheet with a corresponding liability being the present value of the lease payments. IFRS 16 is also expected to have a material impact on key components of the consolidated income statement as operating lease rental charges will be replaced by depreciation and finance costs. At the reporting date, the Group has operating lease commitments of £54.9m (as disclosed in note 29) on an undiscounted basis. The Group has not yet decided which transition approach to apply.

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 2018.

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 Practices, Laboratories, Crematoria and Animed Direct. Further details of the Group's operating segments are provided in note 4 to the financial statements.

Property, plant and equipment

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

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

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

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

Intangible assets

Goodwill

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

Computer software

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

Patient data records, customer lists and trade names

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

Patient data records and customer lists	10% per annum
Trade names	10% per annum

Amortisation is charged to administrative expenses.

Impairment of non-current assets

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

As permitted by IAS 36 Impairment of Assets for the purposes of assessing impairment, individual cash-generating units ("CGUs") are grouped at a level consistent with the Group's operating segments. Recoverable amounts for CGUs are based on value in use, which is calculated from cash flow projections using data from the Group's latest internal forecasts, being a one-year detailed forecast and extrapolated forecasts thereafter, the results of which are approved by the Board. The key assumptions for the value-in-use calculations are those regarding discount rates and growth rates.

Notes to the consolidated financial statements continued
for the year ended 30 June 2018

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

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

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

Notes to the consolidated financial statements continued
for the year ended 30 June 2018

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

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

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

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

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

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

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

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

Use of non-GAAP measures
Adjusted EBITDA, adjusted profit before tax ("adjusted PBT") and adjusted EPS

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

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

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

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

Like-for-like sales

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

2. Summary of significant accounting policies continued

Share premium

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

Capital redemption reserve

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

Merger reserve

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

Profit for the financial year

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

3. Financial risk management

Financial risk factors

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

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

a) Market risk

i) Foreign exchange currency rate risk

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

ii) Cash flow and fair value interest rate risk

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

At the year end, the Group had interest hedging arrangements in place covering £40.0m of debt. This allows the Group to minimise its exposure to significant interest rate increases whilst enabling the Group to take advantage of interest rate reductions. The strategy for undertaking the hedge is to match the loan liability with a coterminous derivative that allows interest to float within an agreed range and thereby limits the cash flow exposure relating to interest.

Excluding the impact of the interest rate swap arrangement, bank borrowings bear interest at 1.45% to 2.7% 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 1.87% above LIBOR.

At 30 June 2018, 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 2018, if interest rates on Sterling-denominated borrowings had been 1% higher or lower, with all other variables held constant, post-tax profit and the movement in net assets for the year would have been approximately £1.0m (2017: £1.0m) lower or higher, mainly as a result of the movement in interest rates on the floating rate borrowings, net of the hedging derivative instrument in place.

b) Credit risk

The Group has no significant concentrations of credit risk. The Group's principal financial assets are cash and bank balances, and trade and other receivables. A large number of receivables are very small; therefore, there is not any concentration of credit risk in a single counterparty or group of counterparties with similar characteristics.

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

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

Group management monitors the ageing of receivables which are more than one month overdue and debtor days on a regular basis. At 30 June 2018 gross trade receivables amounted to 6.6% of revenue for the year (2017: 5.8%). Of these gross trade receivables, 52.9% (2017: 48.0%) were more than one month overdue.

The maximum exposure to credit risk at 30 June 2018 is the fair value of each class of receivable as disclosed in note 17 to the financial statements.

c) Liquidity risk

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

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

Notes to the consolidated financial statements continued
for the year ended 30 June 2018

3. Financial risk management continued
Financial risk factors continued
c) Liquidity risk continued

30 June 2018	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	**–**	**–**	**–**	**84.0**	**84.0**
Trade and other payables (excluding social security and other taxes) (note 20)	**43.1**	**–**	**–**	**–**	**43.1**
Derivative contracts					
Interest rate swap arrangements	**–**	**–**	**–**	**–**	**–**
	43.1	**–**	**–**	**84.0**	**127.1**

30 June 2017	In less than one year £m	In more than one year but not more than two years £m	In more than two years but not more than three years £m	In more than three years but not more than five years £m	Total £m
Non-derivative financial liabilities					
Borrowings	3.1	–	–	104.5	107.6
Trade and other payables (excluding social security and other taxes) (note 20)	38.7	–	–	–	38.7
Derivative contracts					
Interest rate swap arrangements	–	–	–	–	–
	41.8	–	–	104.5	146.3

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.

	2018 £m	2017 £m
Net debt (note 26)	**69.0**	100.0
Adjusted EBITDA (note 4)	**47.6**	42.1
Ratio	**1.44**	2.38

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 1.4.

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

The primary sources of funding for the Group are internally generated cash and syndicated borrowings. The Group's £5.0m working capital facility and £68.0m of the £85.0m revolving credit facility were undrawn at 30 June 2018.

Fair value measurement
The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2018 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 2018			30 June 2017		
	Level 1 £m	**Level 2 £m**	**Total £m**	Level 1 £m	Level 2 £m	Total £m
Assets						
Available-for-sale financial assets (note 15)	**0.1**	**–**	**0.1**	0.1	–	0.1
Liabilities						
Derivative financial instruments (interest rate swap arrangements) (note 16)	**–**	**–**	**–**	–	–	–

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.

