IMPORTANT: You must read the following disclaimer before continuing. The following disclaimer applies to the attached price range prospectus (the ‘‘document’’) and you are therefore advised to read this carefully before reading, accessing or making any other use of the attached document. In accessing the document, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access. You acknowledge that this electronic transmission and the delivery of the attached document is confidential and intended only for you and **you agree you will not forward, reproduce, copy, download or publish this electronic transmission or the attached document (electronically or otherwise) to any other person.**

The document and the offer when made are only addressed to and directed at persons in member states of the European Economic Area (“EEA”) who are “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive (Directive 2003/71/EC and amendments thereto, including Directive 2010/73/EU, to the extent implemented in the relevant Member State of the European Economic Area) and any implementing measure in each relevant Member State of the EEA (the “Prospectus Directive”) (“Qualified Investors”). This document must not be acted on or relied on in any member state of the EEA other than the UK, by persons who are not Qualified Investors. Any investment or investment activity to which this document relates is available only in any member state of the EEA other than the UK, to Qualified Investors, and will be engaged in only with such persons.

THE SECURITIES REFERENCED IN THIS DOCUMENT MAY ONLY BE DISTRIBUTED IN ‘‘OFFSHORE TRANSACTIONS’’ AS DEFINED IN, AND IN ACCORDANCE WITH, REGULATION S UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE ‘‘SECURITIES ACT’’) OR WITHIN THE UNITED STATES TO QUALIFIED INSTITUTIONAL BUYERS (“QIBs”) AS DEFINED IN AND IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (‘‘RULE 144A’’). ANY FORWARDING, REDISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS NOTICE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES OR IN ANY OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE UNITED STATES EXCEPT (1) IN ACCORDANCE WITH RULE 144A TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QIB OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Confirmation of your representation: By accepting electronic delivery of this document, you are deemed to have represented to Merrill Lynch International ("BofA Merrill Lynch"), Goldman Sachs International ("Goldman Sachs"), KKR Capital Markets Limited ("KKR Capital Markets and together with BofA Merrill Lynch and Goldman Sachs, the "Joint Global Coordinators") and Nomura International plc ("Nomura" and, together with the Joint Global Coordinators, the "Banks") and Pets at Home Group Plc (the “Company”), KKR My Best Friend Limited (the “Principal Shareholder”) and to MEP Nominee Limited (the “Selling Shareholder”) that (i) you are acting on behalf of, or you are either (a) an institutional investor outside the United States (as defined in Regulation S under the Securities Act, or (b) in the United States and a QIB that is acquiring securities for your own account or for the account of another QIB; (ii) if you are in the UK, you

are a relevant person; (iii) if you are in any member state of the EEA other than the UK, you are a Qualified Investor; (iv) the securities acquired by you in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, any person in circumstances which may give rise to an offer of any securities to the public other than their offer or resale in any member state of the EEA which has implemented the Prospectus Directive to Qualified Investors (as defined in the Prospectus Directive); and (v) if you are outside the US, UK and EEA (and the electronic mail addresses that you gave us and to which this document has been delivered are not located in such jurisdictions) you are a person into whose possession this document may lawfully be delivered in accordance with the laws of the jurisdiction in which you are located.

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A hard copy of the document will be made available to you only upon request.

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Restriction: Nothing in this electronic transmission constitutes, and may not be used in connection with, an offer of securities for sale to persons other than the specified categories of institutional buyers described above and to whom it is directed and access has been limited so that it shall not constitute a general solicitation. If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

None of the Banks or any of their respective affiliates, or any of their respective directors, officers, employees or agents accepts any responsibility whatsoever for the contents of this document or for any statement made or purported to be made by it, or on its behalf, in connection with the issuer or the offer. The Banks and any of their respective affiliates accordingly disclaim all and any liability whether arising in tort, contract, or otherwise which they might otherwise have in respect of such document or any such statement. No representation or warranty express or implied, is made by any of the Banks or any of their respective affiliates as to the accuracy, completeness, reasonableness, verification or sufficiency of the information set out in this document.

The Banks are acting exclusively for the Company and no one else in connection with the Offer. They will not regard any other person (whether or not a recipient of this document) as their client in relation to the offer and will not be responsible to anyone other than the Company for providing the protections afforded to their clients nor for giving advice in relation to the offer or any transaction or arrangement referred to herein.

You are responsible for protecting against viruses and other destructive items. Your receipt of this document via electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Price Range Prospectus

February 2014

pets at home

where pets come first

pets at home

Companion Care Vets

Vets4Pets

Putting your pet first

Ride-away equestrian

the groom room at pets at home

This document comprises a prospectus ("**Prospectus**") relating to Pets at Home Group Plc (the "**Company**") prepared in accordance with the prospectus rules (the "**Prospectus Rules**") of the Financial Conduct Authority (the "**FCA**") made under section 73A of the Financial Services and Markets Act 2000 (as amended) ("**FSMA**"). A copy of this Prospectus has been filed with the FCA and has been approved by the FCA in accordance with section 87A of FSMA and made available to the public as required by Rule 3.2 of the Prospectus Rules.

Application will be made to the FCA in its capacity as competent authority under FSMA (the "**UKLA**") for all of the Shares of the Company, issued and to be issued in connection with the Offer to be admitted to the premium listing segment of the Official List maintained by the FCA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Shares to be admitted to trading on the London Stock Exchange's main market for listed securities (together, "**Admission**"). Admission to trading on the London Stock Exchange's main market for listed securities constitutes admission to trading on a regulated market. Conditional dealings in the Shares are expected to commence on the London Stock Exchange at 8.00 a.m. on 13 March 2014. It is expected that Admission will become effective, and that unconditional dealings will commence on the London Stock Exchange, at 8.00 a.m. on 18 March 2014. All dealings in Shares prior to the commencement of unconditional dealings will be on a "when issued" basis and of no effect if Admission does not take place and will be at the sole risk of the parties concerned. No application has been, or is currently intended to be, made for the New Shares to be admitted to listing or trading on any other stock exchange.

Prospective investors should read the whole of this Prospectus. In particular, your attention is drawn to the factors described in Part II (*Risk Factors*) of this Prospectus. Prospective investors should be aware that an investment in the Company involves a degree of risk and that, if certain of the risks described in this Prospectus occur, investors may find their investment materially adversely affected.

Pets at Home Group Plc

(*incorporated under the Companies Act 2006 and registered in England and Wales with registered number 8885072*)

Offer of up to 200,000,000 Shares at an Offer Price expected to be between £2.10 and £2.60 per Share (the "**Price Range**") and admission to the premium listing segment of the Official List and to trading on the main market of the London Stock Exchange

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Sponsor

BofA Merrill Lynch

Joint Global Coordinators and Joint Bookrunners

BofA Merrill Lynch **Goldman Sachs International** **KKR**

Co-Lead Manager

Nomura

Expected issued share capital immediately following Admission of 500,000,000 Shares of £0.01

Pursuant to the terms of the Offer, and assuming that the Offer Price is set at the mid-point of the Price Range and the Offer Size is set at the mid-point of the Offer Size Range, (i) the Company is offering 151,504,629 New Shares, which would raise estimated net proceeds for the Company of £316 million, of which, £240 million will be used by the Company to facilitate the repayment of outstanding amounts owing under the Existing Senior Facilities Agreement and £76 million shall be used by the Company to repay Shareholder Debt, and (ii) the Selling Shareholder is offering to sell 10,995,371 Existing Shares in aggregate, representing 2.2% of the issued Shares on Admission, which would raise estimated gross proceeds for the Selling Shareholder of £26 million. This further assumes no exercise of the Over-allotment Option and that each Beneficial Shareholder elects to sell or otherwise receive (through the repayment of Shareholder Debt) their maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement. The Company will not receive any of the proceeds from the sale of Existing Shares.

The Price Range and the Offer Size Range have been set by the Company and the Principal Shareholder. It is currently expected that the Offer Price and the Offer Size will be set within the Price Range and the Offer Size Range respectively. A number of factors will be considered in determining the Offer Price and the Offer Size and the basis of allocation, including the level and nature of demand of the Shares during the bookbuilding process, the level of demand in the Intermediaries Offer, prevailing market conditions and the objective of establishing an

orderly after-market in the Shares. Unless required to do so by law or regulation, the Company does not envisage publishing a supplementary prospectus or an announcement triggering the right to withdraw applications for Shares pursuant to section 87Q of FSMA on determination of the Offer Price or the Offer Size. If the Offer Price is set within the Price Range and the Offer Size is set within the Offer Size Range, a pricing statement containing the Offer Price and confirming the number of New Shares and Existing Shares which are comprised in the Offer (the "**Pricing Statement**") and related disclosures, is expected to be published on or around on 13 March 2014 and will be available on the Company's website at http://investors.petsathome.com. If (i) the Offer Price is set above the Price Range or the Price Range is revised higher; and/or (ii) the number of Shares to be issued or sold in the Offer is set above or below the Offer Size Range, then the Company will make an announcement via a Regulatory Information Service and prospective investors will have a statutory right to withdraw their application for Shares pursuant to section 87Q of FSMA. In such circumstances, the Pricing Statement would not be published until the period of exercising such withdrawal rights has ended. Therefore the expected date of publication of the Pricing Statement would be extended. The arrangements for withdrawing offers to subscribe for or purchase Shares, as the case may be, would be made clear in the announcement.

The New Shares to be issued pursuant to the Offer will, following Admission, rank *pari passu* in all respects with each other and with the Existing Shares and will rank in full for all dividends and other distributions thereafter declared, made or paid in respect of the Shares after Admission.

The distribution of this Prospectus and the offer of the Shares contemplated by this Prospectus in jurisdictions other than the United Kingdom may be restricted by law. No action has been taken by the Company or Merrill Lynch International ("**BofA Merrill Lynch**"), Goldman Sachs International ("**Goldman Sachs**"), KKR Capital Markets Limited ("**KKR Capital Markets**" and, together with BofA Merrill Lynch and Goldman Sachs, the "**Joint Global Coordinators**"), Nomura International plc ("**Nomura**" and, together with the Joint Global Coordinators, the "**Underwriters**"), the Principal Shareholder or the Selling Shareholder to obtain any approval, authorisation or exemption to permit the offer of the Shares or the possession or distribution of this Prospectus in any jurisdiction other than the United Kingdom. Persons outside the United Kingdom into whose possession this Prospectus comes should inform themselves about, and observe, any applicable restrictions and legal, exchange control or regulatory requirements in relation to the distribution of this Prospectus. Any failure to comply with these restrictions and requirements may constitute a violation of the securities laws of any such jurisdiction. Recipients of this Prospectus are authorised to use this Prospectus solely for the purpose of considering an investment in the Shares, and may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering an investment in the Shares. Such recipients of this Prospectus agree to the foregoing by accepting delivery of this Prospectus.

The Company consents to the use of this Prospectus (which comprises a prospectus in accordance with the Prospectus Rules of the FCA made under section 73A of FSMA) by the Intermediaries in connection with the Intermediaries Offer in the UK, the Channel Islands and the Isle of Man on the following terms: (i) in respect of the Intermediaries who have been appointed by the Company prior to the date of this Prospectus, from the date of this Prospectus; and (ii) in respect of Intermediaries who are appointed by the Company after the date of this Prospectus, from the date on which they are appointed to participate in the Intermediaries Offer and, in each case, until the closing of the Intermediaries Offer. The Company accepts responsibility for the information contained in this Prospectus with respect to any subscriber for Shares pursuant to the Offer. In each case, the consent to use this Prospectus is conditional upon compliance by the relevant Intermediary with the Intermediaries Terms and Conditions and the appointment of such Intermediary not having been terminated by the Company. **If an Intermediary makes an offer to a retail investor pursuant to the Intermediaries Offer, that Intermediary shall provide to such retail investor at the time the offer is made (i) a copy of this Prospectus or a hyperlink from which this Prospectus may be obtained; and (ii) the terms and conditions of the relevant offer made by the Intermediary to the retail investor. Any application made by prospective investors to any Intermediary is subject to the terms and conditions which apply to the transaction between such prospective investor and such Intermediary.**

This Prospectus does not constitute or form part of any offer to sell or issue, or any invitation or solicitation of any offer to invest in, any securities of the Company other than the Shares.

Prospective investors should only rely on the information contained in this Prospectus. No person has been authorised to give any information or make any representations other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been so authorised. In particular, the contents of the websites of the Group do not form part of this Prospectus and prospective investors should not rely on them. The Company will comply with its obligations to publish a supplementary prospectus pursuant to section 87G of FSMA and Rule 3.4 of the Prospectus Rules containing further updated information

required by law or by any regulatory authority but, except as required by the Listing Rules, the Prospectus Rules, the Disclosure and Transparency Rules or any other applicable law, assumes no further obligation to publish additional information. Without prejudice to the Company's legal or regulatory obligations to publish a supplementary prospectus, neither the delivery of this Prospectus nor Admission shall, under any circumstances, create any implication that there has been no change in the affairs of the Group since the date of this Prospectus or that the information is correct as of any time subsequent to the date of this Prospectus.

BofA Merrill Lynch, Goldman Sachs, KKR Capital Markets and Nomura, each of which, in the United Kingdom, is authorised by the Prudential Regulation Authority ("**PRA**") and regulated by the PRA and the FCA, are acting exclusively for the Company and no one else in connection with the Offer, and will not regard any other person (whether or not a recipient of this Prospectus) as their respective clients in relation to the Offer and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients nor for giving advice in relation to the Offer or any transaction or arrangement referred to in this Prospectus.

Apart from the responsibilities and liabilities, if any, which may be imposed on any of BofA Merrill Lynch, Goldman Sachs, KKR Capital Markets and Nomura by FSMA or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of BofA Merrill Lynch, Goldman Sachs, KKR Capital Markets and Nomura accepts any responsibility whatsoever for, or makes any representation or warranty, express or implied, as to, the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Shares or the Offer and nothing in this Prospectus should be relied upon as a promise or representation in this respect, whether or not to the past or future. Each of BofA Merrill Lynch, Goldman Sachs, KKR Capital Markets and Nomura accordingly disclaims all and any responsibility or liability, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement.

Prior to making any decision as to whether to invest in the Shares, prospective investors should read this Prospectus in its entirety. In making an investment decision, each prospective investor must rely on his, her, or its own examination, analysis and enquiry of the Company, the Shares and the terms of the Offer, including the merits and risks involved. Prospective investors also acknowledge that: (i) they have not relied on any of BofA Merrill Lynch, Goldman Sachs, KKR Capital Markets, Nomura, the Principal Shareholder, the Selling Shareholder or any person affiliated with the BofA Merrill Lynch, Goldman Sachs, KKR Capital Markets, Nomura, the Principal Shareholder or the Selling Shareholder in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; (ii) they have relied only on the information contained in this Prospectus; and (iii) no person has been authorised to give any information or to make any representation concerning the Company or its subsidiaries or the Shares (other than as contained in this Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company, BofA Merrill Lynch, Goldman Sachs, KKR Capital Markets, Nomura, the Principal Shareholder or the Selling Shareholder.

None of the Company, the Directors, BofA Merrill Lynch, Goldman Sachs, KKR Capital Markets, Nomura, the Principal Shareholder, the Selling Shareholder or any of their respective affiliates or representatives is making any representation to any prospective investor in the Shares regarding the legality of an investment in the Shares by any such prospective investor under the applicable laws applicable to any such prospective investor. The contents of this Prospectus should not to be construed as legal, financial or tax advice. Each prospective investor should consult his, her or its own legal, financial or tax adviser for legal, financial or tax advice in relation to an investment in Shares.

The Company and the Directors (whose names appear on page 81 of this Prospectus) accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company and the Directors (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import.

NOTICE TO CERTAIN INVESTORS

The Shares are subject to selling and transfer restrictions in certain jurisdictions. Prospective investors should read the restrictions described under Section 13 (*Transfer and Selling Restrictions*) of Part XVII (*The Offer*). Each investor in the Shares will be deemed to have made the relevant representations described therein.

The distribution of this Prospectus and the Offer in certain jurisdictions may be restricted by law. No action has been or will be taken by the Company, the Directors, BofA Merrill Lynch, Goldman Sachs, KKR Capital Markets, Nomura, the Principal Shareholder, the Selling Shareholder or any such person's affiliates to permit a public offering of the Shares or to permit the possession or distribution of this Prospectus (or any other offering or publicity materials relating to the Shares) in any jurisdiction other than the UK, where action for that purpose may be required. Accordingly, neither this Prospectus nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. For further information on the manner of distribution of the Shares, and the transfer restrictions to which they are subject, see Section 13 (*Transfer and Selling Restrictions*) of Part XVII (*The Offer*).

In particular, no actions have been taken to allow for a public offering of the Shares under the applicable securities laws of any jurisdiction (other than the United Kingdom), including Australia, Canada, Japan or the United States. This Prospectus does not constitute or form part of any offer to sell or issue, or any invitation or solicitation of an offer to invest in or purchase, the Shares offered by this Prospectus in any jurisdiction where it is unlawful to make such offer or solicitation.

Notice in connection with Member States of the European Economic Area

This Prospectus has been prepared on the basis that all offers of Shares, other than in the United Kingdom, will be made pursuant to an exemption under the Prospectus Directive, as implemented in member states of the European Economic Area ("**EEA**"), from the requirement to produce a prospectus for offers of shares. Accordingly, any person making or intending to make any offer within the EEA of Shares which are comprised in the Offer contemplated in this Prospectus should only do so in circumstances in which no obligation arises for the Company, the Selling Shareholder or any of the Underwriters to produce a prospectus for such offer. None of the Company, the Principal Shareholder, the Selling Shareholder and the Underwriters have authorised, nor will they authorise, the making of any offer of Shares through any financial intermediary (other than in connection with the Intermediaries Offer), other than offers made by Underwriters which constitute the final placement of Shares contemplated in this Prospectus.

Notice to United States Investors

The Shares offered by this Prospectus have not been, and will not be, registered under the US Securities Act of 1933 (the "**Securities Act**") or the securities laws of any state or other jurisdiction of the United States. The Shares offered by this Prospectus may not be offered or sold in the United States, except to qualified institutional buyers ("**QIBs**") as defined in, and in reliance on, Rule 144A under the Securities Act ("**Rule 144A**"). Shares are being offered and sold outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**"). Prospective investors are hereby notified that the sellers of the Shares may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A of the Securities Act.

The Shares offered by this Prospectus have not been approved or disapproved by the United States Securities and Exchange Commission (the "US SEC"), any state securities commission in the United States or any other United States regulatory authority, nor have any such authorities passed upon, or endorsed the merits of, the Offer or the accuracy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER RSA 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE INVESTOR, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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PART I

SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A-E (A.1 — E.7).

This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element might be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of the words "not applicable".

Section A — Introduction and warnings		
Element		
A.1	**Introduction and warnings**	This summary should be read as an introduction to this document. Any decision to invest in the securities should be based on consideration of the Prospectus as a whole by the investors. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member State, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with other parts of the Prospectus or it does not provide, when read together with other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	**Consent for Intermediaries**	The Company consents to the use of this Prospectus by the Intermediaries in connection with the Intermediaries Offer in the UK, the Channel Islands and the Isle of Man on the following terms: (i) in respect of Intermediaries who have been appointed by the Company prior to the date of this Prospectus, from the date of this Prospectus; and (ii) in respect of Intermediaries who are appointed by the Company after the date of this Prospectus, from the date on which they are appointed to participate in the Intermediaries Offer and, in each case, until the closing of the Intermediaries Offer. The Company accepts responsibility for the information contained in this Prospectus with respect to any subscriber for Shares pursuant to the Offer. In each case, the consent to use this Prospectus is conditional upon compliance by the relevant Intermediary with the Intermediaries Terms and Conditions summarised below and the appointment of such Intermediary not having been terminated by the Company. The Intermediaries Terms and Conditions regulate the relationship between the Company, the Intermediaries Offer Adviser, the Joint Global Coordinators and the Intermediaries that have been or will be accepted by the Company to act as an Intermediary in accordance with the Intermediaries Terms and Conditions.

		Capacity and liability The Intermediaries have agreed that, in connection with the Intermediaries Offer, they will be acting as agent for retail investors in the UK, the Channel Islands and the Isle of Man who wish to acquire Shares under the Intermediaries Offer (the "**Underlying Applicants**"). None of the Company, the Intermediaries Offer Adviser, any of the Underwriters or any of their respective representatives will have any responsibility for any liability, costs or expenses incurred by any Intermediary. ***Applications for Shares*** A minimum of £1,000 per Underlying Applicant will apply. The Intermediaries have agreed to take reasonable steps to ensure that they will not make more than one application per Underlying Applicant. Allocations of Shares under the Intermediaries Offer will be at the absolute discretion of the Company, the Principal Shareholder and the Joint Global Coordinators. If there is excess demand for Shares in the Intermediaries Offer, allocations of Shares may be scaled down to an aggregate value which is less than that applied for. Each Intermediary will be required by the Company to apply the basis of allocation to all allocations to Underlying Applicants who have applied through such Intermediary. ***Effect of Intermediaries Offer Application Form*** By completing and returning the Intermediaries Offer Application Form, the Intermediary will be deemed to have irrevocably agreed to invest or procure the investment in Shares of the aggregate amount stated on the Intermediaries Offer Application Form or such lesser amount in respect of which such application may be accepted. The Company and the Joint Global Coordinators reserve the right to reject, in whole or in part, or to scale down, any application for Shares in the Intermediaries Offer. ***Commission and fees*** Conditional upon Admission, the Company will pay each Intermediary a commission of 1.00% of the aggregate value (based on the final Offer Price) of the Shares allocated to and paid for by such Intermediary. Each Intermediary is prohibited from charging any fees, charges or commissions to an Underlying Applicant for making an application for Shares on behalf of such Underlying Applicant in the Intermediaries Offer. ***Information and communications*** The Intermediaries have agreed to give certain undertakings regarding the use of information provided to them in connection with the Intermediaries Offer (both prior to and following publication of this Prospectus). The Intermediaries have also agreed to give undertakings regarding the form and content of written and oral communications with potential Underlying Applicants. ***Indemnity*** Each Intermediary will indemnify the Company, the Intermediaries Offer Adviser, the Underwriters and their respective representatives against any loss or claim arising out of any breach or alleged breach by them of the Intermediaries

		Terms and Conditions or as a result of a breach or alleged breach of any duties or obligations under FSMA or under any rules of the FCA or any applicable laws or as a result of any other act or omission by the Intermediary in connection with the subscription for and/or resale of Shares by the Intermediary or any Underlying Applicant. **Intermediaries are required to provide, at the time of such offer, the terms and conditions of the relevant offer made by the Intermediary to any prospective investor who has expressed an interest to such Intermediary in participating in the Intermediaries Offer. Any application made by prospective investors to any Intermediary is subject to the terms and conditions which apply to the transaction between such prospective investor and such Intermediary.**

Section B — Issuer		
Element		
B.1	**Legal and commercial name**	Pets at Home Group Plc
B.2	**Domicile/Legal Form/ Legislation/Country of incorporation**	The Company is a public limited company, incorporated in the United Kingdom with its registered office situated in England and Wales. The Company operates under the Companies Act 2006.
B.3	**Current operations and principal activities**	Pets at Home is the UK's leading national specialist retailer of pet food, pet-related products and pet accessories. Pets at Home also operates the UK's second largest small animal veterinary business by combined number of surgeries both in its stores and at standalone sites and is the largest joint venture operator in the market. Pets at Home is the leading operator by number of salons of pet grooming services offered through Pets at Home's in store salons. Pets at Home's differentiated product and services proposition and positioning has resulted in a track record of long-term growth in revenue and Underlying EBITDA. Pets at Home's total revenues and Underlying EBITDA were £515.2 million and £86.8 million, respectively, in YTDQ314, £461.3 million and £78.1 million, respectively, in YTDQ313, £598.3 million and £98.5 million, respectively, in FY13, £544.3 million and £91.2 million, respectively, in FY12 and £517.8 million and £92.4 million, respectively, in FY11 (which was a 53 week financial year). Pets at Home operates in the UK small animal pet (excluding equine pets) care market which includes pet food (including grocery food, advanced nutrition food and treats), non-food pet products (including health and hygiene related products, small accessories and large equipment), veterinary services, grooming services and pet insurance. This market was estimated to be worth £5.4 billion in 2012 (excluding VAT) of which it is estimated Pets at Home had a 12% market share as of 2012. The Group's estimated shares in the UK pet food, non-food products and veterinary services markets in 2012 were 12.6%, 32.3% and 5.9%, respectively and the Group has increased its share across all these categories since 2009. As of 21 February 2014, Pets at Home was the clear market leader in terms of store numbers with 371 stores and an average retail space of 6,659 square feet per store.

B.4a	**Significant recent trends in the Company and the industries in which it operates**	In the 40 week period to 2 January 2014, the Group continued to perform strongly. Revenue grew by 11.7% over the comparable 40 week period to 3 January 2013, with Like-for-Like Sales Growth of 2.4%. Underlying EBITDA for the period increased by 11.2% to £86.8 million despite the impact of persistent hot weather throughout July which impacted both sales and Underlying EBITDA in this period. Since 2 January 2014, Pets at Home has continued to perform in line with the positive trends experienced in the earlier part of the financial year across the key growth drivers of the business. Pets at Home has continued to invest in its store roll-out plan. The period since 2 January 2014 has also seen a significant upgrade to the www.petsathome.com website to further enhance the Group's omni-channel proposition. Based on the performance achieved in the financial year to date, the Board remains confident on the outlook for the full financial year ending 27 March 2014.
B.5	**Group structure**	The Company has agreed to acquire, through its wholly owned subsidiary, Pets at Home No. 1 Limited, the entire issued share capital of PAH Retail Limited conditional upon and with effect from Admission in accordance with the terms of the Reorganisation Agreement. At the date of this Prospectus, the Group comprises PAH Retail Limited and its subsidiaries and subsidiary undertakings from time to time which companies will form part of the Group following Admission. PAH Retail Limited holds (through certain wholly owned intermediate holding companies) the Group's operating companies. As at the date of this Prospectus, PAH Retail Limited is wholly owned by certain holding companies which will become subsidiaries of the Company conditional upon and with effect from Admission and, shortly thereafter, transferred out of the Group.
B.6	**Major Shareholders**	At the date of this Prospectus, the Company is controlled by KKR My Best Friend Limited which owns 100% of the issued share capital of the Company. Immediately following Admission, insofar as is known to the Company, the following parties will directly or indirectly hold 3% or more of the issued share capital of the Company (calculated on the basis that the Offer Price is set at the mid-point of the Price Range and the Offer Size is set at the mid-point of the Offer Size Range and assuming no exercise of the Over-allotment Option):

Shareholder	**No. of Shares[1] [2]**	**% of total issued Shares[1] [2]**
KKR My Best Friend Limited	217,979,317	43.6%
MBF Co-Invest L.P.	51,852,567	10.4%
Computershare Company Nominees Limited[3] [4]	34,023,614	6.8%

Notes:

(1) Assuming each Existing Shareholder elects to sell or otherwise receive (through the repayment of Shareholder Debt) their maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement.

		(2) Assuming completion of the Pre-IPO Reorganisation and the Offer. (3) Assuming that each Beneficial Shareholder elects for legal title to their remaining (i.e. those that are not sold in the Offer) Shares to be issued to Computershare Company Nominees Limited on Admission, which will hold legal title to such Shares on behalf of the relevant Beneficial Shareholder. The remainder of such Shares which are unallocated and not beneficially owned by a Colleague will be transferred to the New EBT. (4) The Executive Directors, the Chairman and the Senior Executives will be selling Shares in the Offer through MEP Nominee Limited and will hold their remaining Shares through Computershare Company Nominees Limited following Admission. Other than the Principal Shareholder (together with its associates), the Company is not aware of any person who, directly or indirectly, jointly or severally, exercises or, immediately following the Offer, could exercise control over the Company. Following Admission, no Shareholder will have any special voting rights over any Existing Shares and such Shares will rank *pari passu* in all respects with all other Shares. The Company has entered into a relationship agreement with the Principal Shareholder (the "**Relationship Agreement**"). The principal purpose of the Relationship Agreement is to ensure that the Company is capable at all times of carrying on its business independently of the Principal Shareholder and that transactions and relationships with the Principal Shareholder and its associates are at arm's length and on normal commercial terms (subject to the rules on related party transactions in the Listing Rules). In accordance with the terms of the Relationship Agreement, for so long as the Principal Shareholder (and/or any of its associates, when taken together) holds 20% or more of the voting rights over the Company's Shares it shall be entitled to appoint two non-executive directors to the Board and for so long as it (together with its associates) holds 10% or more, but less than 20%, of the voting rights over the Company's Shares it shall be entitled to appoint one non-executive director to the Board. The Principal Shareholder shall also be entitled to appoint one observer to the Board for so long as it (together with its associates) holds voting rights over 10% or more of the Company's Shares. Pursuant to the terms of the Relationship Agreement, subject to certain limitations and exceptions, the Company has undertaken to provide assistance to the Principal Shareholder in the event of a sale of Shares by the Principal Shareholder at any time following completion of the Offer and expiry of the Principal Shareholder's lock-up undertakings.
B.7	**Historical Financial Information**	The selected financial information set out below has been extracted without material adjustments from the audited consolidated financial statements of the Group for the 52 week periods ended 28 March 2013 ("**FY13**") and 29 March 2012 ("**FY12**"), the 53 week period ended 31 March 2011 ("**FY11**"), the 40 week period ended 3 January 2014 ("**YTDQ314**") and the unaudited consolidated financial statements for the 40 week period ended 2 January 2013 ("**YTDQ313**"), as set out in Part XIII (*Historical Financial Information*) of this Prospectus.

Consolidated Income Statement

	53 week period ended 31 March 2011 £000	52 week period ended 29 March 2012 £000	52 week period ended 28 March 2013 £000	40 week period ended 3 January 2013 (unaudited) £000	40 week period ended 2 January 2014 £000
Revenue	517,831	544,325	598,337	461,348	515,154
Cost of sales	(242,350)	(252,017)	(274,362)	(210,551)	(237,229)
Gross profit	275,481	292,308	323,975	250,797	277,925
Gross profit percentage	53.2%	53.7%	54.1%	54.4%	53.9%
Selling and distribution expenses	(176,998)	(192,813)	(215,177)	(165,032)	(179,379)
Administrative expenses (before exceptional costs)	(21,224)	(26,232)	(29,815)	(22,001)	(27,591)
Exceptional costs	(1,757)	–	(5,915)	(734)	–
Total administrative expenses	(22,981)	(26,232)	(35,730)	(22,735)	(27,591)
Total operating expenses	(199,979)	(219,045)	(250,907)	(187,767)	(206,970)
Operating profit	75,502	73,263	73,068	63,030	70,955
Operating profit percentage	14.6%	13.5%	12.2%	13.7%	13.8%
Financial income	166	310	388	243	270
Financial expenses (including exceptional charges in the 52 week period ended 28 March 2013 and the 40 week period ended 3 January 2013 of £7,459,000)	(47,024)	(47,926)	(46,810)	(38,789)	(29,914)
Net financing expense	(46,858)	(47,616)	(46,422)	(38,546)	(29,644)
Profit before tax	28,644	25,647	26,646	24,484	41,311
Taxation	(9,323)	3,511	(5,893)	(5,074)	(8,667)
Profit for the period	19,321	29,158	20,753	19,410	32,644
Attributable to:					
Equity holders of the parent	14,691	22,261	20,753	14,627	32,644
Non-controlling interest	4,630	6,897	–	4,783	–
Profit for the period	19,321	29,158	20,753	19,410	32,644
Subnote					
Underlying operating profit	78,330	75,595	80,281	64,774	71,847
Underlying operating profit margin percentage	15.1%	13.9%	13.4%	14.0%	13.9%

Consolidated Balance Sheet

	As at 31 March 2011 £000	As at 29 March 2012 £000	As at 28 March 2013 £000	As at 3 January 2013 (unaudited) £000	As at 2 January 2014 £000
Non-current assets					
Property, plant and equipment	72,417	81,831	84,622	82,501	87,672
Intangible assets	907,834	907,955	955,004	912,465	955,296
Other financial assets	1,215	2,341	3,727	2,912	6,259
	981,466	992,127	1,043,353	997,878	1,049,227
Current assets					
Inventories	33,422	39,174	42,056	47,621	49,032
Deferred tax assets	168	604	959	581	42
Other financial assets	–	–	811	–	–
Trade and other receivables	28,259	32,609	34,041	29,165	44,942
Cash and cash equivalents	43,134	66,728	28,834	63,827	51,163
	104,983	139,115	106,701	141,194	145,179
Total assets	1,086,449	1,131,242	1,150,054	1,139,072	1,194,406
Current liabilities					
Other interest-bearing loans and borrowings	(18,242)	(18,038)	(5,708)	(7,231)	(12,408)
Trade and other payables	(67,328)	(78,270)	(104,048)	(96,711)	(118,292)
Provisions	(440)	(513)	(380)	(275)	(743)
Other financial liabilities	(2,612)	(4,171)	(1,894)	(2,944)	(1,116)
	(88,622)	(100,992)	(112,030)	(107,161)	(132,559)
Non-current liabilities					
Other interest-bearing loans and borrowings	(435,867)	(434,916)	(413,927)	(412,805)	(535,492)
Other payables	(38,562)	(44,392)	(49,967)	(48,080)	(49,292)
Provisions	(2,221)	(1,845)	(1,914)	(1,621)	(1,760)
	(476,650)	(481,153)	(465,808)	(462,506)	(586,544)
Total liabilities	(565,272)	(582,145)	(577,838)	(569,667)	(719,103)
Net assets	521,177	549,097	572,216	569,405	475,303
Equity attributable to equity holders of the parent					
Ordinary share capital	200	200	200	200	200
Share Premium	507,238	507,238	516,334	507,238	–
Other reserves	(1,142)	(2,098)	(835)	(2,272)	(32)
Retained earnings	11,041	33,302	56,517	48,721	475,135
	517,337	538,642	572,216	553,887	475,303
Non-controlling interest	3,840	10,455	–	15,518	–
Total equity	521,177	549,097	572,216	569,405	475,303

Consolidated Statement of Cash Flows

	53 week period ended 31 March 2011 £000	52 week period ended 29 March 2012 £000	52 week period ended 28 March 2013 £000	40 week period ended 3 January 2013 (unaudited) £000	40 week period ended 2 January 2014 £000
Cash flows from operating activities					
Profit for the period	19,321	29,158	20,753	19,410	32,644
Adjustments for:					
Depreciation and amortisation	14,051	15,647	18,207	13,328	14,994
Financial income	(166)	(310)	(388)	(243)	(270)
Financial expense	47,024	47,926	46,810	38,789	30,891
(Profit)/loss on sale of property, plant and equipment	(148)	(130)	90	1	77
Taxation	9,323	(3,511)	5,893	5,074	8,667
	89,405	88,780	91,365	76,359	87,003
(Increase)/decrease in trade and other receivables	(5,394)	3,021	(7,341)	(2,953)	(10,538)
(Increase)/decrease in inventories	(5,621)	(5,752)	(1,678)	(4,029)	(6,976)
Increase in trade and other payables	13,049	15,171	26,996	15,008	8,702
(Decrease)/increase in provisions	(294)	(302)	(64)	(462)	210
	91,145	100,918	109,278	83,923	78,401
Tax (paid)/received	(10,000)	(7,702)	4,527	6,068	(6,854)
Net cash from operating activities	81,145	93,216	113,805	89,991	71,547
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment	325	232	663	663	–
Interest received	166	310	388	243	270
Investment in other financial assets	(331)	(1,126)	(1,201)	(571)	(1,461)
Acquisition of subsidiary, net of cash acquired	(12,353)	–	(47,900)	(2,857)	–
Acquisition of PPE and other intangible assets	(16,666)	(23,760)	(20,446)	(14,712)	(17,796)
Net cash used in investing activities	(28,859)	(24,344)	(68,496)	(17,234)	(18,987)
Cash flows from financing activities					
Proceeds from the issue of ordinary share capital	–	–	9,096	–	–
Proceeds from new loan	–	–	130,000	130,000	135,000
Interest paid	(31,457)	(29,113)	(32,675)	(26,633)	(23,696)
Acquisition of non controlling interest	–	–	(9,075)	–	–
Repayment of borrowings	(2,625)	(16,150)	(173,987)	(172,463)	(5,708)
Issue costs	(8,311)	(15)	(6,562)	(6,562)	(5,467)
Equity dividend paid	–	–	–	–	(130,360)
Net cash used in financing activities	(42,393)	(45,278)	(83,203)	(75,658)	(30,231)
Net increase/(decrease) in cash and cash equivalents	9,893	23,594	(37,894)	(2,901)	22,329
Cash and cash equivalents at beginning of period	33,241	43,134	66,728	66,728	28,834
Cash and cash equivalents at end of period	43,134	66,728	28,834	63,827	51,163

Revenue Analysis

	53 week period ended 31 March 2011 £000	52 week period ended 29 March 2012 £000	52 week period ended 28 March 2013 £000	40 week period ended 3 January 2013 (unaudited) £000	40 week period ended 2 January 2014 £000
Food	255,817	269,172	297,887	225,653	252,195
Accessories	239,138	248,245	268,501	211,217	225,724
Services and other	22,876	26,908	31,949	24,478	37,235
Total Revenue	517,831	544,325	598,337	461,348	515,154

EBITDA and Underlying EBITDA

	53 week period ended 31 March 2011	52 week period ended 29 March 2012	52 week period ended 28 March 2013	40 week period ended 3 January 2013 (unaudited)	40 week period ended 2 January 2014
	£000	£000	£000	£000	£000
Operating Profit	75,502	73,263	73,068	63,030	70,955
Depreciation of tangible fixed assets	13,257	14,723	16,972	12,378	13,562
Amortisation of intangible assets	794	924	1,235	950	1,432
EBITDA	89,553	88,910	91,275	76,358	85,949
Exceptional costs	1,757	–	5,915	734	–
Management charges	1,071	2,332	1,298	1,010	892
Underlying EBITDA	92,381	91,242	98,488	78,102	86,841
Underlying EBITDA margin percentage	17.8%	16.8%	16.5%	16.9%	16.9%

In addition, Underlying EBITDA for the 52 week period ended 24 March 2011 was £90.7 million. The financial statements for the year ended 31 March 2011 were prepared on an audited 53 week period which makes period to period comparisons more difficult. To ensure appropriate comparability, the Directors believe it is helpful to consider Underlying EBITDA for the 52 week period ended 24 March 2011. Underlying EBITDA for the twelve months to 2 January 2014 was £107.2 million.

EBITDA

EBITDA represents operating profit after charging exceptional costs, before finance income and costs, taxation, depreciation, amortisation and impairment. EBITDA is presented to enhance a prospective investor's understanding of the Group's results of operations and financial condition and to enhance a prospective investor's evaluation of the Group's ability to employ its earnings towards capital expenditures, working capital and repayment of debt.

Underlying EBITDA

Underlying EBITDA, as used in this Prospectus, excludes exceptional and non-trading items. These exceptional and non-trading items include management charges paid to Kohlberg Kravis Roberts & Co. L.P. and fees paid to KKR Capstone and other one-off, non-recurring items. Underlying EBITDA does not include any costs which are commensurate with operating the business as a publicly quoted company nor for IFRS 2 related share based payment credits and charges.

Save for (i) the Group's acquisition of Vets4Pets, a joint venture veterinary business, in March 2013 which added a total of 93 standalone veterinary surgeries (including one veterinary franchise) to the Group; and (ii) the draw down of £135 million under the Existing Senior Facilities Agreement to facilitate the repayment of capital and accrued interest in respect of certain Shareholder Debt instruments in April 2013 and the connected intra-Group reductions of capital undertaken to facilitate the creation of distributable reserves in certain Group companies, there has been no significant change in the financial condition or operating results of the Group during or, as at the date of this Prospectus, subsequent to periods covered by the audited consolidated historical financial information of the Group as set out in Part XIII (*Historical Financial Information*).

B.8	**Pro Forma Financial Information**	The unaudited pro forma net assets statement set out below has been prepared to illustrate the effects of the Offer (assuming no exercise of the Over-allotment Option) on the net assets of the Group, had the Offer taken place on 2 January 2014. The pro forma net asset statement has been prepared for illustrative purposes only in accordance with Annex II of the Prospectus Rules and should be read in conjunction with the notes set out below. Because of its nature, such statement addresses a hypothetical situation and therefore does not represent the Group's financial position or results as at 2 January 2014. No account has been taken of any results or other activity since 2 January 2014.

Unaudited pro forma statement of net assets as at 2 January 2014

		Adjustments (see below)					
	Historical net assets at 2 January 2014 £000 Note 1	Net proceeds from the Offer £000 Note 2	New Senior Facilities £000 Note 3	Repayment of Existing Senior Facilities £000 Note 4	Capitalisation of Shareholder Debt £000 Note 5	Repayment of Shareholder Debt £000 Note 6	Pro forma net assets at 2 January 2014 £000
Non-current assets							
Property, plant and equipment	87,672	–	–	–	–	–	87,672
Intangible assets	955,296	–	–	–	–	–	955,296
Other financial assets	6,259	–	–	–	–	–	6,259
	1,049,227	–	–	–	–	–	1,049,227
Current assets							
Inventories	49,032	–	–	–	–	–	49,032
Deferred tax assets	42	–	–	–	–	–	42
Other financial assets	–	–	–	–	–	–	–
Trade and other receivables	44,942	–	–	–	–	–	44,942
Cash and cash equivalents	51,163	316,036	325,000	(567,926)	–	(76,275)	47,997
	145,179	316,036	325,000	(567,926)		(76,275)	142,013
Total assets	1,194,406	316,036	325,000	(567,926)	–	(76,275)	1,191,240
Current liabilities							
Other interest-bearing loans and borrowings	(12,408)	–	–	12,408	–	–	–
Trade and other payables	(118,292)	–	–	–	–	–	(118,292)
Provisions	(743)	–	–	–	–	–	(743)
Other financial liabilities	(1,116)	–	–	–	–	–	(1,116)
	(132,559)	–	–	12,408	–	–	(120,151)
Non-current liabilities							
Other interest-bearing loans and borrowings	(535,492)	–	(325,000)	535,492	–	–	(325,000)
Other payables	(49,292)	–	–	–	12,736	5,497	(31,059)
Provisions	(1,760)	–	–	–	–	–	(1,760)
	(586,544)	–	(325,000)	535,492	12,736	5,497	(357,819)
Total liabilities	(719,103)	–	(325,000)	547,900	12,736	5,497	(477,970)
Net assets	475,303	316,036	–	(20,026)	12,736	(70,779)	713,270

Notes:

(1) The financial information as at 2 January 2014 has been extracted, without material adjustment, from the audited consolidated historical financial information of PAH Retail Limited for the 40 week period ended 2 January 2014 as set out in Part XIII (*Historical Financial Information*). No separate balance sheet of the Company has been presented as, prior to the Company's acquisition (through its wholly owned subsidiary Pets at Home No. 1 Limited) of PAH Retail Limited, this company does not have material equity or reserves, and therefore has no impact on the pro forma combined balance sheet.

		(2) The adjustment reflects the receipt by the Company of net proceeds from the Offer of £316,036 thousands and total gross proceeds from the Offer of £356,036 thousands (in each case, through the issue of New Shares). The fees and expenses of the Offer are expected to be approximately £40,000 thousands (excluding VAT). The gross proceeds of the Offer, the net proceeds of the Offer and the fees and expenses of the Offer are based on the assumption that the Offer Price is set at the mid-point of the Price Range and the Offer Size is set at the mid-point of the Offer Size Range. (3) On Admission, the Company will draw down £325,000 thousands of term debt under the New Senior Facilities Agreement. (4) The Company intends to use £239,710 thousands of the net proceeds it receives from the Offer, together with £325,000 thousands drawn down under the New Senior Facilities Agreement and approximately £3,216 thousands of the Company's cash, to facilitate repayment of all amounts outstanding under the Existing Senior Facilities Agreement, of which there are three fully drawn term loans and one partially drawn revolving facility agreement. Debt issue costs of £20,026 thousands on the Existing Senior Facilities Agreement will be fully amortised through the income statement in 2014 as a result. (5) Pursuant to steps comprising the Pre-IPO Reorganisation as described in Section 4 (*Group Structure and IPO Reorganisation*) of Part XVIII (*Additional Information*), Shareholder Debt instruments comprising Midco Loan Notes with a value equal to £12,736 thousands (representing principal and all accrued but unpaid interest thereon) are capitalised and then exchanged for Shares, assuming, in each case, that each relevant Existing Shareholder elects to sell or otherwise receive (through the repayment of Shareholder Debt) its maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement. (6) Following completion of the Pre-IPO Reorganisation and the relevant steps comprising the Post-IPO Reorganisation as described in Section 4 (*Group Structure and IPO Reorganisation*) of Part XVIII (*Additional Information*), the Company intends to use £76,275 thousands of the net proceeds it receives from the Offer (through the issue of New Shares) to facilitate the repayment of all outstanding amounts of Shareholder Debt including £5,497 thousands comprising Midco Loan Notes, assuming, in each case, that each relevant Existing Shareholder elects to sell or otherwise receive (through the repayment of Shareholder Debt) its maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement. This pro forma statement of net assets does not constitute financial statements within the meaning of section 434 of the Companies Act. No adjustment has been made to reflect the trading results of the Group since 2 January 2014 or any other change in its financial position in that period. The Directors believe that, had the Offer occurred at the beginning of the last financial period, the consolidated income statement would have been affected. If the Offer and the application of the net proceeds therefrom to reduce the Company's indebtedness had taken place on 29 March 2013, it would have been earnings enhancing for the Group as a result of the reduced interest charges following the repayment of debt.
B.9	**Profit forecast/Estimates**	The Directors forecast that Underlying EBITDA for the 52 weeks ending 27 March 2014 will not be less than £110.2 million (the "**Profit Forecast**").
B.10	**Qualifications in the audit report**	Not applicable. There are no qualifications to the Accountant's Reports in this Prospectus.
B.11	**Insufficient Working Capital**	Not applicable. The Company is of the opinion that, taking into account the Minimum Net Proceeds receivable by the Company pursuant to the Offer, the Group has sufficient working capital for its present requirements, that is, for at least the next 12 months from the date of this Prospectus.

Section C — Securities		
Element		
C.1	**Type and class of securities being offered**	When admitted to trading, the Shares will have an ISIN Number of GB00BJ62K685, SEDOL number BJ62K68 and will trade under the symbol PETS. The Shares will, on Admission, comprise the entire issued and to be issued ordinary share capital of the Company.
C.2	**Currency**	The currency of the issue is United Kingdom pounds sterling.

C.3	**Issued Share Capital**	As at the date of this Prospectus, the issued share capital of the Company is £50,001, comprising 100 ordinary shares of £0.01 each and one redeemable preference share of £50,000 (the "**Redeemable Preference Share**") (each of which is fully paid). On Admission, there will be 500,000,000 Shares of £0.01 each in issue. All Shares in issue on Admission will be fully paid. The Redeemable Preference Share will not be listed and will be redeemed on or shortly after Admission out of the proceeds of the issue of the New Shares.
C.4	**Rights attaching to the Shares**	The Shares will rank *pari passu* in all respects with each other, including for voting purposes and in full for all dividends and distributions on Shares declared, made or paid after their issue and for any distributions made on a winding up of the Company. Subject to the provisions of the Companies Act, any equity securities issued by the Company for cash must first be offered to Shareholders in proportion to their holdings of Shares. The Companies Act and the Listing Rules allow for the disapplication of pre-emption rights which may be waived by a special resolution of the Shareholders, either generally or specifically, for a maximum period not exceeding five years. Except in relation to dividends which have been declared and rights on a liquidation of the Company, the Shareholders have no rights to share in the profits of the Company. The Shares are not redeemable. However, the Company may purchase or contract to purchase any of the Shares on or off-market, subject to the Companies Act and the requirements of the Listing Rules.
C.5	**Restrictions on transfer**	Not applicable. The Shares are freely transferable and there are no restrictions on transfer.
C.6	**Admission to trading**	Application will be made to the FCA for the Shares in issue on Admission to be admitted to the premium listing segment of the Official List of the FCA and to the London Stock Exchange for the Shares in issue on Admission to be admitted to trading on the London Stock Exchange's main market for listed securities. No application has been made or is currently intended to be made for the Shares to be admitted to listing or trading on any other exchange.
C.7	**Dividend policy**	The Board's current intention is to adopt a progressive dividend policy whilst maintaining an appropriate level of dividend cover. This policy will allow the Group to retain sufficient capital in the Group to meet both the working capital needs of the business and to fund the planned continued expansion of Pets at Home. The Board's current intention is to target an initial payout ratio of approximately 30-40% of fully taxed earnings, split one-third and two-thirds between interim and final dividends respectively. In the absence of unforeseen circumstances, the current intention of the Board is that the first dividend to be declared by the Company following Admission will be a dividend paid in respect of the first half of fiscal year 2015.

Section D — Risks		
Element		
D.1	**Key information on key risks that are specific to the Issuer or its industry**	The Company believes that the following are key risks affecting the Group and/or the UK Pet Care Market: • The Group's sales depend on consumer spending, which is influenced by factors beyond the Group's control. Prolonged or severe declines in consumer discretionary income or spending could have a material adverse effect on the Group's business, results of operations or financial condition. • The Group competes with a number of other participants in the UK Pet Care Market. If Pets at Home cannot respond adequately to competition, then Pets at Home could lose market share and experience lower levels of sales and profitability. • The Group's continued success and growth depends on the strength of the Pets at Home brand, and any events that negatively impact the reputation of, or value associated with, the Pets at Home brand, including safety, quality, pet welfare, concerns about food, accessories and services sold or provided by the Group, could adversely affect the Group's business, results of operations or financial condition. • Sales of advanced nutrition food for dogs and cats comprise a significant portion of the Group's revenues and often also provide higher margins than grocery brands. If the limited number of advanced nutrition food brands which are currently available from grocery retailers, general retailers and/or other competitors of the Group gains market share at the expense of the advanced nutrition food brands sold by the Group, or if the Group becomes unable to obtain supplies of the advanced nutrition food brands upon which the Group relies, then the Group's business, results of operations or financial condition could be harmed. • The Group's success and growth depends on the ability of Pets at Home to manage and execute its marketing and advertising initiatives in order to reinforce its retail proposition, as well as its ability to raise awareness of the Group's broad, differentiated and innovative product and service range and competitive pricing. The failure of these strategies may damage the reputation and value of the Group's brands and adversely affect the Group's business, results of operation or financial condition. • A key part of the Group's growth strategy is to open new stores and to increase the number of its in store and standalone joint venture veterinary surgeries and Groom Room grooming salons. The failure to open or to operate such stores, surgeries or salons could adversely affect sales growth, and any failure by the Group to launch new initiatives effectively could have a material adverse effect on the Group's business, results of operations or financial condition.

		• New stores and joint venture veterinary surgeries may erode sales at existing stores and veterinary surgeries, and comparable sales growth at stores and joint venture veterinary surgeries may decrease as stores and joint venture veterinary surgeries grow older. • Pets at Home's own label and private brand product lines are critical to the Group's strategy. If the Group is unable to continue the development of own label and private brand product lines, it could harm the Group's ability to enhance its profit margins, and the Group's business, results of operations or financial condition could be adversely affected. • The quality of the Group's own label and private brand products may not meet the Group's expectations, which may result in the Group's increased exposure to product liability claims and/or may adversely affect the Group's relationships with its vendors. • Fluctuations in the prices and availability of certain commodities, such as rawhide and meat protein, or in fuel and energy costs could materially adversely affect the Group's earnings and cash flow.
D.2	**Key information on key risks that are specific to the Shares**	• Following completion of the Offer, the percentage of Shares that the Principal Shareholder will own is 43.6% (assuming no exercise of the Over-allotment Option and that the Offer Price is set at the mid-point of the Price Range and that the Offer Size is set at the mid-point of the Offer Size Range). As a result, the Principal Shareholder will be able to exercise a significant degree of influence over the outcome of certain matters to be considered by Shareholders. • Future sales of the Shares owned by the Principal Shareholder, or the possibility of such future sales, may affect the price of the Shares.

Section E — Offer		
Element		
E.1	**Total net proceeds of the Offer and estimated expenses**	Through the issue of New Shares pursuant to the Offer, the Company expects to raise net proceeds of £351 million assuming the Offer is set at the top of the Price Range and the Offer Size is set at the mid-point of the Offer Size Range (of which £240 million will be used to facilitate the repayment of outstanding amounts owing under the Existing Senior Facilities Agreement and £112 million would be used to repay Shareholder Debt). If the Offer is set at the bottom of the Price Range and the Offer Size is set at the mid-point of the Offer Size Range, the Company expects to raise net proceeds of £284 million (of which £240 million would be used to facilitate the repayment of outstanding amounts owing under the Existing Senior Facilities Agreement and £44 million would be used to repay Shareholder Debt). The amounts set out above are net of the aggregate underwriting commissions and other fees, taxes and expenses incurred in connection with the Offer and Admission which are to be borne by the Company and are estimated to be approximately £40 million (excluding VAT). The Company intends to pay this amount out of the gross proceeds of the Offer.

		Through the sale of Existing Shares pursuant to the Offer, the Company expects the Selling Shareholder to raise £26 million (assuming that the Offer Price is set at the mid-point of the Price Range, the Offer Size is set at the mid-point of the Offer Size Range, there is no exercise of the Over-allotment Option and each Beneficial Shareholder elects to sell or otherwise receive (through the repayment of Shareholder Debt) their maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement).
E.2a	**Reasons for the Offer and use of proceeds**	The Directors believe that the Offer and Admission will position the Group for its next stage of development, including by further raising the profile of the Group, assisting in retaining and incentivising employees and providing it with a structure for future growth. The Group expects to receive net proceeds of £316 million from the subscription of New Shares in the Offer after estimated underwriting commissions and other fees, taxes and expenses incurred in connection with the Offer and Admission which are estimated to be approximately £40 million (excluding VAT) assuming that the Offer Price is set at the mid-point of the Price Range and that the Offer Size is set at the mid-point of the Offer Size Range. The Company intends to use the net proceeds it receives from the Offer as follows: 1. £240 million to facilitate repayment of outstanding amounts owing under the Existing Senior Facilities Agreement; and 2. the balance to repay Shareholder Debt; Goldman Sachs, BofA Merrill Lynch (which is also acting as a Sponsor) and Nomura (or their affiliates) are members of the syndicate constituting the lenders under the Existing Senior Facilities Agreement. It is expected that, as a result of the Group's repayment described above, their existing outstanding loan commitments to the company of approximately £50 million, £5.5 million and £5 million, respectively will be repaid in full in line with the approach taken with respect to all other members of the existing syndicate, who are lenders under the Existing Senior Facilities Agreement. The Directors believe that the repayment of all existing third party indebtedness owed pursuant to the terms of the Existing Senior Facilities Agreement and the repayment of Shareholder Debt will assist in making the capital structure more appropriate for a listed company. Following Admission, no Shareholder will have any special voting rights over any Existing Shares, and such Shares will rank *pari passu* in all respects with all other Shares, including the New Shares.
E.3	**Terms and conditions of the Offer**	All Shares will be issued and/or sold at the Offer Price, which will be determined by the Company, the Principal Shareholder and the Joint Global Coordinators following a book-building process. The Offer Price and the Offer Size are expected to be announced on or around 13 March 2014. The Pricing Statement, which will contain, among other things, the Offer Price and the Offer Size, will (subject to certain restrictions) be published on the Company's website at http://investors.petsathome.com.

		The Price Range and the Offer Size Range have been set by the Company and the Principal Shareholder. The Price Range is indicative only and may change during the course of the Offer. It is currently expected that the Offer Price and the Offer Size will be set within the Price Range and the Offer Size Range, respectively. A number of factors will be considered when setting the Offer Price, including the level and nature of demand for Shares during the book-building process, the level of demand in the Intermediaries Offer, the objective of encouraging the development of an orderly after-market in the Shares, the Company's historical performance, estimates of its business potential and earnings prospects, an assessment of the Company's management and consideration of the above factors in relation to the market valuation of companies in related businesses. If (i) the Offer Price is set above the Price Range or the Price Range is revised higher; and/or (ii) the number of Shares to be issued or sold in the Offer is set above or below the Offer Size Range, then the Company will make an announcement via a Regulatory Information Service and prospective investors will have a statutory right to withdraw their application for Shares pursuant to section 87Q of FSMA. In such circumstances, the Pricing Statement would not be published until the period for exercising such withdrawal rights has ended. Therefore, the expected date of publication of the Pricing Statement would be extended. The arrangements for withdrawing offers to subscribe for or purchase Shares, as the case may be, would be made clear in the announcement. The Offer comprises an Institutional Offer, an Intermediaries Offer and a Colleague Offer. Under the Institutional Offer, the Shares are being made available (i) to certain institutional investors in the UK and elsewhere outside the United States in reliance on Regulation S and (ii) in the United States, only to persons reasonably believed to be QIBs in reliance on Rule 144A of the Securities Act. Under the Intermediaries Offer, the Shares are being offered to certain intermediaries appointed by the Company to enable them to facilitate the participation of their retail investor clients in the UK, the Channel Islands and the Isle of Man. Under the Colleague Offer, Shares are being offered to Eligible Colleagues. In addition, Existing Shares (representing up to 15% of the total number of Shares that are subject to the Offer) are being made available pursuant to the Over-allotment Option granted by the Over-allotment Shareholders in respect of Existing Shares. It is expected that Admission will take place and unconditional dealings in the Shares will commence on the London Stock Exchange at 8.00 a.m. on or around 18 March 2014. Prior to Admission, it is expected that dealings in the Shares will commence on a conditional basis on the London Stock Exchange on 13 March 2014. The earliest date for settlement of such dealings will be 18 March 2014. All dealings in the Shares prior to the commencement of unconditional dealings will be on a "when issued" basis and will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned. These dates and times may be changed without further notice.

		The Offer is subject to the satisfaction of certain conditions contained in the Underwriting Agreement, that are typical for an agreement of this nature, including Admission occurring no later than 8.00 a.m. on 18 March 2014 and on the Underwriting Agreement not having been terminated prior to Admission. None of the Shares comprising the Offer may be offered for subscription, sale or purchase or be subscribed, sold or delivered, and this Prospectus and any other offering material in relation to the Shares may not be circulated, in any jurisdiction where to do so would breach any securities laws or regulations of any such jurisdiction or give rise to an obligation to obtain any consent, approval or permission, or to make any application, filing or registration, other than the UK. Investors agreeing to subscribe for New Shares and/or purchase Existing Shares pursuant to the Offer agree with each of the Company and the Selling Shareholder to be bound by certain terms and conditions upon which Shares will be issued and/or sold in the Offer. Upon being allocated Shares pursuant to the Offer, each investor agrees to become a member of the Company, to acquire the Shares allocated to it at the Offer Price and to pay the Offer Price for the Shares allocated to it. If an investor fails to pay as required, the relevant investor will remain liable to pay such amount and will be deemed to have appointed the Joint Global Coordinators to sell any or all of the Shares allocated to it at such price as the Joint Global Coordinators may achieve subsequent to any such failure to pay. Under the terms and conditions of the Offer, each investor makes certain representations, warranties and acknowledgements to the Company and the Selling Shareholder customary for an offer of this type, including but not limited to: (i) in relation to certain characteristics of the investor; (ii) the investor's compliance with restrictions contained in the Offer and with specified laws and regulations; (iii) reliance, responsibility and liability in respect of this Prospectus, the Offer and information outside of this Prospectus; (iv) compliance with laws; (v) jurisdiction; and (vi) liability for duties or taxes. On request, an investor may be required to disclose certain information, including any information about the agreement to subscribe for and/or purchase Shares, the investor's nationality (if an individual) and jurisdiction in which the investor's funds are managed or owned (if a discretionary fund manager). The terms and conditions also provide for the following issues: the sending of documents to the investor; the investor being bound by the Articles upon transfer or issue of Shares; the application of English law to the contract to subscribe for and/or purchase Shares; and joint agreements to subscribe for and/or purchase Shares. The Institutional Offer and the Intermediaries Offer will be fully underwritten by the Underwriters in accordance with the terms of the Underwriting Agreement. The Colleague Offer will not be underwritten.
E.4	**Material interests**	The Directors consider that: • KKR My Best Friend Limited has interests that are material to the Offer by virtue of the size of its expected shareholding in the Company;

		• MBF Co-Invest L.P. has interests that are material to the Offer by virtue of the size of its expected shareholding in the Company; and • MEP Nominee Limited has interests that are material to the Offer by virtue of the size of its expected shareholding in the Company. It is expected that Beneficial Shareholders will elect for legal title to their Shares (which do not form part of the Offer) to be issued to Computershare Company Nominees Limited on Admission in lieu of MEP Nominee Limited). The Company does not consider that these are conflicting interests, or that there are any other interests, that are material to the Offer.
E.5	**Selling Shareholder/Lock-up arrangements**	10,995,371 Existing Shares will be sold by the Selling Shareholder pursuant to the Offer (assuming the Offer Price is set at the mid-point of the Price Range and the Offer Size is set at the mid-point of the Offer Size Range). The indicative interests in Shares on Admission, together with a corresponding estimate of interests immediately following Admission (calculated on the basis that the Offer Price is set at the mid-point of the Price Range and the Offer Size is set at the mid-point of the Offer Size Range and assuming no exercise of the Over-allotment Option) is set out below:

	Interests on Admission		**Shares to be sold pursuant to the Offer**		**Interests immediately following Admission**	
Selling Shareholder	**No. of Shares[1]**	**% of total issued share capital[1]**	**No. of Shares[1]**	**% of holding[1]**	**No. of Shares**	**% of issued share capital[1]**
MEP Nominee Limited[2] [3] [4] [5]	45,018,985	9.0%	10,995,371	24.4%	34,023,614	6.8%

Notes:
(1) Following completion of the Pre-IPO Reorganisation.

