

Vetcel Limited

FRC Report

Stuart P. Renton MRCVS Company Chairman

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Christopher M. Bainton Managing Director

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Vetcel Office Staff - Kincardine

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Mr Nigel Clare	- Business Development Manager	- York
Mrs Julie Brooksby,	- Salus Co Manager	- Drifffield

Additional Directors:	David Reed MRCVS	Company Secretary
	David Taylor MRCVS	Distribution Director
	George Burgess MRCVS	Non-Executive Director
	John Armstrong MRCVS	Non-Executive Director
	William McColl MRCVS	Acquisitions Director
	John Donald MRCVS	Non-Executive Director

The Vetcel Ethos: Six veterinary practitioners and the managing director set up the Company in 1984 with the expressed aim of providing support for the independent veterinary practice. This remains the remit and focus of the company to this day.

Profitability: Historically, the profitability of the company has been set by the shareholders who have determined an acceptable operating margin. Vetcel has traditionally always worked within a fixed margin of 0.75% and 1.25% with a consensus that 1% should be sufficient for management to run the business. A requirement exists on management for a letter of explanation to the board should profits fall outside of these parameters.

Shareholders: The shareholders have maintained direct control of the company by virtue of the fact that they formed the majority of the board. There is now the potential that this link will be broken, hence the requirement arises to protect the investors by instigating good corporate governance and adopting best practice. Under the new articles, Vetcel's shares will be divided into two classes, (A type)

	and (B Type) shares. This will effectively put the control of the company beyond any individual shareholder.
Ethics:	The ethical standards to which the veterinary profession holds itself must remain those to which the company also adheres. This is not just the shareholders view it is also that of the directors, management, staff and clients alike.
Dividends:	The Company's current dividend policy is 10%. This has allowed funds to be made available to management to increase the level of services provided to member practices. Following the changes in October and notwithstanding the importance for continuing the current policy, the annual reviews will also take into consideration amongst other factors the current shareholding in the company.
Risks:	The assessment of financial risk has formed a major part of the directors' remit over the last thirty plus years, with the predominate use of retained profit for any investments, overriding the need or requirement for borrowings
Chairman's Report:	This will now form part of the annual financial reporting requirement that is provided to all shareholders. In the past, this has not been necessary, as Vetcel's directors held the majority of the company's shares and so were in a position to hear the Chairman's views first hand.
Board Effectiveness:	Assessment of the board's effectiveness by the shareholders has been straightforward as it was effectively only a self-assessment exercise with no requirement to publish. From October 2015, there will not only be a requirement to assess the director's effectiveness but also to publish a statement indicating how that performance has been monitored and evaluated.
Other Investors:	The only investors in the company to date have been the current shareholders or those who were at one-time board members. It may well be that in the future other types of investment might be required and it is noted that this will place additional reporting requirements upon the board.
Board Engagement:	In the past, the engagement of the Vetcel board with the company's investors has been self-evident, as in the main, the directors were the investors. Under the new regime, there will be a requirement to ensure that there is real engagement with other potential investor's, banks and

Leadership:	<p>institutions. This may involve allowing a third party to nominate non-executive directors to the board to ensure that engagement.</p> <p>The two chairman who have led the company from its inception have done so in their own very distinctive styles. However, both instinctively knew the requirements of the independent practice having had that first-hand experience. This hands-on experience of managing practice has proven to be invaluable over the years and is one that the directors feel should be maintained if possible.</p>
Board role:	<p>The role of the board is to individually and collectively strive to ensure the effective and successful long-term future of the company. The directors, both past and present, feel that they have discharged their fiduciary duties competently in the past having taken the company from its launch in 1984 to one with an asset worth of over a million pounds and an annual turnover approaching forty five million.</p>
Board Responsibilities:	<p>Within Vetcel, the Chair seeks to look after both the investors and the overall direction of the company. The managing director manages the day-to-day activities of the company in response to the members' needs. Each of the other executive directors have separate mandates according to their areas of responsibility.</p>
Chairman's role:	<p>The Chairman ensures that the investors are conversant with all major issues facing the company while providing the board with both direction and leadership. The chair sets meeting dates and ensures the directors' availability.</p>
Managing Director's role:	<p>The Managing Director's role is to manage the activities of the company on a day-to-day basis and is accountable to the board for presenting information that allows the directors to understand the company's position on any issue. This information includes management accounts that enable directors to make informed decisions of a fiscal nature. The managing director's salary package, including bonus, will form part of the annual accounts.</p>
Non-executive Director:	<p>The main role of the nonexecutive director on the board is to challenge decisions constructively. All of the company's current nonexecutive directors are veterinary practitioners and as such have a clear understanding of the needs of practice. The current terms and conditions for</p>