4. Segmental reporting continued

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 £240.5m of fees and £86.8m of goods (2017: £201.9m and £69.9m, respectively).

Operating segments

The Group is split into four operating segments (Veterinary Practices Division, Laboratories 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 2018	Veterinary Practices £m	Laboratories £m	Crematoria £m	Animed Direct £m	Head Office £m	Group £m
Revenue	297.5	17.9	6.6	18.8	(13.5)	327.3
Profit/(loss) before income tax	29.3	3.3	1.9	1.2	(21.6)	14.1
Adjusted EBITDA	50.1	3.9	2.3	1.2	(9.9)	47.6
Total assets	283.0	14.9	10.0	8.5	2.6	319.0
Total liabilities	(67.2)	(2.2)	(1.1)	(6.6)	(84.2)	(161.3)
Reconciliation of adjusted EBITDA						
Profit/(loss) before income tax	29.3	3.3	1.9	1.2	(21.6)	14.1
Finance expense	0.1	—	—	—	3.5	3.6
Depreciation	6.8	0.6	0.4	—	0.2	8.0
Amortisation	12.2	—	—	—	6.2	18.4
Costs relating to business combinations	1.7	—	—	—	1.8	3.5
Adjusted EBITDA	50.1	3.9	2.3	1.2	(9.9)	47.6

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

5. Finance expense

	2018 £m	2017 £m
Interest expense, bank loans and overdraft	3.2	2.3
Amortisation of debt arrangement fees	0.4	0.4
Finance expense	3.6	2.7

6. Expenses by nature

	2018 £m	2017 £m
Amortisation and impairment of intangible assets	18.4	16.0
Depreciation of property, plant and equipment	8.0	5.9
Employee benefit expenses	148.5	127.7
Cost of inventories recognised as an expense (included in cost of sales)	62.6	48.5
Repairs and maintenance expenditure on property, plant and equipment	4.0	3.4
Trade receivables impairment charge	1.4	0.6
Operating lease rentals payable	14.3	12.6
Other expenses	52.4	39.9
Total cost of sales and administrative expenses	309.6	254.6

Notes to the consolidated financial statements continued
for the year ended 30 June 2018

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 auditor at costs as detailed below:

	2018 £'000	2017 £'000
Audit services		
Fees payable to the Group's auditor for the audit of the parent company and consolidated financial statements	**31**	30
Other services		
The audit of the Company's subsidiaries pursuant to legislation	**228**	155
All other services	**–**	7
	259	192

7. Employee benefit expense and numbers
Group

Employee benefit expense for the Group	2018 £m	2017 £m
Wages and salaries	**133.4**	115.0
Social security costs	**12.0**	10.1
Other pension costs (note 30)	**1.8**	1.1
Share-based payments (note 11)	**1.3**	1.5
	148.5	127.7

Employee benefit expense included within cost of sales is £109.0m (2017: £90.0m). 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:

	2018 Number	2017 Number
Veterinary surgeons and pathologists	**1,419**	1,153
Nurses, practice ancillaries and technicians	**3,956**	3,421
Crematorium staff	**78**	77
Central support	**189**	190
	5,642	4,841

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	
	2018 £m	2017 £m	2018 £m	2017 £m
Salaries and other short-term employee benefits	**0.4**	0.7	**0.9**	1.3
Company contributions to money purchase schemes	**0.1**	0.1	**0.1**	0.1
	0.5	0.8	**1.0**	1.4

Retirement benefits are accruing to one Director (2017: one) under a personal pension plan. The remuneration of the Executive Directors amounting to £0.8m (2017: £1.3m) is borne by the subsidiary company CVS (UK) Limited, without recharge. The remuneration of the Non-Executive Directors amounting to £0.2m (2017: £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
N Perrin	SAYE9	25 November 2016	1 January 2020	790p	318

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

	LTIP	Date of grant	Market price on date of grant	Earliest exercise date and vesting date	Number of shares
S Innes	LTIP8	24 September 2014	352p	30 June 2017	88,169
S Innes	LTIP9	24 September 2015	699p	30 June 2018	57,000
S Innes	LTIP10	20 December 2016	1,067p	30 June 2019	40,000
S Innes	LTIP11	17 January 2018	1,031p	30 June 2020	40,000
N Perrin	LTIP8	24 September 2014	352p	30 June 2017	53,570
N Perrin	LTIP9	24 September 2015	699p	30 June 2018	29,500
N Perrin	LTIP10	20 December 2016	1,067p	30 June 2019	25,000
N Perrin	LTIP11	17 January 2018	1,031p	30 June 2020	20,800

The exercise price for all shares is 0.2p.

LTIP8 was exercised in the year; see the Remuneration Committee Report on page 42 for further details.

Further details of the above schemes are included in the Remuneration Committee Report on pages 37 to 42.