(2) Assuming that each Beneficial Shareholder elects to sell or otherwise receive (through the repayment of Shareholder Debt) their maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement.

(3) Assuming that each Beneficial Shareholder elects for legal title to their Shares to be issued to Computershare Company Nominees Limited following Admission, which will hold legal title to such Shares on behalf of the relevant Beneficial Shareholder. The remainder of such Shares which are unallocated and not beneficially owned by a Colleague will be transferred to the New EBT.

(4) Each of Tony DeNunzio, Nick Wood, Ian Kellett, Sally Hopson, Peter Pritchard and Phil Hackney will be selling a number of their Shares in the Offer through MEP Nominee Limited and will hold their remaining Shares through Computershare Company Nominees Limited following Admission.

(5) Each of the Executive Directors, the Chairman and the Senior Executives have elected to (i) receive a cash amount (through the repayment of Shareholder Debt) in lieu of and equal in value at the Offer Price to a corresponding number of Shares which they would have otherwise been entitled to receive and sell in the Offer pursuant to the terms of the pre-Admission shareholder arrangements and/or (ii) sell a number of Shares (through MEP Nominee Limited) in the Offer. The total proceeds receivable by each of the Executive Directors, the Chairman and the Senior Executives from the repayment of Shareholder Debt and/or the sale of Shares in the Offer will be equal to 25% of the value which they would otherwise have been entitled to receive in Shares.

The Offer will provide the Existing Shareholders (which include certain Directors and the Senior Executives), with a partial realisation of their investment in the Group.

		The Principal Shareholder will not be selling any Shares under the Offer (assuming no exercise of the Over-allotment Option). However, the Offer will provide the Principal Shareholder and certain other Existing Shareholders with a partial realisation of their investment in the Group via a repayment of Shareholder Debt from the proceeds of the issue of New Shares. ***Lock-up arrangements*** The Company is subject to a 365 day lock-up period following Admission during which time it has agreed not to issue or dispose of any Shares without the prior written consent of the Joint Global Coordinators. Each of the Principal Shareholder and MBF Co-Invest L.P. are subject to a 180 day lock-up period following Admission, during which time they may not dispose of any interest in their Shares without the prior written consent of the Joint Global Coordinators. The Directors and the Senior Executives are subject to a 365 day lock-up period following Admission during which time they may not dispose of any interest in their Shares without the prior written consent of the Joint Global Coordinators. Following expiry of this lock-up period, each of the Executive Directors, the Chairman and the Senior Executives have agreed to an additional 365 day lock-up period in respect of approximately 50% of the Shares held by them following completion of the Offer during which time they may not dispose of any interest in any of those Shares or any rights to such Shares without the prior written consent of the Company. Certain of the Group's Colleagues are also subject to a 365 day lock-up period following Admission during which time they may not dispose of any interest in their Shares without the prior written consent of the Company. Each of Highbridge and Oregon are subject to a 180 day lock-up period following Admission, during which time they may not dispose of any interest in their Shares without the prior written consent of the Company. Each of the Co-Investors (excluding Highbridge and Oregon) are subject to a 45 day lock-up period following Admission during which time they may not dispose of any interest in their Shares without the prior written consent of the Company. All lock-up arrangements are subject to certain customary exceptions. Shares acquired by Eligible Colleagues pursuant to the Colleague Offer will not be subject to any lock-up arrangements.
E.6	**Dilution**	The Existing Shares in issue with effect from Admission will be diluted by the issue of 154,074,978 New Shares pursuant to the Offer, and will represent 30.8% of the total issued Shares immediately following Admission (if the Offer Price is set at the bottom of the Price Range and assuming no exercise of the Over-allotment Option) and will be diluted by the issue of 150,530,046 New Shares and will represent 30.1% of the total issued Shares immediately following Admission (if the Offer Price is set at the top of the Price Range and assuming no exercise of the Over-allotment Option) in each case, assuming

		the Offer Size is set at the mid point of the Offer Size Range and each Selling Shareholder elects (or is instructed by the Beneficial Shareholders to elect, as the case may be) to sell or otherwise receive (through the repayment of Shareholder Debt) its maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement.
E.7	**Estimated expenses charged to investors**	Not applicable. Other than in respect of expenses of, or incidental to, Admission and the Offer which the Company intends to pay out of the proceeds of the Offer, there are no commissions, fees or expenses to be charged to investors by the Company or the Selling Shareholder under the Offer. Any expenses incurred by an Intermediary are for its own account. The Intermediaries are not permitted to charge any fees, charges or commissions to Underlying Applicants for making an application for shares through the Intermediaries Offer.

PART II

RISK FACTORS

Before making an investment decision with respect to the Shares, prospective investors should consider carefully all of the information set out in this Prospectus. Prospective investors should have particular regard to, amongst other matters, the risk factors set out in this Part II. The risk factors set out in this Prospectus, alone or collectively, may reduce the value of the Shares and could result in a loss of all, or a portion, of an investor's investment in the Shares. The risk factors set out in this Prospectus are not exhaustive and do not necessarily comprise all the risks associated with an investment in the Shares. There may be other risks which are not presently known to the Directors, or which the Directors deem immaterial, which may also have an adverse effect on the Group's business, results of operations, financial condition, reputation, brand or future prospects.

Prospective investors should note that the risks relating to the Group, the UK Pet Care Market (as defined in Part VI (Market Overview)) and the Shares summarised in Part I (Summary) are the risks that the Directors believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the Shares. However, as the risks which the Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in Part I (Summary) but also, among other things, the risks and uncertainties described below in this Part II.

An investment in the Shares involves complex financial risks and is suitable only for investors who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. Prospective investors should consider carefully whether an investment in the Company is suitable for them in light of all the information in this Prospectus and the financial resources available to them. References in this Part II to the Group include, where applicable and as the context may require, references to all members of the Group or any individual member of the Group.

RISKS RELATING TO THE GROUP'S BUSINESS

A decline in consumer spending or a change in consumer preferences could reduce the Group's sales or profitability and harm the Group's business.

The Group's sales depend on consumer spending, which is influenced by factors beyond the Group's control, including general economic conditions in the UK, general global macroeconomic conditions, gross domestic product, employment levels, the availability of discretionary income and credit to consumers, consumer confidence, tax or interest rate fluctuations, fuel and other energy costs, pet healthcare costs, weather and unemployment levels. Global or national political unrest or uncertainty may impact the price paid by consumers for goods, services and commodities, reduce consumer spending and confidence and reduce the Group's sales or profitability. The Group may experience declines in sales or margins or changes in the types of pet products sold during economic downturns. The success of the Group's business depends in part on its ability to identify and respond to evolving trends in demographics and consumer preferences. Failure to identify or effectively respond to changing consumer tastes, preferences and spending patterns, as well as pet ownership trends and pet care needs could adversely affect the Group's business. The keeping of pets and the purchase of pet-related products and services may constitute discretionary income or spending for some customers, and any material decline in the amount of consumer discretionary income or spending could reduce overall levels of pet ownership or spending on pets and adversely affect the Group's sales of products and services, including through impulse purchases and/or consumer expenditure on veterinary and grooming services. If any such declines occurred and were prolonged or severe, they could have a material adverse effect on the Group's business, results of operations or financial condition.

If the Group does not compete effectively with its existing and potential future competitors, the Group's business, results of operations or financial condition could be adversely affected.

The Group competes with a number of other participants in the UK Pet Care Market, which includes pet food, non-food pet products, veterinary services, grooming services and pet insurance for small animals. These competitors include grocery retailers, smaller specialist pet store chains, discount retailers, internet retailers (including general online stockists and internet pure-plays), independent pet stores, wholesalers, independent veterinary surgeries, grooming service providers and pet insurance providers. Where existing competitors open

new stores in proximity to the Group's stores, those new stores can result in some reduction of sales at nearby Pets at Home stores. The industry in the UK could become increasingly competitive through the expansion of pet-related product offerings by internet retailers, grocery retailers, discounters or other general retailers and/or the growth or development of other specialty retailers in the UK Pet Care Market. For example, online pet specialist competitors in the UK such as Medicanimal, PetPlanet and ZooPlus offer a large range of advanced nutrition food and non-food products. Recently, general internet retailers such as Amazon and Ocado, which sell advanced nutrition food and health and hygiene products, have experienced market share gains in the UK Pet Care Market, and these and other internet retailers are increasingly competing in the UK Pet Care Market. In addition, grocery retailers and other general retailers in the UK could seek to expand their pet-related product offerings by increasing the range of dog and cat foods which they stock and/or by stocking a wider range of other pet foods and accessories. In particular, as further detailed below, if the manufacturers of the advanced nutrition dog and cat foods sold by Pets at Home were to make these products more widely available in the UK, for example through broad distribution to grocery retailers, then the Group's business could be adversely impacted. It is also possible that new entrants could come into the UK Pet Care Market from abroad, in particular, from Europe or the US. There can be no assurance that the Group will not face greater competition from these or other competitors in the future. In particular, if any of the Group's major competitors seek to gain or retain market share by reducing prices, the Group may need to reduce its prices in order to remain competitive, which may require a change in operating strategies, and could result in a decrease in profitability of the Group's business. If Pets at Home cannot respond adequately to these multiple sources and types of competition then Pets at Home could lose market share and experience lower levels of sales and profitability, which could have a material adverse effect on Pets at Home's business, results of operations or financial condition.

Any events that negatively impact the reputation of, or value associated with, the Pets at Home brand, including safety and quality concerns about food, accessories and services sold or provided by the Group, could adversely affect the Group's business, results of operations or financial condition.

The Group's continued success and growth depends on the strength of the Pets at Home brand including Companion Care, Vets4Pets and the Groom Room grooming salons.

The Pets at Home brand is an important asset of the Group's business. Maintaining the reputation of, and value associated with, the Pets at Home brand, is central to the success of the Group's business, and the Group could be adversely affected if customers lose confidence in the safety and quality of the food, accessories and services sold or provided by the Group. The real or perceived sale of contaminated pet food or defective accessory products by Pets at Home could result in product liability claims against Pets at Home or its suppliers and a loss of consumer confidence. Similarly, any real or perceived defect in the quality of the Group's Companion Care or Vets4Pets veterinary services or the Group's grooming services could adversely affect the Group's reputation and result in a loss of consumer confidence. Unfavorable publicity concerning the Group, any of its brands, products or services or any of the manufacturers or suppliers that supply products to it or substantial erosion in the reputation of, or value associated with, the Pets at Home brand, could have a material adverse effect on the Group's business, results of operations or financial condition.

A significant portion of the Group's non-food products are manufactured in markets outside of the United Kingdom, and the Group plans to continue to import from overseas manufacturers in the future. The Group has a dedicated Quality and Control Team which closely supervises all quality control matters and all of the Group's suppliers are required to comply with applicable food and product safety laws and the Group's own quality standards, but the Group does not control these manufacturers, their quality control processes or their labour practices. Along with other importers and sellers of manufactured goods, the Group has, from time to time, discovered defects which have led to product recalls. There can be no assurance that this will not happen to the Group in the future, and if the Group were forced to make a product recall, the Group's brand could be damaged.

The Group may be subject to complaints and litigation which could damage Pets at Home's brand and reputation and divert management resources.

From time to time the Group may also be the subject of complaints and litigation from its customers, Colleagues or other third parties, alleging injury, health, environmental, safety or operational concerns, nuisance, negligence or failure to comply with applicable laws and regulations. Any such complaints and claims, even if successfully resolved without direct adverse financial effect, could have a material adverse effect on Pets at Home's brand and reputation and divert its financial and management resources from more beneficial uses. If the Group were to be found liable under any such claims, the Group's business, results of operations or financial condition could be materially adversely affected.

Pets at Home sells a selection of small mammals, fish, reptiles and birds and offers grooming and veterinary services and as such faces certain risks, including negative publicity, associated with the supply, handling and selling of live animals, and the care of customers' pets whilst providing its services.

Pets at Home offers for sale a selection of small mammals, fish, reptiles and birds in its stores and offers grooming and veterinary services. Although the Group has established strict procedures regarding animal welfare both in store, in its veterinary surgeries and Groom Room grooming salons and throughout its supply chain, these activities may attract attention from local authority officials, animal welfare organisations, animal rights activists and consumer and social media from time to time. Pets at Home seeks to ensure that the highest standards of pet welfare are maintained at all times, and this includes the giving of internal and external veterinary care to all of its pets. From time to time, however, pets suffer injuries, disease and death while under Pets at Home's care, which could lead to animal welfare-related claims.

There are also a large number of pets brought into the Group's stores daily by customers, including for adoption, to the Groom Room grooming salons located within certain stores and for visits to the Vets4Pets and Companion Care veterinary surgeries, and the Group may occasionally be subject to claims due to the injury or death of a customer's pet in its stores or veterinary surgeries or while under its care. In addition, certain diseases that pets may acquire, such as ringworm, are transmittable to humans, and pets may from time to time bite or otherwise injure Colleagues or customers, any of which may lead to legal claims against the Group. The Directors are aware that any future unfavourable publicity in these respects affecting Pets at Home or any of its suppliers of pets could significantly damage the reputation of, or value associated with, the Group's brand and could have a material adverse effect on the Group's business, results of operations or financial condition.

More widespread availability of the advanced nutrition pet foods sold by the Group could put the Group at a competitive disadvantage.

Sales of advanced nutrition food for dogs and cats comprise a significant portion of the Group's revenues and often also provide higher margins than grocery brands. Advanced nutrition foods (including James Wellbeloved, Hills, Royal Canin, Proplan, Eukanuba, Burns and Arden Grange) accounted for 19.4% of the Group's gross store revenue in YTDQ314. A number of advanced nutrition brands are not widely sold through grocery retailers and general retailers in the UK. At present, manufacturers of these brands position their products in the specialist channel, where they are typically sold on testimonial through pet specialists, and where knowledge and advice on pet nutrition is available to support the purchasing decision. However, if the manufacturers of any of those products were to change this policy either of their own volition or under regulatory direction and were to make their products more widely available in grocery retailers and general retailers and/or to other competitors of the Group, then the Group's business could be harmed. Finally, if the limited number of advanced nutrition food brands which are currently available from grocery retailers, general retailers and/or other competitors of the Group were to gain market share at the expense of the advanced nutrition food brands sold through the Group's stores, or if the Group was unable to obtain supplies of the advanced nutrition food brands upon which the Group relies, then the Group's business, results of operations or financial condition could be harmed.

Failure to develop the Pets at Home brand and the Group's other brands or to successfully manage and execute the Group's marketing and advertising initiatives could have a negative effect on the Group's business, results of operations or financial condition.

The Group's success and growth depends on the ability of Pets at Home to manage and execute its marketing and advertising initiatives in order to reinforce its retail proposition, as well as its ability to raise awareness of the Group's broad, differentiated and innovative product and service range and competitive pricing. The Group's growth also depends on Pets at Home's ability to increase customer traffic and average transaction amount to gain sales momentum in the Group's stores and on the Group's Website.

However, there can be no assurance that the Group's strategy to develop and enhance the Pets at Home brand and the Group's other brands will be successful. The Group may not be able to successfully execute its marketing and advertising initiatives to realise the intended benefits and growth prospects due to poor execution, as well as due to factors outside of the Group's control such as increased competition or deterioration of general economic conditions, thus limiting the Group's ability to capitalise on business opportunities and expand its business. The failure of these strategies may damage the reputation and value of the Group's brands and adversely affect the Group's business, results of operations or financial condition.

Failure to open new stores and execute the Group's strategy of expanding its in store and standalone veterinary surgeries and Groom Room grooming salons or any failure to operate such stores or surgeries could adversely affect sales growth and profitability, and any failure by the Group to launch new initiatives effectively could have a material adverse effect on the Group's business, results of operations or financial condition.

A key part of the Group's growth strategy is to increase the number of its stores and the growth of its in store and standalone veterinary surgeries and Groom Room grooming salons. The Group has opened 23 new stores in YTDQ314, 32 in FY13, 32 in FY12 and 25 in FY11. As of 21 February 2014, the Group had 371 stores and expects to open a further five new stores, 16 in store veterinary surgeries and nine Groom Room grooming salons together with six new standalone veterinary surgeries and four wholly owned surgeries in the current financial year. There can be no guarantee that the Group will be able to achieve such a rate of new openings in the current financial year or that the Group will be able to increase the number of its stores, veterinary surgeries and Groom Room grooming salons in the future.

Ability to open new stores and veterinary surgeries

The Group's ability to open new stores and expand the joint venture veterinary business is dependent on various factors, including identifying attractive store sites and locations in which to introduce surgeries, overcoming competition, successfully negotiating for appropriate terms with landlords and joint venture partners, obtaining appropriate planning approvals and licences, having adequate financial resources (including having access to necessary debt financing either at all or on acceptable terms), meeting construction schedules, as well as its ability to attract and retain qualified in store Colleagues and veterinary joint venture partners. To the extent the Group is unable to accomplish any of these, its ability to open new stores and expand the joint venture veterinary business may be harmed. As a result, new store and veterinary surgery openings performance may not match the performance of previous openings in other regions, and there can be no assurance that the new stores and joint venture veterinary surgeries will operate profitably.

In addition to rolling out new stores, the Group also intends to continue to analyse and to seek to optimise existing store layouts to incorporate joint venture veterinary surgeries and Groom Room grooming salons and expects that the Group's utilisation of space will evolve. There can be no assurance that the costs of fitting out new stores or refitting existing stores will not exceed estimates or that such new stores or refitted stores will meet forecasted levels of sales and profitability.

If the Group is unable to operate its new stores (with or without an in store veterinary surgery and/or a Groom Room grooming salon) and/or standalone joint venture veterinary surgeries profitably, or operate its refitted stores with increased profitability, it could have a material adverse effect on the Group's business, results of operations or financial condition.

Availability of funding to finance opening of new veterinary surgeries

The Group's veterinary surgeries mainly operate on a joint venture model wherein each new business is funded by a combination of loans to the joint venture business from the Group, the joint venture partner and banks. As part of the funding, the joint venture partner gives the banks a personal guarantee, the joint venture business gives the banks a debenture over its assets and the Group provides the banks a revolving guarantee. There is no assurance that these funding arrangements will continue or will be available on commercially reasonable terms.

Availability of suitable veterinarians as partners

Further, there is no assurance that the Group will be able to identify appropriate joint venture partners who have the ability to provide the personal guarantee to the banks. To the extent the Group is unable to accomplish any of these, the Group may be unable to increase the number of locations in which it offers such services, which could have a material adverse effect on the Group's business, results of operations or financial condition.

If the Group's veterinary business cannot retain sufficient numbers of veterinarians as partners, the Group's ability to provide veterinary services in its stores or at its standalone locations would be reduced, which could have a material adverse effect on the Group's business, results of operations or financial condition.

Regulation regarding veterinary surgeries

The Group's veterinary business is subject to extensive regulations and laws governing the operation of veterinary surgeries. Changes to the regulations regarding the ownership of or the operation of veterinary

surgeries, including local authority licensing and other laws, could impact the Group's ability to own veterinary surgeries. If any of the Group's veterinary surgeries are found to be in violation of any applicable statutes or regulations, the Group's veterinary surgeries may have to restructure their operations to comply with such statutes or regulations or the Group's veterinary surgeries may be unable to operate in a given location.

Risks associated with the operation of veterinary surgeries

Unexpected incidents, including due to bad weather, fire, health and safety incidents, theft and abuse of, and consequent injury or death due to, the drugs stored at the veterinary premises, loss of key suppliers and electrical failures could result in unplanned closures of one or more of the Group's veterinary surgeries. In addition, any real or perceived ethical misconduct on the part of any veterinarian associated with the Group, including ill-treatment of the pets under care, clinical malpractice, incorrect disposal of clinical waste or overpricing of services, either intentionally or due to a lack of knowledge of applicable pricing regulations or charging for services not rendered could result in negative publicity in the mainstream media and in social media, website forums and email exchanges, or in fines and other sanctions from regulators. Such negative publicity (including negative publicity by disgruntled Colleagues) or regulatory sanctions could have a material adverse affect on the Group's reputation or its business, results of operations or financial condition.

Other risks relating to the veterinary business

The Group is currently executing the integration, restructuring, implementation of new partner contracts and, in some locations, the rebranding of Companion Care, the Group's in store joint venture surgeries, and Vets4Pets, the Group's standalone joint venture veterinary business that was acquired in March 2013. There are numerous challenges in integrating the two operations of these businesses, including the diversion of management's attention away from the normal daily operations of the business. Failure to manage and successfully integrate these businesses or future acquired businesses could have a material adverse effect on the Group's business, results of operations or financial condition.

If the Group's joint venture veterinary surgeries were to cease operating the veterinary surgeries in the Group's stores or standalone locations for any reason, the Group's business may be harmed, both directly through the loss of fee income and, in the case of in store businesses, through the loss of rental income and indirectly through a decrease in customer footfall at the relevant Pets at Home stores. In such event, there can be no assurance that the Group could contract with another third party to operate the veterinary surgeries on favourable terms or at all, which could have a material adverse effect on the Group's business, results of operations or financial condition.

The Group may not be able to pursue its expansion strategy and new business opportunities in full or in a prompt manner.

There are several elements to the Group's expansion strategy, including increasing like-for-like sales, expanding stores and services, delivering margin gains, optimising the accessories range, continued growth in own label and private brand products and a continued increase in VIP members. A number of factors, including the other risk factors described in this Prospectus, could prevent one or more of the Group's expansion strategies from being met in full or in a prompt manner and could prevent or restrict the Group from pursuing new business opportunities or meeting the demand for its products and services from its existing customers. As a result of these factors, the Group may be unable to pursue and fulfil its strategy in full or in a prompt manner and any material failures could have a material adverse effect on the Group's business, results of operations or financial condition.

New stores and joint venture veterinary surgeries may erode sales at existing stores and veterinary surgeries, and comparable sales growth at stores and joint venture veterinary surgeries may decrease as stores and joint venture veterinary surgeries grow older.

The Group can make no assurances that the Group's stores and joint venture veterinary surgeries will meet forecasted levels of sales and profitability or that sales and profitability will not decline. The Group operates stores and veterinary surgeries in many of the major market areas of the UK. The Group has found that opening new stores and veterinary surgeries tends to attract some customers away from other stores and veterinary surgeries already operated by the Group in those markets and to diminish sales at existing stores and veterinary surgeries. As a result of new store and veterinary surgery openings in existing markets, and because older stores and veterinary surgeries will represent an increasing proportion of the Group's property base over time, the year on year increases in the sales of the Group's existing stores and veterinary surgeries may be lower in future periods than in the past.

If the Group is unable to continue the development of own label and private brand product lines, the Group's business, results of operations or financial condition could be adversely affected.

The Group has developed a number of private brand and own label products such as Wainwright's, Pickles, Purely, Pick n Mix, Pets at Home Advanced Nutrition and Ruffer and Tuffer. Private brand and own label products accounted for 42.1% of the Group's store gross revenue in FY13.

Pets at Home's own label and private brand product lines are critical to the Group's strategy, and the Directors consider the maintenance and innovations of own label and private brand products to be a key factor in driving customer loyalty and visit frequency, as well as margin enhancement. In particular, the Directors consider the protection, maintenance and innovations of the Group's own label and private brand product lines to be important contributions to the Group's recent success and important elements of the Group's strategy going forward. There can be no assurance that the Group will continue to be able to maintain viable, identifiable and differentiated brands, or to develop new own label and private brand products in the future which are attractive to customers both in terms of product quality and price and which can compete effectively with brands not offered by Pets at Home.

The Group's own label and private brand products may also face greater competition from increased ranges of own label and private brand products offered by grocery retailers or other competitors. Any inability of the Group to maintain, innovate and grow the quality and range of its own label and private brand product lines could harm the Group's ability to enhance its profit margins and have a material adverse effect on the Group's business, results of operations or financial condition.

The Group's expanded offering of own label and private brand products may expose the Group to product liability claims and/or may adversely affect the Group's relationship with its vendors.

The quality of the Group's own label and private brand products may not meet the Group's expectations. In such event, the Group may have increased exposure to quality-related claims or losses caused by such products and if any of the Group's customers were to be harmed by its own label and private brand products, they may bring product liability claims and other claims against the Group. In addition, the Group's own label and private brand products compete with other manufacturers' branded items that the Group offers. As the Group continues to evaluate the number and types of own label and private brand products that the Group sells, the Group may adversely affect its relationships with its vendors, who may decide to reduce their product offerings through the Group and increase their product offerings through the Group's competitors. An increase in the Group's proprietary branded product offerings also exposes the Group to the risk that third parties will assert infringement claims against the Group with respect to such products, and the Group may be unable to fully protect its intellectual property on such own label and private brand products. Any of these circumstances could have an adverse effect on the Group's business, results of operations or financial condition.

Risks associated with the Group's existing properties and the properties of the standalone joint venture surgeries may have a material adverse effect on the Group's business, results of operations or financial condition.

The Group's stores and the standalone joint venture surgeries are held through leasehold interests that are subject to periodic rent reviews and renegotiations. All of these leases provide for upwards-only adjustments to rent upon rent review. As a result, the Group is susceptible to fluctuations in the property rental market. The Group may not be able to renew its existing store leases and its standalone joint venture veterinary surgery leases, if the landlord is able to establish legal grounds for non-renewal or if a contracted out lease comes to an end. As of 21 February 2014, the Group had 41 contracted out leases with three ending in the next five years. Further, as of 21 February 2014, 7.8% of the Group's stores and 7.2% of the Group's standalone joint venture veterinary surgeries had leases which are expiring in the next five years. These factors may result in, among other things, significant alterations in rental terms (including rental rates and service charges), an inability to achieve site renewals, the closure of stores in desirable locations or a failure to secure real estate locations adequate to meet annual targets. The Group may also be impacted by revaluations of commercial property taxes undertaken by the UK government from time to time. The next scheduled UK government revaluation of commercial property taxes is in 2015 for Northern Ireland and in 2017 for England, Wales and Scotland. As a result, any of these factors could have a material adverse effect on the Group's business, results of operations or financial condition.

In establishing, modernising or refurbishing the Group's stores or the joint venture veterinary surgeries, the Group may require consents from landlords or local authorities. If any such works are carried out, or have been

carried out previously, without such consents, disputes may arise which may result in the Group having to undertake reinstatement works or the landlord seeking forfeiture of the relevant lease. The Group may have to exit some of its lease arrangements and, in so doing, may face dilapidation claims from landlords which (whether founded or unfounded) may require it to make unforeseen payments to landlords and could have a material adverse effect on the Group's business, results of operations or financial condition.

The Group's property portfolio and in particular certain of the properties owned by certain of its veterinary joint ventures includes properties where materials containing asbestos may be present. Pursuant to applicable law and regulations relating to asbestos, the Group is subject to duties to manage the risks of asbestos in its premises and in the joint venture surgeries, which include ensuring that so far as reasonably practicable no person can come to harm from the presence of asbestos on the premises. This may involve isolating, encapsulating or removing any asbestos that is found to be in a poor condition. The ongoing management of asbestos by the Group or its joint venture surgeries may involve additional expenditure over forthcoming years and could in certain circumstances require full or partial closure of certain Group or joint venture properties. Any failure to manage any asbestos in its properties could result in the Group or its joint venture surgeries incurring fines or other liabilities could adversely affect the Group's reputation and/or cause the full or partial closure of such properties, each of which could have a material adverse effect on the Group's business, results of operations or financial condition.

Any significant loss of lower cost suppliers or the inability to source products from such suppliers that meet the Group's standards and requirements or a supply reduction or cost increases could have a material adverse effect on the Group's business, results of operations or financial condition.

The Group offers various own label and private brand products, for which it relies on third-party suppliers. The Group's Wainwright's and other own label and private brand product are sourced from a limited number of suppliers with limited supply capabilities. Such third-party suppliers may prove to be unreliable. In addition, the Group has no long-term supply commitments from the suppliers of major advanced nutrition food or other products, including medicines and other pharmaceuticals that the Group supplies in support of its veterinary business, and terms of business are generally agreed annually with suppliers. The Group buys from approximately 300 suppliers worldwide, and its ten largest suppliers accounted for a total of 51% of costs of purchases for YTDQ314.

The Group imports a significant volume of goods on a direct basis from overseas suppliers, and maintaining the volume of such imports is a key part of the Group's plans to maintain and expand its profit margins in coming years. In FY13, Pets at Home sourced 15.6% of its products directly from manufacturers in Asia: in particular, a significant proportion of the Group's pet accessory products originate through direct imports from factories in Asia, primarily in China.

In April 2012, the Group opened its new global sourcing office in Hong Kong. However, there can be no assurance that this office will continue to be able to source products and satisfy the Group's requirements for maintaining its volume of directly imported products (including with respect to timeliness of delivery, acceptable product quality, cost and packaging and labeling requirements). Any impediment to importing certain products from across the globe generally or an inability of the Group to source direct imports of products meeting the Group's requirements in a timely or cost-effective manner, or a reduction in such supplies, could affect the Group's ability to maintain and grow margins in line with its strategy.

The Group focuses on the authenticity of its sources of supply and the quality of its products and seeks to maintain high standards of ethical sourcing of products in its supply chain. Whilst the Directors believe its product sourcing relationships with its suppliers in both the UK and Asia are satisfactory and that the products supplied to the Group meet the Group's quality standards, these suppliers could discontinue supplying products for the Group, may supply products that do not meet the Group's quality standards or may offer to supply products at unattractive terms. In these circumstances, there is no guarantee that the Group could identify and maintain equivalent relationships with alternative suppliers in the UK or abroad. In addition, any future changes in product packaging and labeling laws may affect the ability of the Group's suppliers to provide products in a timely and cost-effective manner. If any of the above risks were to affect Pets at Home's supply chain, it could have a material adverse effect on the Group's business, results of operations or financial condition.

Fluctuations in the prices and availability of certain commodities such as rawhide and meat protein or in fuel and energy costs could materially adversely affect the Group's earnings and cash flow.

The Group's business is subject to risks due to increases in the price of and the availability of commodities used in the production of certain pet food and other pet-related products, specifically seed, wheat and rice, as well as

other materials such as rawhide, that are used in certain pet accessories. Further, the Group's business has a dependency on meat protein for most of its pet food products, and the Directors believe that such dependency is likely to pose sourcing challenges in the future. As the world's population grows, more meat protein will go to human consumption potentially limiting the supply and increasing prices of meat protein for animal feed. Historically, in circumstances where these price increases have resulted in increased purchase costs for the Group, the Group has been able to pass such increases on to customers. However, the ability of the Group to pass on increased purchase costs in the future will be significantly impacted by market conditions and competitive factors. In certain circumstances, the Group may not be able to pass on increased purchase costs to customers resulting in reduced margins, and such reduced margins could have a material adverse effect on the Group's business, results of operations or financial condition.

The Group's business is subject to risks of increases in the price of oil and the consequent impact on diesel costs and utility costs, specifically electricity, for which the Group had agreed fixed prices up to September 2014. Price increases adversely impact the Group's business due to consequential increases in operating costs. The Group may not be able to continue its policy of fixing its cost of fuel and electricity in the future. Accordingly, the Group's results may still be adversely affected by increases in fuel or energy costs. Furthermore, such measures may have the effect of increasing costs for the Group if prevailing fuel or electricity prices fall below those at which the Group has fixed.

The Group's business may be affected by the risks associated with international trade.

The Group's results may be affected by the risks associated with international trade, particularly those risks which are common in the importing of goods from developing countries, including:

- fluctuations in currency exchange rates (as further detailed below);
- the imposition of taxes, duties or other charges on imports;
- compliance with, and changes to, import restrictions and regulations;
- shipping and customs delays;
- animal- or human-related pandemics, such as the recent avian flu incident in Hong Kong;
- exposure to different legal standards and the burden of complying with a variety of laws and changing government policies; and
- differing standards of quality, sourcing and employment practices.

Pets at Home's imported products are subject to customs duties. Increases in customs duties could reduce the Group's profitability. Countries could impose new quotas, duties, tariffs, non-tariff barriers or other restrictions, or adversely adjust prevailing quota, duty or tariff levels, any of which, to the extent such costs cannot be passed on to customers or restrictions reduce the availability or increase the price of products, could have a material adverse effect on the Group's business, results of operations or financial condition.

In addition, as the Group has increased its direct imports of products, its supply chain has become increasingly subject to more general risks associated with conducting business in developing countries, including:

- expropriation or nationalisation of the assets of foreign manufacturers or suppliers;
- political instability and unrest and international hostilities;
- availability of labour and raw materials to manufacturers and suppliers;
- evolving legal, regulatory and judicial systems that are characterised by gaps, conflicts and ambiguities;
- changes to foreign government regulation, political unrest, work stoppages, shipment disruption or delays; and
- changes to economic conditions in the countries in which the Group's manufacturers and suppliers are located.

If any of these risks were to affect Pets at Home's ability to source products directly it could adversely affect the Group's business, results of operations or financial condition.

Factors outside the Group's control, such as any influenza epidemic, animal- or human-related pandemic, natural disasters or acts of terrorism or protests or other harassment from activist campaigners, in particular, in connection with the Group's reptile, birds and small animal offerings may have a material adverse effect on its business, results of operations or financial condition.

Any avian, swine or other influenza epidemic or animal- or human-related pandemic, such as the recent avian flu incident in Hong Kong could result in store closures and/or failures in the Group's supply and distribution chain, including sourcing from Asia, and/or a significant reduction in consumer confidence and spending levels, and therefore could have a material adverse effect on the Group's business, results of operations or financial condition. In addition, the Group's operations and consumer spending may be affected by natural disasters or other similar events, and terrorist attacks or threats of such future attacks could likewise result in reduced levels of consumer spending. Finally, due to the Group's business activities, and in particular its sale of reptiles and other live pets, activist animal rights groups or other activist campaigners may seek to target Pets at Home stores with incidents or campaigns of harassment, protest or other negative publicity. Such activities may cause disruption and/or a reduction of customer footfall at Pets at Home's stores and veterinary surgeries and could therefore adversely affect Pets at Home's business, results of operations or financial condition.

The Group may not be able to predict accurately or fulfil customer preferences or demand or manage successfully its inventory from time to time.

The Group is exposed to inventory risks that may adversely affect the Group's operating results as a result of new pet product launches, changes in customer preference or demand and consumer spending patterns with respect to the Group's products. Demand for products can change between the time inventory is ordered and the date of sale. In addition, when the Group begins selling a new product, it may be difficult to establish supplier relationships, determine appropriate product selection and accurately forecast demand. The Group carries a broad selection of certain products and may be unable to sell products in sufficient quantities or during the relevant selling seasons.

The Group's success depends, in part, on its ability to predict and respond to changing consumer demands and preferences in all of its product areas, and to translate consumer preferences into appropriate, saleable merchandise offerings and appropriate levels of inventory. The Group's ability to anticipate and respond to changing customer preferences depends, in part, on its ability to attract and retain key Colleagues in its buying, merchandising, marketing and other functions. Competition for such Colleagues is strong and the Group may not be able to attract and retain a sufficient number of qualified Colleagues in future periods.

The Group relies on information technology and adequately trained Colleagues to accurately forecast expected demand for new and existing products and to predict changing demand profiles on a timely basis.

If the Group fails to predict or respond to sales demand or to changing customer preferences successfully, then the Group's sales may decline, its inventory could become overstocked, and the Group may be forced to rely on markdowns or promotional sales to dispose of excess or slow-moving inventory. Moreover, any such failure could also result in inventory shortfalls on popular merchandise.

Any one of the risks set forth above may adversely affect the Group's business, results of operations or financial condition.

The Group depends upon its senior management, Colleagues within stores, distribution centres and support offices and suitably qualified Colleagues and veterinarians within the Group's joint venture veterinary surgeries and the departure of such management or the failure to motivate and retain such Colleagues could adversely affect its business.

The Group is dependent upon its senior management personnel who have extensive experience and knowledge of the pet supplies retailing industry. The successful implementation of the Group's strategy also depends on the availability of skilled management at its support offices, distribution centres, stores, standalone veterinary surgeries and in store veterinary surgeries and Groom Room grooming salons. The loss of services of senior or other management, or a failure to attract and retain new management when required (such as for new store openings), could have a material adverse effect on the Group's business, results of operations or financial condition.

The Group's success also depends on its ability to continue to attract, motivate and retain highly trained and customer focused Colleagues in its stores, at its distribution centres and in its support offices who are able to

provide the high levels of customer service which Pets at Home seeks to provide. In addition, certain product lines sold by the Group including, in particular, licensed medicines such as flea and worming treatments for dogs and cats, require in store Colleagues who are suitably qualified persons ("**SQPs**") under relevant legislation in order for Pets at Home to be permitted to sell these products. The sale of pets in Pets at Home's stores also requires in store Colleagues with the ability to offer specialist knowledge and advice, as well as high levels of pet care. The Group also depends on the performance of its Colleagues in support offices and distribution centres. In addition, at the Group's joint venture veterinary surgeries, the Group relies on the availability of qualified veterinarians with the skills to assist with the medical treatment of pets.

Within the retail industry, Colleague turnover is typically high and there can be no assurance that key Colleagues will continue to be employed by the Group or that the Group will be able to attract and retain appropriate Colleagues in the future, even if the Group has in recent years reduced its Colleague turnover rate significantly (Colleague turnover at Pets at Home has reduced from 45.9% in the financial year ended 29 March 2007 to 16.9% in FY13). Colleague turnover increases the risk that Colleagues will not have the training and experience needed to provide competitive, high-quality customer service. In addition, if veterinarians or pet groomers leave the Group or their joint venture surgeries, their customers may follow them to their new places of business. The Group's business model also relies on the customer service offering from its in store and joint venture veterinary surgery Colleagues, and any substantial increase in in store and joint venture veterinary surgery Colleague turnover or decrease in customer service or specialist sales and medical service expertise could negatively affect the Group's operations going forward. The loss of services of Colleagues, or a failure to attract, retain and train appropriate new Colleagues, could significantly delay or prevent the achievement of the Group's business plan, could lead to the Group having to cease to sell certain products within its stores and, if the developments occurred often and/or in multiple stores, could have a material adverse effect on the Group's business, results of operations or financial condition.

The Group's results sometimes fluctuate as a result of weather conditions, seasonal changes and/or major sporting or other events and could be adversely affected by periods of prolonged extreme weather.

The Group's sales are sensitive to periods of extreme weather conditions. The Group sometimes sees a reduction of sales during periods of hot weather in the UK due to reduced customer footfall and reduced demand as pets eat less and generally spend more time outdoors, reducing the need for essentials such as food and cat litter. If temperatures are extremely high for a prolonged period, declines in sales can be material. The number of customers visiting Pets at Home's stores also declines during periods of snow or extreme weather conditions affecting the local catchment area. Traditionally the financial performance of the Group in the four-week period to the end of December, is marginally stronger than in the other periods. In addition, the sales of certain products and services designed to address pet health needs, such as flea and tick problems, can also be seasonal. Major sporting or other events in or involving the UK will also lead to a reduction of sales due to lower footfall at Pets at Home stores. Timing of the holiday season and any adverse weather conditions that may occur during that season impacting delivery may adversely affect sales in Pets at Home stores. In addition, because the Group's stores typically draw customers from a large trade area, sales may be impacted by adverse weather or travel conditions, which are more prevalent during certain seasons of the year.

The Group faces various risks as an omni-channel retailer.

The Directors believe that growth rates for the UK online pet retail segment will be higher than those in the offline sector, and there is no guarantee that the Group will be able to capture the growth of the expanding online UK Pet Care Market. The Pets at Home Website sells an extended range of pet products wider than its existing in store product range. The Group may require additional capital in the future to sustain or grow the e-commerce business. The Group has engaged a third party to maintain its website and process all customer orders placed through that site. As such, the Group is exposed to risks associated with the systems and resources of its third-party service provider and its relationship with such third party.

The other risks associated with Pets at Home's omni-channel business include its inability to keep pace with customer expectations and rapid technological change, failure in security procedures and operational controls, failure or inadequacy in the Group's systems resulting in its websites not properly performing the functions the Group intends them to perform or not performing those functions in the way the Group intends, failure or inadequacy in the systems of third-party logistics providers, failures in system upgrades or the Group's inability to process customer orders.

Further, the Group's customers may find the Website difficult to use and so may be less willing to use the site than the Group expects. The Group re-launched its Website in January 2014 and the re-launch and the associated upgrades may not be successful. The Group's omni-channel offering also depends on its ability to ensure that its Website and store network can interact seamlessly with each other so that customers are able to access the different channels in an integrated way (by, for example, returning products bought online to a local store and the 'deliver to store' shopping option that is currently in trial).

The Group also faces various legal risks and uncertainties, including the risk that the Group may fail to obtain all applicable permits from to time to time and/or fail to comply with all applicable laws. In addition, to the extent that Pets at Home has customer information on its databases, any unauthorised disclosure of, or access to, such information could result in claims under data protection laws and regulations. If any of these risks materialise, it could have an adverse effect on Pets at Home's business.

In some circumstances increased transactions through the Website may result in reduced footfall at Pets at Home's stores, particularly as customers take advantage of home delivery services for certain products, including health and hygiene products and bulky or heavy pet products. There is a risk that such reduced footfall may reduce the sales of certain products in Pets at Home's stores. Finally, as other internet retailers have increased market share in recent years in the UK Pet Care Market, Pets at Home has faced increased competition and may in the future face competition from internet retailers who enter the market, which could have a material adverse effect on the Group's business, results of operations or financial condition.

A disruption or malfunction, or increased costs or failure to make improvements in the operation, expansion or replenishment, of the Group's distribution centres or supply chain could have a material adverse effect on the Group's business, results of operations or financial condition.

Any major breakdown of plant or equipment, information technology systems failure or disruption, accidents such as a serious fire or flood, industrial disputes or other interruption or malfunction at the Group's distribution centres (or at any future new distribution centre or direct import facility), at third-party off-site storage locations utilised by the Group, at the Group's support offices, at any of the Group's key suppliers or which affects the operations of the Group's third-party freight, haulage or logistics partners, might significantly impact the Group's ability to manage its operations, distribute products to its stores and maintain an adequate product supply chain.

The Group has two distribution centres responsible for product storage and the delivery of products to Pets at Home stores across the UK and, accordingly, any serious disruption or malfunction at these distribution centres could render the Group unable to distribute products to its stores nationwide. Such disruption could have an adverse effect on the Group's in store inventory and therefore could materially adversely affect its business, results of operations or overall financial condition. A disaster or disruption in the infrastructure that supports the Group's business could have a material adverse effect on its ability to continue to operate its business without interruption. Whilst the Group has established disaster recovery procedures, these may not be sufficient to mitigate the harm that may result from such a disaster or disruption.

The Group intends to continue to invest in additional distribution and logistics operations in the UK. Any failure to successfully increase capacity for storing and distributing products in the UK may reduce the ability of the Group to grow and could adversely affect the Group's business. There can be no assurance that the costs of investments in improving the Group's logistics and distribution infrastructure will not exceed estimates or that such investments will be as beneficial as predicted. If the Group is unable to realise the benefits of an improved logistics and distribution infrastructure, the Group's business, results of operations or financial condition could be materially adversely affected.

Any interruption or failure of the Group's information technology, network or communications systems could have a material adverse effect on the Group's business, results of operations or financial condition.

The efficient operation of the Group's business is dependent on its key operational business systems. In particular, the Group relies on its information technology systems to effectively manage its sales, warehousing, distribution, merchandise planning and replenishment functions and to maintain its in-stock positions and a record of its financial position. Further, the Group operates a practice management system on behalf of its joint venture veterinary surgeries. Following the acquisition of Vets4Pets, and as part of the Group's integration of its existing joint venture veterinary business and the Vets4Pets businesses, the Group is implementing a single veterinary practice management system throughout its joint venture veterinary surgeries. Any significant disruption to these information technology or communications systems could have an adverse effect on the

proper functioning of Pets at Home's businesses, both at the point of sale and with regard to store replenishment and distribution activities, which can be affected by short-term system failures, and on the Group's ability to maintain its financial records and produce timely financial information to enable it to manage its operations. The failure of the Group's information systems to perform as designed, due to failure to manage disasters, security breaches, computer viruses or any other interruption of the Group's information systems for a significant period of time could disrupt the Group's business. Any of the foregoing could have a material adverse effect on the Group's business, results of operations or financial condition. As the Group expands its operations, the Group is currently making further significant investment in its information technology systems. There can be no assurance, however, that the costs of such investments will not exceed estimates or that they will be as beneficial as predicted or that the implementation of the improvements will not be delayed or will be successful. If the Group is unable to realise the benefits of improved management information systems as it expands its operations, the Group's business, results of operations or financial condition could be materially adversely affected.

If the Group fails to protect the integrity and security of customer and Colleague information, its business could be adversely affected.

The increasing costs associated with the implementation and on-going operation of the Group's information security systems, such as increased investment in technology, the costs of compliance with privacy and information security laws, and costs resulting from potential data loss, could adversely affect the Group's and its joint venture veterinary business. The Group and its joint venture veterinary surgeries, also routinely possess sensitive customer and Colleague information, especially in relation to its VIP Club and veterinary surgery customers. While the Directors believe it has taken reasonable and appropriate steps to protect that information from security breaches, data loss and computer viruses, if the Group's or the joint venture veterinary surgeries security procedures and controls were compromised, unintentionally or through cyber-attacks, the Group's and its joint venture veterinary surgeries' reputation, results of operations and financial condition could be materially adversely affected and could result in litigation and/or higher expenditures to adequately protect the Group and its joint venture veterinary surgeries against such information security breaches. In addition, some of the data on VIP Club and joint venture surgery customers is stored with third-parties, and if any such third-party partner's security procedures and controls were compromised and such customers' information were accessed, then the Group's and its joint venture veterinary surgeries' reputation, business, results of operations or financial condition could be materially adversely affected.

The Group's business and competitive position could be harmed if it is unable to protect and enforce its intellectual property rights or if its activities infringe or are alleged to infringe intellectual property rights owned by third parties.

The Group's trademarks, such as Pets at Home, Companion Care, Vets4Pets, Groom Room and Wainwright's, are central to the value of the Pets at Home brand. Third parties may in the future try to challenge the ownership of and/or validity of the Group's intellectual property. In addition, the Group's business is subject to the risk of third parties infringing the Group's intellectual property rights. The Group may not always be successful in securing protection for or stopping infringements of its intellectual property rights. The Group may need to resort to litigation in the future to enforce its intellectual property rights. Any such litigation could result in substantial costs and a diversion of resources. The Group's failure to protect and enforce its intellectual property rights could have a material adverse effect on the Group's business, results of operations or financial condition.

It is also possible that the Group may infringe or be alleged to have infringed intellectual property rights owned by third parties who may challenge the Group's right to continue to sell certain products and/or may seek damages from the Group. Any infringement or other intellectual property claim made against the Group, whether or not it has merit, could be time-consuming, result in costly litigation, cause product delays or require the Group to enter into royalty or licensing agreements. If successful such complaints could lead to products or services being withdrawn from Pets at Home's stores and could have a material adverse effect on the Group's business, results of operations or financial condition.

A determination that the Group is in violation of any government regulations could require it to change or restructure its operations and could harm its business.

The Group's business is subject to various laws applicable to businesses generally, including, but not limited to, laws affecting health and safety, environmental, fire, tax, protection of customer and Colleague data, landlord and tenant, product safety, quality and liability, employment practices (including pensions) and competition. In

addition, Pets at Home is subject to laws affecting the transportation, handling and sale of small animals, and each Pets at Home store is required to keep, and renew on an annual basis, appropriate licences under the Pet Animals Act 1951 in respect of each type of pet sold. Pets at Home also sells certain specified licensed medicines, including Frontline (flea treatment for dogs and cats), Drontal (worming products for dogs and cats), Panicure (medication for rabbits) and worming treatments for horses, which require Pets at Home to have approval to store and supply such products and to have SQPs (under the UK Veterinary Medicines Regulations) available in store (and in its support offices in relation to online transactions), in order to sell the products. In addition, the operation of joint venture veterinary surgeries is subject to statutes and regulations that govern the use, management, transportation and disposal of medical materials and biohazardous materials.

Whilst the Group continually works to ensure that its operations, including its joint venture veterinary surgeries and grooming services, comply with such laws and regulations, there can be no assurance that, given varying and uncertain interpretations of these laws, the Group would be found to be in compliance at all times. If a joint venture partner is found to have violated the applicable rules and is sanctioned, the Group's reputation and business could be harmed. Furthermore, there can be no assurance that Pets at Home will continue to be able to obtain and renew the licences and authorisations required by it and/or its in store Colleagues in order to sell its current range or any additional range of pets and licensed medicines.

The grooming business in the UK is largely unregulated. While the Group sets its own standards in its grooming salons, the introduction of regulations in the grooming business could result in costs to comply with such regulations.

Future changes, developments in or non-compliance with laws and regulations concerning the Group's business may also materially adversely affect its business, results of operations or financial condition.

The Group could be adversely affected by actual or alleged violations of applicable anti-bribery laws and regulations, such as the Bribery Act, the United States Foreign Corrupt Practices Act and similar worldwide anti-bribery, anti-corruption and anti-kickback laws.

The UK and foreign laws and regulations that are applicable to the Group's operations are complex and may increase the costs of regulatory compliance, or limit or restrict the products or services the Group sells or subject the Group's business to the possibility of regulatory actions or proceedings. The Bribery Act, and other similar laws and regulations, generally prohibit companies and their intermediaries from making improper payments to governmental officials for the purpose of obtaining or retaining business. The Group conducts ethics training, which includes anti-corruption and anti-bribery awareness through its learning management system, and has established anti-corruption and anti-bribery policies. While the Group's policies and programmes mandate compliance with applicable laws and regulations, including anti-bribery laws and other anti-corruption laws, the Group cannot assure investors that the Group will be successful in preventing its individual Colleagues or agents from taking actions in violation of these laws or regulations in Asia or elsewhere. Such violations, or allegations of such violations, could disrupt the Group's business and result in a material adverse effect on the Group's business, results of operations or financial condition.

Currency fluctuations could materially adversely affect the Group's results.

The Group's results can be affected by fluctuations in currency exchange rates. The Group's sales are denominated in pounds sterling, and the Group reports its consolidated financial results in pounds sterling. However, the Group sources a large amount of its non-food products from outside the UK and in particular from China, where the principal currency of purchase is US dollars. The Group's non-UK purchases in US dollars give rise to an exposure to changes in exchange rates between pounds sterling and US dollars. The weakening of the pounds sterling against the US dollar results in a corresponding increase in the Group's costs of procurement of non-food products from outside the UK, in terms of pounds sterling. In FY13, the Group spent US$42.5 million on sourcing products from outside the UK. The exchange rate between US dollars and pounds sterling has fluctuated significantly in recent years and may fluctuate significantly in the future. Although the Group may benefit from any future weakening of the US dollar, it could be adversely affected by future unfavourable shifts in currency exchange rates, particularly by a strengthening of the US dollar compared to the pounds sterling. Currency fluctuations may exceed the Group's attempts to hedge, and the Group's results may be adversely affected by currency fluctuations. In addition, such hedging measures may have the effect of increasing costs for the Group to the extent it has received a less advantageous currency exchange rate than the prevailing rate available from time to time.

Pets at Home is exposed to interest rate fluctuations.

The Group has borrowings that are subject to variable interest rates and is therefore exposed to movements in interest rates. In addition, interest rate fluctuations will affect the return on Pets at Home's cash investments. There can be no guarantee that future interest rate fluctuations will be effectively hedged by Pets at Home's use of hedging instruments to manage interest rate exposure on its borrowings. Furthermore, such hedging instruments may result in the Group paying higher interest rates than the prevailing variable interest rates from time to time. Movements in interest rates could have a material adverse effect on any unhedged borrowing exposure or on the returns generated by Pets at Home's investments, either of which could adversely affect Pets at Home's business, results of operations or financial condition.

The Group's inability to obtain commercial insurance at acceptable prices may have a negative impact on its business.

The Directors believe that commercial insurance coverage is prudent for risk management. However, the costs of insurance can be volatile, and may be affected by natural catastrophes, fear of terrorism, financial irregularities or fraud at other companies and the state of the insurance sector generally. Although the Group has historically been able to obtain insurance coverage the Directors believe is appropriate, it is possible that insurance costs may increase substantially in the future or that the availability of insurance coverage for certain risks may be withdrawn completely or increase significantly in cost. In these circumstances, the Group may be unwilling or unable to obtain commercial insurance either at acceptable prices or at all and, as such, may have to forego or limit its purchase of relevant commercial insurance. In addition, although commercial insurance may be obtained by the Group, not all losses may be covered by the relevant policies and the terms of the policies may exclude the Group from recovering for losses in certain circumstances, including as a result of customary deductibles and exclusions. If the Group were unwilling or unable to obtain suitable commercial insurance, or to claim for certain losses under its commercial insurance policies, it could be forced to bear the losses of uninsured events and this could have a material adverse effect on its business, results of operations or financial condition.

Pets at Home will incur new costs as a newly public company, and its management will be required to devote substantial time to new compliance matters.

As a newly public company, Pets at Home will incur significant legal, accounting, and other expenses, including the costs of recruiting and retaining non-executive directors, costs resulting from public company reporting obligations and the rules and regulations regarding corporate governance practices, including the listing requirements of the stock exchange on which Pets at Home's securities are listed. Pets at Home's management and other Colleagues will need to devote a substantial amount of time to ensure that Pets at Home complies with all of these requirements. The reporting requirements, rules, and regulations will increase Pets at Home's legal and financial compliance costs and make some activities more time-consuming and costly. These rules and regulations will make it more difficult and more expensive for Pets at Home to obtain director and officer liability insurance, and Pets at Home may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These factors could also make it more difficult for Pets at Home to attract and retain qualified persons to serve on Pets at Home's Board, particularly to serve on Pets at Home's audit and compensation committees, or as executive officers.

RISKS RELATING TO AN INVESTMENT IN THE SHARES

There has been no prior market for the Shares and an active trading market may not develop.

Prior to the Offer there has been no public trading market for the Shares. The Company will apply to the FCA for the admission of the Shares to the premium listing segment of the Official List and to the London Stock Exchange for the admission of the Shares to trading on its main market for listed securities. However, there is no assurance that an active trading market for the Shares will develop or, if developed, can be sustained following the closing of the Offer. If an active trading market is not developed or maintained, the liquidity and trading price of the Shares could be adversely affected. Even if an active trading market develops, the market price for the Shares may fall below the Offer Price, perhaps substantially. As a result of fluctuations in the market price of the Shares, investors may not be able to sell their Shares at or above the Offer Price, or at all.

The market price of the Shares may fluctuate significantly in response to a number of factors, many of which will be out of the Group's control.

The Offer Price may not be indicative of the market price for the Shares following Admission. Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the

operating performance of the company that has issued them. The market price of the Shares may prove to be highly volatile and may fluctuate significantly in response to a number of factors, many of which are beyond the Group's control, including variations in operating results in the Group's reporting periods, cyclical fluctuations in the performance of the Group's business, changes in financial estimates by securities analysts, changes in market valuation of similar companies, announcements by the Group of significant contracts, acquisitions, joint ventures or capital commitments, speculation, whether or not well founded, regarding the intentions of the Group's major shareholders or significant sales of shares by any such shareholders or short selling of the Shares, speculation, whether or not well founded, about significant issues of shares by the Group, speculation, whether or not founded, regarding possible changes in the Group's management team, loss of a major supplier, additions or departures of key Colleagues, any shortfall in revenue or net profit or any increase in losses from levels expected by securities analysts, and future issues or sales of Shares. Any or all of these events could result in a material decline in the price of the Shares. Investors may not be able to sell their shares at or above the Offer Price, or at all.

Exchange rate fluctuations may impact on the price of Shares.

The Shares will be quoted, and any dividends to be paid in respect of them, will be in pounds sterling. An investment in Shares by an investor in a jurisdiction whose principal currency is not pounds sterling exposes the investor to foreign currency rate risk. Any depreciation of the pounds sterling in relation to such foreign currency will reduce the value of the investment in the Shares or any dividends in foreign currency terms.

Following Admission, the Principal Shareholder will continue to be able to exercise substantial influence over the Group's business following Admission.

Following Admission, the Principal Shareholder will hold approximately 43.6% of the voting rights in respect of the enlarged issued share capital of the Company (assuming no exercise of the Over-allotment Option and that the Offer Price is set at the mid-point of the Price Range and the Offer Size is set at the mid-point of the Offer Size Range). Whilst the Company has entered into the Relationship Agreement with the Principal Shareholder to ensure that the Group is capable of carrying on its business independently of the Principal Shareholder, by virtue of the level of its voting power, KKR will be able to exercise substantial influence over certain matters requiring approval of Shareholders, such as the election of directors and approval of certain business decisions. In addition, the Principal Shareholder will have sufficient voting power, on Admission, to, among other things, prevent, delay or deter a change of control of the Company, which could deprive Shareholders of an opportunity to earn a premium for the resale of their Shares over the then prevailing market price. There could also be a conflict between the interests of the Principal Shareholder and the interests of the Company's other Shareholders with respect to, for instance, dividend policy. In addition, the Principal Shareholder and affiliates of the Principal Shareholder may own businesses that directly compete with the Group's businesses and, although it is not the case currently, there are parts of the world or certain activities in which the Group and affiliates of the Principal Shareholder may be in competition with each other.

For so long as the Principal Shareholder (together with its associates) holds voting rights over 20% or more of the Company's Shares it shall be entitled to appoint two non-executive directors to the Board and for so long as it (together with its associates) holds 10% or more but less than 20% of the voting rights over the Company's Shares it shall be entitled to appoint one non-executive director to the Board. For information about the Company's relationship with the Principal Shareholder, see Section 9 (*Relationship with Principal Shareholder*) of Part XVIII (*Additional Information*).

Substantial future sales of Shares (including sales by certain Existing Shareholders including the Principal Shareholder or the Directors following the expiry of the terms of the lock-up arrangements) could affect the market price of Shares.

Following Admission, it is expected that the Principal Shareholder, MBF Co-Invest L.P. and the Directors will in aggregate hold voting rights in respect of approximately 56.4% of the Company's issued share capital (assuming no exercise of the Over-allotment Option and that the Offer Price is set at the mid-point of the Price Range and that the Offer Size is set at the mid-point of the Offer Size Range). The Company cannot predict what effect, if any, future sales of Shares, or the availability of Shares for future sale, will have on the market price of Shares. Sales of substantial numbers of Shares in the public market following the Offer, or the perception or any announcement that such sales could occur, following the expiry of any lock-up arrangements, could adversely affect the market price of Shares and may make it more difficult for investors to sell their Shares at a time and price which they deem appropriate. Such sales may also make it more difficult for the Company to issue equity securities in the future at a time and at a price that it deems appropriate.