Communication:	<p>nonexecutive appointments include fixed daily rates and reimbursement of expenses.</p> <p>As previously stated the company's current nonexecutive directors are veterinary practitioners whose experience and abilities proffer a significant contribution to the company's engagement with its member practices. In the event that the future composition of the board alters, a working document outlining the activities of the company will be prepared. This document will, in addition, provide assistance and relevant information for those without any specific knowledge of veterinary practice.</p>
Remuneration:	<p>We undertake to produce each remuneration package without the involvement of anyone directly concerned. The current working director's salary package including any share options will form part of the annual accounts.</p>
Accountability:	<p>The board will produce a quarterly report outlining the current business and financial position of the company. This report will detail any substantial risk element facing the company and actions taken to mitigate or minimise them. The board will give sight of this report to its auditors; this along with the sight of the management accounts should discharge the board's fiduciary responsibilities to both auditors and investors.</p>
Shareholder relationship:	<p>We aim to foster a dialogue with investors this includes taking steps to ensure board members have an understanding of the views of our shareholders. Should the shareholder and board appointments separate, it becomes imperative that investors are kept informed regarding the direction of the company and the major challenges faced.</p>
Board Composition:	<p>The board comprises of a majority of veterinary surgeons with half of them being nonexecutive directors.</p>
Board Appointments:	<p>The current policy on board appointments requires the chairman to request the managing director to provide a short-list, of no less than three, potential candidates for each position. The list must be accompanied with any relevant biographies. The chairman is then obligated to present the candidates to the board for their consideration. The managing director absents himself from the selection process at this point, leaving the remaining board members to make their final choice. The company has not</p>

	<p>required any kind of diversity policy as, to date, only suitably qualified candidates from our own members have been selected.</p>
Board Meetings:	<p>It is currently a requirement of the company that the board meets quarterly, not including the AGM. It is Vetcel's normal practice to hold a group meeting on the afternoon of directors meetings, allowing our practices, shareholders and board members to meet and discuss the direction of the company. For any non-attendees, these meetings are also recorded and a podcast placed on our website for everyone to view and catch up with the current topics</p>
Commitment:	<p>All Vetcel's directors set aside sufficient time to meet the needs of their position. The working directors, having had many years' experience in their respective roles, are now required to prepare an overview of time spent on company business. Furthermore, they are asked to record the time spent on major projects. This will allow us to create job specifications for future director positions.</p>
Development:	<p>The induction of new board members will now require a more formal approach. To this end, a board-briefing document will be prepared for the appointee indicating both their duties and their responsibilities together with any training requirements. This will also form part of a director's knowledge/skills refresher course.</p>
Information & Support:	<p>The board will be supplied in a timely manner with a report containing such information that empowers members to make informed decisions.</p>
Evaluation:	<p>The Annual Review: From 2016, the board will review its own performance including independent assessment of the skills and activities of its directors.</p>
Director Elections:	<p>All directors will stand for re-election at each AGM. At which time written confirmation will be required from the Chairman that each director's performance continues to be effective. Biographical information must be available to shareholders to allow them to make informed decisions about potential appointments.</p>
Financial Reporting:	<p>Management will provide both the Auditors and Accountants with monthly management accounts. These will form the basis of the quarterly reports to the board</p>

allowing them to take a fair and balanced view of the company's position.

Business Reporting: The quarterly report will include a board statement on the various projects undertaken, company progress and timescales.

Risk management: The Vetcel board provides administrative, management and supervisory roles in relation to managing risk. The quarterly statement by the board will include how foreseeable risks have been managed and where possible mitigated.

Audits: The Company has in place checks and balances including our own internal audit function. These provide management with the tools to monitor performance and create company oversight for the board report. The acceptance of these reports forms part of the quarterly directors meetings and can be seen in the minute of these meetings.

Disclosure: Regarding disclosure, our Accountants/Auditors (Haines Watts) have oversight of the monthly transactions of the company. Our IT department provides these once the month-end is closed off. The strength of this situation is that our accountants have month-by-month real-time data on the performance of the company and they know in advance, what will go into our quarterly financial reports. We propose that any sponsorship payments and all donations both of a charitable and of a political nature be disclosed in our annual report.

Date: 28th October 2015

Prepared for the board by Mr C.M. Bainton

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