8. Directors' remuneration and key management compensation continued

Key management compensation

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

	2018 £m	2017 £m
Salaries and other short-term employee benefits	**2.0**	2.7
Post-employment benefits	**0.1**	0.1
Share-based payments	**0.9**	1.3
	3.0	4.1

9. Income tax expense

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

	2018 £m	2017 £m
Current tax expense		
UK corporation tax	**5.9**	4.8
Adjustments in respect of previous years	**(0.1)**	(0.1)
Total current tax charge	**5.8**	4.7
Deferred tax expense		
Origination and reversal of temporary differences	**(2.5)**	(1.6)
Adjustments in respect of previous years	**0.7**	0.3
Effect of tax rate change on opening deferred tax balance	**(0.6)**	(0.4)
Total deferred tax credit (note 22)	**(2.4)**	(1.7)
Total income tax expense	**3.4**	3.0

Factors affecting the current tax charge

UK corporation tax is calculated at 19.0% (2017: 19.8%) 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:

	2018 £m	2017 £m
Profit before tax	**14.1**	14.5
Effective tax charge at 19.0% (2017: 19.8%)	**2.7**	2.9
Effects of:		
Expenses not deductible for tax purposes	**0.6**	0.4
Effect of tax rate change on opening deferred tax balance	**(0.6)**	(0.5)
Adjustments to deferred tax charge in respect of previous years	**0.8**	0.3
Adjustments to current tax charge in respect of previous years	**(0.1)**	(0.1)
Total income tax expense	**3.4**	3.0

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

10. Earnings per Ordinary share

a) Basic

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

	2018	2017
Earnings attributable to Ordinary shareholders (£m)	**10.7**	11.5
Weighted average number of Ordinary shares in issue	**66,369,383**	62,105,419
Basic earnings per share (p per share)	**16.0**	18.5

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.

Notes to the consolidated financial statements continued
for the year ended 30 June 2018

10. Earnings per Ordinary share continued
(b) Diluted continued

	2018	2017
Earnings attributable to Ordinary shareholders (£m)	**10.7**	11.5
Weighted average number of Ordinary shares in issue	**66,369,383**	62,105,419
Adjustment for contingently issuable shares – LTIPs	**259,505**	398,654
Adjustment for contingently issuable shares – SAYE schemes	**98,081**	549,732
Weighted average number of Ordinary shares for diluted earnings per share	**66,726,969**	63,053,805
Diluted earnings per share (p per share)	**15.9**	18.2

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.

	2018 £m	2017 £m
Earnings attributable to Ordinary shareholders	**10.7**	11.5
Add back taxation	**3.4**	3.0
Profit before taxation	**14.1**	14.5
Adjustments for:		
Amortisation (note 12)	**18.4**	16.0
Costs relating to business combinations (note 4)	**3.5**	3.0
Adjusted profit before income tax	**36.0**	33.5
Tax charge amended for the above adjustments	**(7.8)**	(6.9)
Adjusted profit after income tax and earnings attributable to owners of the parent	**28.2**	26.6
Weighted average number of Ordinary shares in issue	**66,369,383**	62,105,419
Weighted average number of Ordinary shares for diluted earnings per share	**66,726,969**	63,053,805

	Pence	Pence
Adjusted earnings per share	**42.4p**	42.8p
Diluted adjusted earnings per share	**42.1p**	42.2p

11. Share-based payments
Long Term Incentive Plans ("LTIPs")
The Group operates an incentive scheme for certain Senior Executives, the CVS Group Long Term Incentive Plan ("LTIP").

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

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

	July 2017 scheme ("LTIP11") Number of share awards	July 2016 scheme ("LTIP10") Number of share awards	July 2015 scheme ("LTIP9") Number of share awards	July 2014 scheme ("LTIP8") Number of share awards
Outstanding at 1 July 2017	–	136,747	146,000	243,205
Granted during the year	115,654	–	–	–
Forfeited during the year	–	(16,111)	–	–
Exercised during the year*	–	–	–	(243,205)
Outstanding at 30 June 2018	**115,654**	**120,636**	**146,000**	**–**
Exercisable at 30 June 2018	**–**	**–**	**146,000**	**–**

* The weighted average share price at the date of exercise was £10.15.

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

The options outstanding at the year end under LTIP11, LTIP10 and LTIP9 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 £0.8m (2017: £1.1m) and has been charged to administrative expenses. National Insurance contributions amounting to £0.1m (2017: £0.5m) have been accrued in respect of the LTIP scheme transactions and are treated as cash-settled transactions.

Further details of the above schemes are included in the Remuneration Committee Report on pages 37 to 42.

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 SAYE7 scheme was opened for subscription in December 2014 (with options granted in January 2015), the SAYE8 scheme was opened for subscription in December 2015 (with options granted in January 2016), the SAYE9 scheme was opened for subscription in December 2016 (with options granted in January 2017) and the SAYE10 scheme was opened for subscription in December 2017 (with options granted in January 2018). Under the SAYE schemes awards have been made at a 20% discount for SAYE7 and SAYE8; SAYE9 and SAYE10 were at a 10% discount of the closing mid-market price on date of invitation, vesting over a three-year period. There are no performance conditions attached to the SAYE scheme. Details of the share options outstanding during the year under the SAYE schemes are as follows:

	SAYE10 Number of share awards	SAYE9 Number of share awards	SAYE8 Number of share awards	SAYE7 Number of share awards
Outstanding at 1 July 2017	–	192,463	198,678	625,986
Granted during the year	294,998	–	–	7,636
Forfeited during the year	(22,615)	(24,691)	(20,689)	–
Exercised during the year*	–	(258)	(1,918)	(633,622)
Outstanding at 30 June 2018	**272,383**	**167,514**	**176,071**	**–**
Exercisable at 30 June 2018	**–**	**–**	**–**	**–**

* The weighted average share price at the date of exercise was £9.46.