During the periods immediately prior to and following the end of the periods of sales restriction provided for by these lock-up arrangements, the market price of the Shares may fall in anticipation of a sale of Shares. Following the expiry of these arrangements, there will be no contractual restriction on the sale of the Shares owned by the Shareholders who were previously subject to them. The Group cannot predict whether a substantial number of Shares in addition to those which will be available in the Offer will be sold in the open market following the expiry or waiver of these restrictions. In particular, there can be no assurance that after the restrictions expire, or prior to such time if any such restrictions are waived, such Shareholders will not reduce their holdings of ordinary shares.

See Section 12 (*Lock-Up Arrangements*) of Part XVII (*The Offer*) for further information relating to these lock-up arrangements.

The issue of additional Shares in the Company in connection with future acquisitions, any share incentive or share option plan or otherwise may dilute all other shareholdings.

The Group may seek to raise financing to fund future acquisitions and other growth opportunities. Although the Group is not currently considering any specific acquisition or growth opportunities that would require the Group to issue new Shares, the Group may, for these and other purposes, such as in connection with share incentive and share option plans, issue additional equity or convertible equity securities. As a result, the Company's existing Shareholders may suffer dilution in their percentage ownership or the price of the Shares may be adversely affected.

See Section 7 (*Colleague Share Schemes and Colleague Trusts*) of Part XVIII (*Additional Information*) for further information relating to share incentive arrangements.

The Company may not be able to pay dividends in the future.

As a matter of English law, the Company can pay dividends only to the extent that it has distributable reserves available which, as the Company is a group holding company with no independent operations, is dependent on the Company's ability to receive funds for such purposes, directly or indirectly, from its operating subsidiaries in a manner which creates distributable reserves for the Company. The Company's ability to pay dividends to Shareholders will therefore depend on its existing distributable reserves, future Group profitability, the ability to distribute or dividend profits from its operating subsidiaries up the Group structure to the Company, general economic conditions and other factors the Directors deem significant from time to time. The Group's distributable reserves can be affected by reductions in profitability as well as by impairment of assets. Furthermore, although the Shareholders have passed a resolution approving the cancellation of the amount standing to the credit of the Company's share premium account in order to create distributable reserves equal to that amount for the Company, there can be no guarantee that the necessary court order confirming this will be granted or that the court will not impose conditions in any such order limiting the circumstances in which any reserves created are to be distributable. The dividend policy mentioned in Part VII (*Information on the Business*) should not be construed as a dividend forecast. Any change in the tax treatment of dividends or interest received by the Group may reduce the level of yield received by Shareholders.

US and other non-UK holders of Shares may not be able to exercise pre-emption rights.

In the case of certain increases in the Company's issued share capital, existing holders of Shares are generally entitled to statutory pre-emption rights to subscribe for such shares, unless Shareholders waive such rights by a resolution at a Shareholders' meeting. US and other non-UK holders are customarily excluded from exercising any such pre-emption rights they may have, unless exemptions from any overseas securities law requirements are available. The Company cannot assure prospective investors that any exemption from such overseas securities law requirements would be available to enable US or other non-UK holders to exercise such pre-emption rights or, if available, that the Company will utilise any such exemption.

There is doubt as to the enforceability in England and Wales of claims based on the federal securities laws of the United States.

The Company is a public limited company incorporated under the laws of England and Wales. The Directors of the Company, and the Selling Shareholder reside outside the United States. In addition, a substantial proportion

of the assets of the Directors, the Selling Shareholder and the Group are or may be located outside the United States. It may not be possible, therefore, for investors to effect service of process within the US upon the Company or its Directors or the Selling Shareholder, or to enforce in US courts judgements against them obtained in those courts based upon the civil liability provisions of the federal securities laws of the United States. Furthermore, there is substantial doubt as to the enforceability in England and Wales, whether by original actions or by seeking to enforce a judgement of a US court, of claims based on the federal securities laws of the United States.

PART III

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the following times and dates are indicative only and subject to change without further notice. References to a time of day are to London time.

	Time and Date
Latest time and date for completion of Online Applications in respect of the Colleague Offer [(1)]	5.00 p.m. on 11 March 2014
Latest time and date for receipt of completed application forms from the Intermediaries in respect of the Intermediaries Offer	5.00 p.m. on 11 March 2014
Latest time and date for receipt of indications of interest from institutional investors in the Institutional Offer	5.00 p.m. on 12 March 2014
Announcement of the Offer Price and Offer Size, publication of the Pricing Statement and notification of allocations of Shares [(1) (2)]	7.00 a.m. on 13 March 2014
Commencement of conditional dealings in Shares on the London Stock Exchange [(3)]	8.00 a.m. on 13 March 2014
Admission and commencement of unconditional dealings in Shares on the London Stock Exchange	8.00 a.m. on 18 March 2014
Shares credited to CREST accounts (where applicable) [(4)]	8.00 a.m. on 18 March 2014
Despatch of definitive share certificates (where applicable) [(4)]	Week commencing 31 March 2014

Notes:

(1) Eligible Colleagues who, pursuant to the Colleague Offer, choose to hold their Shares in the nominee service to be provided by Computershare Company Nominees Limited will not be able to deal in Shares on a conditional basis prior to Admission.

(2) The Pricing Statement will not automatically be sent to persons who receive this Prospectus but it will be available free of charge at the registered office of the Company at Epsom Avenue, Stanley Green Trading Estate, Handforth, Cheshire SK9 3RN. In addition, the Pricing Statement will be published (subject to certain restrictions) in electronic form and available on http://investors.petsathome.com. If (i) the Offer Price is set above the Price Range or the Price Range is revised higher; and/or (ii) the number of Shares to be issued or sold in the Offer is set above or below the Offer Size Range (subject to the minimum free float requirements of the UKLA) then the Company will make an announcement via a Regulatory Information Service and prospective investors will have a statutory right to withdraw their application for Shares pursuant to section 87Q of FSMA. In such circumstances, the Pricing Statement would not be published until the period for exercising such withdrawal rights has ended. Therefore, the expected date of publication of the Pricing Statement would be extended. The arrangements for withdrawing offers to subscribe for or purchase Shares would be made clear in the announcement.

(3) It should be noted that, if Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.

(4) Or as soon as practicable thereafter. No temporary documents of title will be issued. Underlying applicants who apply to Intermediaries for Shares under the Intermediaries Offer will not receive share certificates.

PART IV

OFFER AND ADMISSION STATISTICS

	Bottom of the Price Range	*Top of the Price Range*
Price (per Share) [(1)]	£2.10	£2.60
Number of Shares in issue on Admission [(2)]	500,000,000	500,000,000
Maximum number of Shares which may be comprised in the Offer [(3)]	200,000,000	200,000,000
- of which New Shares to be issued to facilitate the repayment of outstanding amounts owing under the Existing Senior Facilities Agreement and pay the estimated fees and expenses of the Offer [(3)(4)]	133,219,048	107,600,000
- of which New Shares to be issued to repay Shareholder Debt [(3)(5)(6)]	58,355,930	80,430,046
- of which Existing Shares [(3)(6)]	8,425,022	11,969,954
Minimum number of Shares which may be comprised in the Offer [(3)]	143,557,632[(7)]	125,000,000
- of which New Shares to be issued to facilitate the repayment of outstanding amounts owing under the Existing Senior Facilities Agreement and pay the estimated fees and expenses of the Offer [(3)(4)]	133,219,048[(7)]	107,600,000
- of which New Shares to be issued to repay Shareholder Debt [(3)(5)(6)]	1,913,562[(7)]	5,430,046
- of which Existing Shares [(3)(6)]	8,425,022[(7)]	11,969,954
Expected number of Shares in the Offer as a percentage of total number of Shares in existence on Admission	29% to 40%[(7)]	25% to 40%
Maximum number of Shares subject to the Over-allotment Option [(8)]	30,000,000	30,000,000
Maximum net proceeds of the Offer receivable by the Company to be used to facilitate the repayment of outstanding amounts owing under the Existing Senior Facilities Agreement[(9)]	£240 million	£240 million
Maximum net proceeds of the Offer receivable by the Company to be used to repay Shareholder Debt [(5)]	£123 million	£209 million
Maximum gross proceeds of the Offer receivable by the Selling Shareholder [(6)]	£18 million	£31 million
Indicative market capitalisation of the Company [(10)]	£1,050 million	£1,300 million

Notes:

(1) It is currently expected that the Offer Price will be set within the Price Range. The Company expects to publish the Pricing Statement containing the Offer Price and the Offer Size on or around 13 March 2014. The Pricing Statement will be available (subject to certain restrictions) on the Company's website at http://investors.petsathome.com. If the Offer Price is set above the Price Range, then the Company will make an announcement via a Regulatory Information Service and prospective investors will have a statutory right to withdraw their application for Shares pursuant to section 87Q of FSMA. In such circumstances, the Pricing Statement would not be published until the period of exercising such withdrawal rights has ended. Therefore the expected date of publication of the Pricing Statement would be extended. The arrangements for withdrawing offers to subscribe for or purchase Shares, as the case may be, would be made clear in the announcement.

(2) Represents the total number of Shares in issue on Admission following completion of the Pre-IPO Reorganisation and after the issue of New Shares by the Company.

(3) It is currently expected that the Offer Size will fall within the Offer Size Range, such that the total number of Shares comprised in the Offer represents between 125,000,000 and 200,000,000 being 25% and 40% of the total number of Shares in issue immediately following Admission. However, the Company does not know with certainty the exact number of New Shares that will be issued by the Company or the number of Existing Shares that will be sold by the Selling Shareholder and the number of Shares comprised in the Offer may represent a higher or lower number than that indicated.

(4) Includes estimated underwriting commissions and other fees and expenses of the Offer payable by the Company, expected to be approximately £40 million (excluding VAT).

(5) Proceeds used to repay Shareholder Debt represent amounts which Existing Shareholders have elected to receive in cash (through repayment of Shareholder Debt held by them) in lieu of and equal in value at the Offer Price to a corresponding number of Shares which they would have otherwise been entitled to receive and sell in the Offer pursuant to the terms of the pre-Admission shareholder arrangements and in accordance with the steps comprising the Pre-IPO Reorganisation.

(6) Assuming each Beneficial Shareholder elects to sell or receive (through repayment of Shareholder Debt) their maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement.

(7) If the Offer Price is set at the bottom of the Price Range then the minimum number of Shares in the Offer will be set above the bottom of the Offer Size Range in order that the Offer will comprise a sufficient number of Shares to allow (i) the Company to raise net proceeds of £240 million and (ii) the Beneficial Shareholders to sell or otherwise receive (through the repayment of Shareholder Debt) their maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement.

(8) The maximum number of Shares comprised in the Over-allotment Option is, in aggregate, equal to 15% of the maximum number of Shares comprised in the Offer.

(9) The net proceeds receivable by the Company are stated after deduction of estimated underwriting commissions and other fees and expenses of the Offer by the Company, expected to be approximately £40 million (excluding VAT). The Company will not receive any of the net proceeds from the sale of the Existing Shares in the Offer.

(10) The market capitalisation of the Company at any given time will depend on the market price of the Shares at that time. There can be no assurance that the market price of a Share will be equal to or exceed the Offer Price.

PART V

IMPORTANT INFORMATION

1. GENERAL

Prospective investors should rely only on the information in this Prospectus. No person has been authorised to give any information or to make any representation or warranty in connection with the Company, the Shares or the Offer other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company, the Directors or any of the Underwriters or any of the Underwriters' respective affiliates. No representation or warranty, express or implied, is made by any of the Underwriters as to the accuracy or completeness of such information, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by any of the Underwriters as to the past, present or future. Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of FSMA and Rule 3.4.1 of the Prospectus Rules, neither the delivery of this Prospectus nor any subscription or sale of Shares pursuant to the Offer shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company or of the Group taken as a whole since the date of this Prospectus or that the information contained herein is correct as of any time subsequent to the earlier of the date of this Prospectus and any earlier specified date with respect to such information.

The Company and the Directors do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Offer or the Company. The Company and the Directors make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication.

The Company will update the information provided in this Prospectus by means of a supplement to this Prospectus if a significant new factor that may affect the evaluation by prospective investors in the Offer arises prior to Admission or if this Prospectus contains any mistake or substantial inaccuracy. This Prospectus and any supplement hereto will be subject to approval by the FCA and will be made public in accordance with the Prospectus Rules. If a supplement to the Prospectus is published prior to Admission, investors shall have the right to withdraw their subscriptions made prior to the publication of such supplement. Such withdrawal must be done within the time limits set out in the supplement (if any) (which shall not be shorter than two clear Business Days after publication of such supplement).

The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should consult his, her or its own legal, financial or tax adviser for legal, financial or tax advice in relation to any Shares. None of the Company, the Directors, any of the Underwriters or any of their respective representatives or affiliates is making any representation to any potential investor in the Shares regarding the legality of an investment by such potential investor. Each prospective investor should consult with such advisers as needed to make its investment decision and to determine whether it is legally permitted to hold Shares under applicable legal investment or similar laws or regulations.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a financial opinion or recommendation by any of the Company, the Directors, the Underwriters or any of their representatives or affiliates that any recipient of this Prospectus should invest in the Shares. Prior to making any decision whether to invest in the Shares, prospective investors should read this Prospectus in its entirety and, in particular, Part II (*Risk Factors*). In making an investment decision, prospective investors must rely upon their own examination of the Company, the Shares and the terms of this Prospectus, including the risks involved. Any decision to invest in the Shares should be based solely on this Prospectus. The merit and suitability of an investment in the Company should be independently evaluated and any person considering such an investment in the Company is advised to obtain independent advice as to the legal, tax, accounting, financial, credit and other related advice prior to making an investment.

Prospective investors who invest in the Shares in the Offer will be deemed to have acknowledged that: (i) they have not relied on any of the Underwriters or any person affiliated with any of them in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; (ii) they have relied solely on the information contained in this Prospectus; and (iii) no person has been authorised to give any information or to make any representation concerning the Group or the Shares (other than as contained in this Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company, the Directors or any of the Underwriters.

In connection with the Offer, any of the Underwriters and any of their affiliates, acting as investors for their own accounts, may invest in the Shares, and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for its own accounts in such Shares and other securities of the Company or related investments in connection with the Offer or otherwise. Accordingly, references in this Prospectus to the Shares being issued, offered, subscribed for, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, placing or dealing by, any Underwriter and any of its affiliates acting as an investor for its own accounts. Neither the Underwriters or any of their affiliates intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligations to do so. In addition, certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps) with investors in connection with which the Underwriters (or their affiliates) may from time to time acquire, hold or dispose of Shares.

The Underwriters and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services to the Company, for which they would have received customary fees. The Underwriters and any of their respective affiliates may provide such services to the Company and any of their affiliates in the future and Bank of America Merrill Lynch International Limited, Barclays Bank PLC, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, GE Corporate Finance Bank SAS, Goldman Sachs Bank USA, Lloyds Bank plc, M&G Conservative European Loan Fund Limited, M&G European Loan Fund Limited, M&G Versatile European Loan Fund Limited, Mizuho Bank, Ltd, Nomura International plc and Stichting Shell Pensioenfonds will be lenders under the New Senior Facilities Agreement. The Company intends to use some of the net proceeds it receives from the Offer to facilitate the repayment of outstanding amounts owing under the Existing Senior Facilities Agreement. Certain of the Underwriters (including BofA Merrill Lynch which is also acting as a Sponsor) or their affiliates are lenders under the Existing Senior Facilities Agreement and accordingly are expected to receive a portion of the proceeds from the Offer. See Section 6 (*Use of Proceeds*) in Part XVII (*The Offer*) of this Prospectus.

2. REFERENCES TO DEFINED TERMS

Capitalised terms used in this Prospectus are defined in Part XIX (*Definitions*).

3. PRESENTATION OF FINANCIAL INFORMATION

3.1 *Historical Financial Information*

The Group's consolidated historical financial information included in Part XIII (*Historical Financial Information*) has been prepared in accordance with the requirements of the PD Regulation and the Listing Rules and in accordance with Article 4 of the IAS Regulation and International Accounting Standards ("**IAS**") and IFRS as adopted by the European Union ("**Adopted IFRS**") and with standards for investment reporting and international standards for auditing (United Kingdom and Ireland) issued by the International Auditing and Assurance Standards Board. The significant accounting policies are set out within note 1 of the Group's consolidated historical information in Part XIII (*Historical Financial Information*).

The Company was recently incorporated and has no historical operations of its own. Therefore, this Prospectus does not present any standalone, unconsolidated historical financial information for the Company. The consolidated historical financial information included in Part XIII (*Historical Financial Information*) is the consolidated historical financial information of PAH Retail Limited. The Company has agreed to acquire, through its wholly owned subsidiary, Pets at Home No.1 Limited, the entire issued share capital of PAH Retail Limited conditional upon and with effect from Admission, pursuant to the terms of the Reorganisation Agreement.

3.2 *Pro Forma Financial Information*

In this Prospectus, any reference to "pro forma" financial information is to information which has been extracted without material adjustment from the unaudited pro forma financial information contained in Part XIV (*Unaudited Pro Forma Financial Information*). The pro forma net assets statement as at 2 January 2014 set out in Part XIV (*Unaudited Pro Forma Financial Information*) has been prepared to illustrate the effects of the Offer on the net assets of the Group, had the Offer taken place on 2 January 2014. The unaudited pro forma statement of net assets has been prepared for illustrative purposes only in accordance with Annex II of the Prospectus Rules and should be read in conjunction with the notes set out Part XIV

(*Unaudited Pro Forma Financial Information*). Because of its nature, the unaudited pro forma statement of net assets addresses a hypothetical situation and therefore does not represent the Group's financial position as at 2 January 2014.

3.3 *Non-adopted IFRS Information*

This Prospectus contains certain financial measures that are not defined or recognised under IFRS, including EBITDA, Underlying EBITDA, Adjusted EBITDA, Like-for-Like Sales Growth, Unlevered Free Cashflow and Cash Conversion (collectively, "**Non-IFRS Measures**").

EBITDA

EBITDA represents operating profit after charging exceptional costs, before finance income and costs, taxation, depreciation, amortisation and impairment. EBITDA is presented to enhance a prospective investor's understanding of the Group's results of operations and financial condition and to enhance a prospective investor's evaluation of the Group's ability to employ its earnings towards capital expenditures, working capital and repayment of debt.

Underlying EBITDA

Underlying EBITDA, as used in this Prospectus, excludes exceptional and non-trading items. These exceptional and non-trading items, which include management charges paid to Kohlberg Kravis Roberts & Co. L.P. and fees paid to KKR Capstone, and other one-off, non-recurring items and are set out in note 6 and 26 of the consolidated historical financial statements included in Part XIII (*Historical Financial Information*). Underlying EBITDA does not include any costs which are commensurate with operating the business as a publicly quoted company nor for IFRS 2 related share based payment credits and charges.

The Directors consider Underlying EBITDA to be a more accurate reflection of the underlying business performance of the Group and believe that this measure provides additional useful information for prospective investors on the Group's performance, and enhances comparability from period to period and with other companies, and is consistent with how business performance is measured internally. The Group's consolidated income statement separately identifies EBITDA, Underlying EBITDA and exceptional costs.

The Directors use EBITDA and Underlying EBITDA, as key performance indicators of the Group's business. The Group uses EBITDA and Underlying EBITDA in its business operations, among other things, to evaluate the performance of its operations, to develop budgets and to measure its performance against those budgets. The Group finds EBITDA and Underlying EBITDA to be useful supplemental tools to assist in evaluating operating performance because, in the case of EBITDA, it eliminates items related to taxes, exceptional costs and certain non-cash charges. Further, the Directors believe that EBITDA and Underlying EBITDA are commonly reported by comparable businesses and used by investors in comparing the performance of businesses on a consistent basis without regard to depreciation and amortisation, which can vary significantly depending upon accounting methods. However, EBITDA and Underlying EBITDA are not defined under IFRS, and other companies may calculate EBITDA and Underlying EBITDA differently or may use such measures for different purposes than the Group does, limiting the usefulness of such measures as comparative measures. Prospective investors should not consider EBITDA and Underlying EBITDA in isolation, as an alternative to consolidated profit before tax, as an indication of operating performance, as an alternative to cash flows from operations or as a measure of the Company's profitability or liquidity.

Unlevered Free Cashflow

Unlevered Free Cashflow is defined as Underlying EBITDA, adjusted for changes in working capital, acquisitions of property, plant and equipment and other intangible assets, investments in other financial assets, proceeds from the sale of property, plant and equipment and is stated before cash flows for exceptional costs and acquisitions of subsidiaries.

Underlying Operating Profit

Underlying Operating Profit represents operating profit before charging/crediting share based payment charges, exceptional costs and management charges to Kohlberg Kravis Roberts & Co. L.P.

Like-for-Like Sales Growth

Like-for-Like Sales Growth consists of total store sales revenue in a financial period compared to the revenue achieved in the prior period for stores that have been trading for 52 weeks. Like-for-like sales

figures include omni-channel and Groom Room grooming salon revenue. Change in like-for-like sales excludes revenue from stores that have been open for less than 52 weeks and veterinary fee income. Like-for-like sales is reported exclusive of value added tax.

Gross Margin

Gross Margin is defined as gross profit expressed as a percentage of revenue net of VAT.

Prior Accounting Standards

Prior to the Group's adoption of IFRS in connection with the preparation of the Group's consolidated historical financial information included in Part XIII (*Historical Financial Information*), the Group's audited financial information was prepared in accordance with accounting principles generally accepted in the United Kingdom ("**UK GAAP**"). This section of the Prospectus contains information on certain Non-IFRS Measures including Adjusted EBITDA, Like-for-Like Sales Growth, Unlevered Free Cashflow and Cash Conversion in respect of the 2008 to 2013 financial years. Such Non-IFRS Measures have been extracted without material adjustment from the audited financial information in respect of those periods (prepared in accordance with UK GAAP) or has been extracted or derived from those of the Group's unaudited accounting records that have been used to prepare the UK GAAP financial information. The Directors consider that these Non-IFRS Measures provide additional useful information for prospective investors on the Group's performance and enhances comparability from period to period and with other companies.

	FY08	FY09	FY10	FY11	FY12	FY13
Revenue	354.6	404.3	467.7	508.2	544.3	598.3
Adjusted EBITDA	60.7	70.0	84.3	92.3	94.1	102.1
Adjusted EBITDA margin	17.1%	17.3%	18.0%	18.2%	17.3%	17.1%
Unlevered Free Cashflow	45.8	54.9	67.3	73.0	76.3	88.7
Capex — Fixed Assets plus investments	19.7	17.1	18.7	16.7	24.7	21.0
Unlevered Free Cash Flow Conversion	75.5%	78.4%	79.9%	77.7%	81.1%	86.9%
Like-for-Like Sales Growth	8.0%	7.5%	8.8%	1.6%	1.3%	2.4%
Store numbers	213	232	256	281	313	345

Notes:

(1) The numbers set out above have been extracted without material adjustment from the Group's audited financial information prepared in accordance with UK GAAP (and/or have been extracted or derived from those of the Group's unaudited accounting records that have been used to prepare the UK GAAP financial information) in respect of the periods set out above.

(2) All amounts have been rounded to millions, showing one decimal place. FY11 is presented on a 52 week basis except in cash flow and Capex figures where amounts are based on 53 weeks.

(3) Revenue has grown at a compound annual growth rate ("**CAGR**") of 11.0% in the period between FY08 to FY13.

(4) Adjusted EBITDA is defined as operating profit before charging exceptional costs, management charges paid to Kohlberg Kravis Roberts & Co. L.P. and fees paid to KKR Capstone, finance income and costs, taxation, depreciation, amortisation and impairment. Adjusted EBITDA has grown at a CAGR of 10.9% in the period between FY08 to FY13.

(5) Capex — Fixed Assets plus investments is defined as cashflows associated with Capital Expenditure and Financial Investment, as adjusted for the loan to the Existing EBT.

(6) Unlevered Free Cashflow is defined as net cash inflow from operating activities less capital expenditure and financial investment, as adjusted for the loan to the Existing EBT. Unlevered Free Cashflow has grown at a CAGR of 14.1% in the period between FY08 to FY13.

(7) Cash Flow Conversion is defined as Unlevered Free Cashflow as a percentage of Adjusted EBITDA.

(8) Like-for-Like Sales Growth consists of total store revenue in a financial period compared to total revenue achieved in the prior period for stores that have been trading for 52 weeks. Like-for-Like Sales Growth includes revenue from sales made through the Group's websites and other digital platforms and Groom Room grooming salon revenue. Change in Like-for-Like Sales Growth excludes revenue from stores that have been open for less than 52 weeks.

Prospective investors should consult their own professional advisers to gain an understanding of the information in Part XIII (*Historical Financial Information*) and the implications of differences between UK GAAP and IFRS.

4. PROFIT FORECAST

This Prospectus includes in Part XV (*Profit Forecast*) the Directors' Profit Forecast for the 52 weeks ending 27 March 2014. The Profit Forecast has been prepared using the accounting policies adopted by the Group in preparing its combined and consolidated financial information for 40 weeks ended 2 January 2014 set out in Part XIII (*Historical Financial Information*). The Profit Forecast is based on (a) the audited combined and consolidated interim financial results of the Group for the 40 week period ended on 2 January 2014, and (b) the Directors' forecast for the 12 week period ending 27 March 2014.

5. ROUNDING

Percentages and certain amounts included in this Prospectus have been rounded for ease of presentation. Accordingly, figures shown as totals in certain tables may not be the precise sum of the figures that precede them and percentages in certain tables may not add up to 100%.

6. CURRENCY PRESENTATION

Unless otherwise indicated, all references in this Prospectus to:

- "**pounds sterling**" or "**£**" are to the lawful currency of the United Kingdom;
- "**US dollars**" or "**$**" are to the lawful currency of the United States; and
- "**euro**" or "**€**" are to the lawful currency of the Eurozone.

7. FORWARD-LOOKING STATEMENTS

Certain statements contained in this Prospectus, including those in Part I (*Summary*), Part II (*Risk Factors*), Part VI (*Market Overview*), Part VII (*Information on the Business*) and Part XI (*Operating and Financial Review*) constitute "forward-looking statements". In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "continues", "estimates", "plans", "prepares", "anticipates", "expects", "intends", "aims", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology. Investors should specifically consider the factors identified in this Prospectus which could cause actual results to differ before making an investment decision. Undue reliance should not be placed on any forward-looking statements as such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company and/or the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Undue reliance should not be placed on any forward-looking statements as such forward-looking statements are based on numerous assumptions regarding the Company's, and/or the Group's present and future business strategies and the environment in which the Company and/or the Group will operate in the future. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are changes in the global political, economic and/or business sphere, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or dispositions. Such risks, uncertainties and other factors are set out more fully in Part II (*Risk Factors*) and include, among others: risks relating to the Group's business, risks relating to the industry, risks relating to the Group's operations in certain jurisdictions and risks relating to the Group's financial structure. These forward-looking statements speak only as at the date of this Prospectus. Except as required by the FCA, the London Stock Exchange or applicable law (including as may be required by the Prospectus Rules, Listing Rules and the Disclosure and Transparency Rules), the Company, the Directors and the Underwriters expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this Prospectus to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Forward-looking statements contained in this Prospectus do not in any way seek to qualify the working capital statement contained in Section 18 (*Working Capital*) of Part XVIII (*Additional Information*).

8. MARKET AND ECONOMIC DATA

This Prospectus contains information regarding the Group's business and the market in which it operates and competes, which the Company has obtained from various third party sources. Where information has been sourced from a third party it has been accurately reproduced and, so far as the Company is aware and is able to ascertain from the information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Such information has not been audited or independently verified.

9. OVER-ALLOTMENT AND STABILISATION

In connection with the Offer, Merrill Lynch International (as Stabilising Manager), or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law and for stabilisation purposes,

over-allot Shares up to a total of 15% of the total number of Shares comprised in the Offer or effect other transactions with a view to supporting the market price of the Shares at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the conditional dealings in the Shares on the London Stock Exchange and ending no later than 30 calendar days thereafter. Such stabilisation, if commenced, may be discontinued at any time without prior notice. However, there will be no obligation on the Stabilising Manager or any of its agents to effect stabilising transactions and there is no assurance that stabilising transactions will be undertaken. In no event will measures be taken to stabilise the market price of the Shares above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotment and/or from sales of Shares effected by it during the stabilising period, it has entered into the Over-allotment Option with the Over-allotment Shareholders pursuant to which it may purchase, or procure purchasers for Over-allotment Shares (representing up to 15% of the total number of Shares comprised in the Offer and before any utilisation of the Over-allotment Arrangements) at the Offer Price. The Over-allotment Option may be exercised in whole or in part upon notice by the Stabilising Manager at any time on or before the 30th calendar day after the commencement of conditional dealings in the Shares on the London Stock Exchange. Any Over-allotment Shares made available pursuant to the Over-allotment Option will be subscribed for on the same terms and conditions as Shares being offered pursuant to the Offer and will rank *pari passu* in all respects with, and form a single class with, all other Shares (including for all dividends and other distributions declared, made or paid on the Shares).

10. NO INCORPORATION OF WEBSITE INFORMATION

The contents of the Group's Website or any website directly or indirectly linked to this Website have not been verified and do not form any part of this Prospectus, and prospective investors should not rely on such information.

11. US SECURITIES LAW CONSIDERATIONS

The Company has agreed that, for so long as any of the Shares are "Restricted Securities" as defined in Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is neither subject to section 13 or 15(d) of the Exchange Act, nor exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of such restricted securities or to any prospective investor in such restricted securities designated by such holder or beneficial owner, upon the request of such holder, beneficial owner or prospective investor, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. The Company expects that it will be exempt from reporting under the Exchange Act pursuant to Rule 12g3-2(b) thereunder.

This Prospectus is being furnished by the Company in connection with an offering exempt from the registration requirements of the Securities Act, solely for the purpose of enabling a prospective investor to consider the acquisition of Shares described herein. The information contained in this Prospectus has been provided by the Company and other sources identified herein. This Prospectus is being furnished on a confidential basis only to persons reasonably believed to be QIBs in the United States and other eligible persons outside of the United States. Any reproduction or distribution of this Prospectus, in whole or in part, in the United States and any disclosure of its contents or use of any information herein in the United States for any purpose, other than in considering an investment by the recipient in the Shares offered hereby in accordance with the offer and sale restrictions described herein, is prohibited. Each prospective investor in the Shares, by accepting delivery of this Prospectus, agrees to the foregoing. The Shares are being offered in the United States through United States broker-dealer affiliates of the Joint Bookrunners.

12. SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

An overseas Shareholder may not be able to enforce a judgment against the Company or some or all of the Directors and executive officers of the Company. All of the Directors and executive officers are and are anticipated to continue to be residents of the United Kingdom. Substantially all of the assets of such persons and a significant proportion of the assets of the Group are located in the United Kingdom. Consequently, it may not be possible for an overseas Shareholder to effect service of process upon the Company or the

Directors and executive officers within the overseas Shareholder's country of residence or to enforce against the Company or the Directors and executive officers judgments of courts of the overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an overseas Shareholder will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than England against the Company or the Directors or executive officers who are residents of countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Directors or executive officers in any original action based solely on foreign securities laws, including in respect of original action predicated solely upon US federal securities laws, brought against the Company or the Directors in a court of competent jurisdiction in England and Wales or other countries.

13. CREDIT RATING AGENCIES

This Prospectus contains reference to the following Credit Rating Agencies: Moody's, Standard & Poor's and Fitch. In accordance with the terms of EC Regulation 1060/2009 (as amended by EU Regulation 513/2011 and EU Regulation 462/2013):

- Fitch Ratings Limited, part of the Fitch Ratings group of companies was registered in England and Wales on 31 October 2011; and
- Moody's Corporation and Standard & Poor's Financial Services LLC are both established outside the European Union and are not registered under EC Regulation 1060/2009 (as amended by EU Regulation 513/2011 and EU Regulation 462/2013).

PART VI

MARKET OVERVIEW

Unless indicated otherwise, the information set out in this Part VI constitutes the Directors' views of the UK Pet Care Market (as defined below). Unless indicated otherwise, all market, industry, market share and competitive position data set out in this Part VI and elsewhere in this Prospectus that relate to the UK Pet Care Market are estimates and should be treated with caution. The Company has obtained market data from internal surveys and studies as well as information derived from third party publications, studies and surveys, market interviews, desktop, market and web-based research including historical competitor annual accounts and reports assimilated by third parties. Where information assimilated by third parties has been used in this Part VI, the source of such information has been identified. Third party reports, publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data.

The Company believes that the information provided by third parties has been accurately reproduced, and, so far as the Company is aware and has been able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nonetheless, in light of the absence of publicly available information on a significant proportion of participants in the industry, many of whom are small and/or privately-owned operators, the data on market sizes and projected growth rates should be viewed with caution. Moreover, in considering the market-wide trends and opportunities discussed below, investors should be aware that given the Group's particular strengths and strategies, on the one hand, and its risks, on the other, the impact on the Group of such trends and opportunities may be more or less than their impact on the market as a whole. In addition, certain of the market, industry, market share and competitive position data contained in this Prospectus come from the Company's own internal research, records, data and estimates based on the knowledge and experience of the Company's management in the markets in which the Company operates (some of which may have been assimilated by third parties in their reports). While the Company reasonably believes that such research, records, data and estimates are reasonable and reliable, they, and their underlying methodology, have not been verified by any independent source for accuracy or completeness. Additional factors which should be considered in assessing the usefulness of the market and competitive data and, in particular, the projected growth rates are described elsewhere in this Prospectus, including those set out in Part II (Risk Factors). Accordingly, undue reliance should not be placed on any of the market, industry, market share and competitive position data contained in this Prospectus.

1. UK Pet Care Market

The UK small animal pet (excluding equine pets) care market includes pet food (including grocery food, advanced nutrition food and treats), non-food pet products (including health and hygiene related products, small accessories and large equipment), veterinary services, grooming services and pet insurance (the "**UK Pet Care Market**"). In 2012 this market was estimated to be worth £5.4 billion (excluding VAT). Over the period from 2006 to 2012, the UK Pet Care Market has been resilient with no periods of negative growth in spite of the general economic down-turn and has demonstrated stronger growth than the UK overall retail market index with a CAGR in revenues (excluding VAT) of 3.4% since 2006 (*Source: OC&C*) as compared with a CAGR of 3.1% for the UK overall retail market index in the same period *(Source: ONS data for UK overall market retail index which includes all retailing including automotive fuel (excluding VAT))*.

Within this market, certain segments, such as advanced nutrition food, treats, services and insurance have experienced significantly higher growth rates while more mature segments (such as the widely available entry level pet food), or more discretionary segments (such as high-ticket accessories or veterinary services) have experienced slower growth in the period. However, all segments of the UK Pet Care Market have generated positive CAGRs over the period of 2006 to 2012 as demonstrated in the table below:

	UK Pet Care Market £ billion							CAGR %	CAGR %
Product	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2006 - 2012**	**2008 - 2012**
Other Food	1.5	1.5	1.6	1.6	1.6	1.7	1.7	**1.7**	**0.8**
Advanced Nutrition	0.1	0.1	0.2	0.2	0.2	0.2	0.2	**8.7**	**7.7**
Treats	0.2	0.2	0.2	0.3	0.3	0.3	0.3	**9.8**	**9.5**
Health & Hygiene Accessories	0.3	0.3	0.3	0.3	0.3	0.3	0.3	**2.4**	**2.6**
Other Accessories	0.4	0.4	0.4	0.5	0.4	0.4	0.4	**1.7**	**0.3**
Veterinary Services	1.4	1.4	1.5	1.5	1.6	1.6	1.6	**2.3**	**1.4**
Grooming	0.2	0.2	0.2	0.2	0.2	0.2	0.2	**3.1**	**3.3**
Insurance	0.4	0.4	0.5	0.5	0.6	0.6	0.7	**10.2**	**8.0**
Total	**4.4**	**4.6**	**4.9**	**5.0**	**5.1**	**5.3**	**5.4**	**3.4**	**2.6**

(Source: OC&C)

Note: All figures are to calendar year end and exclude VAT. Other Food excludes advanced nutrition food and treats.

The UK Pet Care Market is projected to continue to grow steadily with growth for the period from 2012 to 2017 forecast at an estimated CAGR of approximately 4% when it is estimated that such market will be worth approximately £6.7 billion (excluding VAT), with pet food continuing to account for the majority of consumer spend (*Source: OC&C*). The Directors believe that this level of forecasted growth can largely be attributed to a range of factors including the growing 'humanisation' trend of pets being considered as companions which the Directors believe will lead to a growth in the consumer spend on premium products such as cat and dog treats, advanced nutrition food and accessories. For more information on the macro drivers, please see Section 5 (*Macro Drivers*) of this Part VI.

The Directors monitor and will continue to carefully monitor, macro-economic trends and their impact on the UK Pet Care Market. In the short-term, there continues to be a certain degree of uncertainty in the broader UK retail market as pressure on consumers' disposable incomes remains high but the Directors believe that as the UK economy's recovery continues and disposable incomes increase, the UK Pet Care Market is likely to experience greater consumer spend on accessories, veterinary treatments and advanced nutrition food and an increased take-up of pet insurance which the Directors believe will flow through into increased veterinary spend.

2. Pet Population

The best available estimates of the UK dog and cat population in 2012 indicated that there were approximately 9 million cats and 9 million dogs (*Sources: OC&C and Pets at Home consumer surveys*). Accurate data on the UK's pet population which also for example includes other small animals such as rabbits, fish, and hamsters is more limited, the Group's core business focus remains on the UK dog and cat population each of which have remained relatively stable since 2008 (*Source: OC&C*). The Directors believe that the Group's enhanced insight into its customers' pet population through the VIP Club data will continue to provide a barometer of the UK pet population as the VIP Club has over 1.8 million members, who own approximately 1.7 million dogs and approximately 1.2 million cats collectively, representing an estimated 19% and 14% of the UK's dog and cat population (based on 2012 estimates (*Source: OC&C*)), respectively, in each case, as of 21 February 2014. For further detail on the VIP Club, please refer to Part VII (*Information on the Business*).

3. Online Market Penetration

Approximately 7% of the UK Pet Care Market (excluding grooming, veterinary services and insurance) is estimated to have been purchased online in 2012 which is comparatively lower than most other retail categories such as clothing and footwear (15.6%) and vitamins and dietary supplements (20.4%) but greater than the UK grocery market (4.5%) in the same year (*Source: OC&C*). The online channel has been gaining share of the UK Pet Care Market by an average of approximately 1% per annum from 2008 to 2012 and was worth approximately £216 million in 2012 (*Source: OC&C*).

Online penetration of the UK Pet Care Market (excluding grooming, veterinary services and insurance) is projected to grow and it is estimated that online penetration will be approximately 11% by 2017 when it is estimated that the online market will be worth approximately £390 million, driven primarily by online sales of pet food, advanced nutrition food and non-food products (*Source: OC&C*).

The growth in online spend is expected from an increase in transactions fulfilled via home delivery and fulfilled in store through 'click and collect'. The Directors estimate that online market fulfillment through 'click and collect' schemes will grow more markedly as the Directors believe that it is less cost effective for many products to be delivered by home delivery, in particular bulky purchases of dog and cat food. The Directors believe that increases in 'click and collect' schemes will also be driven by customer desire to take advantage of Pets at Home's in store experience and services, and convenience of location and to benefit from the expertise of Colleagues when collecting their purchases.

4. Competition and Market Share

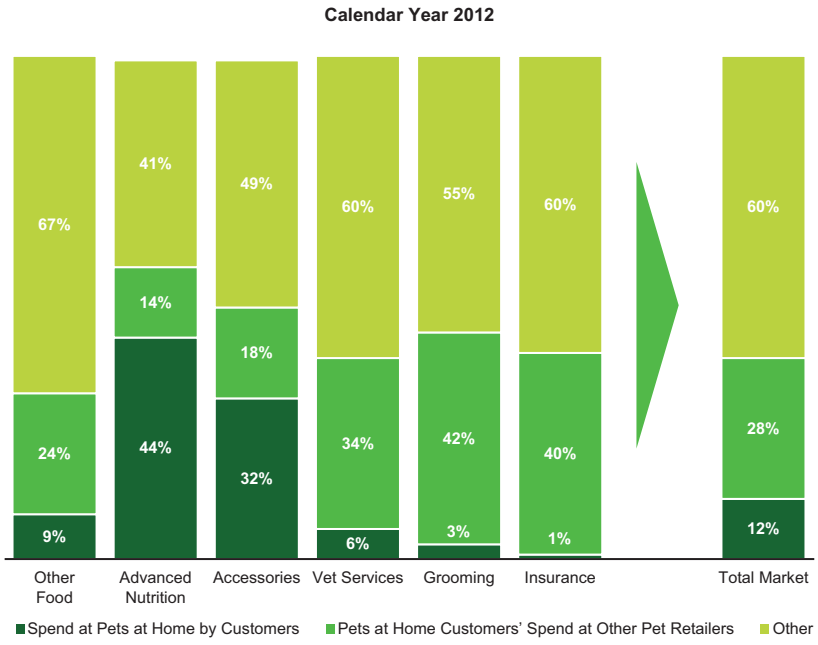
The UK Pet Care Market is diversified and comprises players such as grocers, pet specialists, discounters, general retailers, general online stockists, online pure-plays and independent veterinary and grooming services providers. The Directors believe that the Group has a strong competitive positioning in the UK Pet Care Market, with a well differentiated consumer proposition supported by its deep and broad product range, expanding own label and private brand ranges, store footprint, unique customer service proposition driven by Colleague expertise and its ability to enhance its understanding of its customers and their pets through the VIP Club.

Market Share

The table below indicates Pets at Home's 2012 estimated market share of the following constituent parts of the UK Pet Care Market segments and also indicates that since 2009, the Group has been gaining market share across all segments of the UK Pet Care Market (where historical data is available) (*Source: OC&C*).

Product	Market £billion	2009 Market Share %	Market £billion	2012 Market Share %	Increase in Market Share Delta (2009 – 2012) %
Food (exc. Advanced Nutrition)	1.85	7.6	1.96	9.2	1.6
Advanced Nutrition	0.17	38.3	0.21	44.5	6.1
Total Food	**2.02**	**10.1**	**2.17**	**12.6**	**2.4**
Accessories	0.76	27.0	0.78	32.3	5.2
Veterinary Services	1.55	2.0	1.60	5.9	3.9
Grooming	–	–	0.18	3.0	3.0
Insurance	–	–	0.68	1.0	1.0
Total Market	**4.99**	**–**	**5.41**	**12.0**	**–**

Based upon consumer research conducted by the Group in 2012 (that was repeated internally by the Group in 2013), it appears that the Group's customers still spend a significant amount of their total pet expenditure at retailers other than Pets at Home. The following chart sets out the spending of Pets at Home's customers at Pets at Home as well as Pets at Home's customers' spending elsewhere.



(Source: Pets at Home Customer Survey — based on a survey of >5,000 pet owners)

On the basis of the above analysis, the Directors believe that there is a significant opportunity for Pets at Home to increase its 'share of wallet' across all UK Pet Care Market segments and the Group intends to increase its share through the successful execution of its strategic plans (described in more detail in Part VII (*Information on the Business*)).

Competitors

a. Grocers

In 2012, it is estimated that grocery stores (such as Tesco, Asda and Sainsbury's) held in excess of 80% of the market share in the grocery pet food and treats segments (*Source: OC&C*). These stores remain attractive to consumers for their convenience, however, grocery retailers typically stock a limited range of cat and dog foods (in particular they typically stock limited or no advanced nutrition food products), which have not significantly evolved in recent years and tend to stock only a limited range of pet accessories.

Pets at Home differentiates itself from these grocers with its long track record of strong product innovation, broad and differentiated product ranges including a strong own label offering, as well as expert service from engaged, highly trained and knowledgeable Colleagues. As of 20 January 2014, over 50% of Pets at Home's top selling SKUs by sales volume and identified on the Group's Website were unique to Pets at Home with a particularly differentiated range in accessories (*Source: OC&C*). In particular, grocery retailers do not sell many of the advanced nutrition food brands stocked by Pets at Home, as manufacturers of these brands have positioned their products in the specialist channel, where they are typically sold on testimonial through pet specialists, and where knowledge and advice on pet nutrition is available to support the purchasing decision.

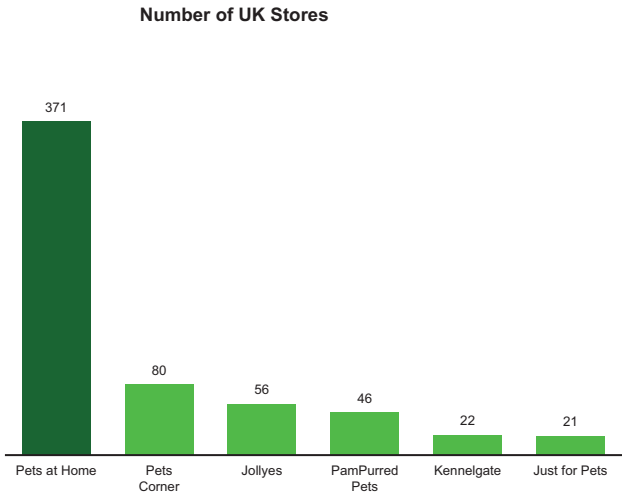
Grocers are generally unable to offer customers specialist pet advice or to replicate the retail experience provided in Pets at Home's stores as they do not have appropriately trained in store employees, the wide range of accessories and food for many pets (other than dogs and cats), nor specialist pet villages and aquaria. The grocers do not currently operate in the veterinary services or grooming segments of the market. In comparison, the Group's VIP Club gives the Group an enhanced understanding of its customers and their pets enabling the Group to better personalise and target its offers and to strengthen relationships with existing customers and attract new customers.

b. Pet Specialists

The specialist pet store segment remains fragmented in the UK and Pets at Home is the clear market leader in terms of number of stores and retail space. The Directors believe Pets at Home is the only pet specialist which has national brand recognition in the UK.

As of 21 February 2014, Pets at Home was the clear market leader in terms of store numbers with 371 stores compared to 225 combined stores of Pets at Home's five nearest pet specialist competitors. Pets at Home has increased retail space faster than the market average with new pet retail space growth at 11.2% per annum in the years from 2009 to 2012 as opposed to only 4.6% in respect of grocers, discounters, other general retailers and pet specialists in the same period (*Source: OC&C*).

The following table sets forth the number of stores of Pets at Home and the principal pet specialists with which it competes.



Source: Company websites. Store numbers as of 21 February 2014

In addition to the smaller pet store chains, there were over 4,000 independent pet stores in the UK as of 21 February 2014 (*Source: Yell.com*), which are typically smaller in terms of retail space and generally operating from high street locations. Given their size and location, these independent pet stores offer a more limited product range than Pets at Home, often do not sell pets in store, and are typically likely to have less dedicated car parking capacity than a Pets at Home store.

c. Other General Retailers

Discounters, DIY chains, garden centres and other general retailers have typically increased retail space to stock increased levels of pet food and pet accessories in recent years. Some of this has been in the form of pet food and

pet accessories concessions such as the Pet Hut in Poundstretcher (there were 31 Pet Hut concessions as of 21 February 2014). However, this retail space expansion has typically focused on grocery food and low priced accessories as opposed to advanced nutrition food and higher priced accessories.

d. Online

Online penetration, which is estimated to have represented approximately 7% of the UK pet products market in 2012, is relatively lower than certain other retail categories. It is estimated that this channel has been gaining market share by approximately 1% per annum from 2008 to 2012, and will continue to grow further to represent 11% of the market in 2017 (*Source: OC&C*). The Directors believe that sales growth in the UK online pet retail sector will be faster than sales growth in the offline sector and that growth in the Group's omni-channel offering will help drive up the Group's in store transactions by attracting customers to Pets at Home.

The Directors consider the Group to be well positioned to become the UK's leading omni-channel pet retailer. At 22 February 2014, Pets at Home's Website had approximately a 42% share of UK online pet retail traffic over the preceding four weeks, compared to Amazon Pet Supplies, which had approximately a 13% share (*Source: Hitwise*). In 2012, Pets at Home's estimated market share of sales of pet food and treats (excluding advanced nutrition food) was 1.9% online as compared to 9.7% offline and of non-food pet products was 3.4% online as opposed to 35.4% offline (*Source: OC&C*). In 2012, Pets at Home had an estimated 11.5% share of advanced nutrition food sales online in comparison to its estimated 47.8% share offline (*Source: OC&C*).

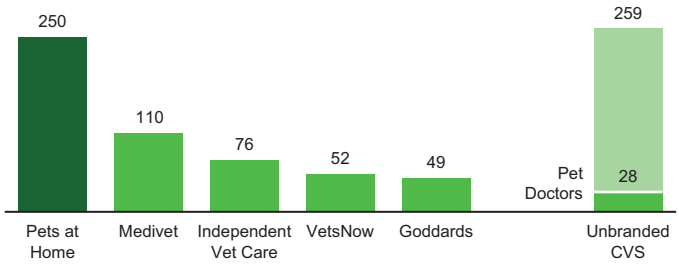
Grocers, Zooplus, the Medic Animal Group and Amazon are the main competitors to Pets at Home in the online pet food segment whereas eBay is the leading competitor in online sales of non-food pet products. The Directors are focused on further strengthening Pets at Home's position in the online pet product segment. The Group has invested, and continues to invest, in developing its web and digital offerings to enhance its position as a full omni-channel retailer, enabling customers to shop in store or online, reserve products online for collection in store or order in store and have delivered to the home. In January 2014, the Group re-launched its web platform, improving functionality, integrating store services by allowing customers to book appointments online and increasing the product range. The Group is also in the process of launching a trial of 'deliver to store', which will allow customers to order the full range of Pets at Home products at home or in store to be delivered to their local store for collection. When fully operational, this service will build upon the existing 'click and collect' service, which allows customers to purchase products already in stock at their local store via the website for subsequent pick-up.

Online pet specialist competitors in the UK include Medicanimal, PetPlanet and ZooPlus and these online pure-plays offer a range of advanced nutrition food and non-food pet products. Recently, internet retailers such as Amazon and Ocado, which sell advanced nutrition food and health and hygiene products, have experienced market share gains (*Source: OC&C*).

e. Vet Services

The UK small animal veterinary services market is highly fragmented and Pets at Home's main competition is from independent veterinary surgeries. As of 21 February 2014, according to the annual report of the Royal College of Veterinary Surgeons there were over 5,000 veterinary practices in the UK with a minority of these being part of corporate veterinary groups. The largest of these corporate groups, CVS Group, owned 259 surgeries as of 21 February 2014. As CVS Group has grown through the acquisition of independent surgeries, these surgeries remain locally branded. The largest branded veterinary chains outside of the Group's operations were Medivet and Goddards with 110 and 49 surgeries, respectively, as of 21 February 2014. The Group's combined surgeries comprise the UK's second largest small animal veterinary business with 250 surgeries as of 21 February 2014.

The largest veterinary chains have gained market share and increased surgery numbers in recent years, driven both by acquisitions and new openings. In the period from 2009 to 2012, the Group gained 3.9 percentage points of the small animal veterinary market (comprised of growth from both Companion Care and Vets4Pets before the acquisition of Vets4Pets by the Group in March 2013) compared to 1.6 percentage points gained by the CVS Group in the same period. The following table sets forth the number of veterinary practices of Pets at Home as compared with the largest veterinary chains in the UK as of 21 February 2014.



(Source: Company websites. Practice numbers as of 21 February 2014)

Grooming

Competition in respect of the Groom Room grooming salons is typically from local independent operators operating from home or small pet stores. As of 21 February 2014, it was estimated that there are over 3,300 pet groomers in the UK (*Source: Thomsonlocal.com*). To the Directors' knowledge there are no other chains of significant size operating in the UK and as such Pets at Home is the largest grooming business in the UK.

5. Macro Drivers

The Directors believe there are a number of factors which will continue to drive market growth in the UK Pet Care Market. These include:

- A range of sociological trends, including the growing number of single-person households and couples without children. The Directors believe this is likely to result in pets increasingly being considered as companions. This growing 'humanisation' trend is believed by the Directors to have contributed to a growth in premium products including cat and dog treats, clothing, advanced nutrition food (driven by the desire to feed pets the best possible diet) and accessories. In particular, the Directors believe that recent market growth in items such as advanced nutrition food has in part been driven by Pets at Home with the Group achieving a CAGR in revenues (excluding VAT) of sales of advanced nutrition foods of 13.3% during the period 2009–2012 compared with an overall market CAGR of just 7.7% over the same period (*Source: OC&C*). The Directors believe that the Group's Wainwright's brand has an estimated market share of 10% of the advanced nutrition food market.
- The Directors believe that growing awareness amongst pet owners of the importance of pet nutrition and wellbeing has led to an increase in the variety of premium nutritional ranges. The Directors believe that manufacturers are becoming increasingly innovative and ranges are starting to mirror human packaged food development through being fortified with ingredients such as probiotics, omega 3, antioxidants and multivitamins. This 'premiumisation' trend is continuing with premium nutritional and natural food brands gaining share.
- Pet obesity continues to be a growing problem in the UK, and this is expected by the Directors to remain a key driver in consumers' choice of pet food, where there has already been a consistent trend from wet to dry food and from standard to premium and specialty brands including advanced nutrition foods.
- Spend on treats and pet accessories is expected to continue to grow as pet owners increasingly treat their pets as part of the family. The Directors believe that pet accessories are less cyclical than other non-food areas of retail.
- The humanisation trend is believed by the Directors to have also led to growth in pet services, as pet owners are spending more money looking after their pets at the veterinarian, for example, through flea and worm treatments and on trips to the groomers. The Directors believe that pet owners are continuing to take steps to protect themselves from unexpected and expensive veterinary bills by taking out pet insurance policies, with almost a third of UK pet owners estimated to be insured in 2012 and this trend is also expected to drive veterinary spend.

- Price inflation is a driver of overall market value. In the four year period prior to 1 January 2011, inflation in the non-food and food segments of the UK Pet Care Market ran at higher levels to that experienced since 1 January 2011, particularly in the non-food segment of the market. The Directors believe that historically Pets at Home has successfully passed on such inflationary price increases to its customers, and, as a consequence, the Directors believe that inflation will continue to contribute to overall market growth as well as Pets at Home's own Like-for-Like Sales Growth.

6. Analogous Market Drivers in the United States

The Directors believe there are a number of factors that are prevalent in the US market, that over time will be important in the UK:

- The US market has a higher penetration of advanced nutrition and premium brands than in the UK (with 15% penetration of advanced nutrition food compared to 8% penetration in the UK (*Source: OC&C*)). The Directors believe that a higher penetration of advanced nutrition food in the UK will lead to an increased spend per pet;
- The US market has a higher spend on non-food pet items driven by a greater range and a higher level of innovation in accessories (*Source: OC&C*); and
- The US market has a more developed pattern of consumer demand in some areas of pet services. For example, it is estimated the penetration of grooming services is approximately 2.5 times greater in the US as compared to the UK market (*Source: OC&C*).

PART VII

INFORMATION ON THE BUSINESS

The following Part VII should be read in conjunction with the more detailed operating and financial information included in Parts XIII and XIV of this Prospectus. The financial information included in this Part VII has been extracted without material adjustment from the financial information in Part XIII, or has been extracted without material adjustment from Pets at Home's accounting records, which formed the underlying basis of the financial information contained in Part XIII of this Prospectus, or has been extracted without material adjustment from the consolidated audited financial statements for prior financial years of Pets at Home Interco Limited and PAH UK Holdco Limited. Prospective investors should read the entire Prospectus and not just rely on the information set out below. References to years are to calendar years unless specifically referred to as financial years.

1. Introduction to Pets at Home

Overview

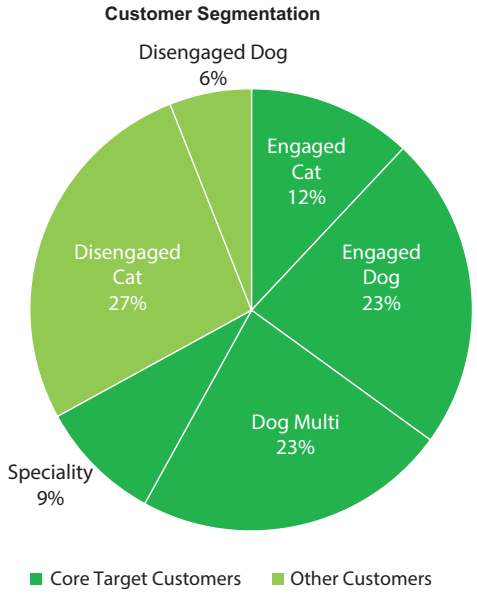
Pets at Home is the UK's leading national specialist retailer of pet food, pet-related products and pet accessories. Pets at Home also operates the UK's second largest small animal veterinary business by combined number of surgeries both in its stores and at standalone sites and is the largest joint venture operator in the market. Pets at Home is the UK's leading operator by number of salons of pet grooming services offered through Pets at Home's in store salons. Pets at Home's differentiated product and services proposition and competitive positioning has resulted in a track record of long-term growth in revenue and Underlying EBITDA. Pets at Home's total revenues and Underlying EBITDA were £652.2 million and £107.2 million, respectively, for the LTM period ended 2 January 2014, £598.3 million and £98.5 million, respectively, in FY13, £544.3 million and £91.2 million, respectively, in FY12 and £517.8 million and £92.4 million, respectively, in FY11.

As described in Section 1 (*UK Pet Care Market*) of Part VI (*Market Overview*), the UK Pet Care Market was estimated to be worth £5.4 billion in 2012 (excluding VAT), having grown by an estimated 3.4% per annum since 2006 (*Source: OC&C*). The UK Pet Care Market is projected to continue to grow by approximately 4% per annum between 2012 and 2017, driven by a range of factors, including the growing 'humanisation' trend of pets being considered as companions, which the Directors believe will lead to a growth in the consumer spend on premium products such as cat and dog treats, advanced nutrition food and accessories. As described in Section 4 (*Competition and Market Share*) of Part VI (*Market Overview*), Pets at Home had an estimated 12% market share of the UK Pet Care Market as of 2012 and has experienced market share gains across the largest segments of the market (pet food, non-food pet products and veterinary services) in every year from 2009 to 2012 (*Source: OC&C*). As described in Section 4 (*Competition and Market Share*) of Part VI (*Market Overview*), the Group's estimated shares of the UK pet food, non-food pet products and small animal veterinary services markets in 2012 were 12.6%, 32.3% and 5.9%, respectively, which represent share gains from 2009, when the Group's estimated shares were 10.1%, 27.0% and 2.0% respectively (*Source: OC&C*).

As of 21 February 2014, the Group operated from 371 stores located in the UK, an increase of 178 stores since the end of financial year 2007 when the Group operated from 193 stores. Further, as of 21 February 2014, the Group had a total of 250 small animal veterinary surgeries, comprising 133 in store joint venture veterinary surgeries, seven in store wholly owned veterinary surgeries and 110 standalone joint venture veterinary surgeries, at convenient locations separate from the Group's store portfolio. Pets at Home expects to open a further five stores, 16 in store joint venture veterinary surgeries, six standalone joint venture veterinary surgeries and four wholly owned surgeries during the period to the end of the current financial year resulting in a total of 376 stores, 150 in store joint venture surgeries, 116 standalone joint venture surgeries, and 10 wholly owned surgeries at end of FY14 (with one wholly owned surgery being transferred into a joint venture surgery before the end of FY14). As of 21 February 2014, the Group had 119 in store Groom Room grooming salons and two grooming salons in a new "Vets Plus" standalone format which combines a veterinary surgery and a grooming salon. The Group expects to open a further nine Groom Room grooming salons in the current financial year, including one in a Vets Plus standalone, resulting in 130 Groom Room grooming salons at the end of FY14. The Group expects to maintain an average of approximately ten wholly owned veterinary surgeries after taking into account sales to new joint venture partners from time to time and further openings. Pets at Home has three support offices and two distribution centres, the second of which was added in 2011. Pets at Home also operates a retail website and as at 22 February 2014, Pets at Home's Website had approximately a 42% share of UK online pet retail traffic over the preceding four weeks, compared to Amazon Pet Supplies, which had approximately a 13% share (*Source: Hitwise*). In addition, the Group's Ride-away equine business operates from a single store and support office in York with its principal activities centering on its website operations.