11. Share-based payments continued

Save As You Earn ("SAYE") continued

Options are exercisable at 1,257p for the SAYE10 scheme, 790p for the SAYE9 scheme and 536p per share for the SAYE8 scheme.

The weighted average exercise price at the beginning of the period for the options outstanding was £6.47 and end of the period was £9.37.

The options outstanding at the year end under the SAYE10, SAYE9 and SAYE8 schemes have a weighted average remaining contractual life of two years and five months, one year and five months and nil years and five months, respectively.

The share-based payment charge for the year in respect of the options issued under the SAYE schemes amounted to £0.5m (2017: £0.4m) and has been charged to administrative expenses.

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

	LTIP11	SAYE10
Grant date	5 December 2016	November 2017
Share price at grant date	£10.31	£9.90
Fair value per option	£10.31	£1.43
Exercise price	0.2p	£12.87
Number of employees	36	1,279
Shares under option at date of grant	115,654	294,998
Vesting period/option life/expected life	3 years	3 years
Weighted average remaining contractual life	2 years	2 years 5 months
Expected volatility*	32.45%	32.45%
Expected dividends expressed as a dividend yield	0.35%	0.35%

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

12. Intangible assets

	Goodwill £m	Trade names £m	Patient data records £m	Computer software £m	Total £m
Cost					
At 1 July 2016	31.1	1.5	156.7	2.2	191.5
Additions arising through business combinations (note 14)	15.7	—	35.0	—	50.7
Fair value adjustment in respect of prior periods	—	—	0.5	—	0.5
Other additions	—	—	—	0.5	0.5
At 30 June 2017	46.8	1.5	192.2	2.7	243.2
Additions arising through business combinations (note 14)	21.0	—	33.2	—	54.2
Other additions	—	—	—	0.5	0.5
At 30 June 2018	**67.8**	**1.5**	**225.4**	**3.2**	**297.9**
Accumulated amortisation					
At 1 July 2016	—	0.8	57.5	1.7	60.0
Amortisation for the year	—	0.2	15.6	0.2	16.0
At 30 June 2017	—	1.0	73.1	1.9	76.0
Amortisation for the year*	(0.6)	0.2	18.4	0.4	18.4
At 30 June 2018	**(0.6)**	**1.2**	**91.5**	**2.3**	**94.4**
Net book amount					
At 30 June 2018	**68.4**	**0.3**	**133.9**	**0.9**	**203.5**
At 30 June 2017	46.8	0.5	119.1	0.8	167.2
At 1 July 2016	31.1	0.7	99.2	0.5	131.5

Amortisation expense is charged to administrative expenses.

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

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

* Amortisation in the year includes a credit of £0.6m in respect of negative goodwill arising on the bargain purchase of acquisitions.

Notes to the consolidated financial statements continued
for the year ended 30 June 2018

12. Intangible assets continued

	2018 £m	2017 £m
Veterinary Practices	**63.7**	42.1
Laboratories	**2.1**	2.1
Crematoria	**2.6**	2.6
	68.4	46.8

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 after adjusting for tax. 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 2.0% 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 13.4% at 30 June 2018 (2017: 10.8%). These discount rates are derived from the Group's post-tax weighted average cost of capital.

Based on the results of the current year impairment review, no impairment charge has been recognised by the Group in the year ended 30 June 2018 (2017: £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 2018. The 2% growth rate is considered the worst case scenario given growth rates experienced in the veterinary market and therefore further sensitivity analysis is not required.

13. Property, plant and equipment

Group	Freehold land and buildings £m	Leasehold improvements £m	Fixtures, fittings and equipment £m	Motor vehicles £m	Total £m
Cost					
At 1 July 2016	10.4	16.5	27.1	1.7	55.7
Additions arising through business combinations (note 14)	–	1.3	2.3	–	3.6
Fair value adjustment in respect of prior periods	(0.6)	0.4	(0.2)	–	(0.4)
Additions	3.7	4.9	4.2	0.5	13.3
Disposals	–	–	(0.2)	(0.2)	(0.4)
At 30 June 2017	13.5	23.1	33.2	2.0	71.8
Additions arising through business combinations (note 14)	–	0.5	2.2	0.1	2.8
Additions	0.9	4.0	5.0	0.3	10.2
Disposals	–	(0.1)	–	(0.2)	(0.3)
At 30 June 2018	**14.4**	**27.5**	**40.4**	**2.2**	**84.5**
Accumulated depreciation					
At 1 July 2016	0.6	6.0	15.2	1.1	22.9
Fair value adjustment in respect of prior periods	–	–	0.2	–	0.2
Charge for the year	0.3	2.1	3.3	0.2	5.9
Disposals	–	–	(0.1)	(0.1)	(0.2)
At 30 June 2017	0.9	8.1	18.6	1.2	28.8
Charge for the year	0.3	2.2	5.3	0.2	8.0
Disposals	–	–	–	(0.2)	(0.2)
At 30 June 2018	**1.2**	**10.3**	**23.9**	**1.2**	**36.6**
Net book amount					
At 30 June 2018	**13.2**	**17.2**	**16.5**	**1.0**	**47.9**
At 30 June 2017	12.6	15.0	14.6	0.8	43.0
At 1 July 2016	9.8	10.5	11.9	0.6	32.8

Freehold land amounting to £0.2m (2017: £0.2m) has not been depreciated.

14. Business combinations

Details of business combinations in the year ended 30 June 2018 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 10 and 11.

Name of business combination	Date of acquisition
Cundall & Duffy Veterinary Surgeons (trade and assets)	1 August 2017
Maatschap Dierenkliniek Wolvega (trade and assets)	3 August 2017
Strule Veterinary Services (trade and assets)	22 August 2017
B&W Equine Group Limited	11 September 2017
Aire Veterinary Centre Ltd	28 September 2017
Diergeneeskundig Centrum Noord Nederland B.V.	3 October 2017
All Creatures Veterinary Centre Limited	17 October 2017
Acorn Veterinary Centre (trade and assets)	19 October 2017
Three Valleys Veterinary Ltd	24 October 2017
Dierenkliniek Vrieselaar (trade and assets)	26 October 2017
BVCM Limited	31 October 2017
Ashburn Veterinary Centre Limited	14 November 2017
MSVets Limited	21 November 2017
Ruddington and East Leake Veterinary Centre Limited	30 November 2017
Victoria Veterinary Clinic Limited	5 December 2017
Dierenartsenpraktijk NOP B.V.	7 December 2017
Beaconvet Limited	12 December 2017
Wessex Equine Limited	13 December 2017
Maatschap De Boer & Waarsenburg (trade and assets)	19 December 2017
Ashman Jones Vets (trade and assets)	30 January 2018
The Equine Veterinary Centre (trade and assets)	1 February 2018
Thompsons Vets Limited	5 February 2018
Keown O'Neill Limited	6 March 2018
Weighbridge Referral Service Limited	15 March 2018
Maatschap Diernartsenpraktijk Schildwolde (trade and assets)	26 March 2018
Maatschap Stelma Van Der Zijden (trade and assets)	4 April 2018
Western Counties Equine Hospital Limited	1 May 2018
Milfeddygon Bennett Williams (trade and assets)	10 May 2018
Dierenkliniek De Tweesprong (trade and assets)	15 May 2018
J R T Jones Veterinary Surgery (trade and assets)	19 June 2018
Yoredale Vets Ltd	29 June 2018
Troytown Greyabbey Equine Veterinary Services (trade and assets)	29 June 2018

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

Given the nature of the veterinary surgeries acquired and the records maintained by such practices, it is not practicable to disclose the revenue or profit/loss of the combined entity for the year as though the acquisition date for all business combinations effected during the year had been at the beginning of that year.

The table below summarises the assets acquired in the year ended 30 June 2018:

	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	**2.8**	**–**	**2.8**
Patient data records and customer lists	**3.8**	**29.4**	**33.2**
Inventory	**1.2**	**–**	**1.2**
Deferred tax liability (note 22)	**(0.2)**	**(6.2)**	**(6.4)**
Trade and other receivables	**4.8**	**–**	**4.8**
Trade and other payables	**(4.0)**	**–**	**(4.0)**
Loans	**(2.3)**	**–**	**(2.3)**
Total identifiable assets	**6.1**	**23.2**	**29.3**
Goodwill	**–**	**21.0**	**21.0**
Total initial consideration paid (net of cash acquired)			**50.3**

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 £18.9m and £1.6m respectively. The post-acquisition period is from the date of acquisition to 30 June 2018. Post-acquisition EBITDA represents the direct operating result of practices from the date of acquisition to 30 June 2018 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 £1.7m for the year and are included within other expenses in note 6 of the financial statements.

Notes to the consolidated financial statements continued
for the year ended 30 June 2018

14. Business combinations continued

B&W Equine Group Limited	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	1.4	–	1.4
Patient data records	0.7	4.2	4.9
Inventory	0.2	–	0.2
Deferred tax liability	(0.1)	(0.9)	(1.0)
Trade and other receivables	1.4	–	1.4
Trade and other payables	(1.5)	–	(1.5)
Loans	(0.6)	–	(0.6)
Total identifiable assets	1.5	3.3	4.8
Goodwill	–	4.1	4.1
Total consideration paid			8.9

Post-acquisition revenue and post-acquisition EBITDA for B&W Equine Group Limited were £5.1m and £0.0m respectively. The post-acquisition period is from the date of acquisition to 30 June 2018.

Keown O'Neill Limited	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	–	–	–
Patient data records	1.1	2.0	3.1
Inventory	0.1	–	0.1
Deferred tax liability	–	(0.5)	(0.5)
Trade and other receivables	0.5	–	0.5
Trade and other payables	(0.7)	–	(0.7)
Loans	–	–	–
Total identifiable assets	1.0	1.5	2.5
Goodwill	–	2.4	2.4
Total consideration paid			4.9

Post-acquisition revenue and post-acquisition EBITDA for Keown O'Neill Limited were £0.7m and £0.2m respectively. The post-acquisition period is from the date of acquisition to 30 June 2018.

BVCM Limited	Book value of acquired assets £m	Adjustments £m	Fair value £m
Property, plant and equipment	0.1	–	0.1
Patient data records	–	1.9	1.9
Inventory	0.1	–	0.1
Deferred tax liability	–	(0.3)	(0.3)
Trade and other receivables	0.5	–	0.5
Trade and other payables	(0.3)	–	(0.3)
Loans	(0.2)	–	(0.2)
Total identifiable assets	0.2	1.6	1.8
Goodwill	–	1.9	1.9
Total consideration paid			3.7

Post-acquisition revenue and post-acquisition EBITDA for BCVM Limited were £1.2m and £0.3m respectively. The post-acquisition period is from the date of acquisition to 30 June 2018.