The Directors believe Pets at Home has successfully differentiated itself from its competitors through a retail experience which is more than just a shop, with in store 'theatre' provided by its pet villages, aquaria and vivaria and Colleague knowledge and engagement. The Directors believe that further differentiation derives from (i) an authoritative, differentiated and regularly refreshed product offering (including own label and private brand exclusive food brands and accessories, many of which have innovative features and benefits), (ii) a strong services proposition, including in store veterinary services and in store grooming services, (iii) a commitment to providing product and pet expertise through the Group's highly engaged and highly trained in store Colleagues, (iv) strong branding, and (v) interactive in store events; all of which the Directors believe contribute to the overall customer experience and satisfaction. The Group continues to offer pet insurance and other pet-related services including advanced nutrition food consultations, neutraceuticals advice, acquaria water testing, microchipping services and dental checks across the estate, which complement the services offered by its veterinary surgeries and the Groom Room grooming salons.

The Group's customer segmentation is primarily driven by the customer's degree of engagement and number of pets in the customer's household. In 2012, the Group commissioned independent customer research, which the Group internally updated in 2013, and which has resulted in a segmentation of the Group's customers into the following categories: disengaged cat owners, engaged cat owners, disengaged dog owners, engaged dog owners, owners with more than one pet type and specialty pet owners. The Group has determined that its core customers are more likely to be engaged pet owners, and in particular, engaged dog owners, engaged cat owners, dog owners with more than one pet type or "dog multi", and owners of specialty pets like reptiles. Engagement was measured based on consumer responses to a number of questions of which the two most differentiating were: 'I tell my pets I love them at least twice a day' and 'I take my pets to the vets regularly for check ups'.



(Source: Pets at Home Customer Survey, July 2013 — based on a survey of >5,000 pet owners)

As set out in the chart above, based on the Group's 2013 customer survey of more than 5,000 customers, the Group estimates that engaged pet owners represent two-thirds of the UK Pet Care Market by number, and results of the Group's customer survey indicates that engaged customers are higher spenders than non-engaged pet owners. In addition to a number of favourable market drivers such as the growing awareness of the importance of advanced nutrition, general pet wellbeing and a growing humanisation trend, the Group aims both to increase its share of spending by existing customers and to attract new customers, in each case with a focus on customers who are engaged pet owners.

The customer research undertaken by the Group in 2013 highlighted that among engaged pet owners, price matters less than product offering. Analysis of the research concluded that whilst value for money is relevant, the most important purchase criterion for engaged pet owners is product offering (*Source: OC&C*). The Directors believe that the Group is well positioned to increase its share of spending by existing customers, who are generally more engaged than other pet owners, and to attract new customers given Pets at Home's highly differentiated and innovative product offering, convenient store locations, highly engaged and highly trained Colleagues and commitment to offering competitive prices and good value for money.

The key components of the Group's strategy as described in Section 4 (*The Group's Strategy*) of this Part VII (*Information on the Business*) are: (i) expanding like-for-like growth; (ii) expanding Pets at Home's footprint by continuing the growth of the store estate and joint venture veterinary surgeries and grooming salons; and (iii) maintaining a rigorous focus on margins. The Group aims to execute its strategy through delivering high levels of customer service by highly engaged and highly trained Colleagues across the Group, product innovation assisted by the Group's dedicated innovation team and the Asia sourcing office, continuing to develop own label and private brand offerings (including advanced nutrition food) to drive brand recognition and associated customer loyalty as well as opening new stores, veterinary surgeries and Groom Room grooming salons, and expanding the Group's omni-channel offering.

To build an even stronger and further personalised relationship with its customers, in November 2012, the Group launched its Very Important Pets customer loyalty programme ("**VIP Club**") which to date has exceeded the Group's expectations, with over 1.8 million VIP Club members, who own approximately 1.7 million dogs and approximately 1.2 million cats collectively, representing an estimated 19% and 14% of the UK's dog and cat population (based on 2012 estimates (*Source: OC&C*)), respectively, in each case, as of 21 February 2014. In November 2013, the VIP Club was awarded the 'Best Customer Loyalty Scheme' award by the Direct Marketing Association.

The Group plans to leverage the insights from the VIP Club to continue to enhance its in store proposition with new products and services whilst attracting new customers through its integrated marketing strategy, and offering improved convenience to a broader audience by virtue of its new store roll out strategy.

The Group values its engagement with the local community and in this regard has established local relationships with schools, colleges and hobby groups including with scouts, cubs and beaver groups. In conjunction with the charity Support Adoption For Pets (the "**Charity**"), which the Group helped to establish, the Group supports animal re-homing charities such as the Royal Society for the Prevention of Cruelty to Animals ("**RSPCA**"), The Dogs Trust and Battersea Dogs and Cats Home on behalf of the Charity. As of 21 February 2014, the Group had adoption centres in 348 stores, which had facilitated the adoption of over 60,000 pets in FY13, making the Charity the number one pet re-homing charity in the UK. The Group also engages with customers on an individual basis and in groups through in store charity fundraising and pet welfare education events. Since its establishment, the Charity has awarded over £4.5 million in grants to a variety of local and national animal re-homing charities and rescue centres as at the end of FY13.

2. History

Pets at Home was founded by Anthony Preston in 1991, and the first Pets at Home store opened in Chester that same year. Recognising the significant opportunity to consolidate the fragmented UK Pet Care Market, Mr. Preston pursued a store opening strategy which successfully and profitably grew the Pets at Home business to 58 stores by the time of the Group's acquisition of its then larger UK rival, PetSmart UK, in December 1999.

The PetSmart UK acquisition was transformational for Pets at Home, adding a further 82 stores to its existing chain. The acquisition was followed by a successful integration strategy, including a full refurbishment and rationalisation programme across the estate.

In 2001, the Group launched its in store veterinary business based on the joint venture model that is still in use today, under the Companion Care brand.

In 2003, the Group opened its first national distribution centre in Stoke on Trent, which was subsequently extended in 2006 and now provides approximately 330,000 square feet of capacity.

In 2007, the Group launched its first major private brand, Wainwright's, which is distributed exclusively through Pets at Home stores and the Pets at Home Website.

In 2008, the Group launched the petsathome.com website and commenced development of its omni-channel operations.

In 2009, the Group launched grooming services through the Groom Room grooming salons within seven stores. As of 21 February 2014, there were 121 Groom Room grooming salons.

KKR acquired Pets at Home in 2010 from Bridgepoint alongside management. Since then, the number of stores has increased to 371 stores as of 21 February 2014, and significant investments in the region of £130 million in the same period have been made to further enhance the customer proposition, support the development of the Pets at Home brand and strengthen the infrastructure for further growth.

In 2011, the Group opened a second distribution centre of approximately 303,000 square feet in Northampton to complement its existing facility in Stoke on Trent. In April 2012, the Group opened its own office in Hong Kong, Pets at Home (Asia) Limited, which is responsible for sourcing products directly from manufacturers across the globe, principally China, and consists of merchandisers, quality assurance, supply chain and design professionals.

In April 2012, the Group opened its first wholly owned in store veterinary surgery, providing the Group with an alternative growth route for the Group's veterinary business.

In November 2012, the Group launched its VIP Club, to build an even stronger and further personalised relationship with its customers.

In December 2012, Pets at Home increased its specialist ranges offer through the acquisition of Ride-away, an equine specialist business that has a 15,000 square foot superstore near York, as well as both a website and a catalogue.

Further, in March 2013, through the acquisition of Vets4Pets, the Group's veterinary business expanded from a primarily in store operation to an operation including 110 standalone veterinary surgeries as of 21 February 2014. The purchase of Vets4Pets increased the scale of the Group's veterinary business by number of practices by 80%. As with the Group's existing in store and standalone surgeries, Vets4Pets operates on a similar joint venture model. The Group now operates the second largest small animal veterinary business in the UK by combined number of surgeries and is the largest joint venture operator in the market.

3. The Group's strengths

The Directors believe that Pets at Home has a number of key strengths, which mean that it is well positioned to continue to take advantage of current and future market opportunities:

- clear market leader in the attractive UK Pet Care Market;
- unique retail proposition providing differentiated customer experience;
- strong and innovative product offering across food and accessories, including own label and exclusive private brands;
- expanding range of services, including joint venture veterinary business;
- strong omni-channel platform;
- growing VIP Club creating a stronger and more personalised relationship with members;
- experienced and established senior management team with proven track record, supported by highly trained and engaged Colleagues embracing Pets at Home's strong values and culture;
- well-invested business, with infrastructure and systems able to support significant further expansion; and
- strong and resilient historical financial performance and highly cash generative business.

Clear market leader in the attractive UK Pet Care Market

As of 21 February 2014, Pets at Home had a national footprint of 371 stores with an average retail space of approximately 6,659 square feet per store and a retail website through which it has become the only national retail chain of scale in the UK offering an extensive range of pet products and services. Out of the Group's 371 stores, 140 stores offer in store veterinary services and 119 stores offer pet grooming services. As of 21 February 2014, Pets at Home's five nearest pet specialist competitors had 225 stores between them. Over the three year period under review and YTDQ314, the Group has opened 112 new stores. The Group opened 23 new stores in YTDQ314, 32 in FY13, 32 in FY12 and 25 in FY11. As of 21 February 2014, the Group had 371 stores and expects to open a further five new stores in the current financial year. Going forward over the medium term, the Group has targeted to open approximately 25 new stores per annum. All Pets at Home stores opened before April 2012 are profitable at a per store EBITDA level. There have been no store closures over the period under review other than four stores, which were relocated.

At 22 February 2014, Pets at Home's Website had approximately a 42% share of UK online pet retail traffic over the preceding four weeks, compared to Amazon Pet Supplies, which had approximately a 13% share (*Source: Hitwise*). Pets at Home operates the UK's second largest small animal veterinary business by combined number of surgeries and is the largest joint venture operator in the market, with 250 veterinary surgeries, including 133 in store joint venture surgeries, 110 standalone joint venture surgeries and seven wholly owned surgeries as of 21 February 2014. Pets at Home also remains the leading operator by number of pet grooming salons with 121 Groom Room grooming salons as of 21 February 2014.

Pets at Home utilises a range of different store size formats. As of 21 February 2014, Pets at Home operated from five flagship stores, which have an average retail space of approximately 13,245 square feet and 319 superstores, and which have an average retail space of 6,969 square feet in prime locations in retail parks and which are chosen for their visibility, ease of access and availability of dedicated car parking. In order to cover more catchment areas and address customers' desire for increased convenience, Pets at Home has also developed a smaller superstore format (representing a retail space of 3,856 square feet on average), including veterinary and grooming services where possible. As of 21 February 2014, Pets at Home operated 47 small superstores.

Pets at Home is the only market participant which has a scale offering across all segments (pet food, non-food pet products, veterinary services, grooming services and pet insurance) of the attractive UK Pet Care Market estimated at £5.4 billion, having grown by an estimated 3.4% per annum since 2006 and having experienced no year of negative growth in spite of the general UK economic downturn. As further described in Part VI (*Market Overview*), Pets at Home's overall share of the UK Pet Care Market was estimated at 12% in 2012, and Pets at Home has experienced market share gains across the largest segments of the market (pet food, non-food pet products and veterinary services) in every year since 2009.

Unique retail proposition providing differentiated customer experience

Pets at Home offers its customers a retail experience which is more than just a shop with in store 'theatre' provided by its pet villages, aquaria and vivaria. The Directors believe that further differentiation derives from (i) an authoritative, differentiated and regularly refreshed product offering (including own label and private brand exclusive food brands and accessories, many of which have innovative features and benefits), (ii) a strong services proposition, including in store veterinary services and in store grooming services, (iii) a commitment to providing product and pet expertise through the Group's highly engaged and highly trained in store Colleagues, (iv) strong branding and (v) interactive in store events; all of which the Directors believe contribute to the overall customer experience and satisfaction.

Pets at Home offers its customers a broad depth and breadth in both its pet food products and accessories. Pets at Home stores carry an average of 5,391 own label, private brand and manufacturer branded stock keeping units ("**SKU**s") and its Website offers an extended product range totalling approximately 8,100 SKUs with a plan to increase this to 10,000 SKUs in the medium term. Many of Pets at Home's competitors such as grocery retailers carry significantly fewer SKUs and do not stock many of the advanced nutrition food brands offered by Pets at Home, resulting in limited overlap between their products and Pets at Home's products. As of 20 January 2014, over 50% of Pets at Home's top 4,000 SKUs by sales volume were unique to Pets at Home with a particularly differentiated range in accessories. The Directors believe that Pets at Home's combination of products and services is unique in the UK Pet Care Market.

The Directors believe that continuous and innovative development of the customer proposition is crucial to Pets at Home's success, and that Pets at Home's ongoing work to ensure that it offers its customers a comprehensive and innovative range of pet products and services in the UK is one of Pets at Home's key strengths and differentiating factors. Product ranges are regularly reviewed and refreshed with new ideas and exciting offers to enhance the in store experience. In FY13, Pets at Home launched 2,779 new pet products and accessories (as compared to 2,716 in FY12 and 2,494 in FY11). The Directors believe that the depth and flexibility of Pets at Home's product range helps enable each of Pets at Home's stores to achieve 'destination' status, irrespective of the store's size.

Strong and innovative product offering across food and accessories, including own label and exclusive private brands

As of 21 February 2014, approximately 43.8% of Pets at Home's products are own label and private brand. Pets at Home is the only UK specialist pet retailer with extensive own label and private brands, such as Wainwright's, a Pets at Home private brand that has national brand recognition in the UK. The Directors believe that Pets at

Home's own label and private brand food and treats ranges act as clear differentiators from the major manufacturer brands and provide higher margins than manufacturer brands. Pets at Home continues to expand and develop such ranges to respond to evolving market trends and to tailor its offering to customers' needs. Pets at Home introduced its first own label pet foods in 2004, followed by launching private brand ranges and has successfully launched a number of new ranges since then, including its flagship private brand, Wainwright's in 2007. The Directors believe that Wainwright's has approximately a 10% share of the UK advanced nutrition pet food market. Wainwright's Wet and Dry Dog food sales accounted for 26.5% of Pets at Home's advanced nutrition dog food sales in FY13, up from 23.0% in FY11. Pets at Home's own label and private brand pet food products cater to a broad spectrum of customer requirements, from high nutrition ranges to economy ranges that compete with the grocery retailers' proposition. Pets at Home's own label and private brand food brands generated 32.8% of Pets at Home's gross store food revenues in YTDQ314.

The Directors believe that Pets at Home is able to react quickly and take leadership positions in attractive pet product categories that demonstrate higher growth and margins, such as advanced nutrition food. In FY14, Pets at Home successfully refreshed Wainwright's and introduced changes such as a new packaging design and a new premium tier of product called Wainwright's Grain Free. This product was developed after observing the growing trend in the US for products in which all grains are removed, as grain is believed to be a cause of food intolerance within some dogs.

In the accessories market, the Directors believe that, through Pets at Home's successful launches of own label and private brand products, such as Wainwright's, Ruffer & Tuffer, 3 Peaks, Willows and Woodlands, which are exclusively available in Pets at Home's stores and through the Pets at Home Website, Pets at Home is helping drive the market for pet accessories, in which brands have historically been less developed than in the pet food market. The percentage of Pets at Home's gross store accessories revenues represented by Pets at Home's own label and private brand accessories for YTDQ314 was 49.8%.

Periodically, Pets at Home has held an open-door innovation day when it encourages entrepreneurs, product designers, manufacturers and members of the public to pitch product ideas to a board of buyers and Pets at Home's Head of Innovation. This process allows concept ideas, if appropriate, to be taken forward into development and launched in Pets at Home stores. Successes include the small animal cardboard castle and the Crocodile Joe Vivarium. Periods of exclusivity are normally negotiated for products that are ultimately offered within Pets at Home stores.

Expanding range of services, including joint venture veterinary business

Pets at Home is focused on expanding its service offering to enhance its differentiated retail proposition to customers. This principally includes rolling out veterinary surgeries, both in store and on a standalone basis, introducing more Groom Room grooming salons in store and on a standalone basis with a veterinary surgery and providing other services to customers such as pet insurance, advanced nutrition food consultations, neutraceuticals advice, acquaria water testing and microchipping services. All of these services are delivered and overseen by highly trained and engaged Colleagues. By providing this integrated "one stop shop" proposition in store, supported by standalone veterinary practices, the Directors believe it helps to create cross-selling opportunities, drive increased footfall, increase in store sales and enhance Pets at Home's overall credentials as the pet specialist.

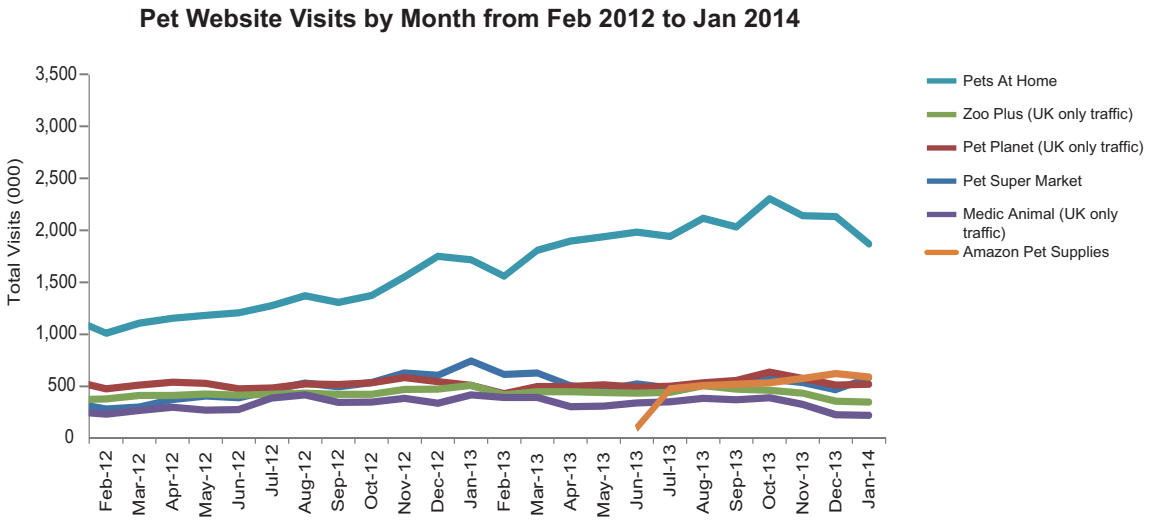
Pets at Home already operates the second largest small animal veterinary business in the UK by combined number of surgeries and is the largest joint venture operator in the market, with 250 veterinary surgeries, including 133 in store joint venture surgeries, 110 standalone joint venture surgeries and seven wholly owned surgeries as of 21 February 2014.

The Directors believe that Pets at Home's network of joint venture surgeries is modern and well invested. The joint venture surgeries have access to the latest technologies and medicines and are able to provide premium clinical, surgical and preventative health care both to customers' pets, as well as to the pets under Pets at Home's care.

Strong omni-channel platform

At 22 February 2014, Pets at Home's Website had approximately a 42% share of UK online pet retail traffic over the preceding four weeks, compared to Amazon Pet Supplies, which had approximately a 13% share (*Source: Hitwise*). Through detailed econometric research commissioned by the Group of the business on an individual store model basis, the Directors believe that increasing traffic to Pets at Home's website also contributes to an increase in in-store traffic and transactions. The Group's goal is to become the UK's leading omni-channel pet retailer and as

such invests in digital marketing to support this aim. In particular, in January 2014, Pets at Home re-launched its web platform, improving functionality, integrating store services by allowing customers to book appointments online and increasing the product range. The Group is also in the process of launching a trial of 'deliver to store', which will allow customers to order the full range of Pets at Home products at home or in store to be delivered to their local store for collection, for no additional charge. This service will build upon the existing 'click and collect' service, which allows customers to purchase products already in stock at their local store via the Website for subsequent pick-up. Since launching the new site in late January, Google has been re-indexing the new site, and natural traffic has experienced a decline, which was expected, whilst this re-indexing takes place.



(Source: Hitwise)

The Directors consider the Group to be uniquely positioned to become the UK's leading omni-channel pet retailer. Pets at Home's web based offerings combined with Pets at Home's emphasis on the quality of customers' in store experience across its broad store estate, and its broad range of own label and exclusive brands, reflect Pets at Home's strategy to become the UK's leading omni-channel pet retailer.

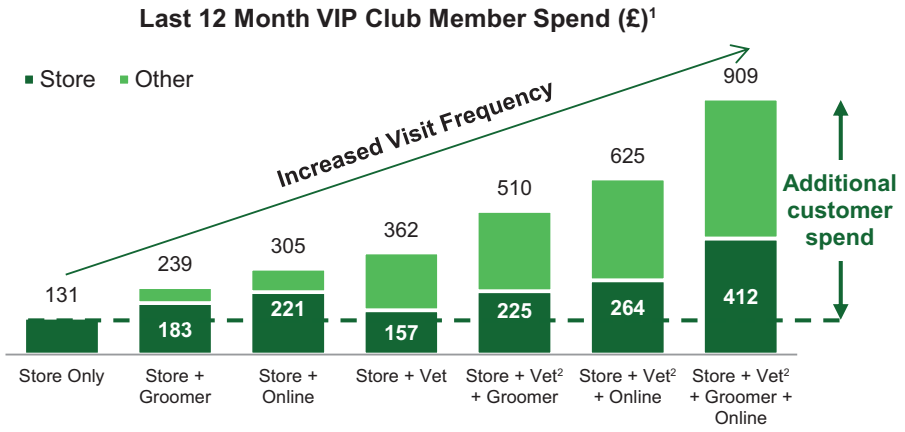
In addition to the Pets at Home Website, Pets at Home also provides an equine specialist offer through the Ride-away website and information on veterinary services through the Companion Care and Vets4Pets websites. Pets at Home's websites help the Group cross-sell the in store Pets at Home experience.

The Directors believe that going forward, the growth in the online pet retail sector will be faster than that in the offline sector. The Directors believe that Pets at Home is well positioned to capture a share of this growth through its web and digital offerings and to further enhance its position as the UK's leading omni-channel pet retailer, enabling customers to shop in store or online, reserve products and collect in store or order in store and have delivered to the home.

Growing VIP Club creating a stronger and more personalised relationship with members

To build an even stronger and further personalised relationship with its customers, in November 2012, the Group launched its VIP Club, which to date has exceeded the Group's expectations, with over 1.8 million VIP Club members, who own approximately 1.7 million dogs and approximately 1.2 million cats collectively, representing an estimated 19% and 14% of the UK's dog and cat population (based on 2012 estimates (*Source: OC&C*)), respectively, in each case, as of 21 February 2014. The VIP Club provides customers various benefits including access to exclusive offers, the opportunity to support local and national animal re-homing centres and a quarterly magazine called 'My VIP'. 'My VIP' has an estimated readership of over 1.1 million which the Directors believe is the largest circulation of any pet magazine in the UK and has content targeted at engaged pet owners. It includes additional offers and vouchers for VIP members. In November 2013, 'My VIP' was awarded 'Best Consumer Membership Magazine' by the Content Marketing Association.

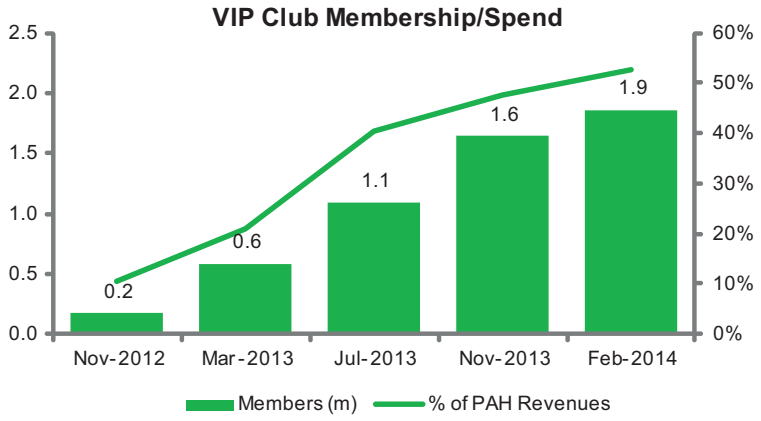
The VIP Club allows the Group to improve its knowledge of its customers and establish a direct and tailored relationship with customers and their pets. The Directors believe that such engagement, together with tailored offers, is resulting in higher spending per VIP Club member than non-VIP Club member. In November 2013, the VIP Club was awarded the 'Best Customer Loyalty Scheme' award by the Direct Marketing Association. The Directors believe that more engaged VIP Club members tend to visit stores more frequently and spend more in store than non-members. The chart below demonstrates that VIP Club members who combined retail purchases with services and/or online purchases, spent more in store than VIP Club members who only spent in store. It demonstrates a positive correlation between VIP members' in store spend on products and their spend both on services and online products during the first 12 months of the VIP Club.



[1] *As at 22 January 2014*
[2] *Accounts for total transactions including online*

(Source: Internal data extracted by Global Information Systems)

The chart below sets out the increasing share of spend by VIP Club members in Pets at Home stores between November 2012 and February 2014 as the number of VIP Club members increases.



(Source: Internal data extracted by Global Information Systems)

In addition, the Directors believe that the VIP Club helps create a stronger and more personalised relationship with customers, allowing the Group to understand the needs of its customers and their pets. In particular, the information available to the Group about its VIP Club members gives the Group valuable insight into the pet owning population of the UK and can help the Group develop new products and services that are more likely to appeal both to existing and new customers. Members of the VIP Club generate 'Lifeline' points by shopping with Pets at Home, which convert into gift cards that the customers' nominated charities can spend in the Group's stores. By the end of the first year following the club's launch, Pets at Home had donated over £415,810 in VIP Lifelines to a number of charities. Due to the success of the Lifelines programme, the Group has agreed to provide £2 million worth of Wainwright's food (at retail value) to feed dogs awaiting re-homing at The Dogs Trust re-homing centres across the UK over the next three years. The Directors believe that the charitable contributions through the VIP Club create a stronger and more personalised relationship with the Group's already engaged customer base and help develop stronger ties with the Group.

Experienced and established senior management team with proven track record, supported by highly trained and engaged Colleagues embracing Pets at Home's strong values and culture

The Directors believe that Pets at Home's existing senior management team has been fundamental in driving the strong growth in revenue and profitability of the Group since 2006. The Directors also believe that there is significant strength and depth below the senior management team, with a valuable mix of broad retail and financial experience. Several appointments have been made over recent years to strengthen the team further.

The Directors believe the role that highly engaged, highly trained Colleagues play in the business is fundamental to the success of the Group's business model. Such engagement and involvement is evidenced by the fact that over 93% of Pets at Home's Colleagues own pets, totalling over 23,000 pets in their own homes (based on a survey of all employees conducted in December 2013). Pets at Home has prioritized 'pets before profit' supported by a unique service proposition. Each Colleague is enrolled in the 'Pets at Home Academy', which provides a tiered training programme known as 'Steps' to in store Colleagues at all levels. The training offered to Colleagues also allows the Group to offer certain specialist products and services such as licensed medicines, requiring specific qualifications, expertise and skills, to its customers. The Directors believe that this training programme equips in store Colleagues with knowledge on pet-related matters to provide outstanding customer service levels and reach customer satisfaction levels that are best-in-class, and helps Pets at Home achieve industry leading retention levels. Pets at Home's in store Colleagues are supported by highly trained and engaged Colleagues in the veterinary business, support offices, and its distribution centres.

The Group has participated in The Sunday Times Best Companies awards, culminating in being recognised as The Best Big Company to Work For in the UK in 2013, after having placed second in the same awards in 2012. In 2014, the Group intends to enter the Great Place to Work survey participating in the Best Workplaces in the UK later in the year. As this survey is also conducted across the world, the results will establish an international benchmark of the Group.

In FY13, Colleague retention was 83.2%, having increased from 54.1% in the 2007 financial year, and has been maintained at an average in excess of 80% over the past three financial years. At store manager level, 77% of store managers had worked with the Company for at least three years as of 21 February 2014. Colleague engagement is measured via an internal survey called 'We're All Ears,' which asks Colleagues various questions to assess their views on the Group's business and work environment. For example, in the FY13 survey, 73.2% of respondents (Total: 5,789) agreed that "I would recommend Pets at Home as a great place to work". In FY13, Colleague engagement was measured at 93.2%, compared to 90.5% in FY12. The Directors believe that the Group's highly engaged and highly trained Colleagues distinguish Pets at Home from its competition and help drive loyalty and Like-for-Like Sales Growth.

Well-invested business, with infrastructure and systems able to support future expansion

From 25 March 2010 to 2 January 2014 the Group has spent £36.3 million on opening 112 new stores at an average cost of approximately £324,000 per store after deducting capital contributions received from landlords. The capital invested by Pets at Home in new store and refurbishment projects for the period under review is set out in Part XI (*Operating and Financial Review*). The Group's capital expenditure in the period under review has included the creation of a second distribution centre in Northampton for an investment of £5.4 million and a significant investment of £4.9 million in the implementation of SAP in May 2013, as well as investment in its direct sourcing capabilities through the establishment of Pets at Home (Asia) Limited and the Group's omni-channel offering. During FY13, the Group invested in the launch and expansion of the VIP Club. The Directors believe that these investments have enabled the Group to develop an efficient, effective and scaleable infrastructure to support future expansion of the Group's estate.

Strong and resilient historical financial performance and highly cash generative business

The Group's business has a proven track record, having delivered consistent year-on-year revenue growth and positive like-for-like performance over the past decade. Revenue growth has been resilient through the recent recessionary environment in the UK. Pets at Home's total revenues and Underlying EBITDA were £515.2 million and £86.8 million, respectively, in YTDQ314, £461.3 million and £78.1 million, respectively, in YTDQ313, £598.3 million and £98.5 million, respectively, in FY13, £544.3 million and £91.2 million, respectively, in FY12 and £517.8 million and £92.4 million, respectively, in FY11. As a result of diligent cash management by the Group, Unlevered Free Cashflow Conversion, which is defined as Unlevered Free Cashflow expressed as a percentage of Underlying EBITDA, has been consistently strong over the period under review from 83.8% in FY11 to 86.2% in FY12, to 97.0% in FY13 and 67.9% in YTDQ314. The Group has experienced strong cash returns on invested capital throughout the same period.

Pets at Home's strong operating cash flow has enabled the Group to continue to make significant investment in the region of £130 million in existing and new stores, sourcing and distribution, the VIP Club, as well as the acquisitions of Ride-away and Vets4Pets and other initiatives throughout the period of KKR ownership. The Directors believe that capital expenditure on future new store openings and refurbishments to allow for the establishment of an in store veterinary surgery will for the foreseeable future continue to be funded from operational cashflow.

4. The Group's strategy

Pets at Home's overall strategy is to leverage its existing market leading position in the UK Pet Care Market and to develop new opportunities for growth. The Directors believe that the Group's key growth drivers are expanding like-for-like growth, expanding Pets at Home's footprint by continuing the growth of the store estate, joint venture veterinary surgeries and Groom Room grooming salons and maintaining a rigorous focus on margins.

Expanding like-for-like growth

Product innovation

The Directors believe that ensuring that customers have something new and exciting to enjoy when visiting the Group's stores or websites is critical to the Group's success. The Directors consider the innovation of own label and private brand products (including advanced nutrition food) to be integral to the Group's strategy. The Group plans to continue to focus on reacting to market trends, bringing new overseas brands to its stores, particularly from the US market, and delivering first to market exclusive launches and the latest popular licensed ranges. The Directors believe that the Group sets trends and is a key enabler in certain product segments like advanced nutrition, which drives market growth and customer demand. The Group plans to continue to support its in house product innovation team and will continue to seek new products through its open door innovation days, events at which the Group encourages entrepreneurs, product designers, manufacturers and members of the public to pitch product ideas to a board of buyers and Pets at Home's Head of Innovation. The Group's focus is also on building key relationships with certain new and existing branded accessory manufacturers and license holders around the world, particularly in Asia, through whom Pets at Home is often able to gain periods of exclusivity on some new products launched into the UK. The Directors believe that the Group's scale drives buying and shipping efficiencies. The Directors believe that the Group's focus on strengthening its comprehensive product portfolio helps it create more innovation in its business than any other pet specialist in the UK.

Continue to develop customer loyalty to the Pets at Home brand

Pets at Home's VIP Club is an important part of Pets at Home's overall strategy. As of 21 February 2014, the Group's VIP Club had in excess of 1.8 million members, and the Directors believe there continue to be significant opportunities to expand membership and the Group's share of consumers' wallets and sell more products and services to its VIP Club members. Through various initiatives, including promoting service offerings like veterinary services and pet grooming to its VIP Club members and offering discounts on complementary products and services, as well as targeting specific customer segments identified through the information obtained from the VIP Club with tailored product offerings, Pets at Home plans to further enhance loyalty and grow future revenues and margins. The Directors believe that the VIP Club supports and fuels the Group's growth by allowing the Group to maintain and continually improve its knowledge of its customers, establish a direct and tailored relationship with customers and their pets and increase sales in order to increase footfall and the average basket spend of these customers with Pets at Home.

Sustained focus on Colleague training and engagement and 'pawsitively outrageous' customer service focused on customers who are engaged pet owners

The Directors believe that Colleague knowledge drives greater customer engagement and loyalty. Through its highly trained and highly engaged Colleagues, the Group seeks to increase its share of spend with its customers and to extend the Pets at Home experience to new customers.

The Group's strategy is to continue to develop the engagement of the Group's already highly engaged Colleagues, 93% of whom are pet owners. The Group plans to continue to invest in training Colleagues to further develop their expertise. Training helps to ensure that Colleagues deliver high levels of customer service, which the Directors believe increases such customers' propensity to spend on products and services which enhance their pet's health, well-being and longevity and encourages customers' advocacy of the Group's business. In addition

to internal training programmes, the Group plans to continue to invest in formal professional qualifications and support apprenticeships that are relevant to the business. The Group plans to continue to build on improving communication, reward and recognition, which the Directors believe enhances retention of Colleagues and creates an environment of highly engaged Colleagues who have the willingness, knowledge and ability to provide the advice and service the Group's customers require.

Advertising and local marketing campaigns

Pets at Home's marketing strategy is aimed at reinforcing its retail proposition, by seeking to raise awareness of its brand, differentiated and innovative product and service range, competitive pricing, strong Colleague engagement and expertise and its commitment to pet welfare and responsible pet ownership.

Pets at Home advertises on national TV to increase overall and spontaneous awareness levels of its brand amongst pet owners. In addition, the Directors believe that new digital media such as tablets and mobile devices will become increasingly important in the Group's marketing and advertising strategy. The Directors believe that innovative digital offerings like the 'Dreamscanner' application, a mobile and tablet application that purports to 'scan' pets' dreams and presents a range of dream stories, engage Pets at Home's customers and are effective marketing tools for the Group. In addition, the Directors believe there is a significant opportunity to leverage social media platforms like Facebook and Twitter to build engagement with customers.

The Directors also believe that the Group's local marketing initiatives are vital in helping to establish each Pets at Home store as a key part of its local community, in particular, through contributions to charitable work and the education of school children in pet care and pet welfare. Local initiatives also allow Pets at Home to market new stores and store refurbishments and to respond to any local competitive activity. Pets at Home's Colleagues invest significant time in engaging with customers at a local community level and individual stores are encouraged to set up local pet events within their communities. Stores typically establish relationships with schools, colleges and hobby groups in their local area, support animal re-homing charities (including the Group's nationwide animal adoption initiative) and engage with customers on an individual basis and in groups through in store events.

The focus on local and national level public relations remains a key element in driving awareness of the Pets at Home brand. New store openings and local events such as the Group's Kids Holiday Pet Clubs events, which offer free workshops and competitions throughout the school holidays where children can meet, learn about and pet the animals continue to attract strong attendance.

Omni-channel

Online penetration, which is estimated to have represented approximately 7% of the UK pet products market in 2012, is relatively lower than in certain other retail categories (*Source: OC&C*). This channel has been gaining market share in the UK pet products market by approximately 1% per annum from 2008 to 2012, and is projected to grow further to represent 11% of the market by 2017 (*Source: OC&C*). The Directors believe that sales growth in the UK online pet products market will be faster than sales growth in the offline sector and that growth in the Group's omni-channel offering will help increase the Group's in store transactions by attracting customers to Pets at Home.

The Group has made significant investments in omni-channel with the aim to become the UK's leading omni-channel pet retailer. The Directors consider the Group to be well positioned to achieve this aim. Pets at Home's existing and future web based offerings combined with Pets at Home's emphasis on the quality of customers' in store experience and its excellent distribution capabilities reflects Pets at Home's strategy to become the UK's leading omni-channel pet retailer, enabling customers to shop in store or online, reserve products and collect in store or order in store and have delivered to the home.

In FY13, Pets at Home increased its specialist ranges offer through the acquisition of Ride-away, an equine specialist store, website and catalogue. Pets at Home intends to expand its Website and digital platforms to include its small animal veterinary business and to re-launch the Ride-away website on the Group's web platform. In January 2014, Pets at Home re-launched its web platform, improving functionality, integrating store services by allowing customers to book appointments online and increasing the product range. The Group is also in the process of launching a trial of 'deliver to store', which will allow customers to order the full range of Pets at Home products at home or in store to be delivered to their local store for collection, for no additional charge. This service will build upon the existing 'click and collect' service, which allows customers to purchase products already in stock at their local store via the Website for subsequent pick-up. Pets at Home will also continue to use

its Website and digital offerings to engage customers with content and interactive features, such as live chat, improved social media platforms, videos to enhance customer sentiment and engagement with the Pets at Home brand and improve its convenience with online booking for some services, such as nutrition consultations.

Retrofitting existing stores with a Groom Room and/or a veterinary surgery

The Directors believe that services such as veterinary care and grooming are very important to the Group's customer proposition as they can drive footfall in Pets at Home stores and increase customer spend and loyalty. Since FY10, the Group has made significant investment in retrofitting existing Pets at Home stores with veterinary surgeries and Groom Room grooming salons. The Group has typically done so by efficiently refurbishing existing retail space to accommodate new veterinary surgeries and grooming salons and/or by adding new mezzanine floor space. Sales in stores which have been retrofitted with new veterinary surgeries and Groom Room grooming salons have tended to increase despite a reduction in retail space. In addition to attracting customers in their own-right, the Directors believe that adding veterinary surgeries and Groom Room grooming salons creates cross-selling opportunities, drives increased footfall and increases in store sales growth.

As of 21 February 2014, there were 231 existing Pets at Home stores without a veterinary surgery and 252 existing Pets at Home stores without a grooming salon. The Directors believe that, based on an assessment of market locations, there is sufficient demand for at least 700 veterinarian locations (both in store and standalone) and at least 300 grooming salons. Based on historic economic returns to the Group, the Directors believe there is a clear opportunity to retrofit a large number of existing stores with new veterinary surgeries and Groom Room grooming salons. As of 21 February 2014, 198 existing Pets at Home stores have the potential to be retrofitted to accommodate a veterinary surgery and 121 Pets at Home stores have the potential to include a Groom Room grooming salon. As of 21 February 2014, in 96 stores the retrofitting would require a mezzanine floor. Over the next five years, the Directors believe there is an opportunity to retrofit 30 stores per annum to add surgeries (subject to veterinary joint partner availability) and over the next three years, there is an opportunity to retrofit 35 stores per annum to add Groom Room grooming salons. The Directors estimate that the estimated capital requirements to refurbish a store with a veterinary services proposition are £150,000 if no mezzanine floor is required to facilitate the installation and £265,000 if a mezzanine floor is required. The Directors estimate that a Groom Room grooming salon fit-out will require approximately £45,000. In addition, the Group is addressing the opportunity in areas where an in store veterinary surgery is not a viable option by opening approximately 20 standalone veterinary surgeries per year.

Competitive and "value for money" pricing

Although value for money is crucial to customers, the Directors believe that for engaged pet owners, who are the Group's core customers, price is not the most important factor. Analysis of the independent customer research commissioned by the Group in 2012 and repeated internally by the Group in 2013 highlighted that the range of product offering is more important than price to engaged pet owners, and other factors like convenience of store opening hours, location and engaged and trained Colleagues are all important purchase criteria (*Source: OC&C*). The Directors believe that Pets at Home's customers seek good value for money, which they view as an aggregation of factors including product range, convenience, price and promotions, service and product quality.

Pets at Home operates a "good, better and best pricing" architecture, which is a function of product content, design, features and benefits so as to ensure that price is not a barrier to purchase and so that through a variety of pricing strategies the Group is able to compete with the varying forms of competition, including grocers, discounters and online. The Directors believe that Pets at Home's prices are competitive and that its customers receive good value for money. In respect of certain items, Pets at Home has a clear competitive opening price point advantage over its competitors. Pets at Home aims always to offer best value for money on bulk food purchases which the Directors consider to be significant given the frequency of visits which its core customers tend to make to Pets at Home stores.

The Directors believe that the Group is well positioned to increase its share of spending by existing customers and to attract new customers given Pets at Home's highly differentiated and innovative product offering, convenient store locations, highly engaged and highly trained Colleagues and commitment to offer competitive prices offering good value for money. The Group has recently started to offer additional value for money promotions to its customers by introducing reductions through long-term subscriptions to particular products.

Improving Pets at Home's convenience by continuing the growth of the store estate and joint venture veterinary surgeries and grooming salons

Store roll out

Based upon a detailed assessment of local market locations, the Directors believe that the UK Pet Care Market can support over 500 Pets at Home stores. The Group has targeted to open approximately 25 new Pets at Home stores each year dependent upon sufficient availability of appropriate sites and attractive market conditions. Increasingly, all new Pets at Home stores are being opened with the capacity to include veterinary services subject to availability of suitable joint venture veterinary partners and also to include grooming services from opening. Where no suitable veterinary partner is available for a store's opening, space is reserved to facilitate the retrofit of a veterinary surgery at a later date with minimal disruption.

Pets at Home has a historical track record of identifying and opening new stores. Since 2008, Pets at Home has increased its number of stores from 213 to 371 as at 21 February 2014, by opening an average of 26 new stores each year over the past six years. Pets at Home's store roll out programme has accelerated under KKR ownership and approximately 30% of Pets at Home's total store footprint as of 21 February 2014 has been open for less than 4 years. The Group utilises a range of different store size formats which have been proven to work in catchment areas with a population of 15,000 and upwards. The Group currently has five flagship stores which have an average retail space of approximately 13,245 square feet. These are based in Leicester (Fosse Park), Fort Kinnaird, Friern Barnet, Stockport and New Malden. The majority of the Group's stores are superstores, which have an average retail space of 6,969 square feet in prime locations in retail parks with dedicated parking.

In FY13, the Group opened 12 (*FY12: 6*) small superstores, which have an average retail space of 3,856 square feet. This expansion reflects the Directors' beliefs that convenience is also a prime motivation for shopping with Pets at Home. For example, research has demonstrated that the highest market share of spend from Pets at Home customers is within a 10 minute drive time catchment area. This expansion initiative has continued and as of 21 February 2014, six small superstores had opened in the current financial year, with one further opening planned for FY14. These small superstores offer a comprehensive product range, and veterinary and grooming services where possible, as the Group recognises that a service offering helps to attract and retain customers. The Group plans to trial new, even smaller formats over the next two years. In 2014, Pets at Home plans to open Barkers, a dog focused high street store in Wilmslow, Cheshire, which will offer premium products and grooming services targeted at a subset of highly engaged dog-owners and plans to open a second Barkers store in 2014. The Directors believe that there is potential to open a number of Barkers stores in selected UK high streets including London boroughs.

All Pets at Home stores opened before April 2012 are profitable at a per store EBITDA level, which the Directors view as a testament to Pets at Home's highly disciplined and rigorous investment processes. A new store typically takes between four and five years to reach maturity.

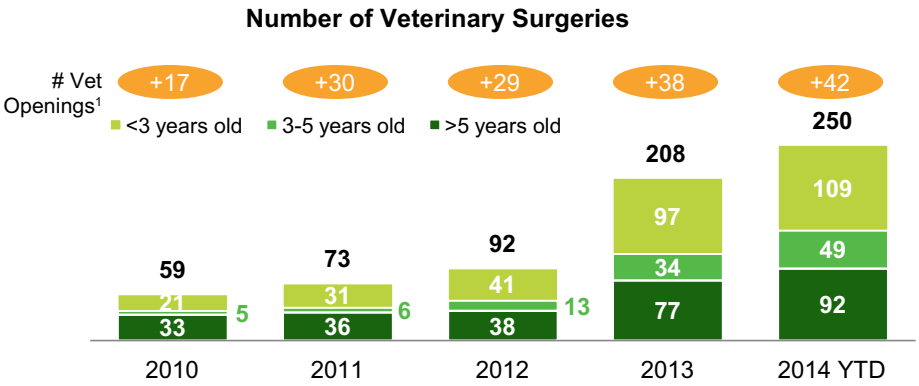
Veterinary business

The expansion of the Group's veterinary business is a key part of the Group's growth strategy, providing additional services to the Group's customers within its stores or close to the Group's customers' homes. The Group plans to pursue this strategy by attracting new customers in existing surgeries, opening new surgeries in existing stores and opening new surgeries in attractive locations both in new store and on standalone sites. Based upon an assessment of local market conditions, the Directors believe that the UK market can support over 700 vet practices, split between approximately 450 in store and 250 standalone vet practices.

During each of FY12 and FY13, the Group opened 18 new joint venture veterinary surgeries (Companion Care only). The Group acquired Vets4Pets, a joint venture veterinary business in March 2013 and added a total of 93 standalone veterinary surgeries (including one veterinary franchise) to the Group. As at 21 February 2014, the Group had opened 38 new joint venture veterinary surgeries, including 26 openings of Vets4Pets surgeries in the current financial year. The Group has recently integrated Vets4Pets with the Group's existing in store joint venture veterinary business and over time plans to migrate all surgeries under the Vets4Pets brand with the consent of the joint venture partner in each surgery. The Group has established a central support operation focused on delivering high quality services to enable the Group's joint venture partners to focus on clinical excellence and first class pet care. The Directors believe that the integration of the Group's veterinary business will create a strong player in the UK small animal veterinary market, which was estimated to have been served by more than 5,000 surgeries in the UK (*Source: 2013 Annual Report of Royal College of Veterinary Surgeons*), enabling Pets at Home to grow a network of veterinary surgeries both in its stores and at standalone locations.

The Group also expects to maintain an average of approximately ten wholly owned surgeries after taking into account sales to new joint venture partners from time to time and further openings. As at 21 February 2014, 37% of stores had a veterinary surgery.

The chart below outlines the growth of the Group's portfolio of veterinary surgeries since 2010 together with the relative age of these practices. The significant increase in 2013 reflects the Group's acquisition of Vets4Pets. As at 21 February, of the 250 veterinary surgeries, 109 are less than three years old, 49 are between three and five years old and 92 are over five years old. Veterinary surgeries generally take a period of approximately seven years to reach maturity. The numbers of new veterinary surgeries in the chart are pro forma for Vets4Pets as if that business had been acquired by the Group in 2010 and demonstrates that taken as a whole the pace of veterinary surgery openings has accelerated since FY13.



Note:
1 Openings from beginning to end of given fiscal year. Pro-forma for Vets4Pets openings.

The Directors believe that infrastructure is now in place to open approximately 60 to 70 new surgeries per annum across both new and existing Pets at Home stores as well as in suitable standalone locations. As of 21 February 2014, 198 of Pets at Home's existing stores had the potential to accommodate a veterinary surgery and in 96 of these, a mezzanine floor will be required to facilitate the installation.

In addition to the core veterinary services, the Directors' believe that there are additional opportunities to differentiate further the Group's veterinary offering. For example, a new "Vets Plus" standalone format, combining a veterinary surgery and a grooming salon is currently under trial, with two such surgeries open as of 21 February 2014. The Group currently plans to open approximately 20 new standalone vet practices each year dependent upon attractive market conditions, as well as sufficient availability of appropriate sites and joint venture partners.

The Group has also recently trialed opening certain vet practices 24 hours a day and may consider additional opportunities for other services in the future (including crematoria).

Groom Room roll out

In addition to the expansion of its veterinary services, Pets at Home's strategy is to expand its grooming service. Pets at Home is the leading operator of pet grooming services in the UK by number of salons. Pets at Home opened 26 Groom Room grooming salons in FY13 (FY12: 18), taking the total number of Groom Room grooming salons to 87 at period end. During FY14, the Group continued to add grooming salons to Pets at Home stores where space was available as part of the refurbishment program to install more in store services. As of 21 February 2014, the Group operated from 121 Groom Room grooming salons including two Groom Room grooming salons in the Group's two "Vets Plus" offerings. The Group currently intends to open Groom Room grooming salons in as many existing stores, new stores and standalone veterinary surgeries as possible given considerations such as space and availability of trained groomers. Given the rapid pace of growth, the Group has increased its resources in the support office to support the development of new service offerings and to support the roll out of further grooming salons.

The Directors believe that the Groom Room grooming salons provide customers with a further reason to visit Pets at Home stores and, as such, build upon Pets at Home as a 'destination store' and create cross-selling opportunities. In addition, the Directors believe that the Pets at Home grooming salons act as a complementary in store service, and the knowledge offered by the salon Colleagues help drive sales in advanced nutrition food, licensed medication and other products such as ADAPTIL (a synthetic pet pheromone that helps comfort dogs).

The Directors believe that the grooming business is a predominately people business, and that groomers develop close relationships with their pet clients and their owners. As a result Pets at Home has focussed on the training and engagement of its Colleagues in the grooming salons. As grooming is currently a largely unregulated market, the Directors believe that by setting its own high training and operational standards, Pets at Home is setting the standard for the market and Pets at Home is seeking to formalise this measure with appropriate external bodies.

Pets at Home plans to grow future sales in grooming by, among other initiatives, identifying VIP Club members who are currently not using the grooming service and promoting the service through tailored offers.

Maintain rigorous focus on margins

Gross Margins

Market penetration of own label and private brand with focus on advanced nutrition food

Pets at Home continues to manage the mix between grocery, advanced nutrition and own label and private brand ranges in food, as well as the balance between pet food and accessories product ranges. Maintaining the penetration of own label and private brand products, with particular focus on advanced nutrition food, wet food and life stages foods continues to provide additional revenue and margin opportunities for the Group. In particular, the Directors believe that the Group's flagship Wainwright's brand provides the Group with significant opportunities to expand its revenues and margins. Among other actions, the Group has introduced new advanced nutrition manufacturer brands, including Burns and Arden Grange (in FY13), and Barking Heads and Meowing Heads (in FY14). The Directors believe that recent market growth in advanced nutrition food has in part been driven by Pets at Home with the Group achieving a CAGR in revenues (excluding VAT) of sales of advanced nutrition foods of 13.3% during the period 2009-2012 compared with an overall market CAGR of advanced nutrition food of 7.7% over the same period (*Source: OC&C*).

Asia sourcing and terms

In April 2012, the Group opened its own sourcing office in Hong Kong, Pets at Home (Asia) Limited, which is responsible for sourcing products across the globe, principally from China, directly from manufacturers and consists of merchandising, quality assurance, supply chain and design professionals. The Directors believe that the Asian office has given the Group the opportunity to build closer relationships with many of the Group's overseas suppliers in order to improve contractual terms, the quality of products sourced, access new products and achieve on time deliveries and cost savings (including in respect of improved payment terms) thereby improving margins. In addition to the working capital benefits that have been derived, the Directors believe that this will result in a simplification and strengthening of the Group's supply chain. The Group's trading team focuses on working with the Group's supplier base to support product development and further improve buying terms by negotiating on three elements, i.e. namely i) the cost of sourced goods and driving economies through increased quantities; ii) investment monies and providing financial support for TV and marketing campaigns; and iii) working capital terms, including payment days and case sizes of supplied products.

Operating margins

Investment in business and management of cost base

The Group has invested significantly in the resources necessary to deliver its future growth plans. In FY12, the Group opened its second distribution centre. The Group has also spent significantly in FY12 and FY13 in expanding resources in its store and support centre services, marketing, quality control and finance and other investments in its Colleagues, including for training and recruitment and ensuring Colleague compensation appropriately reflected their contribution to the Group's success. In FY13, the Group incurred £1.2 million of operating expenditure in its sourcing office in Hong Kong and also invested in launching and operating the VIP Club. The Directors believe that whilst these actions are in the short term margin dilutive, they are necessary to sustain growth and margins in future years.

5. The Group's products and services

Overview

The Pets at Home product range comprises two key product groups: pet food and pet accessories, which are complemented by services, including veterinary services (both in stores and on a standalone basis) and in store Groom Room grooming services. In addition, Pets at Home also offers pet insurance, advanced nutrition food consultation, acquaria water testing, microchipping services and dental checks, which complement the services

offered by its veterinary surgeries and Groom Room grooming salons. When including Pets at Home's online platform, the total number of SKUs currently available extends to approximately 8,100. The products and services offered by the Group are described below. The Group's product groups and services serve a common customer base and are interdependent and as such the Group does not segment its product groups and other services for the purposes of the Group's financial reporting.

Pet food

As of 21 February 2014, Pets at Home offered a range of over 2,400 pet food products covering most small pet types from dogs and cats to small mammals, fish, reptiles, birds and other wildlife, both in store and online.

Pets at Home carries three types of pet food products: (i) own label pet foods; (ii) private brand pet foods owned and sold exclusively by Pets at Home; and (iii) manufacturer brands.

Within dog and cat food there are two categories of products: advanced nutrition food, which is sold principally by pet specialists and grocery food, which is sold by grocery retailers, general retailers and pet specialists.

The Group seeks to train its in store Colleagues in pet nutrition such that the Colleagues are able to advise customers on their pets' dietary requirements.

The Group's food revenues have grown at a CAGR of 7.9% over the two financial years to FY13, supported by growth in the range of pet food products on offer and a focus on advanced nutrition food, as well as launches of own label pet foods.

The range of dog and cat foods stocked by Pets at Home is summarised below:

	GROCERY FOOD		ADVANCED NUTRITION FOODS		
Pet type	**Manufacturer brands**	**Own label**	**Manufacturer brands**	**Own label**	**Private brands**
Dog	Bakers Pedigree Chappie Wagg Iams Applaws Butchers	Pets at Home Pets at Home Value	James Wellbeloved Royal Canin Hill's Science Plan Eukanuba Proplan Barking Heads Burgess Burns Arden Grange Hills Prescription Diet	Pets at Home Advanced Nutrition	Wainwright's Wainwright's Grain Free Fishmongers Spencer's Deli
Cat	Felix Whiskas Go Cat Applaws Iams	Pets at Home	James Wellbeloved Royal Canin Hill's Science Plan Eukanuba Proplan Meowing Heads Burns Arden Grange Hills Prescription Diet	Pets at Home Advanced Nutrition	Wainwright's for Cats Purely Ever So Seriously Good

The range of pet food stocked by Pets at Home for other pet types is shown below:

Pet type	**Manufacturer brands**	**Own label**	**Private brand**
Small mammals	Supreme Burgess Excel	Pets at Home	Woodlands
Fish	King British Aquarian Tetra	Pets at Home Pets at Home Value	Love Fish
Reptile	Repashy Exo Terra	Pets at Home	
Indoor / wild bird	Trill Peckish	Pets at Home	A little bird told me

Own label/private brand food and treat ranges

The Directors believe that Pets at Home's own label and private brand food and treats ranges act as a clear differentiator from the major manufacturer brands, and Pets at Home regularly evolves its range of own label and private brand products. Pets at Home's own label and private brand products cater to the full spectrum of customer requirements, from high nutrition ranges to economy ranges that compete with the grocery retailers'

proposition. Pets at Home's own label and private brand food products are sold exclusively in Pets at Home stores and online. Pets at Home's gross store food revenues represented by Pets at Home's own label and private brand food products for YTDQ314 was 32.8% and for FY13 was 34.6% (FY12: 35.2%). Within the food category, the restricted availability of rawhide treats during FY14 has led the Group to source branded natural treats.

Dog food

Pets at Home stocks a broad assortment of wet and dry dog food in all three categories of own label, private brand and manufacturer brand to meet the broad needs of its customer base in terms of price and quality.

The dog food market is sub-divided into different levels of price/quality based upon the amount and quality of meat, use of fillers and the amount of specific added ingredients.

Pets at Home has focused on expanding the offered range of advanced nutrition food, resulting in, among other actions, the addition of new manufacturer brands, including Burns and Arden Grange (in FY13), and Barking Heads (in FY14). Further, Pets at Home regularly seeks to optimise existing floor and shelf space devoted to dog food in its stores and has bolstered its sales efforts by a doubling of trained nutrition consultants, in the period between 22 February 2012 and 21 February 2014. In FY13 and FY14, Pets at Home undertook and continues to undertake a series of national TV commercials and press advertisements encouraging customers to book a nutrition consultation under the banner of 'Change their food, change their life'.

Cat food

As with dog food, Pets at Home stocks a broad assortment of wet and dry cat food at different price points.

Pets at Home has allocated additional space to cat food in FY13 and has been developing its advanced nutrition food range, allowing a number of new manufacturer brands to be added to the category, including Burns and Arden Grange (in FY13) and, later (in FY14), Meowing Heads. Pets at Home also introduced Wainwright's for Cats into the advanced nutrition food category in FY14 with a range of wet and dry foods to join its other private brand Purely, a natural cat food.

Other pet foods

Pets at Home stocks a range of pet foods for a large number of other small mammals, fish, reptiles, birds and wildlife. Pets at Home also sells chicken food and seed mixes, peanuts and other treats for birds and other wildlife.

Pet treats

Pets at Home has an extensive range of treats for the majority of pet types. There are three types of treats on offer: (i) own label; (ii) private brand; and (iii) manufacturer brands. Alongside the range of packaged treats, there is also a range of dog treats which are sold loose in a 'pick'n'mix' format.

Pets at Home's range of pet treats is summarised below:

Pet type	Manufacturer brand	Own label	Private brand
Dog	Pedigree	Pets at Home	Wainwright's
	Bakers		Wainwright's Grain Free
	Wagg		Peppers
	Smart bones	Pick'n'mix loose treats	Fishmongers
	Eukanuba		
	Arden Grange		
	Vitakraft		
	Antos		
	Stagg Bar		
Cat	Whiskas	Pets at Home	Pickles
	Dreamies		Wainwright's for Cats
	Felix		Purely
Small animal	Vitakraft	Pets at Home	Woodlands
			Pick and Mix
Bird	Vitakraft	Pets at Home	

Pet accessories

Pet accessories are products that are either worn by, played with, treated on or used on pets which are not physically consumed by the pet itself. Pet accessories also include animal health and hygiene products.

As of 21 February 2014, Pets at Home's pet accessories category comprised over 4,500 own label, private brand and manufacturer branded products catering for a wide variety of pets, comprising dogs, cats, small mammals, fish, reptiles, birds and other wildlife. The Group's revenue from pet accessories has grown at a CAGR of 6.0% in the two financial years to FY13. The Directors believe this growth has, in large part, been driven by offering customers product innovations and improved product quality as a result of the opening of the Asian office and by customers placing increasing emphasis on the health and well-being of their pets.

The Directors believe that the pet accessory market closely follows the same trends as witnessed in the human market, including design trends, fabric and technological development and adopts humanised marketing approaches.

Own label and private brand pet accessory ranges

The Directors believe that, through Pets at Home's successful launch of own label and private brand products, which are exclusively available in Pets at Home's stores and the Pets at Home Website, Pets at Home is helping drive the market for pet accessories, in which brands have historically been less developed than in the pet food market. The Directors believe that Pets at Home has built significant brand equity through its own label pet accessories as well as its private brand ranges such as Wainwright's, 3 Peaks, Ruffer and Tuffer, Willows and Woodlands. The percentage of Pets at Home's gross store accessories revenues represented by Pets at Home's own label and private brand pet accessories was 49.8% for YTDQ314 and was 46.9% for FY13 (FY12: 44.9%).