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 2017.

Business combinations subsequent to the year end
Subsequent to the year end, the Group has made ten acquisitions which are summarised as follows:

- the trade and assets of Gilabbey Veterinary Hospital, a one-site practice based in Cork, Ireland, on 26 July 2018;
- 100% of the Ordinary share capital of Slate Hall Veterinary Group, a four-site provider of services and medicines based in Cambridge, Hereford and Metheringham, on 27 July 2018;
- 100% of the Ordinary share capital of Corner House Equine Clinic Limited, a two-site practice based in Warwickshire and Romsley, on 31 July 2018;
- 100% of the Ordinary share capital of Endell Veterinary Group Limited, a four-site practice based in Wiltshire and Hampshire, on 9 August 2018;
- 100% of the Ordinary share capital of Beechwood Veterinary Practice Limited, a one-site practice based in Seaford, on 23 August 2018;
- 100% of the Ordinary share capital of Vet Direct Holdings Limited (and its subsidiaries), a supplier of veterinary equipment and consumables based in Newcastle-Upon-Tyne, on 30 August 2018;
- 100% of the Ordinary share capital of Artemis Veterinary Limited, a one-site practice based in Carmarthen, on 4 September 2018;
- the trade and assets of Dierenkliniek Fischer, a one-site practice based in Bolsward, Netherlands, on 6 September 2018;
- 100% of the Ordinary share capital of Arbury Road Vets Limited, a one-site practice based in Cambridge, on 19 September 2018; and
- 100% of the Ordinary share capital of Briar Dawn Veterinary Centre Limited, a one-site practice based in Manchester, on 26 September 2018.

14. Business combinations continued

Business combinations subsequent to the year end continued

These acquisitions were purchased for a total cash consideration of £35.1m. Assets acquired comprised principally goodwill and intangible patient data records with a provisional fair value of £35.1m.

15. Investments

a) Available-for-sale financial assets

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

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

b) Shares in subsidiary undertakings

Company	£m
Cost and net book amount	
At 1 July 2016	65.6
Options granted to employees of subsidiary undertakings (note 11)	1.5
At 30 June 2017	67.1
Options granted to employees of subsidiary undertakings (note 11)	1.3
At 30 June 2018	**68.4**

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

16. Derivative financial instruments

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

There is no material impact on the Group income statement resulting from hedge ineffectiveness. There was no ineffective portion of cash flow hedges in 2018 (2017: £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 2018 £40.0m of debt was hedged (2017: £45.0m); the remainder of the debt was unhedged at the year end.

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

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

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

Group	**2018** Assets £m	**2018** Liabilities £m	2017 Assets £m	2017 Liabilities £m
Non-current				
Interest rate swap arrangements – cash flow hedges	**0.2**	**–**	0.1	–

Movements in fair values

Group	Interest rate swap arrangements £m
Fair value at 1 July 2016	(0.1)
Fair value gain through reserves – hedged	0.2
At 30 June 2017	0.1
Fair value gain through reserves – hedged	0.1
At 30 June 2018	**0.2**

17. Financial instruments

Group – assets as per balance sheet	**2018** Derivative instruments in designated hedge accounting relationships £m	**2018** Loans and receivables £m	**2018** Available for sale £m	**2018** Total £m	2017 Derivative instruments in designated hedge accounting relationships £m	2017 Loans and receivables £m	2017 Available for sale £m	2017 Total £m
Available-for-sale financial assets	**–**	**–**	**0.1**	**0.1**	–	–	0.1	0.1
Trade and other receivables (excluding prepayments) (note 19)	**–**	**28.3**	**–**	**28.3**	–	21.8	–	21.8
Cash and cash equivalents (note 26)	**–**	**15.0**	**–**	**15.0**	–	6.8	–	6.8
Derivative financial instruments (note 16)	**0.2**	**–**	**–**	**0.2**	0.1	–	–	0.1
	0.2	**43.3**	**0.1**	**43.6**	0.1	28.6	0.1	28.8

Notes to the consolidated financial statements continued
for the year ended 30 June 2018

17. Financial instruments continued

Company – assets as per balance sheet	2018 Loans and receivables £m	2018 Available for sale £m	2018 Total £m	2017 Loans and receivables £m	2017 Available for sale £m	2017 Total £m
Trade and other receivables (excluding prepayments) (note 31)	**89.1**	**–**	**89.1**	31.2	–	31.2
	89.1	**–**	**89.1**	31.2	–	31.2

Group – liabilities as per balance sheet	2018 Derivative instruments in designated hedge accounting relationships £m	2018 Other financial liabilities £m	2018 Total £m	2017 Derivative instruments in designated hedge accounting relationships £m	2017 Other financial liabilities £m	2017 Total £m
Borrowings (note 21)	**–**	**(84.0)**	**(84.0)**	–	(106.8)	(106.8)
Trade and other payables (excluding social security and other taxes) (note 20)	**–**	**(43.1)**	**(43.1)**	–	(38.7)	(38.7)
	–	**(127.1)**	**(127.1)**	–	(145.5)	(145.5)

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

19. Trade and other receivables

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Trade receivables:				
Within their due period	**10.8**	8.2	**–**	–
Past due (between one and six months old):				
Not impaired	**6.3**	4.4	**–**	–
Fully impaired	**5.2**	3.2	**–**	–
Total trade receivables	**22.3**	15.8	**–**	–
Less: provision for impairment of receivables	**(5.2)**	(3.2)	**–**	–
Trade receivables – net	**17.1**	12.6	**–**	–
Amounts owed by Group undertakings (note 31)	**–**	–	**89.1**	31.2
Other receivables	**4.6**	3.6	**–**	–
Prepayments	**9.9**	9.1	**–**	–
Accrued income	**6.6**	5.6	**–**	–
	38.2	30.9	**89.1**	31.2

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

A provision for impairment is established based on historical experience. The amount of the provision was £5.2m (2017: £3.2m). 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:

	2018 £m	2017 £m
At the beginning of the year	**3.2**	2.5
Charged to the income statement within administrative expenses	**2.0**	0.7
At the end of the year	**5.2**	3.2

Other receivables do not contain impaired assets.

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

20. Trade and other payables

	Group 2018 £m	Group 2017 £m	Company 2018 £m	Company 2017 £m
Current				
Trade payables	**31.3**	24.5	**–**	–
Social security and other taxes	**10.8**	9.6	**–**	–
Other payables	**2.8**	2.8	**–**	–
Accruals	**9.0**	11.3	**–**	–
	53.9	48.2	**–**	–

The carrying amount of trade and other payables 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 payable above. The Group does not hold any collateral as security. The Group's trade and other payables are denominated in Sterling.

21. Borrowings

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

Group	2018 £m	2017 £m
Within one year or on demand	**0.5**	3.3
Between one and two years	**0.1**	–
After more than two years	**83.4**	103.5
	84.0	106.8

The balances above are shown net of issue costs of £1.0m (2017: £1.1m), which are being amortised over the term of the bank loans. The carrying amount of borrowings is deemed to be a reasonable approximation to fair value.

In September 2018 the Group increased its available bank facilities through exercising the accordion contained within the November 2015 bank facility agreement. Total facilities of £190.0m are available to support the Group's organic and acquisitive growth initiatives over the coming years. These facilities are provided by a syndicate of three banks, RBS, HSBC and AIB, and comprise the following elements:

- a fixed term loan of £95.0m, repayable on 23 November 2021 via a single bullet repayment; and
- a six-year revolving credit facility ("RCF") of £95.0m that runs to 23 November 2021.

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

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

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

At the balance sheet date £40.0m 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 2018 the Group has a committed overdraft facility of £5.0m (2017: £5.0m) and an RCF of £85.0m (2017: £47.5m). The overdraft facility was undrawn at 30 June 2018 and 30 June 2017. £68.0m of the RCF was undrawn at 30 June 2018 (2017: £10.5m).

22. Deferred income tax

Deferred income tax assets comprised:

Group	2018 £m	2017 £m
Tax effect of temporary differences:		
Share-based payments	**0.5**	2.0
Losses	**0.1**	0.1
	0.6	2.1

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

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

Group	2018 £m	2017 £m
Tax effect of temporary differences:		
Excess of qualifying depreciation and amortisation	**19.8**	16.8
	19.8	16.8

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

Group	At 1 July 2017 £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 2018 £m
Share-based payments	2.0	(1.0)	–	(0.5)	**0.5**
Unutilised tax losses carried forward	0.1	–	–	–	**0.1**
Excess of qualifying depreciation and amortisation over capital allowances	(16.8)	3.4	(6.4)	–	**(19.8)**
	(14.7)	2.4	(6.4)	(0.5)	**(19.2)**

Notes to the consolidated financial statements continued

for the year ended 30 June 2018

22. Deferred income tax continued

Group	At 1 July 2016 £m	(Charged)/ credited to income statement £m	Deferred tax gross up on acquisitions £m	Credited to statement of changes in equity £m	At 30 June 2017 £m
Share-based payments	1.7	(1.6)	—	1.9	2.0
Unutilised tax losses carried forward	0.1	—	—	—	0.1
Excess of qualifying depreciation and amortisation over capital allowances	(14.6)	3.3	(5.5)	—	(16.8)
	(12.8)	1.7	(5.5)	1.9	(14.7)

The deferred tax balance is non-current.

23. Share capital

	2018 £m	2017 £m
Issued and fully paid		
70,334,204 (2017: 63,903,911) Ordinary shares of 0.02p each	**0.1**	0.1

During the year, 243,205 shares were issued for consideration of £486 in respect of the vesting of LTIP8, and 605,693 shares were issued for consideration of £1,875,521 in respect of SAYE7, SAYE8 and SAYE9. 5,581,395 shares were issued in February 2018 for consideration of £59,067,960 following a placing.

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

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

Dividends

The Directors have proposed a final dividend of 5.0p (2017: 4.5p) per share, total: £3.5m (2017: £2.9m), payable on 7 December 2018 to shareholders on the register at the close of business on 23 November 2018. The dividend has not been included as a liability as at 30 June 2018. During the year a dividend of 4.5p per share amounting to £2.9m was paid.