Pets at Home is focusing on product differentiation and the application of human style trends and has invested in a private brand team that is responsible for analysing market trends and selling brands, setting the trend direction and the packaging and physical design of own label and private brand products. The private brand team seeks to ensure that Pets at Home has exclusivity in the UK over some products which Pets at Home has created, which the Directors believe distinguishes Pets at Home from the competition.

Pets at Home believes that product innovation is crucial. Pets at Home invests significant time in attending leading pet fairs around the world, including Florida, Las Vegas, Milan, CIPS (China) and Nuremburg, to keep informed of products, style and innovations within the pet category. The Pets at Home team regularly visits leading retailers of human and pet products each year both in the UK and around the world and seeks to incorporate, if the Directors' believe appropriate, trends which are influencing the human market within the pet category. For example, Pets at Home introduced gingham heart dog beds in 2012 in response to the increasing use of gingham by home accessories retailers.

Own label, private brand and innovation areas are resourced by a dedicated Head of Innovation, supported by a team of design, packaging and production Colleagues. Each year over 2,500 SKUs are replaced as a result of the innovation and range review processes.

Dog and cat accessories

Pets at Home stocks a range of own label, private brand and manufacturer branded accessories for dogs and puppies, including bedding, collars, leads, feeding bowls, clothing, toys, grooming accessories, training and behavioural accessories and travel accessories. Dog accessories include own label products under the Pets at Home brand, including Pets at Home Value, sold as opening price point products, and Pets at Home core, sold as mid-range products, as well as private brands, including Wainwright's, the 3 Peaks range of accessories for outdoor dogs, the Ruffer and Tuffer range of accessories for more powerful dogs, and the Buttons and Bears range of accessories for puppies. Pets at Home also introduces ranges of dog accessories for certain seasons and events, such as the range of Christmas-related accessories. In addition, Pets at Home stocks dog accessories under manufacturer branded lines such as Flexi, Kong, Nylabone and Simple Solution.

Pets at Home stocks a range of own label, private brand and manufacturer branded accessories for cats, including cat litter, litter trays, collars, toys, feeding bowls, beds and cat furniture. Cat accessories include private brand products under the Willows (natural cat accessories) brand and Baby Bea (kitten accessories) brands. Manufacturer brands include names such as Catsan and Kong.

Pets at Home has developed important relationships with many of the leading branded pet accessory manufacturers and license holders around the world. Through these relationships Pets at Home is often able to gain periods of exclusivity on new products launched into the UK. New product ranges are displayed in dedicated 'innovation spaces' in various parts of stores for certain periods.

Health and hygiene pet accessories

Included within its pet accessories product group, Pets at Home also offers a range of pet health and hygiene products. These include house hygiene products such as puppy pads under Pets at Home's own label and manufacturer branded lines such as Simple Solutions, as well as grooming products under brands such as Furminator (a de-shedding tool), Mikki and a range of shampoos and sprays under manufacturer brands, own label and private brands such as Groom Room. Pets at Home also offers a range of standard flea and worming treatments under brands such as Bob Martin and Johnsons, as well as general dog and cat treatments, remedies and supplements. In addition, Pets at Home offers a range of pet health and hygiene accessories for other small animals and wildlife such as birds.

In addition, Pets at Home sells certain licensed medicines for pets that can only be sold by persons who are suitably qualified under the relevant legislation, including Frontline (flea treatment for dogs and cats), Drontal (worming products for dogs and cats), Panicure (medication for rabbits) and licensed horse worming treatments. Pets at Home also has a private brand licensed flea treatment range called Fiproline which contains the same active ingredients as the leading manufacturer brands.

Other pet accessories

Pets at Home offers a range of accessories for small animals, including housing, bedding, health and hygiene products and toys. These accessories include private brand products under the Woodlands brand. Pets at Home offers a private brand range of aquatics accessories, including fish tanks, lighting, heating, plants, gravel and ornaments under the Love Fish brand as well as the major manufacturer brands such as Aqua One, Fluval and Tetra.

Pets at Home offers a range of accessories for pet chickens, including start-up kits, coops and runs. Pets at Home also has a range of own label reptile accessories, including vivaria, food bowls and hideaways. In addition, Pets at Home offers accessories for other wildlife such as a range for birds, including cages and feeders.

Services and other

Veterinary services

The Group operates the UK's second largest small animal veterinary business by combined number of surgeries and is the largest joint venture operator in the market. As of 21 February 2014, the Group had a total of 250 small animal veterinary surgeries comprising 133 in store joint venture veterinary surgeries, seven in store wholly owned veterinary surgeries and 110 standalone joint venture veterinary surgeries, at convenient locations separate from the Group's store portfolio.

The following table sets out an overview of the Group's veterinary business as of 21 February 2014:

	Standalone	In-Store
Vets4Pets	106	22
Companion Care	4	118
Average number of vets per practice	3	3
Average number of customers	2,779	3,711
Average number of visits per year	14,255	15,672

Vets4Pets and Companion Care surgery figures are as of 21 February 2014. Other data is for FY13.

Veterinary surgeries are generally established on a joint venture basis between the Group and the joint venture partner responsible for each surgery. Each veterinary practice is a separate company, jointly owned by Pets at Home and a veterinary joint venture partner, the veterinary joint venture partner having economic ownership of the practice and Pets at Home receiving fee income for the provision of back office services. These veterinary practices are not subsidiaries of the Group and operate as independent businesses, albeit under a common system of governance. Each of the Group's joint venture partners takes responsibility for the running of the surgery and pays a percentage of surgery revenues to the Group (for managing administrative and head office functions), plus service charge income payable to Pets at Home for the cost of space occupied within a Pets at Home store. Each new joint venture surgery is funded by a combination of loans to the joint venture surgery from a bank, the joint venture partner and the Group. As part of the external bank funding, the joint venture partner gives the relevant

bank a personal guarantee and the joint venture surgery gives the relevant bank fixed and floating charges over all or substantially all of its assets. Further, in the case of the majority of the joint venture surgeries set up under the Companion Care brand, a member of the Group (the "**Parent Guarantor**") provides the relevant bank a limited guarantee (the "**Parent Guarantee**") as well as fixed and floating charges over all or substantially all of the Parent Guarantor's assets. Each joint venture surgery provides a counter indemnity in respect of the obligations of the Parent Guarantor under the Parent Guarantee in relation to that joint venture surgery. The joint venture is required to first pay off the bank loans and then the Group's loans before repaying the joint venture partner's loan.

The percentage of surgery revenues received by the Group as fees for the services provided are recorded as revenues and the rental income is recorded as an offsetting item against the Group's rental charge in the Group's consolidated financial statements.

The surgeries offer a variety of services designed to provide premium clinical, surgical and preventative health care both to customers' pets, as well as to the pets under Pets at Home's care. All of the Group's surgeries have access to the latest technology and medicines. Veterinarians perform routine check-ups and services, such as flea control, worming, dental care, vaccinations, spaying and castrations, as well as more surgically advanced services, including orthopaedic and soft tissue surgery. Each veterinary surgery has an operating theatre for surgical procedures, as well as x-ray equipment, blood pressure, ultrasound and ECG technology. Each surgery is equipped with an in-house laboratory, which facilitates the efficient processing of blood and other diagnostic tests. The availability of a range of specialized orthopaedic equipment is designed to ensure that each pet receives high quality orthopaedic care in the surgeries performing specialised surgery. In addition, the surgeries generally contain isolation units to separate and treat those pets with contagious diseases, as well as cat and dog hospital wards, which are separate custom-built kennels for the housing and monitoring of cat and dog in-patients.

Grooming services

Pets at Home is the leading operator by number of pet grooming salons in the UK. As of 21 February 2014, Pets at Home had a total of 121 Groom Room grooming salons. The Directors believe that the Groom Room grooming salons provide customers with a further reason to visit the Pets at Home stores and, as such, build upon Pets at Home as a 'destination store' and enhance cross-selling opportunities. In addition, the Directors believe that the Pets at Home grooming salons act as a complementary in store service, and the knowledge offered by the grooming salon Colleagues helps drive sales in advanced nutrition food, licensed medication and other products such as ADAPTIL (a synthetic pet pheromone that helps comfort dogs).

Each grooming salon is operated by Pets at Home in store grooming Colleagues as part of the store team. Groom Room grooming salons offer dog bathing, clipping, conditioning, nail trimming and deodorising services. Selected in store Colleagues are also qualified to microchip pets. The salons also offer a wide range of spa packages which include vinegar rinse spa, facial scrub (which aids tear stain removal), teeth cleaning, tick removal, winter paw care and pawdicures. Pets at Home intends to grow its spa offerings to include mud baths, treatments that require application by suitably qualified persons and sea salt scrub. Pets at Home has also focused on innovations within its Groom Room grooming salons that the Directors believe have helped increase sales and enhance margins. For example, Pets at Home has introduced Happy Hoodies and Thundershirts, snug fitting garments designed to reduce pet stress during grooming, has offered a range of bandanas for sale in its salons and has used ADAPTIL within its salons to also reduce pet stress. Pets at Home has introduced new products such as a range of cat specific shampoos that will enable Pets at Home to launch a spa range for cats.

Pets at Home plans to grow future sales in grooming by, among other initiatives, linking the offerings to its VIP Club and offering discounts on Pets at Home's products to its VIP Club members. Pets at Home has recently used the VIP system to email discount vouchers to customers within a certain distance of a Groom Room grooming salon who have not used the salon services before. These offers include working closely with suppliers for additional offers on products when purchasing a full groom. Further, VIP members get early news of new Groom Room grooming salons opening near them. The Directors believe that these initiatives will be an attractive offer to pet owners and support the growth of Pets at Home's services revenues. As of 21 February 2014, the average price per groom was approximately £35.

The Directors believe that the pet grooming business is a predominately people business, and that groomers develop close relationships with their pet clients and the pet owners. As a result, Pets at Home has focussed on the training and engagement of its Colleagues in salons. As grooming is currently a largely unregulated market, the Directors believe that by setting its own high training standards, Pets at Home is setting the standards for the market in general. 'Power to Your Paws' is the Group's internal Colleague training programme, under which

Pets at Home provides training to shop floor Colleagues to become assistant stylists. This course enables Pets at Home to grow its own talent within the store and opens up a career path for Colleagues pursuant to which they can diversify, gain additional skills and progress quickly. The course is one day a week for 20 weeks, and, at the end, Colleagues are qualified to the 'Prep it' level (i.e. being able to bath and brush pets unsupervised). Further stages of development include stylists, salon managers and grooming development managers. Pets at Home has introduced 'Va Va Groom!', which is an engagement day with vets, the grooming team and store manager to educate Colleagues about the benefits of working together as one team.

During FY14, the Group continued to expand Groom Room grooming salons into Pets at Home stores where space was available, and the Group intends to open in as many new stores as possible with a grooming salon from the start of operations given considerations such as space and availability of trained groomers. Given the rapid pace of growth, the Group has increased the resources available in its support offices to support the development of new service offerings and the roll out of further salons. The Group works closely with suppliers who attend the Group's grooming events to deliver informative training, enhancing the knowledge of the Group from the teams about the Group's offers.

Pet insurance and care plans

Pets at Home pet insurance was launched in March 2011. Pets at Home acts as an "introducer appointed representative" (FCA reference number 543432) of BDML Connect Limited ("**BDML**") (FCA reference number 309140), a FCA regulated third party that arranges and administers pet insurance policies. The relationship is governed pursuant to the terms of an Introducer Appointed Representative Agreement dated 3 March 2011. Pets at Home's appointment as an "introducer appointed representative" is limited to effecting introductions and referring customers to BDML in respect of various pet insurance products and distributing marketing materials which relate to such pet insurance products approved by to BDML for the purpose of compliance with applicable FCA rules. Pets at Home's pet insurance is issued and underwritten by, Zenith Insurance Plc, a third party FCA regulated entity (FCA reference number 211787). Pets at Home facilitates introduction of potential customers to the insurance administrator through a number of marketing mechanisms including leaflets in store, other in store merchandising, the Pets at Home Website, pay per click advertising and search engine optimisation. All store-based Colleagues joining Pets at Home receive training on Pets at Home Pet Insurance. Pets at Home receives a commission for every insurance policy sold.

The Pets at Home Pet Insurance product range was developed with input from Pets at Home's in-house veterinarian to offer appropriate insurance coverage for Pets at Home's customers. Pets at Home offers insurance products for dogs, cats and rabbits. For dogs and cats, there are two types of policy, Classic and Premier, and within each of these there are two levels of coverage. Under the Premier policies, there is no time limit for how long the policy holder can continue to claim for each illness or injury that is covered, subject to the insurer continuing to offer renewal terms and the claim not exceeding the maximum coverage value within each year. Under the Classic policies, any illness or injury that is covered will only be covered for up to twelve months. For rabbits, Pets at Home offers only a Premier policy. Pets at Home policies offer extensive benefits, including coverage of veterinary fees for up to £9,000, dental cover and potential financial compensation in the event that a pet should become lost or stolen, require emergency boarding or incur third party liability costs. Benefits vary across the different policy types and are subject to terms and conditions.

For every policy that is sold, a £1 donation is made by the insurance administrator to Support Adoption for Pets.

In addition, Pets at Home offers two care plans, Complete Care and Vac4Life, through its veterinary business. The Complete Care health insurance plans are designed to cover regular medical essentials for pets, including vaccinations, worming and flea treatments, as well as semi-annual check-ups. Regular visits allow veterinarians to provide up-to-date flea and worm treatments and to monitor pets' overall health on an ongoing basis. Vac4Life is a lifetime vaccination health plan that provides booster vaccinations and annual health check-ups over the course of the insured pet's life. Specifically, Vac4Life is available through Vets4Pets to dogs, cats and rabbits and costs the owner a one-time fee of £99.

Other

The Group continues to offer other pet related services like advanced nutrition food consultations, neutraceuticals advice, acquaria water testing, microchipping services and dental checks across the estate, which complement the service offered by its veterinary surgeries and the Groom Room grooming salons.

Finally, the Group intends to further develop its VIP Club, which the Directors believe will allow the Group to continue to improve its knowledge of its customers, establish a direct and tailored relationship with customers

and their pets and increase sales to its core customer base. The Group tracks customer spend through the VIP Club, which gives the Group valuable information on customer preferences and helps the Group to increase cross-selling opportunities amongst its products and services.

6. Pet Welfare

The Directors believe that since Pets at Home's establishment, 'pets before profit' has been and continues to be one of its core values. Pets at Home offers a selection of small mammals (comprising rabbits, guinea pigs, rats, degus, chinchillas, gerbils and hamsters), insectivore reptiles (bearded dragons and leopard geckos), snakes, chameleons, fish and birds for sale in its stores. Pets at Home does not sell horses, cats or dogs. Pets are housed in modern aquaria and vivaria, 'bunny villages' and small animal housing. Reptiles were introduced in 2009 and are sold in 356 stores as of 21 February 2014. Pet sales contribute a very limited proportion of the Group's sales, however, the Directors believe that the presence of live animals in Pets at Home stores is a key differentiator, adding to the 'theatre' of Pets at Home stores, encouraging customer visits and driving sales of pet food and accessories.

Pets at Home is focused on selling well cared for, healthy animals to appropriate owners. Pets at Home in store Colleagues are trained to have a high level of pet knowledge and customer service and to share in the Group's mission to raise the standard of pet care in UK. This is done by educating customers about responsible pet ownership and by offering in-depth pet care knowledge. Pets are sold by trained in store Colleagues who provide advice to customers at the point of sale, as well as ongoing advice and after sale support.

The Group continues to support a range of initiatives to support and improve pet welfare across the United Kingdom. The Group aims to continuously improve its customer advice around pet care and plans to continue developing the resources of its pet team as well as upgrading and improving the facilities for pets whilst they are in the Group's care with the goal of ensuring compliance with the 'five freedoms' set out in the Animal Welfare Act 2006.

Pets at Home has separate field pet teams and a pet operations manager alongside area teams to support store operations. Moreover, the head veterinarian in charge of pet welfare does not report to the Group's commercial heads and instead reports to the Group's customer, people and development director.

Pets at Home's policy is to not sell pets to customers who Pets at Home believes will not be able to provide the care the pets require. For instance, Pets at Home recommends that rabbits and guinea pigs are always purchased in pairs. Following a study by the Edinburgh University Veterinarian school that showed certain health issues were caused in rabbits by the sale of rabbit muesli, Pets at Home withdrew muesli (a highly successful product) from sale and now Pets at Home encourages the use of nuggets instead.

All Colleagues are trained to administer in store weight checks on dogs and are trained to educate customers about the risks of diseases in pets (such as ringworm in guinea pigs, dietary and respiratory illness in rabbits and wet tail in hamsters) and the risks of handling a new pet, including providing the first week's food for no additional charge to help avoid a diet change.

Pets at Home regularly invests in pet welfare and has recently completed an upgrade of its in store fish system. Pets at Home has introduced LED lighting in fish tanks and small animal villages as such lights reduce heating in the tanks and enclosures and reduce the growth of algae in tanks, thereby reducing cleaning frequency and pet stress.

Pets at Home seeks to source pets from suppliers who are committed to maintaining high pet care standards. The Group has a number of primary pet suppliers in the UK (including aquatic and reptile suppliers) and Pets at Home seeks confirmation from such small animal suppliers that they are licensed by their local authority. Pets at Home operates under strict codes of practice for the breeding and transport of pets. These codes of practice are encapsulated into the terms of trade agreed with pet suppliers and compliance with them is monitored closely by the Group. Pets at Home recognises the importance of ensuring that its pet suppliers are diligent in the care of pets and carefully monitors and reviews its pet suppliers to ensure that rigorous standards of pet care are maintained.

Pets at Home is conducting in house transportation trials, which include a health check at the suppliers and puts Pets at Home in control of this aspect of the supply chain. Pets at Home also commissions quarterly swab tests for ringworm at all suppliers through an independent laboratory.

Pets at Home has a dedicated pet care team headed by a qualified veterinarian, comprising a small animal expert, an aquatic expert and a reptile expert, together with field pet managers who are directly responsible for specific regions and who regularly visit, monitor and support the maintenance of pet care standards at the Group's pet suppliers and stores. The Group's small animal suppliers are also reviewed by independent vets periodically. Terms of business are generally agreed annually with pet suppliers.

The Directors are committed to ensuring that the Group's products meet the highest quality and safety standards in the UK Pet Care Market. In FY13, Pets at Home developed and implemented two animal testing policies for food and non-food suppliers. These only allow non-intrusive testing of Pets at Home's products such as tasting trials on pet foods plus destruction testing on dog toys. These policies are now appended to the latest version of Pets at Home's in house quality manual and have been issued to all suppliers. Pets at Home is in the process of seeking confirmation of adherence of its suppliers with the relevant policy.

7. Community Engagement

The Group continues to build its relationships with the local communities in which it operates as the Group views this as a key contributor to its continued success. In 2012, the Group refreshed the Kids' Holiday Pet Club events which offer free workshops and competitions throughout the school holidays where children can meet, learn about and pet the animals. The club generally takes place during all school holidays of the year except Christmas, with a more concentrated event over Easter and summer holidays.

The Group supported the 2012 Great North Dog Walk, providing free goodie bags to all participants. The event is internationally recognised and broke the world record as the largest dog walk ever held, with 23,301 dogs attending. In a separate event, the Group also set the record for the world's longest dog lead.

In 2007, the Group helped to establish an independent charity, Support Adoption for Pets, to fund smaller re-homing charities across the UK. Based on reported 2012 re-homing data of re-homing centres like the RSPCA, Blue Cross and others, the Charity is the number one pet re-homing charity in the UK. In 2013, it facilitated the adoption of over 60,000 pets. The Charity remains at the heart of the Group's local community work and is a cause about which the business feels passionately. Since its establishment, the Charity has awarded over £4.5 million in grants to a variety of local and national animal re-homing charities and rescue centres as at the end of FY13. The Group plans to open all new stores with a Charity animal re-homing centre, and the Group continues to expand the number of third-party animal re-homing centres and charities with which it partners. The Charity also launched a new dedicated website which gives the Charity greater visibility and easier access for other charities to apply for funding to help find homes for as many pets as possible that do not have a home. As of 21 February 2014, the Group had adoption centres in 348 stores, including seven re-homing centres for the RSPCA, The Dogs Trust and Battersea Dogs and Cats Home.

The advent of the VIP Club, whose reward currency for shopping is 'Lifeline' points, allows the Group to further support its customers' nominated pet charities, as the points convert into gift cards which the customers' nominated charities can spend in Pets at Home stores. Due to the success of the Lifelines programme, the Group entered into an agreement in July 2013 to provide £2 million worth of Wainwright's food (at retail value) to feed dogs awaiting re-homing at The Dogs Trust re-homing centres across the UK over a three-year period.

As part of its strategic partnership with the RSPCA, the Group has launched a range of co-branded pet care leaflets which are available free in store and are given away with every pet purchased. In addition, the RSPCA's Chief Vet has worked in partnership with the Group's Head of Pets to develop closer links with the Group's primary pet suppliers, including making on site visits to these suppliers.

'My Pond League', which measures in store workshops, school visits and scout visits continues to be an important part of the Group's engagement with the local community. Throughout FY13, the Group carried out over 18,000 events in stores with over 50,000 attendees. This is a combined figure that includes general pet events in each store, school visits and scouts/cubs visits and represents a 30% increase on the previous year.

8. Operations

Pets at Home retailing

As of 21 February 2014, Pets at Home operated 371 stores across the UK encompassing in total over 2,470,568 million square feet of retail space and employing over 5,295 in store Colleagues.

Retail stores

Pets at Home stores are predominantly located in retail parks, chosen for their visibility, ease of access and availability of car parking. In the six financial years to 28 March 2013, the number of Pets at Home stores has grown from 213 to 345. As of 21 February 2014 the Group operates from 371 stores.

The following table sets out an overview of the Group's stores by type as of 21 February 2014:

	Flagship	Superstore	Small Superstore
Number of Stores	5	319	47
Average Sq. ft.	13,245	6,969	3,856
Average SKUs	6,170	5,552	4,215
Vets in store	5	132	3
Groomers in store	5	108	6
Number of Bays per store	265	210	133
Number of Stores with a mezzanine	2	32	4

Omni-channel retailing

The Group's omni-channel offering now ranks as the largest 'store' by revenue in the Group's network. At 22 February 2014, Pets at Home's Website had approximately a 42% share of UK online pet retail traffic over the preceding four weeks, compared to Amazon Pet Supplies, which had approximately a 13% share (*Source: Hitwise*). Pets at Home is a full omni-channel pet retailer, enabling customers to shop in store or online, reserve products and collect in store, order in store and have delivered to the home, or order in store for delivery to store. Pets at Home's Website carries approximately 8,100 SKUs as of 21 February 2014 and in the medium term Pets at Home plans to extend that range to approximately 10,000 SKUs. In addition, Pets at Home's websites contain information about pets and pet care, pet adoption and links to several relevant sources of information for pet owners. Pets at Home's websites help the Group cross-sell the in store Pets at Home experience. In FY13, Pets at Home increased its specialist ranges offer through the acquisition of Ride-away, an equine specialist store, website and catalogue. Omni-channel merchandise revenue accounted for 2.4% of Pets at Home's total merchandise revenue for YTDQ314 and 1.4% in FY13.

The logistics services for fulfillment of Pets at Home's online transactions are outsourced. Distribution of products purchased online is made by various means dictated by the size of the products to be delivered.

In January 2014, Pets at Home re-launched its web platform, integrating store services by allowing customers to book appointments online and increasing the available product range for sale. The Group is also in the process of launching a trial of 'deliver to store', allowing customers to order at home or in store for collection in store for no additional charge.

The development of Pets at Home's Website operations are outsourced to a third party and jointly project managed. The Group's strategy is to create a common systems platform for all of the Group's website operations encompassing Pets at Home, Vets4Pets and Companion Care and Ride-away.

Veterinary operations

The Group has recently integrated its veterinary business following the acquisition of Vets4Pets in March 2013. A central support operation has been established in Oxfordshire to focus on delivering high quality services to enable the Group's joint venture partners to focus on clinical excellence and first class pet care.

The Group provides its joint venture partners with a range of practice support. As part of new practice development, the Group's recruitment team and the regional people advisor assist the joint venture partner to build his or her surgery team (including locum vet covers, qualified nurses, animal care assistants and receptionists). Assistance includes sourcing of candidates and administrative assistance like correspondence with applicants and organization of interviews. The Group's veterinary operations team, which consists of three regional heads of operations, 15 operations managers and nine operations advisors, are experts in the operational aspects of running a veterinary business and are able to advise joint venture partners across all areas of the business. Under the supervision of the regional heads, the operations managers act as the partner's business consultant and the first point of contact. They act as a conduit to the specialist teams within the support offices. The operations advisors are knowledgeable and experienced in the day to day running of a surgery and can assist the joint venture partner with training of the surgery team as required. The operations advisors seek to advise on the best practice processes and procedures for each surgery. The Group provides the partner ongoing support,

including through a monthly business review meeting with the operations manager, continued support from the operations advisor team, periodic analysis of business performance in line with the business plan and full office based support with communications and client feedback. The Group also assists each joint venture partner with their learning and development and continuing professional development needs and with Colleague relations through establishment of standards of employment contracts and payroll, uniforms and badges, general guidance and advice, performance management, disciplinary actions and grievances. The Group's information technology ("**IT**") team provides the joint venture surgery with IT and communications equipment, practice management system facilities and support services designed to ensure business continuity and the finance and accounting team provides finance and accounting support, from helping to secure the initial funding through to delivering regular periodical accounting.

The Directors believe that the integration of the veterinary business establishes the Group as the second largest player in the small animal veterinary market which, according to the Royal College of Veterinary Surgeons 2013 Annual Report, was served by over 5,000 veterinary surgeries in the UK, enabling Pets at Home to grow a network of veterinary surgeries both in its stores and at standalone locations. The Group intends to migrate all veterinary surgeries to the Vets4Pets brand over time with the support of its joint venture partners.

Supply

The Directors believe that the Group's scale allows the Group to achieve significant buying and shipping efficiencies.

Food

As of 2 January 2014, Pets at Home had approximately 112 suppliers for food products. In YTDQ314, the top 10 food suppliers accounted for 48% of costs of products sold. The supplier that accounted for the largest percentage of the costs of products sold accounted for 11% of costs of products sold in the same period. 97% of food products as of 2 January 2014 were sourced directly from suppliers in the UK.

Accessories

As of 2 January 2014, Pets at Home had approximately 245 suppliers for accessories. In YTDQ314, the top 10 accessories suppliers accounted for 12% of costs of products sold. The supplier that accounted for the largest percentage of the costs of products sold accounted for 3% of costs of products sold in the same period. 39% of accessories as of 2 January 2014 were sourced from outside the UK.

Terms of business are generally agreed annually with suppliers. These agreements typically cover quantities, prices and general terms of trade.

Warehousing and logistics

The Directors believe that the current distribution centres in conjunction with a planned investment programme of £3.0 million across both distribution centres for the period from FY14 to FY16, including £1.6 million to extend the mezzanine capacity, will mean that there will be no requirement for a third distribution centre within the current three year planning horizon ending FY17 based on the Directors' expectations in respect of volume growth within that planning horizon. The Directors believe that this investment programme will provide operational leverage as the business continues to grow.

Pets at Home operates two distribution centres, its northern distribution centre ("**NDC**") in Stoke on Trent of approximately 330,000 square feet (which the Directors believe can serve a maximum of 290 Pets at Home stores) and its southern distribution centre ("**SDC**") in Northampton of approximately 303,000 square feet (with capacity for additional mezzanine space to be added and which the Directors believe can serve a maximum of 240 Pets at Home stores). The distribution centres employed 644 Colleagues as of 21 February 2014 who are responsible for product storage and the delivery of products to Pets at Home stores across the UK. In FY13, 85% of deliveries from the distribution centres were made via the Group's 'Airlock' system whereby a two person team delivers directly to the shop floor overnight, which minimises delivery related disruptions to in store operations during the day. Distribution operations run 24 hours a day (excluding Christmas day), seven days a week. Both the NDC and SDC held approximately 17 days of stock on average in FY13.

Pets at Home also uses third-party storage facilities on a temporary basis as and when required specifically during seasonal peaks for directly imported goods and other bulk pallet storage to augment capacity at the NDC and SDC.

Whilst Pets at Home has currently engaged a third party to provide warehouse management systems and process all customer orders placed through its Website, the Group expects to in-source over time its warehouse and logistics operation to make the best use of the Group's infrastructure investments in warehouse management systems.

Pets at Home operates its own dedicated, liveried fleet of vehicles, delivering products to Pets at Home stores at a delivery frequency on average of between two and seven times per week (for stores with the highest revenue). Pets at Home operates double decker delivery trailers to support high volume store deliveries and vehicle routing is managed via the Group's Paragon IT system with satellite tracking to manage and monitor performance. The dedicated fleet is supplemented by third party contractors, who utilise their extensive networks and deliver to the outer areas of the Pets at Home store network (for example Northern Ireland and the Highlands in Scotland). This provides a lower cost solution in respect of distribution to these areas.

9. Colleagues

As of 21 February 2014, Pets at Home employed 6,592 Colleagues within the Group including the Group's wholly owned veterinary surgeries, veterinary services companies and Ride-away. The joint veterinary surgeries employed 2,350 Colleagues as of 21 February 2014. Part time Colleagues made up 46.8% of the Colleague population as of 21 February 2014. Colleague growth has been driven primarily by the opening of new stores, new veterinary practices and related support functions to facilitate the growth in the Group's business over time. The Group's Colleague base is not unionised and the Group has not been subject to any material labour dispute with its Colleague base in the past.

The role that highly engaged, highly trained Colleagues play in the business is fundamental to the success of the Group's business model. The retention and engagement of Colleagues are key performance indicators within the business. Colleague retention was 83.2% in FY13, having increased from 54.1% in the 2007 financial year, and has been maintained at an average in excess of 80% over the past three financial years. At store manager level, 77% of store managers had worked for the Company for at least three years as of 21 February 2014. Engagement is measured via an internal survey called 'We're All Ears' and this measure was at 93.2% in FY13 compared to 90.5% in FY12. Pets at Home's Colleagues throughout the business owned approximately 23,000 pets in their own homes (based on a survey of all employees conducted in December 2013).

Following on from its 2010 Specialty Retailer of the Year Award by Oracle Retail Week, the Group participated in The Sunday Times Best Companies awards, and was recognised as The Best Big Company to Work For in the UK in 2013, after having placed second in the same awards in 2012. In 2014, the Group intends to enter the Great Place to Work survey participating in the Best Workplaces in the UK later in the year. As this survey is also conducted across the world, the results will establish an international benchmark of the Group.

Colleagues are recruited for their passion for both pets and people, for their ability to work as a team and their desire to share their love of pets with customers. A comprehensive Colleague selection process, including group interviews, work trials and a traditional interview helps ensure the selection of Colleagues with the right attitude and aptitude. A structured training programme known as 'Steps' is mandatory and takes a minimum of nine months to complete. Step One and Step Two cover all the training required to sell pets, serve customers and complete the tasks required in store. All Colleagues are encouraged to complete Steps One and Two within their first 12 months and are rewarded with a pay increment upon completion. The option to continue to specialise further is available to Colleagues, and Step Three allows selected Colleagues to complete a further programme in either aquatics, small animal, reptile, dog or cat. An additional pay increment is available upon successful completion. Each store aims to have a minimum of four Step Three trained Colleagues who supplement the expertise offered to customers. Step Four is an additional expertise programme which develops aquatics, reptile and small animal experts for each geographical area, providing coaching and support for the stores within that geography whilst still being store-based themselves. Once qualified, Step Four Colleagues are entitled to a further salary increment. All of the above programmes are delivered via training modules on 'PetsatHomePortal', a learning management system, training books, on the job coaching and external courses.

A breakdown of the Group's in-store Colleague and veterinary expertise as of 21 February 2014 is set out below:

Type	No. of Colleagues
Suitably Qualified Persons or SQPs	1,441
Nutrition Consultants	1,314
Micro-chipping qualified	1,181
Veterinary Surgery Colleagues	2,405
Groom Room Colleagues	512

Note: Certain product lines sold by the Group including, in particular, licensed medicines such as flea and worming treatments for dogs and cats, require in store Colleagues who are suitably qualified persons ("**SQPs**") under relevant legislation in order for Pets at Home to be permitted to sell these products.

In addition, as of 21 February 2014, the Group had 644 and 368 Colleagues in distribution and central support roles, respectively.

To encourage trained pet experts to stay with the Group, a culture of reward and recognition has been built known as the 'Carrot Culture'. Rewards include the 'Earn As You Learn' scheme and an all Colleague bonus scheme alongside short-term incentives, reward vouchers and thank you cards. Birthday Leave allows Colleagues to take their birthday off, and long service is rewarded with certificates, presents and extra holiday. Bringing the Group's values to life is a key way of working, and creating many opportunities for the Colleagues across the business to have fun whilst they work is regarded as an essential element in the creation of an engaged culture. Delivery of the engagement score via 'We're All Ears' is a key performance indicator included in senior managers' bonus schemes. As part its incentive arrangements for Colleagues on and following Admission, the Company has adopted the Colleague Share Schemes. For more information see Section 7 (*Colleague Share Schemes and Colleague Trusts*) of Part XVIII (*Additional Information*).

Management development for the retail business follows a structured programme from 'Rising Stars' to 'FastTrack', allowing Colleagues to progress from Colleague to store manager. As of 21 February 2014, 40% of store managers had been promoted from within the business.

Within the Group's support offices and distribution centres, there is a range of development programmes from the 'WOW' day, (a feedback and communication day with Colleagues), and structured induction programme to the 'LEAD' programme, a development programme for the senior rising stars led by the executive team.

Strong communication at all levels of the business is another key aspect of an engaged, motivated Colleague team. The Directors spend time listening to the views of Colleagues and acting upon the feedback Pets at Home has organised listening groups with store managers, store visits, the 'Think Tank' scheme, 'FastTrack' projects and the twice yearly all Colleague roadshows. The Directors firmly believe that all these measures contribute to improving the business and enhancing the engagement of Colleagues.

The Group aims to deliver 'Pawsitively Outrageous Service' through engaged, highly trained, passionate Colleagues. Customer service is measured through the Net Promoter Score ("**NPS**") gathered through Fish4opinion.co.uk, a customer service survey website operated by the Group. NPS as utilised by the Group is an internal operational measure and is not directly comparable with more general NPS measures due to the method of collection. The Group's NPS score measured by this survey has increased from 75% in FY11 to 84% in FY13, during which year the Group exceeded its target by 4% (which the Directors consider to be a key milestone). The Directors believe that its highly engaged and highly trained Colleagues have driven these recent increases in NPS. The Group continues to strive to improve customer service and in turn this measure.

10. The Group management system

The main software used by Pets at Home in store is BT Expedite's Connected Retailer ("**BTE**"). BTE provides core till functionality at the point of sale together with back office functionality to support key operational processes. The system also performs all in store stock management via wireless hand held terminals. Pets at Home's credit/debit card authorisation is via Integral's Payrouter software which is fully integrated with the BTE till software. This key operational system is fully replicated at a second site and credit card processing is supported by a dual path infrastructure to maintain service.

Episys' Retail Enterprise Suite is used by the Group for the central production and in store printing of barcoded shelf-edge labels, shelf-edge barkers and other point of service materials up to A4 in size. The system is integrated with BTE to maintain consistency of price, promotions and product descriptions.

The BTE and Episys systems are 'enterprise' systems with each till and hand held terminal directly connected in real-time to the central systems. All tills can function in an 'off-line' mode should the communications line be unavailable.

The main software used in the Group's support offices is SAP, which was implemented in May 2013. SAP provides functionality for product price and promotions management as well as providing the core financial systems for the Group and a central human resources system. Business reporting is provided via a combination of

SAP Business Warehouse and SAP Business Objects. SAP is expected to provide the platform for retail support office systems going forward with additional modules expected to be deployed as the Group's scale and complexity increases. An example of this is the implementation of SAP's Business Planning and Consolidation module that is planned to replace the legacy Commshare system in 2014.

The warehouse management system used across both distribution centres is currently provided by Swisslog. The Group currently has a project underway to replace Swisslog with JDA's Warehouse Management Solution (formerly known as Red Prairie) a leading software platform and expects to complete the implementation of the new warehouse management system in mid-2014.

The main software used as the foundation of the Group's omni-channel operations is IBM's Websphere Commerce Suite which provides all the functionality the Group requires for its omni-channel operations and is fully integrated with the Group's BTE store system.

The Group also utilises space planning, forecasting and replenishment, fraud management and payroll software solutions from third-party vendors to support its operations.

Integration between systems is managed in-house using Microsoft BizTalk and it is Pets at Home's strategy to wherever possible leave system vendor's standard interfaces intact and to use BizTalk to manage the connections between systems and convert data into the correct format for processing in those systems.

The Group has invested heavily in a robust and resilient systems infrastructure. All key systems are hosted in-house, with the exception of the website which is managed by CSI and the VIP loyalty database which is hosted by a third party. All systems are virtualised under VMW except where the Group has an explicit vendor recommendation for servers to stay physical. Virtualisation protects the business against physical server failures and critical operational systems, such as BTE and SAP also use database cluster technology to give immediate back up operational capability. The Group has deployed IBM's XIV 'on demand' enterprise storage array technology for all its storage needs.

The Group has a disaster recovery site located at the NDC in Stoke that contains redundant servers for all its key systems. Data is replicated in real-time to a second IBM XIV enterprise storage array connected to disaster recovery servers at this secondary site. Redundant duplicate communication lines are in place between the NDC, the SDC and the support offices and then on to the BT 'cloud' that connects to individual stores via BT business broadband.

With regard to the Vet surgeries, a project is underway to relocate and upgrade the Practice Management Systems ("**PMS**") of both Companion Care (Services) Limited ("**CCSL**") (Jupiter's Voyager system) and Vets4Pets (RXWorks) and bring them into the Pets at Home enterprise architecture described above, including real-time data replication to disaster recovery servers, to further leverage the significant investment in the underlying architecture. A process is underway to select a single PMS for the Group going forward. Systems local to veterinary business support offices such as the Sage Snowdrop HR system and the Open Accounts finance system are hosted locally in their support office.

The Group intends to continue with its plan to upgrade and improve existing information technology systems and infrastructure to provide additional functionality, scaleability and resilience as the Group's business grows. A recent example of this improvement in IT capability has been PetPad, a suite of mobile applications running on iPad minis that has recently been deployed to Pets at Home stores.

11. Dividend policy

The Board's current intention is to adopt a progressive dividend policy whilst maintaining an appropriate level of dividend cover. This policy will allow the Group to retain sufficient capital to meet both the working capital needs of the business and to fund the planned continued expansion of the Group. The Board's current intention is to target an initial payout ratio of approximately 30-40% of fully taxed earnings, split one-third and two-thirds between interim and final dividends respectively.

In the absence of unforeseen circumstances, the current intention of the Board is that the first dividend to be declared by the Company following Admission will be a dividend paid in respect of the first half of fiscal year 2015.

PART VIII

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Tony DeNunzio CBE (Chairman) Dennis Millard (Deputy Chairman and Senior Independent Non-Executive Director) Nick Wood (Chief Executive Officer) Ian Kellett (Chief Financial Officer) Brian Carroll (Non-Executive Director) Paul Coby (Independent Non-Executive Director) Tessa Green CBE (Independent Non-Executive Director) Amy Stirling (Independent Non-Executive Director)
Company Secretary	Louise Stonier
Registered Office	Epsom Avenue Stanley Green Trading Estate Handforth Cheshire SK9 3RN United Kingdom
Sponsor	Merrill Lynch International 2 King Edward Street London EC1A 1HQ United Kingdom
Joint Global Coordinators and Joint Bookrunners	Goldman Sachs International Peterborough Court 133 Fleet Street London EC4A 2BB United Kingdom KKR Capital Markets Limited Stirling Square 7 Carlton Gardens London SW1Y 5AD United Kingdom Merrill Lynch International 2 King Edward Street London EC1A 1HQ United Kingdom
Co-Lead Manager	Nomura International plc 1 Angel Lane London EC4R 3AB United Kingdom
Legal Advisers to the Company as to English and US law	Simpson Thacher & Bartlett LLP CityPoint One Ropemaker Street London EC2Y 9HU United Kingdom
Legal Advisers to the Underwriters and Sponsor as to English and US law	Clifford Chance LLP 10 Upper Bank Street London E14 5JJ United Kingdom
Reporting Accountants and Auditors	KPMG LLP St James' Square Manchester M2 6DS United Kingdom
Registrars	Computershare Investor Services Plc The Pavilions Bridgwater Road Bristol BS99 6ZZ United Kingdom
Public Relations Advisers to the Company	Brunswick 16 Lincoln's Inn Fields London WC2A 3ED United Kingdom

PART IX

DIRECTORS, SENIOR EXECUTIVES AND CORPORATE GOVERNANCE

1. DIRECTORS

The following table lists the name and position of each Director.

Name	Position
Tony DeNunzio CBE	Non-Executive Chairman
Dennis Millard	Senior Independent Non-Executive Director and Deputy Chairman
Nick Wood	Chief Executive Officer
Ian Kellett	Chief Financial Officer
Brian Carroll	Non-Executive Director
Paul Coby	Independent Non-Executive Director
Tessa Green CBE	Independent Non-Executive Director
Amy Stirling	Independent Non-Executive Director

The business address of each of the Directors is Epsom Avenue, Stanley Green Trading Estate, Handforth, Cheshire SK9 3RN.

The management expertise and experience of each of the Directors is set out below:

Tony DeNunzio CBE, ***Non-Executive Chairman***

Tony joined Pets at Home as Non-Executive Chairman in March 2010. Tony is also non-executive chairman of Maxeda (the second largest DIY retailer in the Benelux), non-executive director of Alliance Boots, and was the former president and chief executive officer of Asda from 2002 to 2005. Tony brings vast retail experience and knowledge to the Pets at Home team.

Tony was previously chief financial officer of Asda and deputy chairman of Galiform (now Howdens). He started his career in the fast-moving consumer goods sector with financial positions in Unilever, L'Oreal and Pepsico. He has been chairman of the advisory board of Manchester Business School and was awarded a CBE for services to retail in 2005.

Dennis Millard, ***Deputy Chairman and Senior Independent Non-Executive Director***

Dennis is currently the chairman of Halfords Group plc having joined in 2009 and is also the chairman of Smith News PLC having joined the group on 31 August 2006. Dennis is also currently a non-executive director and senior independent director of each of Premier Farnell plc (since 2007) and Debenhams plc (since 2006). Dennis was finance director of Cookson Group plc from 1996 to 2005 and was a non-executive director of each of Xchanging plc from 2005 until 2012 and Exel plc from 2003 until 2005. He is Chairman of Trustees of the charity The Holy Cross Children's Trust. Dennis owns two dogs.

Nick Wood, ***Chief Executive Officer***

Nick joined Pets at Home as Chief Executive Officer in June 2012. Prior to that, from 2008 Nick was chief executive officer of American Golf, a leading retailer of golfing equipment in the UK with over 90 standalone stores. Prior to that Nick spent ten years with DSG International plc (now Dixons Retail) where he was a member of the executive committee and held a number of senior management roles including as managing director of The Link, a mobile phone retailer, and as managing director of Dixons. Nick graduated from Gonville and Caius College, Cambridge in 1989 with a Masters Degree in Manufacturing Engineering. Nick owns two dogs.

Ian Kellett, ***Chief Financial Officer***

Ian joined Pets at Home as Chief Financial Officer in April 2006. Ian's previous responsibilities included business systems and logistics but he is now primarily responsible for the Group's finance and supports the group's veterinary business as a member of their operational board. Previous to his time at Pets at Home, Ian was finance director of Staples' retail business in the United Kingdom between 2004-2006 and deputy finance director of JD Wetherspoon plc between 1999 and 2004. Ian owns four dogs.

Brian Carroll, ***Non-Executive Director***

Brian joined Pets at Home as a Non-Executive Director in 2011. Brian is a member of Kohlberg Kravis Roberts & Co. Partners LLP, joining the buyout firm in 1995, and is currently head of the consumer and retail teams in Europe. Brian is also a member of Kohlberg Kravis Roberts & Co L.P.'s European investment committee. Brian is currently also a member of the boards of directors of Laureate Education International, Cognita Holdings Limited, SMCP SAS and Northgate Information Solutions Limited. Prior to joining Kohlberg Kravis Roberts & Co L.P., Brian was with Donaldson, Lufkin & Jenrette where he worked on a broad range of high yield financing, corporate finance and merchant banking transactions. He has a B.S. and B.A.S. from the University of Pennsylvania, and an M.B.A. from Stanford University Graduate School of Business.

Paul Coby, ***Independent Non-Executive Director***

Paul has been IT director at John Lewis since March 2011, where he has launched a new platform for johnlewis.com, and installed a new ePOS (electronic point of sale) system. Before this, Paul was CIO at British Airways for 10 years, where he helped to develop ba.com including calendar-based selling of flights, self-service check-in and the ability to combine flight bookings with hotels and other services online. Paul is also chair of SITA (Societe Internationale de Telecommunications Aeronautique), the global provider of systems, solutions and telecommunications to the air transport industry, and a member of the board of P&O Ferries. Before joining British Airways, Paul was a civil servant in the Departments of Transport and Environment, where Paul worked in ministerial private office and on roads, rail and local government policy. He studied History at Cambridge University and owns one dog.

Tessa Green CBE, ***Independent Non-Executive Director***

Tessa was chairman of the Royal Marsden NHS Foundation Trust from 1998 to 2010 and was the founding chairman of The Royal Marsden Cancer Campaign. Prior to this, Tessa qualified as a barrister and worked as head of corporate affairs at Carlton Communications Plc. She was a trustee of The National Portrait Gallery and is currently a non-executive director of the Barts Health NHS Trust and a trustee of the Royal Foundation of the Duke and Duchess of Cambridge and Prince Harry. Tessa owns one dog and three horses.

Amy Stirling, ***Independent Non-Executive Director***

Amy was the chief financial officer of TalkTalk Telecom Group Plc until May 2013 having been with TalkTalk since its formation as part of the Carphone Warehouse Group Plc. Prior to this, Amy held various senior finance and management positions at the Carphone Warehouse Group since joining in 2000. Amy is currently the chief financial officer of The Prince's Trust and is a chartered accountant and owns one cat.

2. SENIOR EXECUTIVE BOARD

The Company operates a senior executive board which is responsible for the day to day operations of the Group comprising the Executive Directors listed above and the following Senior Executives:

Name	Position
Sally Hopson	Customer, People and Development Director and CEO of the Group's veterinary business
Peter Pritchard	Commercial Director
Phil Hackney	Logistics and Business Systems Director

The management expertise and experience of each Senior Executive is set out below:

Sally Hopson MBE, ***Customer, People and Development Director and Chief Executive Officer of the Group's veterinary business***

Sally is the Customer, People and Development Director, and chief executive officer of the group's veterinary business with overall responsibility for retail and central operations, human resources, store and format development, live pets, services (both veterinary and grooming). She has been at Pets at Home for 5 years, joining in December 2008, from Asda, where she held a number of senior roles over a 14 year period. A graduate of London University, Sally has worked in retail her entire career. She is a non-executive director of JWLees, a regional brewer in the North West England and on the board of The Institute of Employment Studies, a non-profit organisation. A particular interest in diversity led to a 4 year role on the Women in Work Commission and Learning and Skills Council and she was awarded an MBE in 2006 in recognition of her work on diversity. Sally owns fish.

Peter Pritchard, *Commercial Director*

Peter joined Pets at Home in January 2011 as Commercial Director and his key responsibilities are buying and sourcing, marketing and omni-channel. Peter has worked in retail for 25 years in various senior operational and commercial roles. Previous companies include Asda, Sainsbury's, Iceland, Marks and Spencer and Wilkinson Hardware Stores. Peter has a Masters Degree in Business Administration from Stirling University. Peter has a cat and tropical fish.

Phil Hackney, *Logistics and Business Systems Director*

Phil joined Pets at Home in February 2007 and has primary responsibility for the Group's logistics, supply and business systems. Phil graduated from Nottingham Trent University before starting his career with Boots where he spent 12 years in logistics operations. Phil then spent 6 years working for Tech Data, a global IT distributor, initially as the UK Logistics Director on e-commerce fulfillment operations before taking on responsibility for logistics operations in Northern Europe and latterly was part of a business team integrating mobile phone distribution from the US to the European business. Phil has two dogs.

3. APPOINTMENT OF DIRECTORS BY THE PRINCIPAL SHAREHOLDER

Pursuant to the Relationship Agreement, the Company has agreed with the Principal Shareholder that it may appoint two non-executive directors to the Board for so long as the Principal Shareholder (and/or any of its associates, when taken together) holds 20% or more of the voting rights over the Company's Shares and one non-executive director to the Board for so long as it (and/or any of its associates, when taken together) holds 10% or more but less than 20% over the voting rights in respect of the Company's Shares. As at the date of this Prospectus, the Principal Shareholder has appointed Brian Carroll as a non-executive director of the Board. The Chairman, Tony DeNunzio, is a senior adviser to affiliates of the Principal Shareholder and therefore is not deemed to be independent of the Principal Shareholder. Although he has not been appointed as a Director by the Principal Shareholder pursuant to the terms of the Relationship Agreement, the Principal Shareholder has agreed that for so long as it has the right to appoint two directors to the Board and Tony DeNunzio is a director, the Principal Shareholder shall not exercise its right to appoint a second director to the Board. For further details of the Relationship Agreement, see Section 9.1 (*Relationship Agreement*) of Part XVIII (*Additional Information*).

4. BOARD OBSERVERS

Each of the Senior Executives has been appointed as a Board observer with rights to receive notice of (including all Board papers), attend and speak at Board meetings. The Principal Shareholder also has the right to appoint one Board observer for so long as it holds (together with its associates) voting rights over 10% or more of the Company's Shares. Such Board observer shall have the right to receive notice of, attend and speak at, Board meetings. No Board observer shall be entitled to vote on any matter requiring a resolution of the Board.

5. CORPORATE GOVERNANCE

The Board is committed to the highest standards of corporate governance. Save as set out in the paragraph below, as of the date of this Prospectus, and on and following Admission, the Board complies and intends to continue to comply with the requirements of the UK Corporate Governance Code published in September 2012 by the Financial Reporting Council (the "**UK Corporate Governance Code**"). The Company will report to its Shareholders on its compliance with the UK Corporate Governance Code in accordance with the Listing Rules.

The UK Corporate Governance Code recommends that, on appointment, the chairman of a company with a premium listing on the Official List should meet the independence criteria set out in the UK Corporate Governance Code. The Chairman, Tony DeNunzio, is a senior adviser to affiliates of the Principal Shareholder. Mr DeNunzio joined Pets at Home in 2010 and has been Non-Executive Chairman of the Group since March 2010. Notwithstanding that the Board do not consider the Chairman to meet the independence criteria set out in the UK Corporate Governance Code, the Board believes that, in order to ensure maximum continuity in the Company's transition from a privately owned company to a listed company, Mr DeNunzio should remain as Non-Executive Chairman of the Group. The Board believes Mr DeNunzio brings significant retail experience and knowledge to the Pets at Home team.

The UK Corporate Governance Code recommends that at least half the board of directors of a company with a premium listing on the Official List, excluding the chairman, should comprise non-executive directors determined by the Board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the director's judgement. As of the date of this Prospectus, the Board consists of three independent non-executive Directors (the "**Independent Non-Executive Directors**") and one non-executive Director appointed by the Principal Shareholder (including the Chairman and, together with the Independent Non-Executive Directors, the "**Non-Executive Directors**"). The Company intends to appoint a further independent non-executive director before 31 March 2014 to ensure compliance with the UK Corporate Governance Code.

The UK Corporate Governance Code recommends that the board of directors of a company with a premium listing on the Official List should appoint one of the Non-Executive Directors to be the senior independent Director (the "**Senior Independent Director**") to provide a sounding board for the chairman and to serve as an intermediary for the other directors when necessary. The Senior Independent Director should be available to shareholders if they have concerns which contact through the normal channels of the CEO has failed to resolve or for which such contact is inappropriate. Dennis Millard has been appointed Deputy Chairman as well as Senior Independent Director.

The UK Corporate Governance Code further recommends that directors of companies in the FTSE 350 index should be subject to annual re-election. The Company intends to comply with these recommendations.

The Board has established three committees of the Board: an Audit and Risk Committee, a Nomination and Corporate Governance Committee and a Remuneration Committee. In addition the Board has also established the Pets Before Profits and CSR Committee which will comprise both Non-Executive Directors and Colleagues and the Investment Committee which will comprise Executive Directors and Colleagues (including the Senior Executives). If the need should arise, the Board may set up additional committees as appropriate.

6. AUDIT AND RISK, NOMINATION AND CORPORATE GOVERNANCE AND REMUNERATION COMMITTEES

6.1 *Audit and Risk Committee*

The Audit and Risk Committee assists the Board in discharging its responsibilities with regard to financial reporting, external and internal audits and controls, including reviewing and monitoring the integrity of the Group's annual and interim financial statements, reviewing and monitoring the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors, overseeing the Group's relationship with its external auditors, reviewing the effectiveness of the external audit process, and reviewing the effectiveness of the Group's internal control review function. The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board. The Audit Committee will give due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the Listing Rules.

The Audit and Risk Committee is also responsible for (i) advising the Board on the Company's risk strategy, risk policies and current risk exposures, (ii) overseeing the implementation and maintenance of the overall risk management framework and systems; and (iii) reviewing the Company's risk assessment processes and capability to identify and manage new risks. When appropriate, the Audit and Risk Committee will meet with the Group's Senior Executives in attendance.

The UK Corporate Governance Code recommends that an audit committee should comprise at least three members who are independent non-executive directors, and that at least one member should have recent and relevant financial experience. The Audit and Risk Committee will be chaired by Amy Stirling, and its other members will be Dennis Millard and Paul Coby. The Company intends to appoint a further independent non-executive director before 31 March 2014 whom it is intended will be appointed as a member of the Audit and Risk Committee. The Directors consider that Amy Stirling has recent and relevant financial experience in accordance with the requirements of the UK Corporate Governance Code. The Audit and Risk Committee will meet not less than three times a year.

From Admission, the Audit and Risk Committee chairman will be available at annual general meetings of the Company to respond to questions from Shareholders on the activities of the Audit and Risk Committee.

The Audit and Risk Committee has taken appropriate steps to ensure that the Company's Auditors are independent of the Company and obtained written confirmation from the Company's Auditors that they comply with guidelines on independence issued by the relevant accountancy and auditing bodies.

6.2 *Nomination and Corporate Governance Committee*

The Nomination and Corporate Governance Committee assists the Board in discharging its responsibilities relating to the composition and make-up of the Board and any committees of the Board. It is also responsible for periodically reviewing the Board's structure and identifying potential candidates to be appointed as Directors or committee members as the need may arise. The Nomination and Corporate Governance Committee also assists the Board in the consideration and development of appropriate corporate governance principles including, amongst other things, those relating to potential related party transactions. The Nomination and Corporate Governance Committee is responsible for evaluating the balance of skills, knowledge and experience and the size, structure and composition of the Board and committees of the Board, retirements and appointments of additional and replacement directors and committee members and will make appropriate recommendations to the Board on such matters.

The UK Corporate Governance Code recommends that a majority of the members of a nomination committee should be independent non-executive directors. The Nomination and Corporate Governance Committee is chaired by Tony DeNunzio and its other members will be Dennis Millard, Paul Coby, Tessa Green and Amy Stirling in compliance with the UK Corporate Governance Code. The Nomination and Corporate Governance Committee will meet not less than once a year.

6.3 *Remuneration Committee*

The Remuneration Committee assists the Board in determining its responsibilities in relation to directors' remuneration, including making recommendations to the Board on the Company's policy on executive remuneration, including setting the over-arching principles, parameters and governance framework of the Group's remuneration policy and determining the individual remuneration and benefits package of each of the Company's Executive Directors and Senior Executives. The Remuneration Committee will also ensure compliance with the UK Corporate Governance Code in relation to remuneration.

The UK Corporate Governance Code provides that a remuneration committee should comprise at least three members who are independent non-executive directors (other than the chairman). The Remuneration Committee will be chaired by Dennis Millard, and its other members will be Tessa Green and Amy Stirling all of whom are Independent Non-Executive Directors. The Company intends to appoint a further non-executive director before 31 March 2014 whom it is intended will be appointed as a member of the Remuneration Committee. The Remuneration Committee will meet not less than twice a year. Non-Executive Directors' and the Chairman's fees will be determined by the full Board.

7. OTHER PETS AT HOME COMMITTEES

7.1 *Pets Before Profits and CSR Committee*

The Pets Before Profits and CSR Committee assists the Board in ensuring that matters in respect of the welfare standards of all live pets sold within the Group's stores are managed effectively and proactively throughout the Group in accordance with the Group's core value of 'Pets Before Profits'. Additionally, the Pets Before Profits and CSR Committee shall assist the Board in reviewing all the individual elements of the Group's CSR (corporate and social responsibility) strategy including caring for the environment, sourcing with integrity and "Our Pets People". The Pets Before Profits and CSR Committee will be chaired by Tessa Green, and its other members will be Tony DeNunzio, Dennis Millard and Paul Coby. A number of the Group's Colleagues (including the Senior Executives) will be entitled to attend meetings of Pets Before Profits and CSR Committee.

The Pets Before Profits and CSR Committee will meet formally at least twice a year and otherwise as may be required. The Pets Before Profits and CSR Committee will be responsible for reviewing proposals for the introduction of new species for sale in the Group's stores, compliance with and the development of legislation which will affect the sale of live pets in stores and all ethical matters in respect of the supply, transportation and sale of live pets.

7.2 *Investment Committee*

The Investment Committee assists the Board with the Group's store and veterinary surgery rollout process to ensure the Group's investment process is managed effectively and rigorously throughout the Group. The Investment Committee will be chaired by Nick Wood and its other members will be Ian Kellett, Sally Hopson and Ian Ellison. A number of the Group's Colleagues will be entitled to attend meetings of the Investment Committee.

The Investment Committee will meet formally at least ten times a year and otherwise as may be required. Duties of the Investment Committee include reviewing and considering all proposals presented for new store acquisitions by a Group company, approving all material variations to proposed new stores acquisitions, periodically reviewing proposed changes to the reporting and presentation of new store investment criteria; reviewing all proposals presented for lease renewals and reviewing alternative strategies for new store investment, formats and geographical markets and reporting on such strategies to the Board for final approval on the terms of any such matter and reviewing all proposals for the dispositions of all or part of any of the lease on stores including any sub-letting, assignments, surrenders or relocations and approve or reject any such proposals as appropriate.

Each of the matters referred to in the Investment Committee which are stated to be for the approval of the Investment Committee are subject to the further approval of the Board to the extent that meets the threshold of a matter reserved to the Board pursuant to the terms of a schedule of matters reserved for the Board as may be approved by the Board from time to time.

7. SHARE DEALING CODE

The Company has adopted, with effect from Admission, a code of securities dealings in relation to the Shares which is based on, and is at least as rigorous as, the Model Code as published in the Listing Rules. The code adopted will apply to the Directors and other relevant employees of the Company.

8. RELATIONSHIP WITH THE PRINCIPAL SHAREHOLDER

For information about the Company's relationship with the Principal Shareholder, see Section 9 (*Relationship with Principal Shareholder*) of Part XVIII (*Additional Information*).