24. Revaluation reserve

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

25. Share premium

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

26. Analysis of movement in net debt

Group	At 1 July 2017 £m	Cash flow £m	Non-cash movement £m	**At 30 June 2018 £m**
Cash and cash equivalents	6.8	8.2	—	**15.0**
Borrowings – current	(3.3)	5.9	(3.1)	**(0.5)**
Borrowings – non-current	(103.5)	20.1	(0.1)	**(83.5)**
Net debt	(100.0)	34.2	(3.2)	**(69.0)**

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

27. Cash flow generated from operations

	Group 2018 £m	Group 2017 £m	**Company 2018 £m**	Company 2017 £m
Profit/(loss) for the year	**10.7**	11.5	**(0.2)**	(0.2)
Taxation	**3.4**	3.0	**—**	—
Total finance costs	**3.6**	2.7	**—**	—
Amortisation of intangible assets	**18.4**	16.0	**—**	—
Depreciation of property, plant and equipment	**8.0**	5.9	**—**	—
Decrease/(increase) in inventories	**0.3**	(1.5)	**—**	—
(Increase) in trade and other receivables	**(4.9)**	(4.5)	**(59.1)**	(27.7)
Increase in trade and other payables	**5.9**	2.6	**—**	—
Share option expense	**1.3**	1.5	**1.3**	1.5
Total net cash flow generated from operations	**46.7**	37.2	**(58.0)**	(26.4)

28. Guarantees and other financial commitments

Capital commitments

The Group had no capital commitments as at 30 June 2018 (2017: £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 2018. 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:

	2018			2017		
	Property £m	Plant and machinery £m	Total £m	Property £m	Plant and machinery £m	Total £m
Not later than one year	**11.0**	**0.8**	**11.8**	10.1	0.8	10.9
Later than one year and not later than five years	**27.6**	**1.3**	**28.9**	27.5	1.2	28.7
Later than five years	**14.0**	**0.2**	**14.2**	15.6	—	15.6
Total	**52.6**	**2.3**	**54.9**	53.2	2.0	55.2

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

30. Pension schemes

The Group contributes to certain employees' personal pension schemes in accordance with their service contracts. The amounts are charged to the income statement as they fall due. The amounts charged during the year amounted to £1.8m (2017: £1.1m). The amount outstanding at the end of the year included in trade and other payables was £0.5m (2017: £0.2m).

31. Related party transactions

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

Company

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

	2018 £m	2017 £m
Recharge of expenses incurred by CVS (UK) Limited on behalf of the Company	**(0.2)**	(0.2)
Cash advanced to fund payment of dividend	**(2.9)**	(2.1)

The following balances were owed by related companies:

	2018		2017	
	Receivable £m	Payable £m	Receivable £m	Payable £m
CVS (UK) Limited	**89.1**	**–**	31.2	–

Amounts owed by CVS (UK) Limited are unsecured and 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 (2017: £0.1m), of which £0.1m (2017: £0.1m) was paid in the year.

During the year the following dividends were paid to the Directors: R Connell £4,500; M McCollum £3,481; S Innes £11,091; and N Perrin £1,440. Dividends were also paid to the spouse of S Innes and the spouse of R Connell of £259 and £96 respectively.

Ultimate controlling party

The Directors consider there is no ultimate controlling party.

Five-year history

	2018 £m	2017 £m	2016 £m	2015 £m	2014 £m
Revenue	**327.3**	271.8	218.1	167.3	142.9
Gross profit	**151.6**	124.5	105.9	79.1	65.2
Operating profit	**17.7**	17.2	11.8	9.8	7.5
Finance expense	**(3.6)**	(2.7)	(2.7)	(1.3)	(1.2)
Profit before tax	**14.1**	14.5	9.1	8.5	6.3
Income tax expense	**(3.4)**	(3.0)	(2.1)	(1.7)	(1.5)
Profit for the year	**10.7**	11.5	7.0	6.8	4.8
EBITDA					
Adjusted EBITDA	**47.6**	42.1	32.8	23.0	18.3
Adjusted profit before income tax	**36.0**	33.5	24.9	18.2	14.3
Cash generated from operations	**46.7**	37.2	33.6	22.2	20.7
Capital expenditure	**(10.7)**	(13.8)	(11.5)	(6.5)	(5.3)
Acquisitions	**(50.3)**	(46.9)	(53.5)	(21.1)	(12.4)
Loans and borrowings acquired through business combinations	**(3.1)**	(1.5)	(7.8)	(4.2)	—
Taxation paid	**(6.2)**	(5.4)	(3.3)	(2.3)	(2.5)
Interest paid	**(3.1)**	(2.1)	(2.4)	(1.3)	(1.2)
Amortisation of debt issue costs	**(0.4)**	(0.8)	(0.4)	(0.5)	—
Proceeds from Ordinary shares	**61.0**	30.6	0.2	0.3	0.5
Purchase of own shares	**—**	(2.1)	—	—	—
Dividends paid	**(2.9)**	(2.1)	(1.8)	(1.5)	(1.1)
Reduction/(increase) in net debt	**31.0**	(6.9)	(46.9)	(14.9)	(1.3)
Year-end net debt	**69.0**	100.0	93.1	46.2	31.3

	Pence	Pence	Pence	Pence	Pence
Basic earnings per share	**16.0**	18.5	11.6	11.6	8.3
Adjusted basic earnings per share	**42.4**	42.8	32.4	24.7	19.0

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