PART X

SELECTED FINANCIAL INFORMATION

*The following tables present selected financial and other information of PAH Retail Limited and its subsidiaries as at the dates and for the periods indicated. The selected financial information in the tables headed Consolidated Income Statement, Consolidated Balance Sheet and Consolidated Statement of Cash Flows below have been extracted without material adjustment from the audited consolidated historical financial information for the 53 week period ended 31 March 2011 ("**FY11**"), the 52 week period ended 29 March 2012 ("**FY12**"), the 52 week period ended 28 March 2013 ("**FY13**"), the 40 week period ended 2 January 2014 ("**YTDQ314**") and the unaudited consolidated historical financial information for the 40 week period ended 3 January 2013("**YTDQ313**") included in Part XIII (Historical Financial Information).*

Consolidated Income Statement

	53 week period ended 31 March 2011 £000	52 week period ended 29 March 2012 £000	52 week period ended 28 March 2013 £000	40 week period ended 3 January 2013 (unaudited) £000	40 week period ended 2 January 2014 £000
Revenue	517,831	544,325	598,337	461,348	515,154
Cost of sales	(242,350)	(252,017)	(274,362)	(210,551)	(237,229)
Gross profit	275,481	292,308	323,975	250,797	277,925
Gross profit percentage	53.2%	53.7%	54.1%	54.4%	53.9%
Selling and distribution expenses	(176,998)	(192,813)	(215,177)	(165,032)	(179,379)
Administrative expenses (excluding exceptional costs)	(21,224)	(26,232)	(29,815)	(22,001)	(27,591)
Exceptional costs	(1,757)	–	(5,915)	(734)	–
Total administrative expenses	(22,981)	(26,232)	(35,730)	(22,735)	(27,591)
Total operating expenses	(199,979)	(219,045)	(250,907)	(187,767)	(206,970)
Operating profit	75,502	73,263	73,068	63,030	70,955
Operating profit percentage	14.6%	13.5%	12.2%	13.7%	13.8%
Financial income	166	310	388	243	270
Financial expenses (including exceptional charges in the 52 week period ended 28 March 2013 and the 40 week period ended 3 January 2013 of £7,459,000)	(47,024)	(47,926)	(46,810)	(38,789)	(29,914)
Net financing expense	(46,858)	(47,616)	(46,422)	(38,546)	(29,644)
Profit before tax	28,644	25,647	26,646	24,484	41,311
Taxation	(9,323)	3,511	(5,893)	(5,074)	(8,667)
Profit for the period	19,321	29,158	20,753	19,410	32,644
Attributable to:					
Equity holders of the parent	14,691	22,261	20,753	14,627	32,644
Non-controlling interest	4,630	6,897	–	4,783	–
Profit for the period	19,321	29,158	20,753	19,410	32,644
Subnote					
Underlying operating profit	78,330	75,595	80,281	64,774	71,847
Underlying operating profit margin percentage	15.1%	13.9%	13.4%	14.0%	13.9%

As in the Group's consolidated financial statements, we present "underlying" and "total" items. Underlying items represent total items as adjusted for certain "special items" of financial performance that the Directors believe should be separately disclosed on the face of its income statement to assist in the understanding of financial performance achieved by the Group and for consistency with prior years.

Consolidated Balance Sheet

	As at 31 March 2011	As at 29 March 2012	As at 28 March 2013	As at 3 January 2013 (unaudited)	As at 2 January 2014
	£000	£000	£000	£000	£000
Non-current assets					
Property, plant and equipment	72,417	81,831	84,622	82,501	87,672
Intangible assets	907,834	907,955	955,004	912,465	955,296
Other financial assets	1,215	2,341	3,727	2,912	6,259
	981,466	992,127	1,043,353	997,878	1,049,227
Current assets					
Inventories	33,422	39,174	42,056	47,621	49,032
Deferred tax assets	168	604	959	581	42
Other financial assets	–	–	811	–	–
Trade and other receivables	28,259	32,609	34,041	29,165	44,942
Cash and cash equivalent	43,134	66,728	28,834	63,827	51,163
	104,983	139,115	106,701	141,194	145,179
Total assets	1,086,449	1,131,242	1,150,054	1,139,072	1,194,406
Current liabilities					
Other interest-bearing loans and borrowings	(18,242)	(18,038)	(5,708)	(7,231)	(12,408)
Trade and other payables	(67,328)	(78,270)	(104,048)	(96,711)	(118,292)
Provisions	(440)	(513)	(380)	(275)	(743)
Other financial liabilities	(2,612)	(4,171)	(1,894)	(2,944)	(1,116)
	(88,622)	(100,992)	(112,030)	(107,161)	(132,559)
Non-current liabilities					
Other interest-bearing loans and borrowings	(435,867)	(434,916)	(413,927)	(412,805)	(535,492)
Other payables	(38,562)	(44,392)	(49,967)	(48,080)	(49,292)
Provisions	(2,221)	(1,845)	(1,914)	(1,621)	(1,760)
	(476,650)	(481,153)	(465,808)	(462,506)	(586,544)
Total liabilities	(565,272)	(582,145)	(577,838)	(569,667)	(719,103)
Net assets	521,177	549,097	572,216	569,405	475,303
Equity attributable to equity holders of the parent					
Ordinary share capital	200	200	200	200	200
Share Premium	507,238	507,238	516,334	507,238	–
Other reserves	(1,142)	(2,098)	(835)	(2,272)	(32)
Retained earnings	11,041	33,302	56,517	48,721	475,135
	517,337	538,642	572,216	553,887	475,303
Non-controlling interest	3,840	10,455	–	15,518	–
Total equity	521,177	549,097	572,216	569,405	475,303

Consolidated Statement of Cash Flows

	53 week period ended 31 March 2011	52 week period ended 29 March 2012	52 week period ended 28 March 2013	40 week period ended 3 January 2013 (unaudited)	40 week period ended 2 January 2014
	£000	£000	£000	£000	£000
Cash flows from operating activities					
Profit for the period	19,321	29,158	20,753	19,410	32,644
Adjustments for:					
Depreciation and amortisation	14,051	15,647	18,207	13,328	14,994
Financial income	(166)	(310)	(388)	(243)	(270)
Financial expense	47,024	47,926	46,810	38,789	30,891
(Profit)/loss on sale of property, plant and equipment	(148)	(130)	90	1	77
Taxation	9,323	(3,511)	5,893	5,074	8,667
	89,405	88,780	91,365	76,359	87,003
(Increase)/decrease in trade and other receivables	(5,394)	3,021	(7,341)	(2,953)	(10,538)
Increase in inventories	(5,621)	(5,752)	(1,678)	(4,029)	(6,976)
Increase in trade and other payables	13,049	15,171	26,996	15,008	8,702
(Decrease)/increase in provisions	(294)	(302)	(64)	(462)	210
	91,145	100,918	109,278	83,923	78,401
Tax (paid)/received	(10,000)	(7,702)	4,527	6,068	(6,854)
Net cash from operating activities	81,145	93,216	113,805	89,991	71,547
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment	325	232	663	663	–
Interest received	166	310	388	243	270
Investment in other financial assets	(331)	(1,126)	(1,201)	(571)	(1,461)
Acquisition of subsidiary, net of cash acquired	(12,353)	–	(47,900)	(2,857)	–
Acquisition of PPE and other intangible assets	(16,666)	(23,760)	(20,446)	(14,712)	(17,796)
Net cash used in investing activities	(28,859)	(24,344)	(68,496)	(17,234)	(18,987)
Cash flows from financing activities					
Proceeds from the issue of ordinary share capital	–	–	9,096	–	–
Proceeds from new loan	–	–	130,000	130,000	135,000
Interest paid	(31,457)	(29,113)	(32,675)	(26,633)	(23,696)
Acquisition of non controlling interest	–	–	(9,075)	–	–
Repayment of borrowings	(2,625)	(16,150)	(173,987)	(172,463)	(5,708)
Issue costs	(8,311)	(15)	(6,562)	(6,562)	(5,467)
Equity dividend paid	–	–	–	–	(130,360)
Net cash used in financing activities	(42,393)	(45,278)	(83,203)	(75,658)	(30,231)
Net increase/(decrease) in cash and cash equivalents	9,893	23,594	(37,894)	(2,901)	22,329
Cash and cash equivalents at beginning of period	33,241	43,134	66,728	66,728	28,834
Cash and cash equivalents at end of period	43,134	66,728	28,834	63,827	51,163

Revenue Analysis

	53 week period ended 31 March 2011 £000	52 week period ended 29 March 2012 £000	52 week period ended 28 March 2013 £000	40 week period ended 3 January 2013 (unaudited) £000	40 week period ended 2 January 2014 £000
Food	255,817	269,172	297,887	225,653	252,195
Accessories	239,138	248,245	268,501	211,217	225,724
Services and other	22,876	26,908	31,949	24,478	37,235
Total Revenue	517,831	544,325	598,337	461,348	515,154

Underlying EBITDA

	53 week period ended 31 March 2011 £000	52 week period ended 29 March 2012 £000	52 week period ended 28 March 2013 £000	40 week period ended 3 January 2013 (unaudited) £000	40 week period ended 2 January 2014 £000
Operating Profit	75,502	73,263	73,068	63,030	70,955
Depreciation of tangible fixed assets	13,257	14,723	16,972	12,378	13,562
Amortisation of intangible fixed assets	794	924	1,235	950	1,432
EBITDA	89,553	88,910	91,275	76,358	85,949
Exceptional costs	1,757	–	5,915	734	–
Management charges	1,071	2,332	1,298	1,010	892
Underlying EBITDA	92,381	91,242	98,488	78,102	86,841
Underlying EBITDA margin percentage	17.8%	16.8%	16.5%	16.9%	16.9%

In addition, Underlying EBITDA for the 52 week period ended 24 March 2011 was £90.7 million. The audited financial statements for the year ended 31 March 2011 were prepared on a 53 week period which makes period to period comparisons more difficult. To ensure appropriate comparability, the Directors believe it is helpful to consider Underlying EBITDA for the 52 week period ended 24 March 2011. Underlying EBITDA for the twelve months to 2 January 2014 was £107.2 million.

Underlying Operating Profit

	53 week period ended 31 March 2011 £000	52 week period ended 29 March 2012 £000	52 week period ended 28 March 2013 £000	40 week period ended 3 January 2013 (unaudited) £000	40 week period ended 2 January 2014 £000
Operating Profit	75,502	73,263	73,068	63,030	70,955
Exceptional costs	1,757	–	5,915	734	–
Management charges	1,071	2,332	1,298	1,010	892
Underlying Operating Profit	78,330	75,595	80,281	64,774	71,847
Underlying Operating Profit percentage	15.1%	13.9%	13.4%	14.0%	13.9%

Underlying Operating Profit for the twelve months to 2 January 2014 was £87.4 million.

PART XI

OPERATING AND FINANCIAL REVIEW

*The following discussion of the results of operations and financial condition of the Group is based on and should be read in conjunction with the audited financial statements for the 52 week periods ended 28 March 2013 ("**FY13**") and 29 March 2012 ("**FY12**"), the 53 week period ended 31 March 2011 ("**FY11**") and the 40 week period ended 2 January 2014 ("**YTDQ314**") and the unaudited financial statements for the 40 week period ended 3 January 2013 ("**YTDQ313**") and the Profit Forecast for the 52 week period ended 27 March 2014 ("**FY14**") and related notes, prepared in accordance with IFRS, located elsewhere in this Prospectus. In addition, the Group presents unaudited "adjusted" revenue and Underlying EBITDA for the 52 week period ended 24 March 2011 ("**Adjusted FY11**"), which is non-IFRS information provided to aid comparability. The results presented here are the consolidated results of PAH Retail Limited. The Company has agreed to acquire, through its wholly owned subsidiary, Pets at Home No. 1 Limited, the entire issued share capital PAH Retail Limited conditional upon and with effect from Admission pursuant to the terms of the Reorganisation Agreement.*

The Group prepares its financial statements on the basis of either a 52 week or 53 week financial period ending on the Thursday closest to 31 March in each year. Financial years 2012 and 2013 were, and 2014 will be, prepared on a 52 week basis, whereas the financial statements for the year to 31 March 2011 were prepared on a 53 week period, which make period to period comparisons more difficult.

The following discussion contains forward-looking statements that reflect the Group's plans, estimates and beliefs. The Group's actual results could differ materially from those anticipated in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this Prospectus, particularly in Part II (Risk Factors) and in Section 7 (Forward-Looking Statements) of Part V (Important Information). Any references to years in this Part XI are to the Group's fiscal years. Unless the context otherwise requires, all references to "the period under review" in this Part XI are references to the period commencing at the start of FY11 and ending on the last day of YTDQ314. Potential investors should read the whole of this Prospectus, including the financial statements, and both of the operating and financial review set out in this Part XI.

OVERVIEW

Pets at Home is the UK's leading national specialist retailer of pet food, pet-related products and pet accessories. Pets at Home also operates the UK's second largest small animal veterinary business by combined number of surgeries both in its stores and in standalone sites and is the largest joint venture operator in the market. Pets at Home is the leading operator by number of salons of pet grooming services offered principally through Pets at Home's in store salons.

Pets at Home was founded by Anthony Preston in 1991, and the first Pets at Home store opened in Chester that same year. The Group pursued a store opening strategy which successfully and profitably grew the Pets at Home business to 58 stores by the time of the Group's acquisition of its then larger UK rival, PetSmart UK, in December 1999. The PetSmart UK acquisition was transformational for Pets at Home, adding a further 82 stores to its existing chain. As of 21 February 2014, Pets at Home operated 371 stores located in the UK, an increase of 115 stores since 25 March 2010 when the Group operated from 256 stores. Further, as of 21 February 2014, the Group had a total of 250 small animal veterinary surgeries, comprising 133 in store joint venture veterinary surgeries, seven in store wholly owned veterinary surgeries and 110 standalone joint venture veterinary surgeries, at convenient locations separate from the Group's store portfolio.

Pets at Home's differentiated proposition and positioning has supported a track record of long-term growth in revenue and Underlying EBITDA. From FY11 to FY13, the Group's revenue has grown at a CAGR of 7.5%. From FY11 to FY14 the Group's Underlying EBITDA is expected to grow at a CAGR of 6.1%. Pets at Home has delivered Statutory Like-for-Like Sales growth of 1.5%, 1.4% and 2.6% in FY11, FY12 and FY13, respectively, by focussing on a number of key initiatives such as the expansion of the services proposition across the portfolio, evolution of product ranges, expansion of the VIP Club and the impact of the Group's new store maturity profile.

CURRENT TRADING AND PROSPECTS

In the 40 week period to 2 January 2014, the Group continued to perform strongly. Revenue grew by 11.7% over the comparable 40 week period to 3 January 2013, with Statutory Like-for-Like Sales growth of 2.4%. Underlying EBITDA for the period increased by 11.2% to £86.8 million despite the impact of persistent hot weather throughout July which impacted both sales and Underlying EBITDA in this period.

Since 2 January 2014, Pets at Home has continued to perform in line with the positive trends experienced in the earlier part of the financial year across the key growth drivers of the business. The Company has continued to invest in its store roll out plan. The period since 2 January 2014 has also seen a significant upgrade to the Website to further enhance the Group's omni-channel proposition.

Based on the performance achieved in the financial year to date, the Board remains confident on the outlook for the full financial year ending 27 March 2014. While there does remain an important trading period still to complete, the Board expects to deliver Underlying EBITDA of not less than £110.2 million, as set out in the Profit Forecast in Part XV (*Profit Forecast*) for the full financial year, FY14.

RECENT DEVELOPMENTS

On 28 January 2014 the Group re-launched its online platform on IBM Websphere. The new platform provides additional functionality, facilitating a speedier checkout, deliver to store capability (which is currently in trial) and subscription services. Later in 2014, it will be extended to offer enhanced support for mobiles and tablets. As a result of the new website launch, Google is re-indexing the site and natural search traffic to the site has experienced a short term decline. Site traffic is building as the re-indexing takes effect, but at the date of this Prospectus is still not back to the levels of the previous site.

In the period from 2 January 2014 to 21 February 2014, the Group has opened three new stores, four new veterinary surgeries of which two were in store and two standalone and six in store Groom Room grooming salons.

The Group commenced 2014 with financial performance in line with the Group's internal forecasts and profit projection. The financial results for the four week period ended 30 January 2014 continued to show the same trends in year on year underlying EBITDA growth as that seen in the period to 2 January 2014.

FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS

We believe that the following factors significantly affected Pets at Home's results of operations and financial condition in the period under review and/or will have a significant impact on the Group's results of operations and financial condition in the future.

Macroeconomic conditions in the UK and impact on the UK Pet Care Market and Pets at Home's revenue performance

The Group's performance and results of operations are influenced by general economic conditions in the UK. Since the start of 2008, the global economy has experienced significant turbulence and during the period under review the UK has experienced periods of modest GDP growth. The following table shows the levels of real GDP growth in the UK for the calendar years indicated:

	31 December 2010	31 December 2011	31 December 2012	31 December 2013
	%	%	%	%
UK	1.7	1.1	0.3	1.9

(Source: UK Office of National Statistics and Eurostat)

In calendar year 2012 the UK Pet Care Market was estimated to be worth £5.4 billion (excluding VAT) (*Source OC&C*). Over the period from calendar years 2006 to 2012, the UK Pet Care Market has been resilient with no periods of negative growth in spite of the general economic down-turn and has demonstrated stronger growth than the UK overall retail market index with a compound annual growth rate ("**CAGR**") in revenues (excluding VAT) of 3.4% since 2006 (*Source: OC&C*) as compared with a CAGR of 3.1% for the UK overall retail market index in the same period (*Source: ONS data for UK overall market retail index which includes all retailing including automotive fuel (excluding VAT)*). Within this market, certain segments, such as advanced nutrition food, treats, services and insurance have experienced significantly higher growth rates while more mature segments (such as grocery pet food), or more discretionary segments (such as high-ticket accessories or veterinary services) have experienced slower growth in the period. The UK Pet Care Market is expected to continue to grow steadily with growth for the period from calendar years 2012 to 2017 forecast at an estimated CAGR of approximately 4% when it is estimated that such market will be worth approximately £6.7 billion, with pet food continuing to account for the majority of consumer spend (*Source: OC&C*). The Directors believe that this forecasted growth can largely be attributed to a range of factors including the growing 'humanisation' trend

of pets being considered as companions, which the Directors believe will lead to a growth in the consumer spend on premium products such as cat and dog treats, advanced nutrition food and accessories. To the extent the UK Pet Care Market grows, the Directors expect this will positively affect the Group's results.

New Store Openings, Store Refurbishments and New Store Maturity Profile

During the period from 25 March 2010 to 2 January 2014, the Group has opened 112 new stores, representing a retail space increase of approximately 9% per annum on average in FY11, FY12 and FY13. The Group opened 23 new stores in YTDQ314, 32 in FY13, 32 in FY12 and 25 in FY11. As of 21 February 2014, the Group had 371 stores and expects to open a further five stores in the current financial year. Going forward in the medium term, the Group has targeted to open approximately 25 new stores per annum.

From 25 March 2010 to 2 January 2014 the Group has spent £36.3 million on opening 112 new stores at an average cost of approximately £324,000 per store after deducting capital contributions received from landlords. The capital invested by Pets at Home in new store and refurbishment projects for the period under review is set out in the table below.

	FY11	FY12	FY13	YTDQ314
	£M	£M	£M	£M
Capital invested in new stores	7.2	10.9	10.7	7.5
Capital invested in services	2.4	2.2	2.7	3.6

In certain circumstances, when Pets at Home opens a new store, some of its revenue is generated from customers of an existing Pets at Home store who may find the new store more convenient. This impact is referred to as cannibalisation. From its analysis of past store openings, the Directors believe that where a new store opens up within 25 miles of an existing store some level of cannibalisation is likely to occur, and this impact is taken into account by the Group when making new store investment decisions. The estimated impact of cannibalisation has increased over the period from FY11 as Pets at Home has accelerated the new store roll-out and has increased its geographic coverage of the UK.

All Pets at Home stores opened before April 2012 are profitable at a per store EBITDA level, which the Directors believe is a testament to Pets at Home's highly disciplined and rigorous investment processes. Approximately 30% of Pets at Home's total store footprint as of 21 February 2014 has been open for less than 4 years.

The Directors believe that on a sales density basis, stores reach maturity after four to five years and given the Group's store openings in the past three years, this provides a broad cohort of maturing stores to support Like-for-Like Sales Growth.

Services

Services include Companion Care and Vets4Pets joint venture veterinary surgeries, wholly owned veterinary surgeries and the Groom Room grooming salons.

In each new store, the Group intends to install both a veterinary surgery and a grooming salon wherever possible. A veterinary surgery will be installed as a priority, after which, where space allows, a grooming salon will be considered. Additionally, where a Pets at Home store has been opened in the past without a veterinary surgery or Groom Room grooming salon, the Group will seek to refit the store with one or both of the services once an appropriate joint venture veterinary partner has been identified. This may be achieved through the installation of mezzanine space, after gaining landlord's and planning approval.

Veterinary Surgeries

Veterinary surgeries are generally established on a joint venture basis between the Group and the joint venture partner responsible for each surgery. Veterinary surgeries generally take a period of approximately seven years to reach maturity. The surgeries are not subsidiaries of the Group and operate as independent businesses, albeit under a common system of governance. Each of the Group's joint venture partners takes responsibility for the running of the surgery and pays a percentage of surgery revenues to the Group for managing administrative and head office functions (the "**Fee Income**"), plus service charge income payable to Pets at Home for the cost of space occupied within a Pets at Home store (the "**Service Charge**"). Pets at Home recognises the Fee Income as

revenue and the Service Charge as a credit to selling and distribution costs in the Group's financial statements. The cost of delivering central services to the joint venture surgeries, which is principally Colleague costs, is included in cost of goods sold.

Pets at Home also operates a limited number of veterinary surgeries on a wholly owned basis. For the wholly owned surgeries, surgery revenues are recognised as revenue, and surgery costs are included in cost of goods sold in the Group's financial statements.

As at 21 February 2014, the Group had 250 veterinary surgeries, of which 140 were in store and 110 standalone, including seven wholly owned surgeries. In FY11, FY12 and FY13, Pets at Home had 73, 92 and 209 (of which 93 were acquired as part of the Vets4Pets acquisition (including one veterinary franchise)) veterinary surgeries, respectively.

The Group acquired Vets4Pets, a joint venture veterinary business, for a cash consideration of £47.4 million on 27 March 2013 and added a total of 93 standalone veterinary surgeries (including one veterinary franchise) to the Group. The Group is integrating the Vets4Pets standalone joint venture business with Companion Care's existing in store joint venture business. A single central support operation has been established focused on delivering high quality services to enable the Group's joint venture partners to focus on clinical excellence and first class client care.

Since the acquisition, the Group has opened a further 13 standalone Vets4Pets veterinary surgeries as of 21 February 2014.

Grooming

Groom Room grooming salons operate principally from Pets at Home stores, and all salons are wholly owned by the Group.

In respect of grooming salons, the revenue earned by the salon is included in Group revenue whilst the costs of delivering the service, principally Colleague costs, are included in cost of goods sold.

In the period under review, the Group opened 86 Groom Room grooming salons, taking the total number of the Group's grooming salons to 115. The Group opened 28 Groom Room grooming salons in YTDQ314, 26 in FY13, 18 in FY12 and 14 in FY11.

As of 21 February 2014, the Group has 121 grooming salons.

Total Services and Other

Services and other revenues include joint venture fees and other income, Groom Room revenue, revenue from live pet sales and insurance commission. Services and other revenues earned by the Group was £37.2 million in YTDQ314, an increase of 52.1% over YTDQ313, reflecting the impact of the Vets4Pets acquisition. From FY11 to FY13, services and other revenues have grown at a CAGR of 18.3%, with annual revenue of £31.9 million in FY13, £26.9 million in FY12 and £22.9 million in FY11.

The like-for-like revenue generated from the Group's services grew by 17.5% for YTDQ314 (versus 16.8% YTDQ313), 16.7% for FY13, 23.4% for FY12 and 17.0% for FY11.

The Service Charge income received from the in store joint venture surgeries (as rent, rates and utilities for the space occupied in Pets at Home's stores) totaled £3.8 million in YTDQ314, £2.9 million in YTDQ313, £3.8 million in FY13, £3.0 million in FY12 and £2.3 million in FY11.

Currently, the Gross Margin of services is lower than the overall Gross Margin on food and accessories, given that the costs of Colleagues necessary to deliver the service are taken into account. Services businesses take up to seven years to build their customer base to an established level. Approximately 60% of veterinary surgeries and 70% of Groom Room grooming salons are less than four years old. Going forward the Directors believe that as the Group's services offerings mature, the contribution of services to the overall Gross Margin will increase whilst at the same time maturation should also see Gross Margin improve.

Omni-channel

In YTDQ314, Pets at Home's omni-channel sales (including 'click and collect' sales) totaled £13.0 million, an increase of 108.7% over YTDQ313. 'Click and collect sales' demonstrate both the popularity of this service as well as its ability to drive store footfall. From FY11 to FY13, omni-channel revenue has grown at a CAGR of 16.1%, with annual sales (including 'click and collect' sales) of £9.4 million in FY13, £6.0 million in FY12 and

£6.9 million in FY11. These sales figures include 'click and collect' sales revenue of £1.6 million in YTDQ314, £1.5 million in FY13, £0.9 million in FY12 and £0.5 million in FY11. The decrease in sales in FY12 was as a result of a deliberate focus on driving profitability derived from omni-channel sales, for example, by focussing on higher value advanced nutrition products and introducing a minimum order size of £29 to be eligible for the free home delivery service. The increase in YTDQ314, in part, reflects the acquisition of Ride-away on 12 December 2012.

Acquisitions

In addition to the Group's acquisition of Vets4Pets in March 2013 (referenced above), on 12 December 2012, Pets at Home acquired Ride-away, a specialist equestrian retailer with a single superstore in York and both mail order and omni-channel revenue streams for total consideration of £6.5 million. Out of the total consideration, £2.0 million was deferred and has since been paid in YTDQ314. The Directors believe that this acquisition strengthens the Group's specialist credentials in the equestrian market, in particular in combination with the Group's existing omni-channel offering. In the year ended 30 June 2012, Ride-away had revenues of £6.7 million and profit before tax of £1.1 million. The results of Ride-away are now incorporated within the Group and have been consolidated in the Group's financial statements since the date of the acquisition.

The Group also acquired the outstanding 10% non-controlling interest in Companion Care (Services) Limited, the central service delivery company for the Group's veterinary business, for £1.4 million on 11 February 2013. This resulted in Companion Care (Services) Limited becoming a wholly owned subsidiary of the Group.

Global sourcing

In YTDQ314, 16.5% of the Group's merchandise cost of goods sold ("**COGS**") was attributable to directly imported products. In FY13 this percentage was 17.1%, in FY12 it was 14.4% and in FY11 it was 13.5%. The Directors believe that the increased proportion of directly imported products over FY11 to FY13 has been accretive to the Group's Gross Margin. The Directors believe decline in the percentage of COGS attributable to imported products in Q314 reflects the proportionately higher growth in Food COGS compared to accessories COGS, and, because food is locally sourced, this increases the COGS percentage of UK sourced products, despite the value of imported products increasing during the period.

In April 2012, Pets at Home launched Pets at Home Asia, its own office in Hong Kong, which is responsible for sourcing non-food products (excluding rawhide) directly from manufacturers. The Directors believe that the Hong Kong office has given Pets at Home the opportunity to build relationships more closely with overseas suppliers in order to improve the quality of products sourced, improve innovation by directly working with suppliers from across the globe, further develop the Group's own labels and private brands and achieve on time deliveries and cost savings. In FY13, the Group's results included an operating cost of £1.2 million in establishing this operation, these costs were incremental to FY12 when the operation was not yet set up.

Merchandise and services and other — Mix

Merchandise includes food and accessories revenues. Services and other includes Fee Income from joint venture veterinary surgeries, Groom Room revenue, revenue from live pet sales and insurance commissions.

The sales mix of merchandise and services and other during FY11, FY12 and FY13 is shown in the table below. Over the period, there has been a mix shift from higher margin merchandise to lower margin services. The percentage of services and other versus merchandise has increased from 4.4% in FY11 to 7.2% in YTDQ314.

	FY11	**FY12**		**FY13**		**Q313 (unaudited)**	**Q314**	
	Mix %	Mix %	Mvt +/-	Mix %	Mvt +/-	Mix %	Mix %	Mvt +/-
Merchandise	95.6	95.1	-0.5	94.7	-0.4	94.7	92.8	-1.9
Services and other	4.4	4.9	0.5	5.3	0.4	5.3	7.2	1.9

The Gross Margin for merchandise and services and other during FY11, FY12 and FY13 is shown in the table below.

	FY11	**FY12**		**FY13**		**Q313 (unaudited)**	**Q314**	
	%	%	Mvt +/-	%	Mvt +/-	%	%	Mvt +/-
Merchandise	54.5	55.3	0.8	56.0	0.7	56.1	56.2	0.1
Services and other	25.6	23.5	-2.1	22.5	-1.0	23.5	24.7	1.2
Total Group	53.2	53.7	0.5	54.2	0.5	54.4	53.9	-0.5

Given the lower Gross Margin in pet food, the faster pace of growth in sales of food products has been dilutive to the Group's overall merchandise margin, which has otherwise increased due to improved terms, increased own label and private brand penetration, global sourcing and the growth of advanced nutrition. The mix shift toward what is currently lower margin services has been dilutive to the Group's overall Gross Margin as the margin for services and other is below that of merchandise.

Own label and private brand

Own label and private brand products (both food and accessories) represent a significant proportion of the Group's product range.

The proportion of own label and private brand food sales as a percentage of total gross store food revenues has decreased during the period under review from 34.8% in FY11 to 32.8% in YTDQ314. Within the food category, the restricted availability of rawhide treats during FY14 has led the Group to source branded natural treats.

The proportion of own label and private brand accessories sales as a percentage of total gross store accessories revenue has increased in the period under review from 43.0% in FY11 to 49.8% in YTDQ314.

Own label and private brand expansion is valuable to the Group as the Directors believe that such products enhance customer loyalty and help drive footfall. In addition, own label and private brand products tend to have higher Gross Margins than their branded counterparts.

Very Important Pets (VIP) Club

The VIP Club was launched in November 2012 and to date has proved very successful, with 1.6 million total customer members added to the scheme in the first twelve months of the club. The Group invested operating expenditure into the research and launch of the VIP Club in FY13. The Group has continued to invest in the VIP Club and new member acquisition both to attract new members to the scheme and engage existing scheme members and their pets. The VIP Club has given Pets at Home a better understanding of its customers and their pets and enabled the development of a more direct, tailored and personal relationship with them. In the period since the launch, the average basket size was £22.02 (including VAT) for members of the VIP Club compared to £15.71 (including VAT) for non-members.

Colleague retention

The Group continues to place a significant emphasis on Colleague retention, defined on an LTM basis as the difference between the average number of Colleagues employed and the average number of Colleague leavers divided by the average number of Colleagues employed. In FY13, Colleague retention was 83.2%, having increased from 54.1% in the 2007 financial year, and has maintained an average in excess of 80% over the past three financial years. At store manager level, 77% of store managers had worked with the Company for at least three years as of 21 February 2014. As of YTDQ314 47% of our Colleagues have been with the Group for three years or more. The Directors believe that Colleague retention drives multiple benefits, and underpins the Group's objective of delivering friendly expertise to its customers, as more knowledge and experience is retained within the business which in turn supports the sale of specialty products such as advanced nutrition food and licensed medicines.

The Directors believe that the pay of in store Colleagues should be commensurate with their pet knowledge and, accordingly, the Group operates a 'learn to earn' pay structure which rewards in store Colleagues with increments to pay as they successfully pass the individual elements of the core 'Steps' training programme. In addition, in store Colleagues can earn further pay increments by gaining externally accredited qualifications, for example, becoming a Suitably Qualified Person to sell Licensed Medicines or obtaining certain qualifications from the Petcare Trust or the Ornamental Aquatic Trade Association.

Advertising campaigns and public relations

In the period under review, the Group has spent £24.2 million in total in marketing, advertising and public relations. Those expenditures represented £4.7 million in YTDQ314 (0.9% of revenue), £7.0 million in FY13 (1.2% of revenue), £6.3 million in FY12 (1.2% of revenue) and £6.2 million in FY11 (1.2% of revenue).

The Group has invested in TV brand advertising in the period under review, however in FY14 TV advertising has been limited to specific product advertising as the Group has invested in building the VIP Club. The Directors believe the Group will return to brand in the short term, while continuing to invest in the VIP Club.

Distribution

The Group currently operates from two distribution centres. In FY12, the Group invested £5.4 million of capital expenditure and £1.2 million of incremental operating expenditure opening a second distribution centre in Northampton ("**SDC**"), adding a total of 303,000 square feet of warehousing space. The online distribution operation, which previously utilised third party warehouse space, has been embedded into the new SDC. The SDC services the south-eastern stores with the Northern Distribution Centre ("**NDC**") located in Stoke on Trent servicing the midlands and northern stores.

The additional space commissioned in FY12 to support the growth plans of the business in terms of both new store openings and organic growth from existing stores over the medium to long-term has only been partially utilised thus far, leading to a modest erosion in the Group's productivity ratios on commissioning with steady improvements delivered in FY13 and YTDQ314 as both improved productivity and operational leverage fed through.

The Directors believe that the current distribution centres in conjunction with a planned investment programme of £3.0 million at both distribution centres in FY14 through to FY16, including £1.6 million to extend the mezzanine capacity, will ensure there will be no requirement for a third distribution centre within the current three year planning horizon ending FY17 based on the Directors' expectations in respect of volume growth within that planning horizon. The Directors believe that this investment programme will provide operational leverage as the business continues to grow.

Central support

In the period under review, the Group has invested in building teams for the future to ensure the right people are in place to support business growth. Specifically the Group has strengthened the product innovation, quality control and buying teams, as well as the strategic planning, marketing and finance teams. The total increase in support office costs during the period under review due to new Colleagues is estimated at £2.0 million and was principally incurred in FY12. In addition the Group opened its new global sourcing office in Hong Kong in FY13 at an operational cost of £1.2 million in the period.

The Group has also invested significantly in a new Information Technology system to deliver enhanced reporting and controls, implementing SAP in FY14 at a total capital investment to YTDQ314 of £4.9 million. In addition the Group has continued its investment in its IT network and infrastructure with a view to have robust, resilient and scalable IT systems appropriate for a fast growing multi-site and omni-channel retailer.

Property

The Group's stores are typically leased on standard institutional landlords' terms which require upward only rent reviews. Pets at Home typically benefits from incentives on its new store leases, which vary in line with prevailing market conditions. In general, each lease will be the subject of a rent review every five years and the level of any increase will be affected by the local market conditions over the intervening period and existing at the time of review. The Group's aggregate rental charge was £48.1 million for YTDQ314, £58.4 million for FY13, £53.4 million for FY12 and £49.7 million for FY11. Of the 139 rent reviews settled in the period under review, the five year CAGR of rent settlements was 0.46%. As of 21 February 2014, a total of 76 stores had outstanding rent reviews, of which 44 related to rent reviews commenced in FY14 and 32 related to unsettled rent reviews commenced in financial years prior to FY14. A total of 67 stores have rent reviews in FY15, and 54 stores have rent reviews in FY16. The rent per square foot of new stores acquired in the period from FY11 to YTDQ314 is on average lower than the average historical rents for stores acquired for the period prior to FY11.

The Group recharges rent along with other property costs to the joint venture veterinary practices based on the square footage utilised by the veterinary practice in the store. As the Group continues the roll out of joint venture veterinary surgeries into existing stores, the sublet service charge income helps the Group to mitigate some of the risks of upward only rent reviews.

Variations in results due to phasing, weather and sporting events

The Group's sales remain broadly consistent throughout the year with the third quarter covering the twelve weeks to the end of December marginally stronger than other quarters in terms of revenues adjusted for the number of weeks in each quarter. In FY13, 29.3% of Pets at Home's annual revenues were generated in the first quarter (due to this quarter comprising 16 weeks of trading while the remaining quarters comprise 12 weeks of

trading), 23.1% in the second quarter, 24.7% in the third quarter and 22.9% in the fourth quarter. 25.7% of Pets at Home's EBITDA in FY13 was generated in the first quarter, 24.0% in the second quarter, 29.6% in third quarter and 20.7% in the fourth quarter.

Pets at Home's results can be adversely affected by periods of hot weather which has a twofold impact: less shopping activity resulting in reduced footfall, and reduced demand as pets eat less and spend more time outdoors reducing the need for essentials such as food and cat litter. In FY13, FY12 and FY11, the Group has benefited from poor summers in the UK with no sustained hot weather impact. The Directors estimate that the exceptionally hot weather in the summer of 2013 (included in the results for YTDQ314) cost the Group approximately £2.6 million of foregone sales and £1.5 million of foregone EBITDA over the four week period 21 June 2013 to 18 July 2013.

In addition, because the Group's stores typically draw customers from a large area, Pets at Home's sales can, on occasion, be adversely affected by other adverse weather or travel conditions such as heavy snow falls.

Significant sporting events taking place during or proximate to store-opening hours, principally major football championships, also have an adverse effect on the Group's sales. These events have generally taken place in the summer months and resulted in lower footfall into the stores with the consequent adverse impact on sales.

Commodities

The price of a number of the food products used by the Group in its pet food products is affected by movements in commodity prices, in particular meat protein, wheat, rice and seed. The Directors believe the ability of the Group to pass cost increases on to customers and maintain its margins is dictated by general market conditions and competitive factors as the Group seeks to maintain its price positioning relative to the market in order to maintain its market share.

The Group can also be affected by movements in the price of oil and the consequent impact on diesel and energy costs. To reduce the Group's exposure to price volatility, the Group agrees fixed prices for diesel on an annual basis, and as of 2 January 2014 has a fixed price contract in place which expires in December 2014 and fixes the price of 1.75 million litres of diesel at £1.095 pound per litre, including duty and delivery. In addition the Group fixes energy costs on a rolling quarterly basis and the Group aims to be covered for at least six months ahead.

Inflation

The Group's like-for-like sales performance can be materially impacted by inflation, in FY08 to FY10, inflation was a key contributor to the Group's overall like-for-like sales performance as historically, the Directors believe that Pets at Home has successfully passed on inflationary price increases to its customers. In the subsequent financial years, beginning FY11, the impact of inflation on the Group's like-for-like performance has been de minimis as there has been very little or no price inflation in the market.

Increases to statutory minimum wage

The Group maintains a differential between the starting hourly rate of pay for its Colleagues and the statutory minimum wage, which is currently £6.31 for Colleagues aged 21 and over. The Group's pay structure for hourly paid in store Colleagues is directly linked to its training programme. As certain stages, or steps, are passed by an in store Colleague, the Colleague becomes entitled to receive a fixed increment to his or her hourly rate of pay. In October 2013 the statutory minimum wage for adults increased from £6.19 per hour to £6.31 per hour. The Directors believe the annualised impact of this change will be in the region of £2.8 million.

COMPARABILITY OF RESULTS

The Group prepares its financial statements on the basis of a 52 week or 53 week financial period. The financial statements for the year ended 31 March 2011 were prepared on an audited 53 week period, which makes period to period comparisons more difficult. To ensure appropriate comparability, the Directors believe it is helpful to consider revenue and Underlying EBITDA for the 52 week period ended 24 March 2011. During those 52 weeks, the Group generated revenue of £508.2 million and Underlying EBITDA of £90.7 million.

The Group will prepare its financial statements in FY16 on the basis of a 53 week financial period for the 53 weeks ended 31 March 2016.

KEY INCOME STATEMENT LINE ITEMS

Key performance indicators

Parts of this Prospectus, including this Part XI, contain information about certain performance indicators which are not included in the Group's financial statements but are sometimes used by investors to evaluate the efficiency of a company's operations and its ability to employ its earnings towards repayment of debt, capital expenditures and working capital requirements. The key performance indicators used by the Board, some of which are non-IFRS measures, are like-for-like sales, Gross Margin, EBITDA, Underlying EBITDA, Underlying Operating Profit and Unlevered Free Cashflow. Please see Section 3.3 (*Non-adopted IFRS Information*) of Part V (*Important Information*) for further detail on the Non-IFRS Measures.

The Directors use these performance indicators to monitor the performance of the Group from period to period and to assist in the operational management of the business. Other companies may calculate these or similar measures differently to the Company and as such these indicators may not be comparable with other companies. The financial information in this Prospectus is not intended to comply with US Securities and Exchange Commission reporting requirements. Compliance with such requirements would require the modification or exclusion of such financial measures.

Key income statement line items

Revenue — Revenue of the Group consists primarily of the sale of goods (both food and accessories) and grooming services in Pets at Home stores and via its transactional websites and is derived predominantly from operations in the UK. Fee Income earned from joint venture veterinary surgeries is also included in Group revenue. Revenue is net of discounts and returns, excludes value added tax and is recognised at the point of sale**.** Revenue is recognised upon earning of fees from veterinary joint venture surgeries.

Cost of sales — Cost of sales consists of direct product costs. These costs typically include the cost of manufacturing or purchasing products from the Group's suppliers net of manufacturer rebates, the cost of shipping and delivery charges, import/export taxes and shrinkage and the costs of looking after pets in store including veterinary bills. The cost of sales associated with the veterinary business includes the costs for providing management services to the joint venture veterinary surgeries and operational running costs. The cost of sales of grooming salons includes the direct Colleague and consumable costs associated with delivering the service.

Gross profit and Gross Margin — Gross profit represents revenue less cost of sales. Gross Margin is gross profit expressed as a percentage of revenue.

Total operating expenses — Total operating expenses comprises selling and distribution expenses, and administration expenses.

Selling and distribution expenses — Selling and distribution expenses consist primarily of:

- payroll cost of in store Colleagues including salaries, bonuses, social security costs and pension expenses;
- establishment costs such as rent, rates, service charges net of any service fee income from in store joint venture veterinary surgeries and other store operating costs, including insurance, cleaning, maintenance and energy costs;
- costs of opening new stores including pre-opening costs and the related impact of landlord and developer contributions;
- marketing costs including point of sale material, local press, national press and television advertising net of any marketing specific vendor contributions;
- the cost of processing debit and credit card transactions;
- depreciation expense related to the capital expended on the Group's stores and two distribution centres;

- the costs of operating Pets at Home's distribution centres and the costs of transporting products from the distribution centres to Pets at Home's stores. The costs expended principally cover the salaries, bonuses, social security costs and pension costs of both distribution centres Colleagues and drivers, the establishment and improvement costs of both distribution centres; rent, rates, cleaning, maintenance and energy costs, the operating lease costs of the vehicle fleet including trailers and the cost of fuel; and
- costs associated with operating the Group's omni-channel sites.

Administration expenses — Administration expenses consist primarily of:

- the payroll costs for support centre departments, including salaries, bonuses, social security costs and pension costs;
- overhead expenses associated with Pets at Home's human resources, finance, information technology facilities and secretarial departments; and
- depreciation expenses related to capital expenditure on the Group's support centre and information technology systems.

Net financing expense

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use are capitalised as part of the cost of that asset.

Financing income comprises interest receivable on funds invested, dividend income and net foreign exchange gains. Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

25 MARCH 2010 TO 2 JANUARY 2014

The following table sets out certain financial information relating to the Group's income statements as extracted without material adjustment from the consolidated financial information of the Group set out in Part XIII (*Historical Financial Information*). Adjusted FY11 information is an estimate of the Directors based on the underlying accounting records.

Consolidated Income Statement

For YTDQ314 and YTDQ313 and for FY13, FY12 and FY11.

	53 week period ended 31 March 2011 £000	52 week period ended 29 March 2012 £000	52 week period ended 28 March 2013 £000	40 week period ended 3 January 2013 (unaudited) £000	40 week period ended 2 January 2014 £000
Revenue	517,831	544,325	598,337	461,348	515,154
Food	255,817	269,172	297,887	225,653	252,195
Accessories	239,138	248,245	268,501	211,217	225,724
Services and other	22,876	26,908	31,949	24,478	37,235
Cost of sales	(242,350)	(252,017)	(274,362)	(210,551)	(237,229)
Gross profit	275,481	292,308	323,975	250,797	277,925
Gross profit percentage	53.2%	53.7%	54.1%	54.4%	53.9%
Selling and distribution expenses	(176,998)	(192,813)	(215,177)	(165,032)	(179,379)
Administrative expenses (excluding exceptional costs)	(21,224)	(26,232)	(29,815)	(22,001)	(27,591)
Exceptional costs	(1,757)	–	(5,915)	(734)	–
Total administrative expenses	(22,981)	(26,232)	(35,730)	(22,735)	(27,591)
Total operating expenses	(199,979)	(219,045)	(250,907)	(187,767)	(206,970)
Operating profit	75,502	73,263	73,068	63,030	70,955
Operating profit percentage	14.6%	13.5%	12.2%	13.7%	13.8%
Financial income	166	310	388	243	270
Financial expenses (including exceptional charges in the 52 week period ended 28 March 2013 and the 40 week period ended 3 January 2013 of £7,459,000)	(47,024)	(47,926)	(46,810)	(38,789)	(29,914)
Net financing expense	(46,858)	(47,616)	(46,422)	(38,546)	(29,644)
Profit before tax	28,644	25,647	26,646	24,484	41,311
Taxation	(9,323)	3,511	(5,893)	(5,074)	(8,667)
Profit for the period:	19,321	29,158	20,753	19,410	32,644
Attributable to:					
Equity holders of the parent	14,691	22,261	20,753	14,627	32,644
Non-controlling interest	4,630	6,897	–	4,783	–
Profit for the period	19,321	29,158	20,753	19,410	32,644
Subnote					
Underlying operating profit	78,330	75,595	80,281	64,774	71,847
Underlying operating profit margin percentage	15.1%	13.9%	13.4%	14.0%	13.9%

The following table sets forth the calculation of the Group's EBITDA and Underlying EBITDA.

	53 week period ended 31 March 2011 £000	52 week period ended 29 March 2012 £000	52 week period ended 28 March 2013 £000	40 week period ended 3 January 2013 (unaudited) £000	40 week period ended 2 January 2014 £000
Operating profit	75,502	73,263	73,068	63,030	70,955
Depreciation of tangible fixed assets	13,257	14,723	16,972	12,378	13,562
Amortisation of intangible fixed assets	794	924	1,235	950	1,432
EBITDA	89,553	88,910	91,275	76,358	85,949
Exceptional costs	1,757	–	5,915	734	–
Management charges	1,071	2,332	1,298	1,010	892
Underlying EBITDA	92,381	91,242	98,488	78,102	86,841
Underlying EBITDA margin percentage	17.8%	16.8%	16.5%	16.9%	16.9%

In addition, revenue and Underlying EBITDA for Adjusted FY11 were £508.2 million and £90.7 million, respectively.

YTDQ314 compared to YTDQ313

Revenue

The Group's revenue increased by £53.9 million to £515.2 million for YTDQ314. When compared with Group revenue of £461.3 million for YTDQ313, this represents an 11.7% increase over the period. Food revenue increased by £26.5 million (11.7%) from £225.7 million for YTDQ313 to £252.2 million for YTDQ314. Accessories revenue increased by £14.5 million (6.9%) from £211.2 million for YTDQ313 to £225.7 million for

YTDQ314. Services and other revenue increased by £12.7 million (51.8%) from £24.5 million for YTDQ313 to £37.2 million for YTDQ314. The impact of new store openings, Statutory Like-for-Like Sales growth of 2.4%, the acquisition of Vets4Pets and the opening of new veterinary surgeries and grooming salons were the principal drivers of the increase in the Group's revenue. In YTDQ314, there were an additional 764 store trading weeks compared to YTDQ313, as a consequence of the 11 stores opened in YTDQ313 trading for an additional 132 weeks in YTDQ314 and the 632 additional trading weeks from the 23 new stores opened in YTDQ314.

Cost of sales

The Group's cost of sales increased by £26.6 million from £210.6 million in YTDQ313 to £237.2 million in YTDQ314. As a percentage of revenue, cost of sales increased from 45.6% to 46.1% in the same period, an increase of 0.5 percentage points reflecting the mix shift from higher margin accessories to lower margin food and services, offsetting an increase in the level of sourcing from China through the Hong Kong office, an increase in the proportion of own label and private brand sales as a percentage of total sales and terms improvements from new and existing suppliers.

Gross profit

The Group's gross profit increased by £27.1 million from £250.8 million in YTDQ313 to £277.9 million in YTDQ314 as a result of new store openings and an increase in statutory Like-for-Like Sales Growth of 2.4%. However, as a percentage of revenue, gross profit decreased from 54.4% in YTDQ313 to 53.9% in YTDQ314 in a reduction of 0.5 percentage points as a result of the growth in services, which has a lower gross margin percentage.

Total operating expenses

The Group's total operating expenses increased by £19.2 million from £187.8 million in YTDQ313 to £207.0 million in YTDQ314. As a percentage of revenue, total operating expenses in the same period decreased from 40.7% to 40.2%, a decrease of 0.5 percentage points.

The Group's selling and distribution expenses increased by £14.4 million from £165.0 million in YTDQ313 to £179.4 million in YTDQ314 reflecting the organic and new store growth of the Group and the consequent impact on payroll, rent, distribution costs and pension auto-enrollment costs. As a percentage of revenue, selling and distribution costs decreased from 35.8% of revenue to 34.8% of revenue in the same period.

The Group's administrative expenses increased by £4.9 million from £22.7 million in YTDQ313 to £27.6 million in YTDQ314. The Group's administrative expenses (excluding exceptional costs) increased by £5.6 million from £22.0 million in YTDQ313 to £27.6 million in YTDQ314 as the Group incurred costs associated with an increased number of Colleagues and increased resources and infrastructure to support the growth of the business. As a percentage of revenue, administrative expenses (excluding exceptional costs) increased from 4.8% of revenue to 5.4% of revenue in the same period.

EBITDA

EBITDA increased by £9.5 million (12.4%) from £76.4 million for YTDQ313 to £85.9 million for YTDQ314 primarily due to an increase in like-for-like sales and the increased number of stores. EBITDA as a percentage of revenue remained flat at 16.7% for YTDQ314 versus 16.6% for YTDQ313.

Underlying EBITDA

Kohlberg Kravis Roberts & Co. L.P. management and advisory fees were £0.9 million for YTDQ314 versus £1.0 million for YTDQ313.

Exceptional costs were £nil for YTDQ314 versus £0.7 million for YTDQ313.

Underlying EBITDA was £86.8 million in YTDQ314 versus £78.1 million in YTDQ313. Underlying EBITDA as a percentage of revenue remained flat at 16.9% for YTDQ314 and YTDQ313.

Operating profit

The Group's operating profit increased by £8.0 million from £63.0 million for YTDQ313 to £71.0 million for YTDQ314. Group operating profit as a percentage of total Group revenue increased from 13.7% for YTDQ313 to 13.8% for the YTDQ314.

The Group's Underlying Operating Profit increased by £7.0 million from £64.8 million for YTDQ313 to £71.8 million for YTDQ314. Group Underlying Operating Profit as a percentage of total Group revenue remained broadly flat at 13.9% for YTDQ314 versus 14.0% for YTDQ313.

Net finance expense

Net finance expense decreased by £8.9 million from £38.5 million in YTDQ313 to £29.6 million in YTDQ314, primarily due to an exceptional charge following the accelerated amortisation of debt fees of £7.5 million in YTDQ313, following the early repayment of a subordinated loan facility.

Profit before tax

The Group's profit before taxation increased by £16.8 million from £24.5 million for YTDQ313 to £41.3 million for YTDQ314.

Taxation

In YTDQ314, the Group's effective rate of tax increased from 20.7% in YTDQ313 to 21.0% in YTDQ314.

Profit for the period

The Group's profit for the period increased by £13.2 million from £19.4 million for YTDQ313 to £32.6 million for YTDQ314.

Non-controlling interest

Non-controlling interest for YTDQ314 was £nil following the acquisition of the non-controlling interests in Companion Care (Services) Limited and PAH UK Midco Limited in FY13.

Equity holders of the parent

The profit attributable to the equity holders of the parent increased by £18.0 million from £14.6 million for YTDQ313 to £32.6 million for YTDQ314.

2013 Financial Year Compared to 2012 Financial Year

Revenue

The Group's revenue grew by £54.0 million (+9.9%) from £544.3 million in FY12 to £598.3 million in FY13. This growth in revenue has been mainly driven by the impact of the store roll-out programme with 32 stores opened in FY13, the impact of new stores added in the previous year and Statutory Like-for-Like Sales growth of 2.6%. Food revenue increased by £28.7 million (10.7%) from £269.2 million in FY12 to £297.9 million in FY13. Accessories revenue increased by £20.3 million (8.2%) from £248.2 million in FY12 to £268.5 million in FY13. Services and other revenue increased by £5.0 million (18.6%) from £26.9 million in FY12 to £31.9 million in FY13.

Cost of sales

The Group's cost of sales increased by £22.4 million (+8.9%) from £252.0 million in FY12 to £274.4 million in FY13. As a percentage of revenue, cost of sales decreased from 46.3% for FY12 to 45.9% in FY13.

Gross profit

The Group's gross profit increased by £31.7 million (+10.8%) from £292.3 million in FY12 to £324.0 million in FY13. As a percentage of revenue, Gross Margin increased from 53.7% in FY12 to 54.1% in FY13 primarily due to development of direct sourcing from Asia, the beneficial impact of the Group's focus on advanced nutrition, own label and private brand products, marginal improvements in grooming and joint venture vet margins and improved supplier leverage from Pets at Home's increased scale, partially offset by the increase in the mix towards lower margin food and grooming and the impact of lower group vet margins having opened five wholly owned surgeries in FY13.

Total operating expenses

The Group's total operating expenses increased by £31.9 million or 14.6% from £219.0 million in FY12 to £250.9 million in FY13. As a percentage of revenue, total operating expenses increased from 40.2% in FY12 to 41.9% in FY13, an increase of 1.7 percentage points.

The Group's selling and distribution expenses increased by £22.4 million or 11.6% from £192.8 million in FY12 to £215.2 million in FY13 reflecting the organic and new store growth of the Group and the consequent impact on payroll, rent and distribution costs. Store bonus payments increased by £0.8 million to £3.0 million from £2.2 million as a result of increased store sales and a realignment of our Colleague bonus scheme. As a percentage of revenue, selling and distribution costs increased from 35.4% of revenue in FY12 to 36.0% of revenue in FY13.

The Group's administrative expenses (excluding exceptional costs) increased by £3.6 million or 13.7% from £26.2 million in FY12 to £29.8 million in FY13. The Group incurred costs associated with an increased number of Colleagues and increased resources and infrastructure to support the growth of the business, as well as the £1.2 million cost of operating the Hong Kong sourcing office and costs in connection with launching the VIP Club in FY13. Support office bonus increased by £1.3 million, from £1.5 million in FY12 to £2.8 million in FY13 as a result of the increase in EBITDA. As a percentage of revenue, administrative expenses (excluding exceptional costs) increased from 4.8% of revenue in FY12 to 5.0% of revenue in FY13.

The Group incurred exceptional costs in FY13 of £5.9 million. These costs arose from the acquisition of Vets4Pets (£4.2 million) and Ride-away (£0.4 million) and in relation to the implementation of an employee share incentive scheme (£1.3 million).

EBITDA

EBITDA increased by £2.4 million or 2.7% from £88.9 million for FY12 to £91.3 million in FY13. The increase in FY13 is attributable to the increase in like-for-like sales with an improvement in product Gross Margins driven by: increased product sourcing from China; increased own label and private brand sales as a percentage of total sales; terms improvements from new and existing suppliers partially offset by a shift in mix from higher margin accessories to lower margin food and services; 32 new stores and the maturing of stores opened in FY11 and FY12; additional veterinary surgeries and grooming salons; and, improvements in operational efficiency as the second distribution centre opened in FY12 came into full operation.

Store and support office bonus increased from £3.7 million in FY12 to £5.8 million in FY13. The increase in FY12 to FY13 is primarily as a result of the improved EBITDA which increased the support office bonus along with the increase in store sales which increased the store bonus. As a percentage of revenue, store and support office bonus increased from 0.7% of revenue in FY12 to 1.0% of revenue in FY13.

EBITDA as a percentage of revenue decreased from 16.3% in FY12 to 15.3% in FY13. The decrease was principally as a result of increases in central team wages and bonus costs, the launch of the VIP Club and the launch of the Hong Kong sourcing office and the exceptional costs of £5.9 million in FY13.

Underlying EBITDA

Kohlberg Kravis Roberts & Co. L.P. management and advisory charges were £1.3 million in FY13 versus £2.3 million in FY12.

In FY13, exceptional costs of £4.6 million (compared to £nil in FY12) arose from the costs related to the acquisitions of Vets4Pets (£4.2 million) and Ride-away (£0.4 million). The costs principally comprise legal and accounting costs as well as the direct costs of transitioning these companies into the Group. In addition FY13 included exceptional costs related to professional fees incurred in relation to the implementation of an employee share incentive scheme which is considered by management to be one off in nature (£1.3 million).

Underlying EBITDA was £98.5 million in FY13 versus £91.2 million in FY12 attributable to a £31.7 million growth in gross profit, partially offset by £5.6 million of Colleague costs, £1.1 million of distribution costs, £10.1 million of rent and other property costs and £7.5 million of other costs. Underlying EBITDA as a percentage of revenue decreased to 16.5% in FY13 from 16.8% in FY12 primarily as a result of a bonus scheme realignment, the cost of launching the VIP Club and the Hong Kong sourcing office, the effect of cannibalisation and new stores partially offset by improvements in distribution costs and improved operational leverage from established stores.

Operating profit

The Group's operating profit decreased by £0.2 million from £73.3 million for FY12 to £73.1 million for FY13. The Group's Underlying Operating Profit increased by £4.7 million from £75.6 million for FY12 to £80.3 million for FY13. Group Underlying Operating Profit as a percentage of total Group revenue was 13.9% of revenue in FY12 compared to 13.4% of revenue in FY13.

Net finance expense

Net finance expense for FY13 were £46.4 million due to interest on loans (£31.9 million), amortisation of capitalised loan fees (£5.8 million), exceptional amortisation costs (£7.5 million) following the repayment of the subordinated loan facility, interest due to related parties (£1.6 million) and interest income (£0.4 million).

The subordinated loan facility was put in place as part of the financing structure to facilitate the acquisition of Pets at Home by KKR. This loan bore interest at LIBOR plus a 4.75% cash margin and a capital margin of 6%. The capital margin was capitalised in line with the interest rolling period until the loan was repaid. Cash margin was paid monthly.

On repayment of this loan in July 2012, ahead of the scheduled repayment date of 21 March 2018, un-amortised capitalised loan fees in respect of this facility were written off and given the nature and size of the write-off were treated as exceptional.

The Group holds related party loan notes of £21.8 million at 28 March 2013 due to employees of Group who are part of the management team and former employees who were part of the management team and who remain shareholders of the Group. The loans incur interest at 8% per annum and the interest is capitalised until the loans are repaid at the earlier of a sale or a flotation of the Group or on March 2040. All interest in relation to these loan notes is treated as a finance cost. As of 2 January 2014, the related party loan notes had a balance of £18.2 million.

Profit before tax

The Group's profit before taxation increased by £1.0 million from £25.6 million for FY12 to £26.6 million for FY13.

Taxation

In FY13, the Group's effective rate of tax increased from (13.7%) to 22.1% when compared to FY12. This was primarily due to a prior year adjustment in FY12. In FY12, the Group had a tax credit of £7.1 million in respect of prior years. Excluding the impact of prior year adjustments, the Group's effective rate of tax increased from (13.7%) to 14.3% in FY12.

During FY12 the Group reached agreement with HMRC to allow a proportion of the interest on the Preferred Equity Certificates (higher up within the structure) and related party loan notes to be deducted for corporation tax purposes. The benefit of the agreement resulted in a lower tax charge in FY12 which was supplemented by accounting for the FY11 benefit as a prior year adjustment in FY12.

This agreement was formalised under an Advanced Thin Capitalisation Agreement ("**ATCA**") signed by the Company and HMRC. Under the terms of the agreement the re-financing of the Group in March 2013 meant that the existing agreement lapsed at the end of FY13. The Group is currently consulting with HMRC in respect of a revised agreement for the period FY14 to FY16.

Profit for the period

The Group's profit for the period decreased by £8.4 million from £29.2 million for FY12 to £20.8 million for FY13.

Non-controlling interest

Non-controlling interest for FY13 was £nil following the acquisition of the non-controlling interests in Companion Care (Services) Limited and PAH UK Midco Limited in FY13.

Equity holders of the parent

The profit attributable to the equity holders of the parent decreased by £1.5 million from £22.3 million for FY12 to £20.8 million for FY13.

2012 Financial Year Compared to 2011 Financial Year

Revenue

The Group's revenue grew by £26.5 million (5.1%) from £517.8 million in FY11 to £544.3 million in FY12. On an adjusted basis, revenue grew by £36.1 million (7.1%) from £508.2 million in Adjusted FY11. This growth in

revenue has been mainly driven by the impact of the store roll-out programme with 32 stores opened in FY12, the impact of new stores added in the previous year and a Statutory Like-for-Like Sales growth of 1.4%. Food revenue increased by £13.4 million (5.2%) from £255.8 million in FY11 to £269.2 million in FY12. Accessories revenue increased by £9.1 million (3.8%) from £239.1 million in FY11 to £248.2 million in FY12. Services and other revenue increased by £4.0 million (17.5%) from £22.9 million in FY11 to £26.9 million in FY12.

Cost of sales

The Group's cost of sales increased by £9.6 million (4.0%) from £242.4 million in FY11 to £252.0 million in FY12. As a percentage of revenue, cost of sales reduced from 46.8% in FY11 to 46.3% for FY12.

Gross profit

The Group's gross profit increased by £16.8 million (6.1%) from £275.5 million in FY11 to £292.3 million in FY12. Gross profit increased to 53.7% for FY12 from 53.2% in FY11 primarily due to development of direct sourcing from Asia, the beneficial impact of the Group's focus on advanced nutrition, own label and private brand products, improvements in grooming and joint venture vet margins and improved supplier leverage from Pets at Home's increased scale.

Total operating expenses

The Group's total operating expenses increased by £19.0 million or 9.5% from £200.0 million in FY11 to £219.0 million in FY12. As a percentage of revenue, total operating expenses increased from 38.6% in FY11 to 40.2% in FY12, an increase of 1.6 percentage points, reflecting investment in resources and infrastructure, in particular in relation to new store openings and Colleague training and retention programmes/initiatives, to support the future growth of the Group.

The Group's selling and distribution expenses increased by £15.8 million or 8.9% from £177.0 million in FY11 to £192.8 million in FY12. The increase in expenses reflected the organic and new store growth of the Group and the consequent impact on payroll, rent and distribution costs and the investment in opening the second distribution centre which created a step change in distribution costs in the year. Store bonus payments increased by £1.4 million from £0.8 million in FY11 to £2.2 million in FY12 as a result of a realignment of the scheme to ensure all store Colleagues were able to participate in the strong results delivered by the Group. As a percentage of revenue, selling and distribution costs increased from 34.2% of revenue to 35.4% of revenue in FY12.

The Group's administrative expenses increased by £3.2 million or 13.9% from £23.0 million in FY11 to £26.2 million in FY12. The Group's administrative expenses (excluding exceptional costs) items increased by £5.0 million or 23.6% from £21.2 million in FY11 to £26.2 million in FY12. This increase was a consequence of the Group strengthening the teams in innovation, quality control, buying, strategic planning, marketing and finance. Support office bonus increased by £0.6 million, from £0.9 million in FY11 to £1.5 million in FY12 as a result of a realignment of the bonus scheme to make it commensurate with market practice. As a percentage of revenue, administrative expenses (excluding exceptional costs) increased from 4.1% of revenue in FY11 to 4.8% of revenue in FY12.

EBITDA

EBITDA decreased by £0.7 million (0.8%) from £89.6 million for FY11 to £88.9 million in FY12. The EBITDA in FY12 was impacted by the increased wage costs associated with the strengthening of the Group's teams in innovation, quality control, buying, strategic planning, marketing and finance and the £1.2 million operational cost investment in the Group's second distribution centre. These operational cost investments were partially offset by the increase in Like-for-Like Sales Growth, the improvement in product Gross Margins driven by: an increase in the level of sourcing from China; increased own label and private brand participation; terms improvements from new and existing suppliers; and, the increasing number of stores, vet surgeries and grooming salons. FY11 financial information was prepared on a 53 week basis compared to a 52 week basis for FY12. The Directors estimate that the additional week in FY11 resulted in an additional £1.7 million of EBITDA.

Store and support office bonus increased from £1.7 million in FY11, to £3.7 million in FY12. The increase is primarily as a result of a realignment of the store bonus scheme to more closely link with the results delivered by the Company, and the associated sales growth achieved by the Group in FY12. As a percentage of revenue, store and support office bonus costs increased from 0.3% of revenue in FY11 to 0.7% of revenue in FY12.

EBITDA as a percentage of revenue decreased from 17.3% in FY11 to 16.3% in FY12. The decrease in FY12 was principally as a result of the operational cost investment in the southern distribution centre and increases in central team wages and bonus costs.

Underlying EBITDA

Kohlberg Kravis Roberts & Co. L.P. management and advisory charges were £2.3 million in FY12 versus £1.1 million in FY11.

In FY12 there were no exceptional costs.

In FY11, exceptional costs of £1.8 million arose from an exceptional joining bonus and associated employers national insurance paid to a director in the year (£1.4 million) and aborted transaction costs (£0.4 million).

Underlying EBITDA decreased by £1.2 million from £92.4 million in FY11 to £91.2 million in FY12. On an adjusted basis, Underlying EBITDA increased by £0.5 million from £90.7 million for Adjusted FY11 to £91.2 million in FY12 attributable to a £21.8 million growth in gross profit partially offset by £6.2 million of Colleague costs, £4.6 million of distribution costs, £7.8 million of rent and other property costs and £2.7 million of other costs. Underlying EBITDA as a percentage of revenue decreased to 16.8% in FY12 from 17.8% in FY11 (17.8% in Adjusted FY11) primarily as a result of a bonus scheme realignment, the effect of cannibalisation, the impact of commissioning and opening the SDC and extra support office costs, partially offset by improved operational leverage.

Operating profit

The Group's operating profit decreased by £2.2 million from £75.5 million in FY11 to £73.3 million for FY12. The Group's Underlying Operating Profit decreased by £2.7 million from £78.3 million in FY11 to £75.6 million for FY12. Group Underlying Operating Profit as a percentage of total Group revenue decreased from 15.1% for FY11 to 13.9% for FY12.

Net finance cost

Net finance costs for FY12 were £47.6 million due to interest on loans (£40.2 million), amortisation of capitalised loan fees (£6.2 million), interest due to related parties (£1.5 million) and interest income (£0.3 million).

Net finance costs for FY11 were £46.9 million due to interest on loans (£40.1 million), amortisation of capitalised loan fees (£5.5 million), interest due to related parties (£1.4 million) and interest income (£0.2 million).

Profit before tax

The Group's profit before taxation decreased by £3.0 million from £28.6 million for FY11 to £25.6 million for FY12.

Taxation

In FY12, the Group's effective rate of tax decreased to (13.7%) from 32.5% in FY11. This was primarily due to a prior year adjustment for FY11 that was recognised in FY12. Excluding the impact of prior year adjustments, the Group's effective rate of tax for FY12 is 14.3%.

During FY12 the Group reached agreement with HMRC to allow a proportion of the interest on the PEC, (higher up within the structure) and related party loan notes to be deducted for corporation tax purposes. The benefit of the agreement resulted in a lower tax charge in FY12 which was supplemented by accounting for the FY11 benefit as a prior year adjustment in FY12.

This agreement was formalised under an Advanced Thin Capitalisation Agreement (ATCA) signed by the Company and HMRC. Under the terms of the agreement the re-financing of the Group in March 2013 meant that the existing agreement lapsed at the end of FY13. The Group is currently consulting with HMRC in respect of a revised agreement for the period FY14 to FY16.

Profit for the period

The Group's profit for the period increased by £9.9 million from £19.3 million for FY11 to £29.2 million for FY12.

Non-controlling interest

Non-controlling interest for FY12 was £6.9 million and in FY11 £4.6 million due to non-controlling interests in Companion Care (Services) Limited and PAH UK Midco Limited.

Equity holders of the parent

The profit attributable to the equity holders of the parent increased by £7.6 million from £14.7 million for FY11 to £22.3 million for FY12.

LIQUIDITY AND CAPITAL RESOURCES

Use of proceeds

The Offer and Admission will allow the Company to reduce its indebtedness. The Company intends to use £240 million of the net proceeds it receives from the Offer to facilitate the repayment of outstanding amounts owing under the Existing Senior Facilities Agreement of which there are three term loans and one revolving facility, the majority of which are fully drawn. On Admission, the Company intends to draw down approximately £325 million under the New Senior Facilities Agreement in order to repay the balance owing under the Existing Senior Facilities Agreement.

Goldman Sachs, BofA Merrill Lynch (which is also acting as Sponsor) and Nomura (or their affiliates) are members of the syndicate constituting the lenders under the Existing Senior Facilities Agreement. It is expected that, as a result of the Group's repayment described above, their existing outstanding loan commitments to the Company of approximately £50 million, £5.5 million and £5 million, respectively will be repaid in full in line with the approach taken with respect to all other members of the existing syndicate, who are lenders under the Existing Senior Facilities Agreement.

In respect of the remaining net proceeds from the Offer, the Company intends to use £76 million (assuming the Offer Size is set at the mid-point of the Offer Size Range and the Price Range is set at the mid-point of the Price Range) of the net proceeds to repay Shareholder Debt.

Additionally, at or about Admission, the Company intends to use approximately £40 million (excluding VAT) of the gross proceeds from the issue of the New Shares to pay commissions and other transaction fees and expenses incurred in connection with the Offer.

General

During the period from 25 March 2010 to 2 January 2014, the Group has been cash generative with the principal source of the Group's liquidity coming from its operating activities and its existing finance facilities (which on Admission are to be refinanced and replaced by facilities to be drawn under the New Senior Facilities Agreement, further details of which are set out in this Part XI (*Operating and Financial Review*) below). The Group's business has generated sufficient cash from operating activities to fund its capital expenditure programme, which is further described below, to fund its acquisitions of Vets4Pets and Ride-away, meet its tax liabilities and have significant cash balances. As at 30 January 2014 (being the date of PAH Retail Limited's last set of management accounts prior to the date of this Prospectus) the liquidity available to the Group (cash and cash equivalents) was £44.8 million. The Group maintains cash, principally held in pounds sterling, to fund the daily cash requirements of its business.

Going forward, the Group expects that its proposed new store programme and other proposed capital expenditure will continue to be funded through a combination of cash inflow from operating activities and borrowing facilities available to the Group.

The principal source of the Group's liquidity is net cash inflow from operating activities and its finance facilities. As a result, significant risks to the Group's sources of liquidity include operational risks, such as the risk of stagnant or declining revenues and the risk of access to finance facilities being withdrawn or limited.

Indebtedness

Existing Indebtedness

As at 30 January 2014 (being the date of PAH Retail Limited's last set of management accounts prior to the date of this Prospectus) the Group had net indebtedness of £521.9 million (which includes £19.6 million capitalised loan issue costs) which represented an increase of £109.3 million from 28 March 2013. This increase in net indebtedness principally reflects the draw down of an additional term loan of £135 million in April 2013. These funds were used to repay capital and accrued interest in respect of certain Shareholder Debt instruments. The subsequent reduction in net indebtedness reflects the strong cash generation of the Group after making the capital investments necessary to grow the Group through its new store and store refurbishment programme, specifically to accommodate new veterinary practices and grooming salons, plus the infrastructure necessary to support business growth. As at 30 January 2014, the Group is party to the following finance facilities:

(A) PAH UK Holdco Limited and certain of its subsidiaries are party to a senior facilities agreement dated 24 January 2010 (as amended and/or restated from time to time) (the "**Existing Senior Facilities Agreement**"). The Existing Senior Facilities Agreement provides for the following facilities, all of which are to be refinanced in full on Admission:

- a £75 million term loan A which was drawn down in full in March 2010 by PAH UK Bidco Limited (of which £38.7 million remains outstanding as of 30 January 2014), and which amortises from 30 March 2011 with the final repayment on 23 March 2016. Borrowings under this facility bear interest at LIBOR plus Mandatory Costs plus a margin varying between 3.00% and 4.50%;
- a £270 million term loan B which was drawn down in full in March 2010 by PAH UK Bidco Limited (of which £265.3 million remains outstanding as of 30 January 2014) and a £130 million term loan C which was drawn down in full in June 2012 by PAH UK Bidco Limited (of which £128.9 million remains outstanding as of 30 January 2014). Repayment of term loans B and C is to be made through a single, bullet repayment on 23 March 2017 in respect of term loan B and on 23 March 2018 in respect of term loan C. Borrowings under these facilities bear interest at LIBOR plus Mandatory Costs plus a margin varying between 4.50% and 5.00%;
- a £135 million term loan D which was drawn down in full in April 2013 by PAH UK Bidco Limited (of which £135.0 million remains outstanding as of 30 January 2014). Repayment of term loan D is to be made through a single, bullet repayment on 30 March 2019. Borrowings under this facility bears interest at LIBOR plus Mandatory Costs plus a margin varying between 4.50% and 5.00%; and
- a £30 million revolving facility which commenced in March 2010 and can be drawn down as required and is available until 23 March 2016. As of 30 January 2014, £3.6 million of this facility has been allocated to available ancillary facilities. Borrowings under this facility bear interest at LIBOR plus Mandatory Costs plus a margin varying between 3.00% and 4.50%.

(B) Companion Care (Services) Limited (CCSL) is party to a number of loan agreements with both Lloyds TSB Bank plc and The Co-operative Bank Plc pursuant to which funds are made available to certain joint venture companies in which CCSL is one of the joint venture partners. Recourse to CCSL under these loan agreements is limited to (i) a debenture pursuant to which CCSL has granted fixed and floating charges over substantially all of its assets in favour of the lenders and (ii) guarantees which are limited as follows: (A) the guarantee in favour of Lloyds TSB Bank Plc is limited to £1.5 million for each 12 month period (and this reduces to £1 million if the amount guaranteed is less than £20 million); and (B) the guarantee in favour of The Co-Operative Bank Plc is limited to £1 million. The total amount outstanding under (i) the loan agreements with Lloyds TSB Bank Plc is £18.1 million as of 30 January 2014 and (ii) the loan agreements with The Co-Operative Bank Plc is £7.8 million as of 30 January 2014. This facility will remain in place following Admission.

(C) Companion Care Management Services Limited (CCMSL) is party to a number of loan agreements with both Lloyds Bank plc and KKR Corporate Lending (UK) LLC pursuant to which funds are made available to certain joint venture companies in which CCMSL is one of the joint venture partners. Recourse to CCMSL under these loan agreements is limited to (i) a debenture pursuant to which CCMSL has granted fixed and floating charges over substantially all of its assets in favour of the lenders and (ii) guarantees which are limited as follows: (A) the guarantee in favour of Lloyds Bank Plc is limited to a maximum amount of £2.5 million (less the amount of any guarantee granted by CCSL in favour of Lloyds TSB Bank plc) for each 12 month period; and (B) the guarantee in favour of KKR Corporate Lending (UK) LLC is limited to £1.5 million for each 12 month period. As of 30 January 2014 no amounts have been drawn under these loan agreements.

(D) Vets4Pets Limited, Vets4Pets UK Limited, Vets4Pets Vet Group Limited and Pet Investments Limited have an agreement with the Bank of Scotland Plc in respect of a BACS facility. In connection with the foregoing facility Vets4Pets Vet Group Limited has granted a guarantee in favour of the Bank of Scotland Plc which is limited to £1.5 million (plus interest, costs and expenses).

No defaults are continuing in respect of the financing facilities summarised above and no default breaches are expected to occur under such facilities. The undertakings in the Existing Senior Facilities Agreement do not restrict the use of the facilities provided that the proceeds are applied for one of the permitted purposes.

Indebtedness after the Offer — New Senior Facilities Agreement

On 18 February 2014, the Company entered into a senior facilities agreement (the "**New Senior Facilities Agreement**") with, amongst others, Bank of America Merrill Lynch International Limited, Barclays Bank PLC, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, GE Corporate Finance Bank SAS, Goldman Sachs Bank USA, Lloyds Bank plc, Mizuho Bank, Ltd and Nomura International plc as arrangers, Bank of America Merrill Lynch International Limited, Barclays Bank PLC, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, GE Corporate Finance Bank SAS, Goldman Sachs Bank USA, Lloyds Bank plc, M&G Conservative European Loan Fund Limited, M&G European Loan Fund Limited, M&G Versatile European Loan Fund Limited, Mizuho Bank, Ltd, Nomura International plc and Stichting Shell Pensioenfonds as original lenders ("**Original Lenders**") and GE Corporate Finance Bank SAS, London Branch, as facility agent ("**Facility Agent**") and security agent ("**Security Agent**"). Under the New Senior Facilities Agreement, the following facilities are made available to Pets at Home Group Plc and certain of its subsidiaries (i) a term loan A facility of £90 million ("**Facility A**"), (ii) a term loan B facility of £235 million ("**Facility B**" and together with Facility A, the "**Term Facilities**"), and (iii) a revolving credit facility of £30 million (the "**Revolving Credit Facility**" and together with the Term Facilities, the "**Facilities**"). In addition, the Group may elect to require additional facilities to an aggregate maximum principal amount outstanding at any time of £150,000,000 be incorporated into the New Senior Facilities Agreement as either a new facility or on additional tranche of the existing facility.

The Term Facilities may be utilised by way of loans for the purpose of (directly or indirectly) refinancing the indebtedness of the Group, financing the transaction costs, and/or financing or refinancing the general corporate purposes of the Group. The Revolving Credit Facility may be utilised by way of loans and/or letters of credit for the purpose of (directly or indirectly) financing or refinancing the general corporate purposes and /or working capital requirements of the Group. The Revolving Credit Facility may also be utilised by way of ancillary facilities provided by the lenders of the Revolving Credit Facility on either a fronted or bilateral basis.

Facility A is required to be repaid in semi-annual instalments from 1 October 2015 with the final instalment due on the date which falls 60 months after the date of first drawdown under the New Senior Facilities Agreement (the "**First Utilisation Date**"). Facility B is required to be repaid in one single repayment due on the date which falls 72 months after the First Utilisation Date. Each loan made under the Revolving Credit Facility is repayable on the last day of its interest period. The interest period of a loan made under the Revolving Credit Facility can be one, two, three or six months or any such period as agreed by the Facility Agent (or if greater than 6 months, all lenders participating in the relevant loan). The scheduled final maturity date of the Revolving Credit Facility is the date which falls 60 months after the First Utilisation Date.

Interest is payable on amounts drawn by way of loans under the New Senior Facilities Agreement at a margin over LIBOR or, in the case of a loan in Euro, EURIBOR ranging between (i) in respect of Facility A and the Revolving Credit Facility, 1.50% and 2.25% (depending on the ratio of total net debt to consolidated EBITDA) and (ii) in respect of Facility B, 1.75% and 2.50% (depending on the ratio of total net debt to consolidated EBITDA. For the first 12 months following the First Utilisation Date, the margin is fixed at 2.00% for Facility A and the Revolving Credit Facility and 2.25% for Facility B. Additionally, a commitment fee is payable on unutilised amounts under the Revolving Credit Facility at a rate of 35% of the applicable margin. Customary fees are payable to the facility agent and security trustee and an issuing bank fee of 0.125% is also payable in respect of any bank guarantees in issue.

The New Senior Facilities Agreement is guaranteed by the guarantors thereto, and the Original Lenders' rights under it are secured with reference to security over all or substantially all of the Company's and each Guarantor's assets, pursuant to an English law debenture. Such security must be released by the Security Agent if requested by a member of the Group, provided certain conditions are met.

The New Senior Facilities Agreement also contains customary prepayment, cancellation and default provisions and customary representations and warranties (subject to certain exceptions and qualifications) and a financial covenant, including:

- if required by a lender, mandatory prepayment of all utilisations provided by that lender upon the sale of all or substantially all of the business and assets of the Group or a change of control;
- a financial covenant (tested twice annually) which requires that the ratio of total net debt to consolidated EBITDA, when tested, does not exceed 3.75:1;
- covenants that impose restrictions on the Group's ability to enter mergers, incur additional financial indebtedness, make disposals or make a substantial change to the general nature of the business of the Group (in each case subject to certain exceptions) provided that the restrictions on mergers and financial indebtedness will be suspended upon (i) the ratio of total net debt to consolidated EBITDA being equal to or less than 2.50:1 or (ii) the long term corporate credit rating of the Company (or certain of its affiliates) is equal to or better than Baa3 or BBB- (as applicable) according to at least two of Moody's, Standard & Poor's and Fitch;
- voluntary prepayment of loans or letters of credit (subject to minimum amounts and prior notice);
- events of default including non-payment, failure to comply with financial covenant (subject to equity cure provisions), breaches of representation and other obligations, insolvency, cross default (in relation to certain other financial indebtedness of the Group, subject to a £25 million de minimis threshold), invalidity, unlawfulness and repudiation of finance documents, intercreditor default and material adverse change (in each case, subject to customary grace periods and thresholds); and
- certain ongoing financial information provisions.

Cash flows

The table below sets out information from the Group's cashflow statements for YTDQ314 (and, for comparative purposes, YTDQ313) and for FY13, FY12, FY11, all in accordance with IFRS.

Consolidated cashflow statement

	53 week period ended 31 March 2011	52 week period ended 29 March 2012	52 week period ended 28 March 2013	40 week period ended 3 January 2013 (unaudited)	40 week period ended 2 January 2014
	£000	£000	£000	£000	£000
Cash flows from operating activities	81,145	93,216	113,805	89,991	71,547
Cash flows from investing activities	(28,859)	(24,344)	(68,496)	(17,234)	(18,987)
Cash flows from financing activities	(42,393)	(45,278)	(83,203)	(75,658)	(30,231)
Net increase/(decrease) in cash and cash equivalents	9,893	23,594	(37,894)	(2,901)	22,329
Opening cash and cash equivalents	33,241	43,134	66,728	66,728	28,834
Closing cash and cash equivalents	43,134	66,728	28,834	63,827	51,163

Cash flows from operating activities

Net cash flows from operating activities decreased by £18.5 million from £90.0 million in YTDQ313 to £71.5 million in YTDQ314. This development is primarily due to £16.2 million negative movement in working capital and a net tax receipt of £6.1 million in Q313 versus a payment of £6.9 million in Q314.

YTDQ313 working capital benefit of £7.6 million reflects a significant increase in trade and other payables of £15.0 million due to improvements in payment terms to globally sourced suppliers, further enhanced by timing of payments to suppliers over the Christmas period. Offsetting this was an increase in inventories of £4.0 million due to new stores and a shift to global sourcing and an increase in trade and other receivables of £3.0 million, reflecting growth in the business, and a decrease in provisions of £0.5 million.

In YTDQ314 there has been a negative working capital change of £8.6 million since the end of FY13 with the increase in payables due to trading offset by the payment of integration costs associated with the acquisition of V4P and the repayment of a portion of capital and accrued interest in respect of Midco Loan Notes following the re-financing and subsequent return of monies to shareholders during April 2013. Also impacting working capital in Q3FY14 is an increase in debtors since the year end reflecting a timing difference on the collection of supplier

receivables and the inclusion in debtors of monies due in respect of veterinary practices which have moved from being owned to being joint venture owned. Both the timing of the receipt of the supplier monies, and the timing of the receipt of monies from veterinary practices are short term timing issues.

Net cash flows from operating activities increased by £20.6 million to £113.8 million in FY13 from £93.2 million in FY12. This development is primarily due to increases in Underlying EBITDA of £7.3 million and working capital improvements of £5.8 million, principally as a result of extending payment terms to suppliers with a focus on the Group's Far East supplier base, a progressive move to monthly rental payments and accelerated collection of trade receivables. In addition, revisions in prior year tax computations following agreement with HMRC as regards the quantum of allowable interest cost deduction when calculating the Group's tax liabilities resulted in lower payments on account and a repayment being received in the year.

Net cash flows from operating activities increased by £12.1 million to £93.2 million in FY12 from £81.1 million in FY11. This development is primarily due to working capital improvements of £10.4 million as a result of similar activities as described above and revisions to prior year tax computations resulting in lower tax payments during the year of £2.3 million.

Unlevered Free Cashflow has increased in the period under review from £77.4 million in FY11 to £78.6 million in FY12 and £95.5 million, in FY13. Unlevered free cashflow in YTDQ314 was £58.9 million, as compared to £71.1 million in YTDQ313.

	53 week period ended 31 March 2011	52 week period ended 29 March 2012	52 week period ended 28 March 2013	40 week period ended 3 January 2013 (unaudited)	40 week period ended 2 January 2014
	£m	£m	£m	£m	£m
Underlying EBITDA	92.4	91.2	98.5	78.1	86.8
Working capital change	1.7	12.1	17.9	7.6	(8.6)
Underlying operating cash flow	94.1	103.3	116.4	85.7	78.2
Acquisitions of property, plant and equipment and other intangible assets	(16.7)	(23.8)	(20.4)	(14.7)	(17.8)
Investments in other financial assets	(0.3)	(1.1)	(1.2)	(0.6)	(1.5)
Other	0.3	0.2	0.7	0.7	–
Unlevered Free Cashflow	77.4	78.6	95.5	71.1	58.9
Unlevered Free Cashflow conversion to Underlying EBITDA	83.8%	86.2%	97.0%	91.0%	67.9%
Exceptional costs [1]	(2.8)	(2.3)	(7.2)	(1.7)	(0.9)
Unlevered Free Cashflow after exceptionals	74.6	76.3	88.3	69.4	58.0
Acquisitions of subsidiaries [2]	–	–	(47.9) [3,4]	(2.9) [4]	–
Cash available for tax, debt service	74.6	76.3	40.4	66.5	58.0

(1) Kohlberg Kravis Roberts & Co. L.P. management charges are included in exceptional costs
(2) 2011 figure excludes costs associated with the KKR acquisition
(3) Excludes costs of acquisition (£4.6 million), which are included in the exceptional costs in 2013
(4) Acquisitions are net of cash acquired

Cash flows from investing activities

Net cash flows used in investing activities in YTDQ314 were £19.0 million and were used primarily to purchase property, plant and equipment and to make investments in joint venture practices. The Group's net cash flows used in investing activities in FY13 were £68.5 million and were mainly used to acquire the Vets4Pets group, Ride-away and the minority interest in Companion Care (Services) Ltd (£47.9 million in the aggregate) and on the purchase of property, plant and equipment, including for the installation of veterinary surgeries and Groom Rooms into new and existing stores (£20.4 million in the aggregate). Net cash flows used in investing activities in FY12 were £24.3 million and were mainly used to purchase property, plant and equipment (£23.8 million). Net cash flows used in investing activities in FY11 were £28.9 million and mainly related to acquisition costs associated with acquisition of Pets at Home Interco Limited by PAH UK Bidco Limited (£12.4 million) and the purchase of property, plant and equipment (£16.7 million).

Cash used for the acquisition of property, plant and equipment was £20.4 million in FY13 and primarily related to opening 32 new stores, relocating, refurbishing and maintaining existing stores and systems and software. Cash used for the acquisition of property, plant and equipment was £23.8 million in FY12 and primarily related to opening 32 new stores, opening the second distribution centre, refurbishing and maintaining existing stores, and systems and software. Cash used for the acquisition of property, plant and equipment was £16.7 million in

FY11 and primarily related to opening 25 new stores, relocating, refurbishing and maintaining existing stores and systems and software. The major systems investment across the period under review was the implementation of SAP.

Cash flows from financing activities

Net cash flows used in financing activities in YTDQ314 were £30.2 million and were used to make interest payments (£23.7 million), loan repayments (£5.7 million) and issue costs associated with new term loans (£5.5 million). The proceeds from the new loan (£135 million) were used to repay capital and accrued interest in respect of certain Shareholder Debt instruments. Net cash flows used in financing activities in FY13 were £83.2 million and were used to make interest payments (£32.7 million), loan repayments of £174.0 million and the proceeds from new loans of £130 million related to the re-financing of the subordinated loan, issue costs associated with the new term loan (£6.6 million) and £9.1 million raised from the issue of share capital used to acquire the non-controlling interests in Companion Care (Services) Ltd and Pets at Home UK Midco Ltd. Net cash flows used in financing activities in FY12 were £45.3 million and were used to make interest payments (£29.1 million) and loan repayments (£16.2 million). Net cash flows used in financing activities in FY11 were £42.4 million and were used to make interest payments (£31.5 million), loan repayments (£2.6 million) and pay issue costs (£8.3 million).

WORKING CAPITAL

The following table sets forth the principal components of the Group's working capital for the periods indicated.

	53 week period ended 31 March 2011	52 week period ended 29 March 2012	52 week period ended 28 March 2013	40 week period ended 3 January 2013 (unaudited)	40 week period ended 2 January 2014
	£m	£m	£m	£m	£m
Current Assets					
Inventories	33.4	39.2	42.1	47.6	49.0
Trade and other receivables (excluding corporation tax)	28.3	25.3	34.0	29.2	44.9
Current Liabilities					
Trade and other payables (excluding corporation tax)	(63.4)	(78.3)	(99.7)	(92.5)	(112.8)
Total working capital	(1.7)	(13.8)	(23.6)	(15.7)	(18.9)

The following table sets forth the net working capital movements and the KPI for the periods indicated.

	53 week period ended 31 March 2011	52 week period ended 29 March 2012	52 week period ended 28 March 2013	40 week period ended 3 January 2013 (unaudited)	40 week period ended 2 January 2014
	£m	£m	£m	£m	£m
Net working capital movements					
Increase in inventories	(5.6)	(5.8)	(1.7)	(4.0)	(7.0)
(Increase)/decrease in trade and other receivables	(5.4)	3.0	(7.3)	(3.0)	(10.5)
Increase in trade and other payables (including provisions, excluding tax)	12.7	14.9	26.9	14.6	8.9
Net working capital movement	1.7	12.1	17.9	7.6	(8.6)
KPI					
Average stock per store (£'000) based on period end stores	118.9	125.2	121.9	142.6	133.3

Management of the Group's working capital has been a key area of focus over the last three years. The Group has a history of strong working capital management that has generated net cash inflow in every full year of the historic period. The Group's stock has seen historic increases due to investment in new stores, maintenance of stock availability, investment in the southern distribution centre and expansion of the direct sourcing operation. The Group's trade receivables have increased, principally reflecting the growth in rent prepayment on new stores and growth in vendor related receivables. Such increases have been more than offset by the increase in trade payables as a result of increased investment in stock, increase in creditor days, principally from improved terms, from direct sourced vendors and growth related increases in liabilities in respect of PAYE, VAT and other general accruals.

CAPITAL EXPENDITURE AND INVESTMENTS

	53 week period ended 31 March 2011	52 week period ended 29 March 2012	52 week period ended 28 March 2013	40 week period ended 3 January 2013 (unaudited)	40 week period ended 2 January 2014
	£m	£m	£m	£m	£m
New stores	7.2	10.9	10.7	6.3	7.5
Services	2.4	2.2	2.7	2.0	3.6
Major projects	0.5	6.3	2.7	2.2	3.1
Other capital expenditure	6.5	5.9	5.9	4.6	4.5
Total capital expenditure	16.6	25.3	22.0	15.1	18.7
Capital expenditure to underlying operating cash flow ratio	17.6%	24.5%	18.9%	17.6%	23.9%

Note: Property, plant and equipment are included within Tangible assets and software additions are included within Intangible assets.

Over the period under review Pets at Home's capital investment programmes have been fully funded out of operating cash flows. Pets at Home has focused its capital expenditure programme on opening new stores and refurbishing existing stores to facilitate the introduction of a veterinary surgery and a grooming salon, or where space limitations exist, either a veterinary surgery or a grooming salon, with the veterinary surgery taking preference. In the period under review, over £82.0 million of capital expenditure has been undertaken of which £36.3 million cost was incurred to open 112 new stores excluding groomers. Capital expenditure on new stores is approximately £324,000 per new store and on new groomers is approximately £45,000 per new groomer. In FY12, Pets at Home invested in fitting out a second distribution centre in Northampton (SDC). Total project spend was £5.4 million with £0.5 million capitalised in FY11 and £4.9 million in FY12. From a systems perspective, the major investment in the period under review has been the investment in core SAP modules covering finance, pricing, product and promotions. The total capital invested was £4.9 million with £0.9 million capitalised in YTDQ314, £2.6 million capitalised in FY13 and £1.4 million capitalised in FY12. Expenditure on trading and merchandising has focused on new in store trading to support the introduction of new, or the extension of existing, ranges. In addition, Pets at Home has invested in enhancing space utilisation to enable additional bays to be installed and space to be aligned to the Group's latest view of optimal space allocation. The Vets capital expenditure principally relates to the establishment of ten wholly owned veterinary surgeries, five in FY13 and five in YTDQ314, three of which have since been sold to a joint venture partner.

The Group's investment in joint venture veterinary surgeries represents a loan from the Group as part of the overall financing package necessary to open and establish a joint venture veterinary business. The financing for the joint venture veterinary business comes from joint venture partners and external bank debt (for further details see Part VII (*Information on the Business*)). Management's intention is to continue to provide loans in respect of the establishment of joint venture veterinary surgeries.

The Group expects capital expenditure on new stores, services and major projects to be approximately £25 million in FY14 and other capital expenditure to be approximately 1% of Group revenue in 2014. The Group expects capital expenditure to be maintained at approximately £30 million to £35 million in FY15 and FY16 with expenditure continuing to focus on new stores and refurbishments to facilitate the installation of veterinary surgeries and grooming salons in existing stores. In the Group's distribution and logistics planning the focus will be on upgrading the existing mezzanine single pick operation in the NDC at Stoke in FY14 and to install a mezzanine into the SDC at Northampton in FY15. From a systems perspective, management is in the process of replacing the Group's existing warehouse management system, allowing the business to have a single view of stock which is a key enabler of its omni-channel strategy. Continued investment in the Group's infrastructure will enable Pets at Home to keep ahead of its growth plans and further SAP modules are expected to be deployed, specifically replenishment and financial planning. As regards the Group's veterinary business, management is committed to maintaining an estate of approximately 10 wholly owned veterinary surgeries. As wholly owned surgeries are sold on to joint venture partners Pets at Home intends to re-invest to maintain wholly owned numbers at around 10. Trading and merchandising projects will continue to be supported with capital where the Directors believe it to be appropriate.

CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES

The Group has various contractual obligations and commercial commitments, which are items for which it is contractually obliged or committed to pay a specified amount at a specific point in time. Pets at Home's aggregate contractual obligations (excluding certain other payables in the ordinary course of business), as at 2 January 2014, were as follows:

Contractual obligations	Total	Payments due by period Less than 1 year	1-5 years	After 5 years
	£000	£000	£000	£000
Bank facilities	567,926	12,408	420,518	135,000
Operating lease obligations	587,697	65,474	249,452	272,771
Net Derivative financial instruments	45	45	–	–
Total contractual obligations	1,155,668	77,927	669,970	407,771

In addition to the quantifiable obligations detailed above, Pets at Home stores are the subject of standard institutional leases which require the tenant, Pets at Home, to maintain the stores on full repairing and insuring terms. At the conclusion of the lease term there may well be a dilapidations cost based on an agreed schedule such that the property is returned to the landlord in the same condition as the time it was leased. Pets at Home currently has three leases that have completed their term and 15 store leases which expire before 31 March 2017. Pets at Home has provided £0.5 million for dilapidations as at 2 January 2014.

Contingent liabilities

As at 2 January 2014, the Group had contingent liabilities totalling £34,500,000 relating to transaction costs which will only crystallise upon the successful outcome of the Admission.

OFF-BALANCE SHEET ARRANGEMENTS

As at 2 January 2014, the Group had the following guarantees:-

A guarantee provided to HMRC, under Pets at Home's existing revolving credit facility with Barclays Bank plc in respect of deferred duty in the sum of £400,000.

A guarantee provided to Barclaycard, under Pets at Home's existing revolving credit facility with Barclays Bank plc in respect of amounts due on corporate credit cards in the sum of £100,000.

Companion Care (Services) Limited (CCSL) is party to a number of loan agreements with both Lloyds TSB Bank Plc and The Co-operative Bank Plc pursuant to which funds are made available to certain joint venture companies in which CCSL is one of the joint venture partners. Recourse to CCSL under these loan agreements is limited to (i) a debenture pursuant to which CCSL has granted fixed and floating charges over substantially all of its assets in favour of the lenders and (ii) guarantees which are limited as follows: (A) the guarantee in favour of Lloyds TSB Bank Plc is limited to £1.5 million for each 12 month period (and this reduces to £1 million if the amount guaranteed is less than £20 million); and (B) the guarantee in favour of The Co-operative Bank Plc is limited to £1 million. The total amount outstanding under (i) the loan agreements with Lloyds TSB Bank Plc is £19.1 million as of 2 January 2014 and (ii) the loan agreement with The Co-operative Bank Plc is £7.3 million as of 2 January 2014.

Companion Care Management Services Limited (CCMSL) is party to a number of loan agreements with both Lloyds Bank plc and KKR Corporate Lending (UK) LLC pursuant to which funds are made available to certain joint venture companies in which CCMSL is one of the joint venture partners. Recourse to CCMSL under these loan agreements is limited to (i) a debenture pursuant to which CCMSL has granted fixed and floating charges over substantially all of its assets in favour of the lenders and (ii) guarantees which are limited as follows: (A) the guarantee in favour of Lloyds Bank Plc is limited to a maximum amount of £1 million for each 12 month period; and (B) the guarantee in favour of KKR Corporate Lending (UK) LLC is limited to £1.5 million for each 12 month period. As of 30 January 2014 no amounts have been drawn under these loan agreements.

Vets4Pets Limited, Vets4Pets UK Limited, Vets4Pets Vet Group Limited and Pet Investments Limited has an agreement with the Bank of Scotland Plc in respect of a BACS facility. In connection with the foregoing facility Vets4Pets Vet Group Limited has granted a guarantee in favour of the Bank of Scotland Plc which is limited to £1.5 million (plus interest, costs and expenses).

Pensions

The Group operates a defined contribution pension scheme. As at 21 February 2014 the Group had successfully implemented the Government's requirements in respect of auto-enrolment.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Group's exposure to market risk is a function of its business and borrowing activities. The Group is exposed to market risk from changes in foreign currency exchange rates, interest rates, the price of certain commodities and energy costs.

The Group faces foreign exchange risk to the extent the business's sales, costs, assets or liabilities are or will be denominated in currencies other than pounds sterling. Its interest rate risk results from changes in interest rates which may affect the cost of its financings. The Group does not hold or issue derivative or other financial instruments for trading purposes.

The price of a number of the Group's food products can be affected by movements in commodity prices, specifically rice, wheat, seed and meat protein. The Group can also be adversely affected by significant movements in the price of oil and the consequent impact on diesel and utility costs, specifically electricity.

Foreign exchange risk

The Group sources a significant level of purchases in US dollars and monitors its foreign currency requirements through short, medium and long term cash forecasting. The value of purchases in US dollars has increased significantly over the last three years and the risk management policy has changed in line with this increased risk.

At 2 January 2014, the Group's policy is to hedge between 75% to 90% of the forecasted foreign exchange transactions on a rolling ten to twelve-month basis, using foreign currency bank accounts and forward foreign exchange contracts. The transactions are deemed to be 'highly probable' and are based on historical knowledge and forecasted purchase and sales projections. The following table shows information about Pets at Home's foreign exchange forward contracts, as at 2 January 2014:

Trade dates	Maturity date	US Dollars bought	Pounds sterling sold	Average rate
19-Sep-13 to 18-Dec-13	06-Jan-13 to 16-Mar-15	$47.3 million	£29.8 million	1.59

All foreign currency transactions have been executed with Barclays Bank plc and are executed as forward foreign exchange contracts. The mark to market of all outstanding foreign exchange contracts at 2 January 2014 was £1.1 million.

Cashflow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings. As at 2 January 2014, the Group has a drawn down senior facility totalling £567.9 million and an undrawn revolving credit facility of £26.4 million, which expires on 21 March 2016. The Group's borrowings incur interest at floating rates that vary between 3.00% and 5.00% above sterling LIBOR which exposes the Group to cashflow interest rate risk. The analysis of loan repayments is detailed in note 18 of Part XIII (*Historical Financial Information*).

The Group's policy, with regard to interest rate risk, is to hedge at least 70% of its floating interest rate borrowings by entering into fixed rate interest rate swap agreements. The Group has entered into fixed rate interest rate swap agreements over a total of £299.1 million as at 2 January 2014 of the senior facility borrowings at a fixed rate of 0.74% and £98.4 million as at 2 January 2014 at a fixed rate of 0.655%, which expire on 30 March 2016. The hedges were £1.1m favourable to the Group as at 2 January 2014.

The Group intends to maintain the above hedging strategy post IPO and expects existing arrangements to remain in place.

All the Group's interest rate swap agreements have been executed with Nomura International plc. The Group monitors third party credit ratings of its counterparties to manage the Group's credit risk exposure to counterparties.

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. The Group seeks to ensure that the banks used for the financing of the loan facilities and interest rate swap agreements have an acceptable credit rating by independent credit rating agencies.

The Group has in place certain guarantees over the bank loans taken out by a number of joint venture veterinary practice companies in which it holds an investment. Further details of these guarantees are disclosed in Section 5 (*The Group's products and services*) of Part VII (*Information on the Business*). The performance of the veterinary practice companies is reviewed on an on-going basis.

Liquidity risk

Management prepare and monitor rolling forecasts of the Group's cash balances based on expected cash flows to seek to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due. This analysis is prepared under both normal and stressed conditions. Covenants are monitored on a regular basis to seek to ensure that there is no risk or breach which would lead to an 'Event of Default' and compliance certificates are issued quarterly to the syndicate agent.

Price of certain commodities

Movements in the prices of certain commodities used in the manufacture of the Group's food products can result in increased purchase costs for the Group. The Group does not take any steps to hedge its exposure to such price movements, as Pets at Home has historically been able to pass these costs onto customers. However the ability of the Group to pass such costs onto customers and maintain margins in the future will be dictated by general market conditions and competitive factors.

Energy and fuel costs

To reduce the Group's exposure to significant movements in the price of oil (and the consequent impact on diesel and electricity costs), the Group has fixed its cost of diesel through to December 2014. The Group has fixed the price of 1.75 million litres of diesel at a fixed cost of £1.095 pounds per litre including duty and delivery. In addition the Group fixes energy costs on a rolling quarterly basis.

CRITICAL ACCOUNTING POLICIES

The Group's critical accounting policies are set out in note 1 in Part XIII (*Historical Financial Information*).

PART XII

CAPITALISATION AND INDEBTEDNESS

The following tables set out the Group's consolidated capitalisation and indebtedness as at 2 January 2014. The following tables do not reflect the impact of the Offer or the New Senior Facilities on the Group's capitalisation and indebtedness. Please refer to Part XIV (*Unaudited Pro Forma Financial Information*) for an analysis of the impact of the Offer on the consolidated net assets of the Group.

The following table sets out the Group's consolidated capitalisation and indebtedness as at 2 January 2014:

	2 January 2014 £000
Current debt	
Secured bank loans	(12,408)
Non-current debt	
Secured bank loans	(535,492)
Unsecured related party loan notes	(18,233)
Total Indebtedness	(566,133)
Cash & cash equivalents	51,163
	(514,970)
Shareholders' equity	
Ordinary share capital	200
Share premium	–
Other reserves	(32)
Retained earnings	475,135
Equity attributable to equity holders of PAH Retail Limited as at 2 January 2014	475,303

Notes:

The Group has an undrawn revolving credit facility of £26.4 million which expires on 21 March 2016.

All bank borrowings are secured via fixed charges over the head office freehold property, the distribution centre leasehold property and any plant and machinery owned by the Group, and via a floating charge over the other assets of the Group.

The senior bank loans bear interest at LIBOR plus a margin, varying between 3.0% and 5.0% and are due for repayment at various dates up to 23 March 2018.

Included within the carrying value of secured bank loans are issue costs of £20 million.

The Group has entered into fixed rate interest rate swap agreements over £299.1 million of the senior facility borrowings of 0.74%, and a further fixed rate interest rate swap was taken out over £98.4 million at a fixed rate of 0.655%. Both swaps expire on 30 March 2016.

The Group has issued Midco Loan Notes of which £18.2 million remain outstanding.

PART XIII

HISTORICAL FINANCIAL INFORMATION

Accountant's report on historical financial information

KPMG LLP
St James' Square
Manchester M2 6DS
United Kingdom

The Directors

Pets at Home Group Plc
Epsom Avenue
Stanley Green Trading Estate
Handforth
Cheshire
SK9 3RN

28 February 2014

Dear Sirs

PAH Retail Limited

We report on the consolidated financial information of PAH Retail Limited (formerly KKR My Best Friend UK Interco Limited) (the "Company") and set out on pages 122 to 167 for the 53 weeks ended 31 March 2011 and the 52 weeks ended 29 March 2012 and 28 March 2013 and the 40 weeks ended 2 January 2014. This financial information has been prepared for inclusion in the prospectus dated 28 February 2014 of Pets at Home Group Plc on the basis of the accounting policies set out in note 1 to the financial information. This report is required by paragraph 20.1 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose. We have not audited or reviewed the financial information for the 40 weeks ended 3 January 2013 which has been included for comparative purposes only, and accordingly do not express an opinion thereon.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 1.1 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the prospectus dated 28 February 2014, a true and fair view of the state of affairs of PAH Retail Limited and its subsidiary undertakings as at 31 March 2011, 29 March 2012, 28 March 2013 and 2 January 2014 and of its Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the 53 weeks ended 31 March 2011, 52 weeks ended 29 March 2012, 52 weeks ended 28 March 2013 and 40 weeks ended 2 January 2014 in accordance with the basis of preparation set out in note 1.1 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union as described in note 1.1 to the financial information.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG LLP

Consolidated Income Statement

	Note	53 week period ended 31 March 2011 £000	52 week period ended 29 March 2012 £000	52 week period ended 28 March 2013 £000	40 week period ended 3 January 2013 (unaudited) £000	40 week period ended 2 January 2014 £000
Revenue	*1,3*	517,831	544,325	598,337	461,348	515,154
Cost of sales		(242,350)	(252,017)	(274,362)	(210,551)	(237,229)
Gross profit		275,481	292,308	323,975	250,797	277,925
Selling and distribution expenses		(176,998)	(192,813)	(215,177)	(165,032)	(179,379)
Administrative expenses before exceptional costs		(21,224)	(26,232)	(29,815)	(22,001)	(27,591)
Exceptional costs	*4*	(1,757)	–	(5,915)	(734)	–
Operating profit		75,502	73,263	73,068	63,030	70,955
Financial income		166	310	388	243	270
Financial expenses (including exceptional charges in the 52 week period ended 28 March 2013 and the 40 week period ended 3 January 2013 of £7,459,000)	*8*	(47,024)	(47,926)	(46,810)	(38,789)	(29,914)
Net financing expense		(46,858)	(47,616)	(46,422)	(38,546)	(29,644)
Profit before tax		28,644	25,647	26,646	24,484	41,311
Taxation	*9*	(9,323)	3,511	(5,893)	(5,074)	(8,667)
Profit for the period		19,321	29,158	20,753	19,410	32,644
Attributable to:						
Equity holders of the parent		14,691	22,261	20,753	14,627	32,644
Non-controlling interest		4,630	6,897	–	4,783	–
Profit for the period		19,321	29,158	20,753	19,410	32,644

Earnings per share attributable to equity shareholders of the Company:

Basic earnings per share	*7*	£73.46	£111.31	£103.77	£73.14	£163.22
Diluted earnings per share	*7*	£73.46	£111.31	£103.77	£73.14	£163.22

All activities relate to continuing operations.

Consolidated Statement of Comprehensive Income

	Note	53 week period ended 31 March 2011 £000	52 week period ended 29 March 2012 £000	52 week period ended 28 March 2013 £000	40 week period ended 3 January 2013 (unaudited) £000	40 week period ended 2 January 2014 £000
Profit for the period		19,321	29,158	20,753	19,410	32,644
Other comprehensive income						
Items that are or may be recycled subsequently into profit or loss:						
Foreign exchange translation differences	*21*	–	–	(1)	(5)	5
Cash flow hedges — reclassified to profit and loss	*21*	(1,539)	264	110	110	(811)
Effective portion of changes in fair value of cash flow hedges	*21*	(2,611)	(1,824)	2,978	1,117	1,849
Other comprehensive income for the period, before income tax		(4,150)	(1,560)	3,087	1,222	1,043
Income tax on other comprehensive income	*9, 21*	1,111	322	(752)	(324)	(240)
Other comprehensive income for the period, net of income tax		(3,039)	(1,238)	2,335	898	803
Total comprehensive income for the period		16,282	27,920	23,088	20,308	33,447
Attributable to:						
Equity holders of the parent		12,442	21,305	23,088	15,245	33,447
Non-controlling interest		3,840	6,615	–	5,063	–
		16,282	27,920	23,088	20,308	33,447

Consolidated Balance Sheet

	Note	As at 31 March 2011 £000	As at 29 March 2012 £000	As at 28 March 2013 £000	As at 3 January 2013 (unaudited) £000	As at 2 January 2014 £000
Non-current assets						
Property, plant and equipment	*10*	72,417	81,831	84,622	82,501	87,672
Intangible assets	*11*	907,834	907,955	955,004	912,465	955,296
Other financial assets	*13*	1,215	2,341	3,727	2,912	6,259
		981,466	992,127	1,043,353	997,878	1,049,227
Current assets						
Inventories	*15*	33,422	39,174	42,056	47,621	49,032
Deferred tax assets	*14*	168	604	959	581	42
Other financial assets	*13*	–	–	811	–	–
Trade and other receivables	*17*	28,259	32,609	34,041	29,165	44,942
Cash and cash equivalents	*16*	43,134	66,728	28,834	63,827	51,163
		104,983	139,115	106,701	141,194	145,179
Total assets		1,086,449	1,131,242	1,150,054	1,139,072	1,194,406
Current liabilities						
Other interest-bearing loans and borrowings	*18*	(18,242)	(18,038)	(5,708)	(7,231)	(12,408)
Trade and other payables	*19*	(67,328)	(78,270)	(104,048)	(96,711)	(118,292)
Provisions	*20*	(440)	(513)	(380)	(275)	(743)
Other financial liabilities	*13*	(2,612)	(4,171)	(1,894)	(2,944)	(1,116)
		(88,622)	(100,992)	(112,030)	(107,161)	(132,559)
Non-current liabilities						
Other interest-bearing loans and borrowings	*18*	(435,867)	(434,916)	(413,927)	(412,805)	(535,492)
Other payables	*19*	(38,562)	(44,392)	(49,967)	(48,080)	(49,292)
Provisions	*20*	(2,221)	(1,845)	(1,914)	(1,621)	(1,760)
		(476,650)	(481,153)	(465,808)	(462,506)	(586,544)
Total liabilities		(565,272)	(582,145)	(577,838)	(569,667)	(719,103)
Net assets		521,177	549,097	572,216	569,405	475,303
Equity attributable to equity holders of the parent						
Ordinary share capital	*21*	200	200	200	200	200
Share premium		507,238	507,238	516,334	507,238	–
Other reserves		(1,142)	(2,098)	(835)	(2,272)	(32)
Retained earnings		11,041	33,302	56,517	48,721	475,135
		517,337	538,642	572,216	553,887	475,303
Non-controlling interest		3,840	10,455	–	15,518	–
Total equity		521,177	549,097	572,216	569,405	475,303

Consolidated Statement of Changes in Equity

	Share Capital £000	Share Premium £000	Translation reserve £000	Cash Flow Hedging Reserve £000	Retained earnings £000	Total equity £000	Attributable to parent £000	Attributable to non-controlling interest £000
Balance at 26 March 2010	**200**	**506,275**	**–**	**1,107**	**(3,616)**	**503,966**	**503,966**	**–**
Total comprehensive income for the period								
Profit for the period	–	–	–	–	19,321	19,321	14,691	4,630
Other comprehensive income (note 21)	–	–	–	(3,039)	–	(3,039)	(2,249)	(790)
Total comprehensive income for the period	–	–	–	(3,039)	19,321	16,282	12,442	3,840
Transactions with owners, recorded directly in equity								
Issue of shares	**–**	963	**–**	**–**	(34)	929	929	**–**
Balance at 31 March 2011	200	507,238	**–**	(1,932)	15,671	521,177	517,337	3,840
Total comprehensive income for the period								
Profit for the period	–	–	–	–	29,158	29,158	22,261	6,897
Other comprehensive income (note 21)	–	–	–	(1,238)	–	(1,238)	(956)	(282)
Total comprehensive income for the period	–	–	–	(1,238)	29,158	27,920	21,305	6,615
Balance at 29 March 2012	200	507,238	**–**	(3,170)	44,829	549,097	538,642	10,455

Consolidated Statement of Changes in Equity *(continued)*

	Share Capital £000	Share Premium £000	Translation reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total equity £000	Attributable to parent £000	Attributable to non controlling interest £000
Balance at 29 March 2012	**200**	**507,238**	**–**	**(3,170)**	**44,829**	**549,097**	**538,642**	**10,455**
Total comprehensive income for the period								
Profit for the period	–	–	–	–	20,753	20,753	20,753	–
Other comprehensive income (note 21)	–	–	(1)	2,336	–	2,335	2,335	–
Total comprehensive income for the period	–	–	(1)	2,336	20,753	23,088	23,088	–
Transactions with owners, recorded directly in equity								
Issue of shares (note 21)	–	9,096	–	–	–	9,096	9,096	–
Total contributions by and distributions to owners	–	9,096	–	–	–	9,096	9,096	–
Changes in ownership interests Acquisition of non-controlling interest without a change in control	–	–	–	–	(9,065)	(9,065)	1,390	(10,455)
Total transactions with owners	–	–	–	–	(9,065)	(9,065)	1,390	(10,455)
Balance at 28 March 2013	200	516,334	(1)	(834)	56,517	572,216	572,216	**–**

	Share capital £000	Additional paid in capital £000	Translation reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total equity £000	Attributable to parent £000	Attributable to non controlling interest £000
Balance at 29 March 2012	200	507,238	**–**	(3,170)	44,829	549,097	538,642	10,455
Total comprehensive income for the period								
Profit for the period	–	–	–	–	19,410	19,410	14,627	4,783
Other comprehensive income (note 21)	–	–	(5)	903	–	898	618	280
Total comprehensive income for the period	–	–	(5)	903	19,410	20,308	15,245	5,063
Balance at 3 January 2013 (unaudited)	200	507,238	(5)	(2,267)	64,239	569,405	553,887	15,518

Consolidated Statement of Changes in Equity *(continued)*

	Share Capital £000	Share Premium £000	Translation reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total equity £000	Attributable to parent £000	Attributable to non controlling interest £000
Balance at 28 March 2013	200	516,334	(1)	(834)	56,517	572,216	572,216	–
Total comprehensive income for the period								
Profit for the period	–	–	–	–	32,644	32,644	32,644	–
Other comprehensive income	–	–	5	798	–	803	803	–
Total comprehensive income for the period	–	–	5	798	32,644	33,447	33,447	–
Share premium reduction [(i)]	–	(516,334)	–	–	516,334	–	–	–
Equity dividend paid	–	–	–	–	(130,360)	(130,360)	(130,360)	–
Total transactions with owners	–	(516,334)	–	–	385,974	(130,360)	(130,360)	–
Balance at 2 January 2014	200	–	4	(36)	475,135	475,303	475,303	–

(i) On 18 April 2013 the Group completed a refinancing programme, as part of which a full share premium reduction was implemented. The impact of this was to reduce the share premium account by £516,334,000, and increase distributable reserves by the same amount.

Consolidated Statement of Cash Flows

	Note	53 week period ended 31 March 2011	52 week period ended 29 March 2012	52 week period ended 28 March 2013	40 week period ended 3 January 2013 (unaudited)	40 week period ended 2 January 2014
		£000	£000	£000	£000	£000
Cash flows from operating activities						
Profit for the period		19,321	29,158	20,753	19,410	32,644
Adjustments for:						
Depreciation and amortisation		14,051	15,647	18,207	13,328	14,994
Financial income		(166)	(310)	(388)	(243)	(270)
Financial expense		47,024	47,926	46,810	38,789	30,891
(Profit)/loss on sale of property, plant and equipment		(148)	(130)	90	1	77
Taxation		9,323	(3,511)	5,893	5,074	8,667
		89,405	88,780	91,365	76,359	87,003
(Increase)/decrease in trade and other receivables		(5,394)	3,021	(7,341)	(2,953)	(10,538)
(Increase)/decrease in inventories		(5,621)	(5,752)	(1,678)	(4,029)	(6,976)
Increase in trade and other payables		13,049	15,171	26,996	15,008	8,702
(Decrease)/increase in provisions		(294)	(302)	(64)	(462)	210
		91,145	100,918	109,278	83,923	78,401
Tax (paid) / received		(10,000)	(7,702)	4,527	6,068	(6,854)
Net cash from operating activities		81,145	93,216	113,805	89,991	71,547
Cash flows from investing activities						
Proceeds from sale of property, plant and equipment		325	232	663	663	–
Interest received		166	310	388	243	270
Investment in other financial assets		(331)	(1,126)	(1,201)	(571)	(1,461)
Acquisition of subsidiary, net of cash acquired		(12,353)	–	(47,900)	(2,857)	–
Acquisition of PPE and other intangible assets		(16,666)	(23,760)	(20,446)	(14,712)	(17,796)
Net cash used in investing activities		(28,859)	(24,344)	(68,496)	(17,234)	(18,987)
Cash flows from financing activities						
Proceeds from the issue of ordinary share capital		–	–	9,096	–	–
Proceeds from new loan		–	–	130,000	130,000	135,000
Interest paid		(31,457)	(29,113)	(32,675)	(26,633)	(23,696)
Acquisition of non controlling interest		–	–	(9,075)	–	–
Repayment of borrowings		(2,625)	(16,150)	(173,987)	(172,463)	(5,708)
Issue costs		(8,311)	(15)	(6,562)	(6,562)	(5,467)
Equity dividend paid		–	–	–	–	(130,360)
Net cash used in financing activities		(42,393)	(45,278)	(83,203)	(75,658)	(30,231)
Net increase/(decrease) in cash and cash equivalents		9,893	23,594	(37,894)	(2,901)	22,329
Cash and cash equivalents at beginning of period		33,241	43,134	66,728	66,728	28,834
Cash and cash equivalents at end of period	*16*	43,134	66,728	28,834	63,827	51,163

Notes
(Forming part of the Financial Statements)

1. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

Judgements made by the managers, in the application of these accounting policies that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next period are discussed in note 28.

1.1 Basis of preparation

As detailed in Section 4 (*Group Structure and IPO Reorganisation*) of Part XVIII (*Additional Information*) of this Prospectus the Group headed by PAH Lux S.à r.l. has entered into a Reorganisation Agreement which sets out a number of reorganisation steps to be carried out, each step being effective and conditional upon Admission occurring. The effect of these steps is to transfer out of the Group PAH Lux S.à r.l., PAH International Limited and PAH UK Finco Limited prior to 27 March 2014, leaving Pets at Home No. 1 Limited as 100% shareholder of PAH Retail Limited. The financial information is presented on the basis that this reorganisation has been completed and PAH Retail Limited is an immediate subsidiary of Pets at Home No. 1 Limited, reflecting the continuing Pets at Home Group post-Admission.

The financial information has been prepared for the purposes of the Prospectus in accordance with the requirements of the Listing Rules and the Prospectus Directive Regulation and in accordance with this basis of preparation, including the significant accounting policies set out below.

The financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS).

The date of transition to EU-IFRS adopted in the financial information presented is 26 March 2010, which is the beginning of the comparative period for the 53 weeks to 31 March 2011. The Group is preparing its financial statements in accordance with Adopted IFRS for the first time. In preparing the financial information the Group has applied IFRS 1 "First time adoption of International Financial Reporting standards", and has elected to use the following exemption:

- IFRS 3 "Business combinations" has not been applied retrospectively to business combinations that occurred before 26 March 2010. As a result of this the carrying value of goodwill in existence at 26 March 2010 was taken as its carrying value adjusted for any reclassifications to intangible assets, contingencies and any impairment losses.

The underlying trading group (Pets at Home Interco Limited) reports under UK GAAP and an explanation of the differences between UK GAAP and IFRS relevant to the Group are given in note 1.3.

Accounting period

The financial information presented covers a 40 week trading period to 2 January 2014, a 40 week trading period ended 3 January 2013, a 52 week trading period ended 28 March 2013, a 52 week period ended 29 March 2012 and a 53 week trading period ended 31 March 2011. The 40 week trading period ended 3 January 2013 has been presented on a voluntary basis and does not form part of the audited financial information and consequently the financial information for the 40 week period ended 3 January 2013 has not been audited.

1.2 Measurement convention

The consolidated financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through the profit or loss or as available-for-sale. Non-current assets held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.3 UK GAAP to IFRS information

The main trading businesses within the Group present their statutory accounts under UK Generally Accepted Accounting Principles (UK GAAP). The key differences arising on transition to IFRS in the consolidated Group financial statements are as follows:

	53 week period ended 31 March 2011	52 week period ended 29 March 2012	52 week period ended 28 March 2013	40 week period ended 3 January 2013 (unaudited)	40 week period ended 2 January 2014
	£000	£000	£000	£000	£000
Recognition of lease incentive over the full lease term under IFRS	(1,734)	(2,950)	(3,304)	(2,504)	(2,712)
Acquisition expenses capitalised under UK GAAP that are expensed under IFRS	–	–	(4,583)	(420)	–
Goodwill amortised under UK GAAP not IFRS	46,017	45,149	45,204	34,730	36,954
Goodwill arising on acquisition of minority interest transferred to retained earnings under IFRS	–	–	9,065	–	–
Reallocation of software development costs from fixed assets under UK GAAP to intangible assets under IFRS	1,389	121	1,462	1,462	286
Recognition of fair value of derivatives on the balance sheet and through Other Comprehensive Income under IFRS	(4,150)	(1,560)	3,088	1,227	1,038
Other adjustments	399	673	465	337	(288)

1.4 Going concern

The directors believe the Group is well placed to manage its business risks successfully and therefore have a reasonable expectation that the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

Note 22 to the financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk.

1.5 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Other investments

The Group has a number of non-participatory shareholdings in veterinary practice companies. The veterinary practices were established under terms that do not give either party control and therefore are not consolidated in these financial statements. These are accounted for as available for sale investments.

1.6 Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement, except for differences arising on the retranslation of a financial liability designated as a hedge of the net investment in a

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.6 Foreign currency (continued)

foreign operation that is effective, or qualifying cash flow hedges, which are recognised directly in other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve or non-controlling interest, as the case may be.

Functional currency

The consolidated financial statements are presented in sterling which is the company's functional currency and have been rounded to the nearest thousand.

1.7 Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the company (or group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company (or group); and

(b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital exclude amounts in relation to those shares.

1.8 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments in debt and equity securities

Other investments in debt and equity securities held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in equity (in the fair value reserve), except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.8 Non-derivative financial instruments (continued)

Cash and cash equivalents

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

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1.9 Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when interest income or expense is recognised.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

1.10 Intra-group financial instruments

Financial guarantee contracts to guarantee the indebtedness of companies within the group, are considered to be insurance arrangements and accounted for as such. In this respect, the group treats the guarantee contract as a contingent liability until such time as it becomes probable that a payment will be required under the guarantee.

1.11 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.11 Property, plant and equipment (continued)

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Freehold property	- 50 years
Motor vehicles	- 3 years
Fixtures, fittings, tools and equipment	- 3-7 years
Leasehold improvements	- the term of the lease

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.12 Business combinations

Subject to the relief in IFRS 1, all business combinations are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Acquisitions on or after 26 March 2010

For acquisitions on or after 26 March 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

Acquisitions prior to 26 March 2010 (date of adoption of IFRSs)

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs for first time adopters. In respect of acquisitions prior to 26 March 2010, goodwill is included on the basis of its deemed cost.

1.13 Acquisitions and disposals of non-controlling interests

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

1.14 Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.14 Intangible assets and goodwill (continued)

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Computer Software	3-5 years

1.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition, less rebates and discounts.

1.16 Impairment excluding inventories, and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "**cash-generating unit**") or ("**CGU**"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.16 Impairment excluding inventories, and deferred tax assets (continued)

Non-financial assets (continued)

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

1.17 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.18 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.19 Revenue

Revenue

Revenue represents the total amount receivable for goods and services, net of discounts and excluding value added tax, sold in the ordinary course of business, and arises from activities in the United Kingdom.

Revenue is recognised when significant risks and rewards of ownership have been transferred to the buyer, there is reasonable certainty over recovery of the consideration and the amount of revenue, associated costs and possible return of goods can be estimated reliably. Revenue is recognised when transactions are completed in store or online.

i) Sale of goods in store and online

Retail revenue is recorded net of value added tax, colleague discounts, coupons and vouchers.

ii) Fee income

Fee income received from the joint venture veterinary practice companies is recognised in the period the services relate to and recorded net of value added tax.

iii) VIP scheme

The sales value of the points earned under the VIP scheme are treated as deferred income; the sales are only recognised once the points have been redeemed by the charities.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.19 Revenue (continued)

Cost of sales

Cost of sales includes costs of goods sold and services provided and other directly attributable costs and promotional income received from suppliers, including costs to deliver grooming services which have been reclassified from selling and distribution costs as presented in the Group's previously reported statutory accounts.

Exceptional costs

Income or costs that are both material and non-recurring, whose significance is sufficient to warrant separate disclosure in the consolidated financial statements, are referred to as exceptional costs. These are included and separately identified within their relevant income statement category.

1.20 Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement over the term of the lease as an integral part of the total lease expense.

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

1.21 Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.22 Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied by the Group in these consolidated financial statements:

IFRS 10 'Consolidated financial statements (2011)' – On 12 May 2011, the IASB issued IFRS 10 Consolidated financial statements which is a replacement of IAS 27 Consolidated and separate financial statements and SIC-12 Consolidation – Special purpose entities. This is part of a new suite of standards on consolidation and related matters, which will replace the existing accounting for subsidiaries and joint ventures (now joint arrangements), and will make limited amendments in relation to associates. Concurrent with the issuance of IFRS 10, the IASB also issued:

- IFRS 11 'Joint ventures (2011)';
- IFRS 12 'Disclosures of involvement with other entities (2011)';
- IAS 27 'Separate financial statements (revised 2011)', has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and
- IAS 28 'Investments in associates and joint ventures (revised 2011)', has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

Each of the standards has an effective date for periods beginning on or after 1 January 2014, with earlier application permitted so long as each of the other standards in the 'package of five' is also early adopted.

The impact of these new standards on the Group is expected to lead to additional disclosure requirements in the Group's financial statements for the period ending March 2015 in relation to the joint venture arrangements which will be in place with veterinary practices at the date of transition to IFRS 10 on 28 March 2014.

IFRS 9 Financial Instruments – if endorsed, this standard will simplify the classification of financial assets for measurement purposes. It is not anticipated that this standard will have a significant impact on the Group's financial statements. The effective date is to be determined.

There are certain other amendments and interpretations effective from 1 January 2014 which are not expected to have any significant impact on the Group.

2. ACQUISITIONS OF SUBSIDIARIES

Acquisitions in the period ended 28 March 2013

Vets4Pets Limited

The entire share capital of Vets4Pets Limited, Vets4Pets I.P. Ltd and Brand Developments Limited were acquired by Pets at Home Holdings Limited, a subsidiary undertaking, for a cash consideration of £47,400,000 on 27 March 2013. The transaction has been accounted for as a business combination. In the period of acquisition, the subsidiary contributed a net result of £nil to the consolidated net result for the period as the acquisition occurred just before the period end. If the acquisition had occurred on 1 April 2012, Group revenue would have been £606,695,000 and net profit would have been £23,613,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 April 2012.

2. ACQUISITIONS OF SUBSIDIARIES *(continued)*

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities.

	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date:	
Property, plant and equipment	303
Intangible software	251
Investment in other financial assets	185
Inventories	7
Trade and other receivables	2,262
Cash and cash equivalents	3,349
Trade and other payables	(1,133)
Net identifiable assets and liabilities	**5,224**
Consideration paid:	
Cash price paid	47,400
Total consideration	**47,400**
Goodwill on acquisition	**42,176**

Fair Value Adjustments

The fair value adjustments to fixed assets are in relation to the revaluation of freehold property acquired from its book value to the current market value (£339,000) and an adjustment to fixed assets held on the fixed asset register of the acquired company which are considered by management to be obsolete (£105,000). The adjustment to debtors was made to adjust the bad debt provision in line with the policies applied by other Group companies. Creditors have been adjusted to include a provision for onerous leases in line with other Group companies.

Fair values determined on a provisional basis

The following fair values have been determined on a provisional basis:

	2 January 2014 £000
Tangible Fixed Assets	303
Intangible Software	251

Goodwill has arisen on the acquisition due to the existence of expected synergies from combining operations.

Acquisition related costs

The group incurred acquisition related costs of £4,164,000 in relation to professional fees and transition costs arising upon acquisition. All such costs have been expensed to the income statement in the relevant period.

Farm-Away Limited

On 12 December 2012 the entire share capital of Farm-Away Limited (trading as Ride-away) was acquired by Pets at Home Limited, a subsidiary undertaking, for consideration of £6,534,000. Of this consideration £2,000,000 was deferred and paid in £500,000 instalments during the subsequent financial period. The value of this deferred consideration was not contingent. This transaction has been accounted for as a business combination. In the four months to 31 March 2013 the subsidiary contributed a net result of £192,000 to the consolidated net result for the period. If the acquisition had occurred on 1 April 2012 group revenue would have been £602,804,000 and net profit would have been £21,397,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 April 2012.

2. ACQUISITIONS OF SUBSIDIARIES *(continued)*

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities.

	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date:	
Property, plant and equipment	702
Inventories	1,196
Trade and other receivables	78
Cash and cash equivalents	1,734
Trade and other payables	(587)
Net identifiable assets and liabilities	**3,123**
Consideration paid:	
Initial cash price paid	4,534
Initial cash consideration relating to business combination	4,534
Deferred consideration at fair value	2,000
Total consideration	**6,534**
Goodwill on acquisition	**3,411**

Fair Value Adjustments

The fair value adjustments to fixed assets are in relation to the revaluation of freehold property acquired from its book value to the current market value. A fair value adjustment of £107,000 to stock was required to introduce a provision for slow moving stock in line with Group policies.

Fair values determined on a provisional basis

The following fair values have been determined on a provisional basis:

	2 January 2014 £000
Tangible Fixed Assets	702

Goodwill has arisen on the acquisition due to the existence of expected synergies from combining operations.

Acquisition related costs

The group incurred acquisition related cost of £417,000 related to professional fees and transition costs arising upon acquisition. All such costs have been expensed to the income statement in the relevant period.

Companion Care (Services) Limited

During the period ended 28 March 2013 the Group acquired the non-controlling interest of 10% in the Companion Care (Services) Limited subsidiary for consideration of £1,390,000 settled in full by cash during the period. The book value of the assets acquired was considered to be equal to the fair values of the assets of £10,000. As there was no change in control as a result of this transaction, the difference between the fair value of the net assets acquired and the consideration of £1,380,000 has been recognised directly in retained earnings.

PAH UK Midco Limited

During the period ended 28 March 2013 the Group acquired the non-controlling interest in the PAH UK Midco Limited subsidiary for consideration of £7,685,000 settled in full by cash during that period. The book value of the assets acquired was considered to be equal to the fair values of the assets of £nil. As there was no change in control as a result of this transaction the difference between the fair value of the net assets acquired and consideration of £7,685,000 has been recognised directly in retained earnings. The income statement and balance sheet for PAH UK Midco Limited is consolidated in full in both the current and prior periods.

3. SEGMENTAL REPORTING

The Directors consider there to be one operating and reportable segment, being that of the sale of pet products and services through retail outlets and the Group's Website.

The Group's CEO receives monthly financial information at this level and uses this information to monitor the performance of the store portfolio, allocate resources and make operational decisions. The internal reporting received focuses on the Group as a whole. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue.

Performance is measured on Group EBITDA before exceptional costs and management charges. This can be reconciled to statutory operating profit as follows:

	53 week period ended 31 March 2011	52 week period ended 29 March 2012	52 week period ended 28 March 2013	40 week period ended 3 January 2013 (unaudited)	40 week period ended 2 January 2014
	£000	£000	£000	£000	£000
Operating profit	75,502	73,263	73,068	63,030	70,955
Depreciation and amortisation	14,051	15,647	18,207	13,328	14,994
Exceptional costs	1,757	–	5,915	734	–
Management charges	1,071	2,332	1,298	1,010	892
EBITDA before exceptional costs and management charges	92,381	91,242	98,488	78,102	86,841
Revenue					
Food	255,817	269,172	297,887	225,653	252,195
Accessories	239,138	248,245	268,501	211,217	225,724
Services and other	22,876	26,908	31,949	24,478	37,235
	517,831	544,325	598,337	461,348	515,154

4. EXPENSES AND AUDITOR'S REMUNERATION

Included in profit/loss are the following:

	53 week period ended 31 March 2011	52 week period ended 29 March 2012	52 week period ended 28 March 2013	40 week period ended 3 January 2013 (unaudited)	40 week period ended 2 January 2014
	£000	£000	£000	£000	£000
Exceptional costs	1,757	–	5,915	734	–
Depreciation of tangible fixed assets	13,257	14,723	16,972	12,378	13,562
Amortisation of intangible assets	794	924	1,235	950	1,432
Rentals under operating leases:					
Hire of plant and machinery	1,216	1,502	1,598	1,228	1,329
Property	49,746	53,367	58,447	44,775	48,086
Rental income from sublets	(3,464)	(4,101)	(4,852)	(3,700)	(4,471)
Profit/(loss) on disposal of fixed assets	148	130	(90)	(1)	(77)

Exceptional costs in the periods ending 3 January 2013 and 28 March 2013 relate to professional fees arising on the share restructure completed in March 2013 (£1,334,000), costs relating to the acquisition of 100% of the share capital of Farm-Away Limited in December 2012 (£417,000), and costs relating to the acquisition of 100% of the share capital of Vets4Pets Limited, Vets4Pets I.P. Limited and Brand Developments Limited in March 2013 (£4,164,000).

Exceptional costs in the period ending 31 March 2011 relate to a £1,364,000 exceptional joining bonus and associated employer national insurance paid to a director in the period, and £393,000 relating to aborted transaction costs in the period.

4. EXPENSES AND AUDITOR'S REMUNERATION *(continued)*

	53 week period ended 31 March 2011 £000	52 week period ended 29 March 2012 £000	52 week period ended 28 March 2013 £000	40 week period ended 3 January 2013 (unaudited) £000	40 week period ended 2 January 2014 £000
Audit of these financial statements	–	–	–	–	95
Amounts receivable by the company's auditor and its associates in respect of:					
Audit of financial statements of subsidiaries pursuant to legislation	78	96	111	82	89
Other services pursuant to such legislation	–	3	3	3	–
Taxation compliance services	66	100	114	24	19
Other tax advisory services	–	55	83	57	22
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or the Group	226	–	66	66	343
All other services	–	–	51	44	111
	370	254	428	276	679

5. STAFF NUMBERS AND COSTS

The average number of persons employed (full time equivalents) by the group (including managers and directors) during the period, analysed by category, was as follows:

	53 week period ended 31 March 2011 Number	52 week period ended 29 March 2012 Number	52 week period ended 28 March 2013 Number	40 week period ended 3 January 2013 (unaudited) Number	40 week period ended 2 January 2014 Number
					Number of employees
Sales and distribution	3,092	3,521	3,833	3,800	4,298
Administration	274	270	311	308	348
	3,366	3,791	4,144	4,108	4,646

The aggregate payroll costs of these persons were as follows:

	53 week period ended 31 March 2011 £000	52 week period ended 29 March 2012 £000	52 week period ended 28 March 2013 £000	40 week period ended 3 January 2013 (unaudited) £000	40 week period ended 2 January 2014 £000
Wages and salaries	71,467	81,230	92,370	69,734	81,932
Social security costs	5,740	6,512	7,137	5,656	6,968
Contributions to defined contribution plans	1,656	1,911	2,074	1,508	2,155
	78,863	89,653	101,581	76,898	91,055

6. MANAGERS' REMUNERATION

For details of remuneration of key management personnel for the group please see note 26.

7. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

7. EARNINGS PER SHARE *(continued)*

Diluted earnings per share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

	53 week period ended 31 March 2011	52 week period ended 29 March 2012	52 week period ended 28 March 2013	40 week period ended 3 January 2013 (unaudited)	40 week period ended 2 January 2014
	£000	£000	£000	£000	£000
Profit attributable to equity shareholders of the parent	14,691	22,261	20,753	14,627	32,644
Basic weighted average number of shares	200	200	200	200	200
Dilutive potential ordinary shares	–	–	–	–	–
Diluted weighted average number of shares	200	200	200	200	200
Basic earnings per share	£ 73.46	£111.31	£103.77	£ 73.14	£163.22
Diluted earnings per share	£ 73.46	£111.31	£103.77	£ 73.14	£163.22

8. FINANCE EXPENSE

Recognised in income statement

	53 week period ended 31 March 2011	52 week period ended 29 March 2012	52 week period ended 28 March 2013	40 week period ended 3 January 2013 (unaudited)	40 week period ended 2 January 2014
	£000	£000	£000	£000	£000
Bank loans	40,124	40,247	31,917	25,443	24,374
Amortisation of loan issue costs	5,481	6,188	5,787	4,637	4,440
Exceptional amortisation costs	–	–	7,459	7,459	–
Related party loan notes	1,419	1,489	1,612	1,234	1,078
Other interest expense	–	2	35	16	22
Total finance expense	47,024	47,926	46,810	38,789	29,914

Exceptional amortisation costs in the periods ended 3 January 2013 and 28 March 2013 related to £5,915,000 of accelerated amortisation and £1,544,000 of early repayment costs following the repayment of the subordinated bank loan of £154,397,000 in that period.

9. TAXATION

Recognised in the income statement

	53 week period ended 31 March 2011	52 week period ended 29 March 2012	52 week period ended 28 March 2013	40 week period ended 3 January 2013 (unaudited)	40 week period ended 2 January 2014
	£000	£000	£000	£000	£000
Current tax expense					
Current period	9,959	3,701	6,961	5,336	7,990
Adjustments for prior periods	(538)	(7,098)	39	38	–
Current tax expense	9,421	(3,397)	7,000	5,374	7,990
Deferred tax (credit)/expense					
Origination and reversal of temporary differences	(371)	(7)	(575)	246	403
Reduction in tax rate	(172)	(33)	5	(9)	274
Adjustments in respect of prior periods	445	(74)	(537)	(537)	–
Deferred tax expense	(98)	(114)	(1,107)	(300)	677
Total tax expense/(income)	9,323	(3,511)	5,893	5,074	8,667

The UK tax rate has been used in the total tax reconciliation as the operational activity of the Group is based in the UK.

The corporation tax rate applicable to the company was 28% in the period to 31 March 2011. From 1 April 2011 the corporation tax rate payable by the company reduced to 26%. As this change in rate was substantively enacted as at 31 March 2011 deferred tax has been accounted for at the new rate.

9. TAXATION *(continued)*

Recognised in the income statement *(continued)*

The corporation tax rate applicable to the company was 26% in the period to 29 March 2012. The 2012 Budget on 21 March 2012 announced the UK Corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012. The deferred tax asset at 29 March 2012 has been calculated based on the rate of 24% substantively enacted at the balance sheet date.

The corporation tax rate applicable to the company was 24% in the period to 28 March 2013 and the period to 3 January 2013. A reduction in the UK corporation tax rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012. The deferred tax asset at 28 March 2013 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

The corporation tax rate applicable to the company was 23% in the period to 2 January 2014. The March 2013 Budget announced that the UK corporation tax rate will further reduce to 20% (effective from 1 April 2015) in addition to the planned reduction to 21% (effective from 1 April 2014) previously announced in the December 2012 Autumn Statement. These reductions were substantively enacted on 2 July 2013. The deferred tax asset has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Deferred tax recognised in other comprehensive income

	53 week period ended 31 March 2011	52 week period ended 29 March 2012	52 week period ended 28 March 2013	40 week period ended 3 January 2013 (unaudited)	40 week period ended 2 January 2014
	£000	£000	£000	£000	£000
Effective portion of changes in fair value of cash flow hedges	(1,111)	(322)	752	324	240
	(1,111)	(322)	752	324	240

Reconciliation of effective tax rate

	53 week period ended 31 March 2011	52 week period ended 29 March 2012	52 week period ended 28 March 2013	40 week period ended 3 January 2013 (unaudited)	40 week period ended 2 January 2014
	£000	£000	£000	£000	£000
Profit for the period	19,321	29,158	20,753	19,410	32,644
Total tax expense/(income)	9,323	(3,511)	5,893	5,074	8,667
Profit excluding taxation	28,644	25,647	26,646	24,484	41,311
Tax using the UK corporation tax rate for the relevant period (2014: 23%; 2013: 24%; 2012: 26%; 2011: 28%)	8,020	6,668	6,395	5,876	9,502
Impact of reduction in tax rate on deferred tax balances	(172)	(33)	5	(9)	274
Income not taxable/(expenses not deductible) for tax purposes	1,568	(2,974)	(9)	(295)	(1,109)
Adjustments in respect of prior periods	(93)	(7,172)	(498)	(498)	–
Total tax expense	9,323	(3,511)	5,893	5,074	8,667

10. PROPERTY, PLANT AND EQUIPMENT

	Freehold property	Short leasehold property	Fixtures, fittings, tools and equipment	Motor vehicles	Total
	£000	£000	£000	£000	£000
Cost					
Balance at 26 March 2010	1,294	23,157	45,732	39	70,222
Additions	–	961	14,637	30	15,628
Disposals	–	(120)	(43)	(30)	(193)
Balance at 31 March 2011	1,294	23,998	60,326	39	85,657
Additions	–	2,676	21,563	–	24,239
Disposals	–	(128)	(260)	–	(388)
Balance at 29 March 2012	1,294	26,546	81,629	39	109,508
Additions	–	2,117	17,395	–	19,512
Disposals	(650)	(86)	(37)	(30)	(803)
Acquisitions through business combinations	800	21	873	–	1,694
Balance at 28 March 2013	1,444	28,598	99,860	9	129,911
Additions	1,527	4,363	10,797	–	16,687
Disposals	–	(460)	(19,254)	–	(19,714)
Balance at 2 January 2014	2,971	32,501	91,403	9	126,884
Depreciation and impairment					
Balance at 26 March 2010	–	–	–	–	–
Depreciation charge for the period	17	1,801	11,421	18	13,257
Disposals	–	–	(1)	(16)	(17)
Balance at 31 March 2011	17	1,801	11,420	2	13,240
Depreciation charge for the period	16	1,903	12,798	6	14,723
Disposals	–	(74)	(212)	–	(286)
Balance at 29 March 2012	33	3,630	24,006	8	27,677
Depreciation charge for the period	16	2,506	14,441	9	16,972
Disposals	–	–	(33)	(17)	(50)
Acquisitions through business combinations	–	8	682	–	690
Balance at 28 March 2013	49	6,144	39,096	–	45,289
Depreciation charge for the period	153	1,690	11,719	–	13,562
Disposals	–	(431)	(19,208)	–	(19,639)
Balance at 2 January 2014	202	7,403	31,607	–	39,212
Net book value					
At 26 March 2010	1,294	23,157	45,732	39	70,222
At 31 March 2011	1,277	22,197	48,906	37	72,417
At 29 March 2012	1,261	22,916	57,623	31	81,831
At 28 March 2013	1,395	22,454	60,764	9	84,622
At 2 January 2014	**2,769**	**25,098**	**59,796**	**9**	**87,672**

During the forty week period to 2 January 2014, the Group implemented a new accounting system. On implementation the Group took the opportunity to cleanse the fixed asset register of £19.6 million of fully depreciated assets.

11. INTANGIBLE ASSETS

	Goodwill £000	Software £000	Total £000
Cost			
Balance at 26 March 2010	906,445	1,211	907,656
Additions	–	972	972
Balance at 31 March 2011	906,445	2,183	908,628
Additions	–	1,045	1,045
Balance at 29 March 2012	906,445	3,228	909,673
Additions	–	2,446	2,446
Acquisitions through business combinations	45,587	500	46,087
Balance at 28 March 2013	952,032	6,174	958,206
Additions	–	1,724	1,724
Balance at 2 January 2014	952,032	7,898	959,930
Amortisation			
Balance at 26 March 2010	–	–	–
Amortisation for the period	–	794	794
Balance at 31 March 2011	–	794	794
Amortisation for the period	–	924	924
Balance at 29 March 2012	–	1,718	1,718
Amortisation for the period	–	1,235	1,235
Acquisitions through business combinations	–	249	249
Balance at 28 March 2013	–	3,202	3,202
Amortisation for the period	–	1,432	1,432
Balance at 2 January 2014	–	4,634	4,634
Net book value			
At 26 March 2010	906,445	1,211	907,656
At 31 March 2011	906,445	1,389	907,834
At 29 March 2012	906,445	1,510	907,955
At 28 March 2013	952,032	2,972	955,004
At 2 January 2014	952,032	3,264	955,296

Amortisation and impairment charge

The amortisation charge is recognised in total in operating expenses within the income statement.

Impairment testing

For the purposes of impairment testing the goodwill is allocated at an operating segment level as follows:

	At 31 March 2011 £000	At 29 March 2012 £000	At 28 March 2013 £000	At 3 January 2013 (unaudited) £000	Goodwill At 2 January 2014 £000
Pets at Home Group	906,445	906,445	952,032	909,492	952,032

The recoverable amount has been calculated with reference to its value in use. The key assumptions of this calculation are shown below:

	At 31 March 2011	At 29 March 2012	At 28 March 2013	At 3 January 2013 (unaudited)	At 2 January 2014
Period on which management approved forecasts are based (years)	3	3	3	3	3
Growth rate applied beyond approved forecast period	3%	3%	3%	3%	3%
Discount rate (pre-tax)	9%	9%	9%	9%	9%

The goodwill is considered to have an indefinite useful life and the recoverable amount is determined based on "value-in-use" calculations. These calculations use pre-tax cash flow projections based on a 3 year business plan approved by the board. These projections are based on all available information and growth rates do not exceed growth rates achieved in prior periods.

11. INTANGIBLE ASSETS *(continued)*

The discount rate was estimated based on past experience and industry average weighted average cost of capital. Management have assumed a growth rate projection beyond the 3 year period based on inflationary increases.

The total recoverable amount in respect of goodwill, as assessed by the managers using the above assumptions, is greater that the carrying amount and therefore no impairment charge has been booked in each period. The managers consider that it is not reasonably possible for the assumptions to change so significantly as to eliminate the excess.

12. INVESTMENTS IN SUBSIDIARIES

The Group has the following investments in subsidiaries:

	Holding	Country of incorporation	Principal activity	Class of shares held	At 31 March 2011	At 29 March 2012	At 28 March 2013	At 3 January 2013 (unaudited)	At 2 January 2014
					%	%	%	%	%
Group									
PAH UK Midco Limited	Direct	United Kingdom	Investment holding company	Ordinary	77.2	77.2	100	77.2	100
PAH UK Holdco Limited	Indirect	United Kingdom	Investment holding company	Ordinary	77.2	77.2	100	77.2	100
PAH UK Bidco Limited	Indirect	United Kingdom	Investment holding company	Ordinary	77.2	77.2	100	77.2	100
Pets at Home Interco Limited	Indirect	United Kingdom	Investment holding company	Ordinary	77.2	77.2	100	77.2	100
Pets at Home Midco Limited	Indirect	United Kingdom	Investment holding company	Ordinary	77.2	77.2	100	77.2	100
Pets at Home Retail Limited	Indirect	United Kingdom	Investment holding company	Ordinary	77.2	77.2	100	77.2	100
PAH Intermediate Holdings Limited	Indirect	United Kingdom	Investment holding company	Ordinary	77.2	77.2	100	77.2	100
PAH Investments Limited	Indirect	United Kingdom	Investment holding company	Ordinary	77.2	77.2	100	77.2	100
Pets at Home Holdings Limited	Indirect	United Kingdom	Investment holding company	Ordinary	77.2	77.2	100	77.2	100
Pets at Home Superstores Limited	Indirect	United Kingdom	Investment holding company	Ordinary	77.2	77.2	100	77.2	100
Pets at Home Limited	Indirect	United Kingdom	Pet product retailing	Ordinary	77.2	77.2	100	77.2	100
Pets at Home Financial Services Limited	Indirect	United Kingdom	Asset leasing company	Ordinary	77.2	77.2	100	77.2	100
Pets at Home (Asia) Limited	Indirect	Hong Kong	Group global sourcing company	Ordinary	77.2	77.2	100	77.2	100
Farm-Away Limited	Indirect	United Kingdom	Investment holding company	Ordinary	–	–	100	–	100
Ride-Away (York) Limited	Indirect	United Kingdom	Equestrian product retailing	Ordinary	–	–	100	–	100
Pets at Home Pty	Indirect	Australia	Brand name holder	Ordinary	77.2	77.2	100	77.2	100
Companion Care (Services) Limited	Indirect	United Kingdom	Veterinary services	Ordinary	69.5	69.5	100	69.5	100
Vets4Pets Limited	Indirect	Guernsey	Veterinary services	Ordinary	–	–	100	–	100
Vets4Pets I.P. Limited	Indirect	Guernsey	Support office services	Ordinary	–	–	100	–	100
Brand Development Limited	Indirect	Guernsey	Support office services	Ordinary	–	–	100	–	100
Pet Investments Limited	Indirect	United Kingdom	Veterinary services	Ordinary	–	–	100	–	100
Vets4Pets Holdings Limited	Indirect	Guernsey	Veterinary services	Ordinary	–	–	100	–	100
Vets4Pets Services Limited	Indirect	United Kingdom	Veterinary services	Ordinary	–	–	100	–	100

12. INVESTMENTS IN SUBSIDIARIES *(continued)*

	Holding	Country of incorporation	Principal activity	Class of shares held	At 31 March 2011	At 29 March 2012	At 28 March 2013	At 3 January 2013 (unaudited)	At 2 January 2014
					%	%	%	%	%
Group									
Vets4Pets UK Limited	Indirect	United Kingdom	Veterinary services	Ordinary	–	–	100	–	100
Vets4Pets Veterinary Group Limited	Indirect	United Kingdom	Veterinary services	Ordinary	–	–	100	–	100
Les Boues Limited	Indirect	Jersey	Investment holding company	Ordinary	–	–	100	–	100
Pets at Home Vets Group Limited	Indirect	United Kingdom	Investment holding company	Ordinary	–	–	–	–	100

Not included in the above list are 8 dormant entities in which PAH Retail Limited has a 100% indirect shareholding.

13. OTHER FINANCIAL ASSETS AND LIABILITIES

	At 31 March 2011	At 29 March 2012	At 28 March 2013	At 3 January 2013 (unaudited)	At 2 January 2014
	£000	£000	£000	£000	£000
Non-current assets					
Investments	1,215	2,341	3,727	2,912	5,188
Interest rate swaps	–	–	–	–	1,071
	1,215	2,341	3,727	2,912	6,259

Investments are available for sale financial assets, which represent the fair value of non-equity share capital and loans provided to veterinary practice companies trading under the Companion Care and Vets4Pets brands, in which the Group's share interest is non-participatory. These investments are classified as Available For Sale and accounted for as non-derivative financial assets at fair value.

The share capital of the veterinary practice companies is split into either 'A' ordinary shares and 'B' ordinary shares, or preference shares and ordinary shares. Under the terms of the agreements between the veterinary practices and Companion Care (Services) Limited, the 'B' ordinary shares/ordinary shares which are held by Companion Care (Services) Limited, are not entitled to any profits or dividends, or any surplus on winding up or disposal, although they are entitled to appoint directors to the board (with a majority of the voting rights) and carry the same shareholder voting rights as 'A' ordinary/preference shareholders. Any operational decisions require the support of the joint venture partner.

Under the terms of the agreements between the veterinary practices and Vets4Pets Limited, the 'B' shares which are held by Vets4Pets Limited, are not entitled to any profits or dividends and on winding up or other return of capital the holders of the 'B' shares are entitled (in priority to the holders of the 'A' shares) to receive £0.001 in respect of each 'B' share held but subject thereto, they are not entitled to receive any other return of capital which shall be applied for the holders of the A shares, they are entitled to appoint 'B' directors to the board and carry the same shareholder voting rights as 'A' shareholders. Any operational decisions require the support of the joint venture partner.

	At 31 March 2011	At 29 March 2012	At 28 March 2013	At 3 January 2013 (unaudited)	At 2 January 2014
	£000	£000	£000	£000	£000
Current assets					
Financial assets held for trading (including all derivatives)					
Forward contracts	–	–	811	–	–
	–	–	811	–	–

13. OTHER FINANCIAL ASSETS AND LIABILITIES *(continued)*

	At 31 March 2011	At 29 March 2012	At 28 March 2013	At 3 January 2013 (unaudited)	At 2 January 2014
	£000	£000	£000	£000	£000
Current liabilities					
Financial liabilities held for trading (including all derivatives):					
Interest rate swaps	(2,348)	(4,061)	(1,894)	(2,504)	–
Forward exchange contracts	(264)	(110)	–	(440)	(1,116)
	(2,612)	(4,171)	(1,894)	(2,944)	(1,116)

14. DEFERRED TAX ASSETS AND LIABILITIES

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	At 31 March 2011 Assets	At 31 March 2011 Liabilities	At 29 March 2012 Assets	At 29 March 2012 Liabilities	At 28 March 2013 Assets	At 28 March 2013 Liabilities	At 3 January 2013 Assets (unaudited)	At 3 January 2013 Liabilities (unaudited)	At 2 January 2014 Assets	At 2 January 2014 Liabilities
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Property, plant and equipment	–	2,646	–	3,141	–	1,993	–	2,687	–	1,933
Inventories	–	150	–	170	–	103	–	120	19	–
Financial assets	679	–	1,001	–	435	187	677	–	223	214
Other	2,285	–	2,914	–	3,119	312	3,632	921	4,185	2,238
Net tax (assets) / liabilities	2,964	2,796	3,915	3,311	3,554	2,595	4,309	3,728	4,427	4,385

Movement in deferred tax during the period

	30 March 2013	Recognised in income	Recognised in equity	2 January 2014
	£000	£000	£000	£000
Property, plant and equipment	(1,993)	60	–	(1,933)
Inventories	(103)	122	–	19
Financial assets	249	–	(240)	9
Other	2,806	(859)	–	1,947
	959	(677)	(240)	42

	30 March 2012	Recognised in income	Recognised in equity	3 January 2013 (unaudited)
	£000	£000	£000	£000
Property, plant and equipment	(3,141)	454	–	(2,687)
Inventories	(170)	50	–	(120)
Financial assets	1,001	–	(324)	677
Other	2,914	(203)	–	2,711
	604	301	(324)	581

Movement in deferred tax during the period (continued)

	30 March 2012	Recognised in income	Recognised in equity	28 March 2013
	£000	£000	£000	£000
Property, plant and equipment	(3,141)	1,148	–	(1,993)
Inventories	(170)	67	–	(103)
Financial assets	1,001	–	(752)	249
Other	2,914	(108)	–	2,806
	604	1,107	(752)	959

14. DEFERRED TAX ASSETS AND LIABILITIES *(continued)*

	1 April 2011 £000	Recognised in income £000	Recognised in equity £000	29 March 2012 £000
Property, plant and equipment	(2,646)	(495)	–	(3,141)
Inventories	(150)	(20)	–	(170)
Financial assets	679	–	322	1,001
Other	2,285	629	–	2,914
	168	114	322	604

	26 March 2010 £000	Recognised in income £000	Recognised in equity £000	31 March 2011 £000
Property, plant and equipment	(2,332)	(314)	–	(2,646)
Inventories	(143)	(7)	–	(150)
Financial assets	(432)	–	1,111	679
Other	1,866	419	–	2,285
	(1,041)	98	1,111	168

The rate used to calculate deferred tax assets and liabilities has been disclosed in Note 9.

15. INVENTORIES

	At 31 March 2011 £000	At 29 March 2012 £000	At 28 March 2013 £000	At 3 January 2013 (unaudited) £000	At 2 January 2014 £000
Finished goods	33,422	39,174	42,056	47,621	49,032
	33,422	39,174	42,056	47,621	49,032

The cost of inventories recognised as an expense and included in 'cost of sales' is £226,786,000 (period to 28 March 2013 £268,451,000, period to 3 January 2013 £206,259,000, period to 29 March 2012 £248,714,000, period to 31 March 2011 £242,475,000).

At 2 January 2014 the inventory provision amounted to £1,778,000 (period to 28 March 2013 £1,671,000, period to 3 January 2013 £1,351,000, period to 29 March 2012 £1,165,000, period to 31 March 2011 £1,122,000).

16. CASH AND CASH EQUIVALENTS

	At 31 March 2011 £000	At 29 March 2012 £000	At 28 March 2013 £000	At 3 January 2013 (unaudited) £000	At 2 January 2014 £000
Cash and cash equivalents	43,134	66,728	28,834	63,827	51,163

17. TRADE AND OTHER RECEIVABLES

	At 31 March 2011 £000	At 29 March 2012 £000	At 28 March 2013 £000	At 3 January 2013 (unaudited) £000	At 2 January 2014 £000
Trade receivables	2,291	1,796	3,298	1,565	7,658
Other receivables	4,075	3,105	7,628	5,889	8,606
Employee loans	219	169	902	902	834
Prepayments and accrued income	20,551	19,034	19,940	18,901	25,571
Related party loan	1,123	1,161	2,273	1,908	2,273
Corporation tax	–	7,344	–	–	–
Total	28,259	32,609	34,041	29,165	44,942

All balances are included within current assets.

As at 2 January 2014, included within prepayments and accrued income are prepaid transaction costs amounting to £2,508,000 (period to 28 March 2013 £nil, period to 3 January 2013 £nil, period to 29 March 2012 £nil, period to 31 March 2011 £nil).

18. OTHER INTEREST-BEARING LOANS AND BORROWINGS

	At 31 March 2011 £000	At 29 March 2012 £000	At 28 March 2013 £000	At 3 January 2013 (unaudited) £000	At 2 January 2014 £000
Non-current liabilities					
Secured bank loans	298,557	288,546	413,927	412,805	535,492
Subordinated bank loan	137,310	146,370	–	–	–
	435,867	434,916	413,927	412,805	535,492
Current liabilities					
Current portion of secured bank loans	18,242	18,038	3,708	5,231	12,408
Deferred consideration on acquisition	–	–	2,000	2,000	–
	18,242	18,038	5,708	7,231	12,408
Total Liabilities					
Secured bank loans	316,799	306,584	417,635	418,036	547,900
Subordinated bank loan	137,310	146,370	–	–	–
Deferred consideration on acquisition	–	–	2,000	2,000	–
	454,109	452,954	419,635	420,036	547,900

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2 January 2014 £000	Carrying amount 2 January 2014 £000	Face value 3 January 2013 (unaudited) £000	Carrying amount 3 January 2013 (unaudited) £000
Senior Bank Loans	GBP	LIBOR +3-5%	2016-19	567,926	547,900	438,159	418,036
Subordinated Loan	GBP	LIBOR +3-5%	–	–	–	–	–
Deferred consideration on acquisition	GBP	3.5%	2013	–	–	2,000	2,000
				567,926	547,900	440,159	420,036

	Currency	Nominal interest rate	Year of maturity	Face value 28 March 2013 £000	Carrying amount 28 March 2013 £000	Face value 29 March 2012 £000	Carrying amount 29 March 2012 £000
Senior Bank Loans	GBP	LIBOR +3-5%	2016-2019	436,635	417,635	326,225	306,584
Subordinated Loan	GBP	LIBOR +3-5%	–	–	–	152,285	146,370
Deferred consideration on acquisition	GBP	3.5%	2013	2,000	2,000	–	–
				438,635	419,635	478,510	452,954

	Currency	Nominal interest rate	Year of maturity	Face value 31 March 2011 £000	Carrying amount 31 March 2011 £000
Senior Bank Loans	GBP	LIBOR +3-5%	2016-2019	342,375	316,799
Subordinated Loan	GBP	LIBOR +3-5%	–	143,462	137,310
Deferred consideration on acquisition	GBP	3.5%	2013	–	–
				485,837	454,109

Included within the carrying value of senior and subordinated bank loans are issue costs of £20.0 million (period to 28 March 2013 £19.0 million, period to 3 January 2013 £20.1 million, period to 29 March 2012 £25.6 million, period to 31 March 2011 £31.7 million). The Group has an undrawn revolving credit facility of £26.4 million which expires on 21 March 2016.

All bank borrowings are secured via fixed charges over the head office freehold property, the distribution centre leasehold property and any plant and machinery owned by the Group, and via a floating charge over the other assets of the Group. There are four term loans in the senior facility which bear interest at LIBOR plus a margin, varying between 3.0% and 5.0% and are due for repayment at various dates up to 30 March 2019.

18. OTHER INTEREST-BEARING LOANS AND BORROWINGS *(continued)*

In July 2012 the business repaid the subordinated loan replacing it with a further term loan within the senior loan facility, which is expected to significantly reduce the interest charge of the Group. In March 2013, the business received approval from existing senior lenders to draw down a further £135 million term loan pursuant to the Existing Senior Facility Agreement, with the loan being drawn down on 8 April 2013. Full details of the Existing Senior Facility Agreement are set out in Section 11 (*Material Contracts*) of Part XVIII (*Additional Information*).

The Group has entered into fixed rate interest rate swap agreements over a total of £299.1 million of the senior facility borrowings at a fixed rate of 0.74% and a further fixed rate interest rate swap over a total of £98.4 million at a fixed rate of 0.655%. Both swaps expire on 30 March 2016. The hedges are structured to hedge at least 70% of the outstanding debt.

The analysis of repayments on the combined loans is as follows:

	At 31 March 2011	At 29 March 2012	At 28 March 2013	At 3 January 2013 (unaudited)	At 2 January 2014
	£000	£000	£000	£000	£000
Within one year or repayable on demand	18,242	18,038	5,708	7,231	12,408
Between one and two years	10,289	5,153	12,409	12,409	17,512
Between two and five years	54,826	303,034	291,591	291,591	403,006
After five years	402,480	152,285	128,927	128,928	135,000
	485,837	478,510	438,635	440,159	567,926
Issue costs	(31,728)	(25,556)	(19,000)	(20,123)	(20,026)
	454,109	452,954	419,635	420,036	547,900

19. TRADE AND OTHER PAYABLES

	At 31 March 2011	At 29 March 2012	At 28 March 2013	At 3 January 2013 (unaudited)	At 2 January 2014
	£000	£000	£000	£000	£000
Current					
Trade payables	34,786	42,012	52,199	46,090	51,769
Accruals and Deferred Income	17,455	24,914	35,077	31,092	40,610
Other payables including tax & social security	11,113	11,344	10,990	15,320	18,997
Corporation Tax	3,974	–	4,315	4,209	5,449
Amounts owed to related party	–	–	1,467	–	1,467
	67,328	78,270	104,048	96,711	118,292
Non-current					
Related party loan notes	18,697	20,188	21,799	21,422	18,233
Deferred income	19,865	24,204	28,168	26,658	31,059
	38,562	44,392	49,967	48,080	49,292

The Group holds related party loan notes of £18.2 million (period to 28 March 2013 £21.8 million, period to 3 January 2013 £21.4 million, period to 29 March 2012 £20.2 million, period to 31 March 2011 £18.7 million), due to employees and former employees of Pets at Home Limited who are or were part of the management team. The loans incur interest at 8% per annum and the interest is capitalised annually until the loans are repaid at the earlier of a sale or a flotation of the Group or on 23 March 2040 and interest of £4.6 million (period to 28 March 2013 £4.5 million, period to 3 January 2013 £4.1 million, period to 29 March 2012 £2.9 million, and period to 31 March 2011 £1.4 million), is included in the balance.

20. PROVISIONS

	Dilapidation provision £000	Closed stores provision £000	Total £000
Balance at 26 March 2010	178	2,777	2,955
Provisions used during the period	–	(307)	(307)
Provisions made during the period	13	–	13
Balance at 31 March 2011	191	2,470	2,661
Provisions used during the period	(59)	(980)	(1,039)
Provisions made during the period	125	611	736
Balance at 29 March 2012	257	2,101	2,358
Provisions used during the period	(38)	(475)	(513)
Provisions made during the period	–	449	449
Balance at 28 March 2013	219	2,075	2,294
Provisions used during the period	(99)	21	(78)
Provisions made during the period	339	(52)	287
Balance at 2 January 2014	**459**	**2,044**	**2,503**

	At 31 March 2011 £000	At 29 March 2012 £000	At 28 March 2013 £000	At 3 January 2013 (unaudited) £000	At 2 January 2014 £000
Current	440	513	380	275	743
Non-current	2,221	1,845	1,914	1,621	1,760
	2,661	2,358	2,294	1,896	2,503

The Closed Stores provision relates to the rent and rates payable on sub-let or vacant stores. A provision is made where the rent receivable on the properties is less than the rent payable, or where management consider there to be a risk on the sublet. The timing of the utilisation of the above provisions is variable dependent upon the lease expiry dates of the properties concerned, which vary between 10 to 15 years. Market conditions have a significant impact and hence the assumptions on future cash flows are reviewed regularly and revisions to the provision made where necessary.

21. CAPITAL AND RESERVES

Share capital

	Share Premium					Ordinary shares				
	31 March 2011 £000	29 March 2012 £000	28 March 2013 £000	3 January 2013 £000	2 January 2014 £000	31 March 2011 £000	29 March 2012 £000	28 March 2013 £000	3 January 2013 £000	2 January 2014 £000
On issue at beginning of period										
Ordinary shares of £0.01each	507,238	507,238	507,238	507,238	516,334	200	200	200	200	200
Issued in the period ended 28 March 2013										
1 Ordinary shares of £0.01each	–	–	7,685	–	–	–	–	–	–	–
1 Ordinary shares of £0.01each	–	–	1,411	–	–	–	–	–	–	–
Capital reduction in the period to 2 January 2014	–	–	–	–	(516,334)	–	–	–	–	–
On issue at period end	507,238	507,238	516,334	507,238	–	200	200	200	200	200

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

On 8 March 2013 the Company issued 1 ordinary share with a nominal value of £0.01 for consideration of £7,684,821 settled in cash and 1 ordinary share with a nominal value £0.01 for a consideration of £1,411,458.

21. CAPITAL AND RESERVES *(continued)*

Translation reserve

The translation reserve comprises all foreign exchange differences arising since 21 November 2011, the date of incorporation of Pets at Home Asia Ltd where the functional currency differs from that of the rest of the Group.

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Other comprehensive income

2 January 2014

	Translation reserve £000	Cash flow hedging reserve £000	Total other comprehensive income £000
Other comprehensive income			
Foreign exchange translation differences	5	–	5
Cash flow hedges – reclassified to profit and loss	–	(811)	(811)
Effective portion of changes in fair value of cash flow hedges	–	1,849	1,849
Deferred tax on changes in fair value of cash flow hedges	–	(240)	(240)
Total other comprehensive income	5	798	803

3 January 2013 (unaudited)

	Translation reserve £000	Cash flow hedging reserve £000	Total Parent equity £000	Non-controlling interest £000	Total other comprehensive income £000
Other comprehensive income					
Foreign exchange translation differences	(5)	–	(4)	(1)	(5)
Cash flow hedges – reclassified to profit and loss	–	110	85	25	110
Effective portion of changes in fair value of cash flow hedges	–	1,117	787	330	1,117
Deferred tax on changes in fair value of cash flow hedges	–	(324)	(250)	(74)	(324)
Total other comprehensive income	(5)	903	618	280	898

28 March 2013

	Translation reserve £000	Cash flow hedging reserve £000	Total other comprehensive income £000
Other comprehensive income			
Foreign exchange translation differences	(1)	–	(1)
Cash flow hedges – reclassified to profit and loss	–	110	110
Effective portion of changes in fair value of cash flow hedges	–	2,978	2,978
Deferred tax on changes in fair value of cash flow hedges	–	(752)	(752)
Total other comprehensive income	(1)	2,336	2,335

29 March 2012

	Cash flow hedging reserve £000	Total Parent equity £000	Non-controlling interest £000	Total other comprehensive income £000
Other comprehensive income				
Foreign exchange translation differences	–	–	–	–
Cash flow hedges – reclassified to profit and loss	264	204	60	264
Effective portion of changes in fair value of cash flow hedges	(1,824)	(1,409)	(415)	(1,824)
Deferred tax on changes in fair value of cash flow hedges	322	249	73	322
Total other comprehensive income	(1,238)	(956)	(282)	(1,238)

21. CAPITAL AND RESERVES *(continued)*

31 March 2011

	Cash flow hedging reserve £000	Total Parent equity £000	Non-controlling interest £000	Total other comprehensive income £000
Other comprehensive income				
Foreign exchange translation differences	–	–	–	–
Cash flow hedges – reclassified to profit and loss	(1,539)	(1,189)	(350)	(1,539)
Effective portion of changes in fair value of cash flow hedges	(2,611)	(2,016)	(595)	(2,611)
Deferred tax on changes in fair value of cash flow hedges	1,111	956	155	1,111
Total other comprehensive income	(3,039)	(2,249)	(790)	(3,039)

22. FINANCIAL INSTRUMENTS

Financial risk management

The Pets at Home Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk.

Risk management framework

Risk management is carried out by the Pets at Home Group treasury department under policies approved by the board of managers. The board of managers has overall responsibility for the establishment and oversight of the Group's risk management framework. The board provides written principals for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

The main objectives of the Pets at Home Group treasury department are:

- to ensure shareholder and management expectations are managed on cash flow and earnings volatility resulting from financial market movements
- to protect the expected cash flow and earnings from interest rate and foreign exchange fluctuations to within parameters acceptable to the Board and shareholders
- to control banking costs and service levels

Market risk

(i) Foreign currency risk

The Pets at Home Group sources a significant level of purchases in US dollars and monitors its foreign currency requirements through short, medium and long term cash forecasting. The value of purchases in US dollars has increased significantly over the last three years and the risk management policy has changed in line with this increased risk.

At 2 January 2014, the Pets at Home Group's policy is to hedge between 75% to 90% of the forecasted foreign exchange transactions on a rolling 10 to 12 month basis, using foreign currency bank accounts and forward foreign exchange contracts. The transactions are deemed to be 'highly probable' and are based on historical knowledge and forecasted purchase and sales projections.

The Group's exposure to foreign currency risk is as follows. This is based on the carrying amount for monetary financial instruments except derivatives when it is based on notional amounts

2 January 2014

	Euro £000	US Dollar £000	HKD £000	Total £000
Cash and cash equivalents	137	6,005	–	6,142
Trade payables	(378)	(2,776)	–	(3,154)
Forward exchange contracts	(23)	(1,093)	–	(1,116)
Balance sheet exposure	(264)	2,136	–	1,872

22. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

(i) Foreign currency risk (continued)

3 January 2013 (unaudited)

	Euro £000	US Dollar £000	HKD £000	Total £000
Cash and cash equivalents	163	6,922	–	7,085
Trade payables	(284)	(2,604)	–	(2,888)
Forward exchange contracts	8	(448)	–	(440)
Balance sheet exposure	(113)	3,870	–	3,757

28 March 2013

	Euro £000	US Dollar £000	HKD £000	Total £000
Cash and cash equivalents	67	6,560	2	6,629
Trade payables	(252)	(5,007)	–	(5,259)
Forward exchange contracts	43	768	–	811
Balance sheet exposure	(142)	2,321	2	2,181

29 March 2012

	Euro £000	US Dollar £000	HKD £000	Total £000
Cash and cash equivalents	110	4,696	–	4,806
Trade payables	(110)	(4,679)	–	(4,789)
Forward exchange contracts	(41)	(69)	–	(110)
Balance sheet exposure	(41)	(52)	–	(93)

31 March 2011

	Euro £000	US Dollar £000	HKD £000	Total £000
Cash and cash equivalents	146	980	–	1,126
Trade payables	(33)	(693)	–	(726)
Forward exchange contracts	34	(298)	–	(264)
Balance sheet exposure	147	(11)	–	136

Sensitivity analysis

A 5% percent weakening of the following currencies against the pounds sterling at 31 March in both years would have decreased profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis is performed on the same basis for 2 January 2014.

	Equity					Profit or loss				
	31 March 2011	29 March 2012	28 March 2013	3 January 2013 (unaudited)	2 January 2014	31 March 2011	29 March 2012	28 March 2013	3 January 2013 (unaudited)	2 January 2014
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
$ ...	15	3	(38)	22	55	(14)	(1)	(78)	(216)	(161)
€ ...	(2)	2	(2)	–	1	(6)	0	9	6	12

A 5% percent strengthening of the above currencies against the pounds sterling in any period would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

22. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

(ii) Interest rate risk

Cash flow and fair value interest rate risk

The Group's interest rate risk arises from long-term borrowings. As at 2 January 2014 the Group has drawn down £567.9 million pursuant to its Existing Senior Facilities Agreement and under the same facilities has an undrawn revolving credit facility of £26.4 million, which expires on 21 March 2016. The Pets at Home Group's borrowings incur interest at varying rates between 3.00% to 5.00% based on LIBOR which exposes the Group to cash flow interest rate risk. The analysis of loan repayments is detailed in note 18.

The subordinated bank loan of £154.4 million was repaid in July 2012 which incurred interest at LIBOR plus 4.75% margin and a 6.00% capital margin. The subordinated loan was replaced by a further tranche under the Existing Senior Facilities Agreement which incurs interest at LIBOR plus 5.00%.

The business received approval from existing senior lenders to draw down a further £135.0 million tranche under the Existing Senior Facilities Agreement in March 2013, with the loan being drawn down on the 8 April 2013.

The Group's policy, with regard to interest rate risk, is to hedge the appropriate level of borrowings by entering into fixed rate agreements. The Group has entered into fixed rate interest rate swap agreements over a total of £299.1 million of the Existing Senior Facilities Agreement at a fixed rate of 0.74%, and a further fixed rate interest rate swap was taken out over a total of £98.4 million at a fixed rate of 0.655%. Both swaps expire on 30 March 2016. The hedges are structured to hedge at least 70% of the outstanding debt.

Profile

At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was:

	Book value At 31 March 2011	Book value At 29 March 2012	Book value At 28 March 2013	Book value At 3 January 2013 (unaudited)	Book value At 2 January 2014
	£000	£000	£000	£000	£000
Variable rate instruments					
Financial assets	–	–	–	–	–
Financial liabilities	485,837	478,510	438,635	440,159	567,926
Total financial liabilities	485,837	478,510	438,635	440,159	567,926

All loans bear a variable rate of interest based on LIBOR. Pets at Home's policy is to hedge at least 70% of the loan to ensure a fixed rate. Therefore, designated above is the portion of the loan hedged by a fixed rate interest rate swap and the remaining un-hedged portion is designated as variable rate.

At 2 January 2014 the Group has entered into fixed rate interest rate swap agreements over a total of £299.1 million under the Existing Senior Facilities Agreement at a fixed rate of 0.74%, and £98.4 million at a fixed rate of 0.655%. Both swaps expire on 30 March 2016. The hedges are structured to hedge at least 70% of the outstanding debt.

At 28 March 2013 the Group had entered into fixed rate interest rate swap agreements over a total of £317 million under the Existing Senior Facilities Agreement at a fixed rate of 0.74%, and £83 million at a fixed rate of 0.655%. Both swaps expire on 30 March 2016. The hedges are structured to hedge at least 70% of the outstanding debt.

At 3 January 2013 the Pets at Home Group had entered into fixed rate interest rate swap agreements over a total of £270 million under the Existing Senior Facilities Agreement at an average fixed rate of 1.7055%, which expired on 30 March 2013, and over £114 million of the subordinated debt at an average fixed rate of 1.985% which expired on 23 March 2013. The hedges are structured to hedge at least 70% of the outstanding debt.

At 29 March 2012 the Pets at Home Group had entered into fixed rate interest rate swap agreements over a total of £270 million under the Existing Senior Facilities Agreement at an average fixed rate of 1.7055%, which expired on 30 March 2013, and over £114 million of the subordinated debt at an average fixed rate of 1.985% which expired on 23 March 2013. The hedges are structured to hedge at least 70% of the outstanding debt.

22. FINANCIAL INSTRUMENTS *(continued)*

Market risk *(continued)*

(ii) Interest rate risk (continued)

Sensitivity analysis

A change of 0.5 basis points in interest rates at the balance sheet date would have increased/(decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through profit or loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis is performed on the same basis for comparative period.

	At 31 March 2011	At 29 March 2012	At 28 March 2013	At 3 January 2013 (unaudited)	At 2 January 2014
	£000	£000	£000	£000	£000
Equity					
Increase	1,942	1,944	1,586	1,814	1,988
Decrease	(1,942)	(1,944)	(1,586)	(1,814)	(1,988)
Profit or loss					
Increase	487	449	597	377	852
Decrease	(487)	(449)	(597)	(377)	(852)

Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Credit risk also arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions. The Group ensure that the banks used for the financing of the loan facilities and interest rate swap agreements held an acceptable risk rating by independently related parties.

The Group has in place certain guarantees over the bank loans taken out by a number of veterinary practice companies in which it holds an investment. Further details of these guarantees are disclosed in note 25. The performance of the veterinary practice companies is reviewed on an on-going basis.

Exposure to credit risk

The Groups maximum exposure to credit risk being the carrying amount of financial assets is summarised in the table within the fair values section below.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Management prepares and monitors rolling forecasts of the Group's cash balances based on expected cash flows to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without risking damage to the Group's reputation. Covenants are monitored on a regular basis to ensure there is no risk or breach which would lead to an 'Event of Default' and compliance certificates are issued quarterly to the syndicate agent.

22. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk *(continued)*

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	2 January 2014						3 January 2013 (unaudited)					
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Secured bank loans (note 18)	547,900	672,536	39,227	43,643	314,847	274,819	418,036	528,650	27,616	32,426	338,067	130,541
Subordinated debt (note 18)	–	–	–	–	–	–	–	–	–	–	–	–
Deferred consideration on acquisition (note 18)	–	–	–	–	–	–	2,000	2,000	2,000	–	–	–
Trade payables (note 19)	51,769	51,769	51,769	–	–	–	46,090	46,090	46,090	–	–	–
Derivative financial liabilities												
Forward exchange contracts used for hedging:												
Outflow (note 13)	1,116	1,116	1,116	–	–	–	440	440	440	–	–	–
Inflow (note 13)	–	–	–	–	–	–	–	–	–	–	–	–
Interest rate swaps used for hedging:	–	–	–	–	–	–	2,504	4,765	3,484	678	603	–
Outflow (note 13)	–	–	–	–	–	–	–	–	–	–	–	–
Inflow (note 13)	–	–	–	–	–	–	–	–	–	–	–	–
	600,785	725,421	92,112	43,643	314,847	274,819	469,070	581,945	79,630	33,104	338,670	130,541

Cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur and to affect profit or loss:

	2 January 2014						3 January 2013 (unaudited)					
	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Interest rate swaps:												
Assets	1,071	1,196	(444)	1,102	538	–	–	–	–	–	–	–
Liabilities	–	–	–	–	–	–	(2,504)	(4,765)	(3,484)	(678)	(603)	–
Forward exchange contracts:												
Assets	–	–	–	–	–	–	–	–	–	–	–	–
Liabilities	(1,116)	(1,116)	(1,116)	–	–	–	(440)	(440)	(440)	–	–	–
	(45)	80	(1,560)	1,102	538	–	(2,944)	(5,205)	(3,924)	(678)	(603)	–

22. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk *(continued)*

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	28 March 2013						29 March 2012					
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities												
Secured bank loans (note 18)	417,635	528,819	25,852	34,113	468,854	–	306,584	398,417	33,935	18,774	80,439	265,269
Subordinated debt (note 18)	–	–	–	–	–	–	146,370	279,402	7,428	7,887	26,727	237,360
Deferred consideration on acquisition (note 18)	2,000	2,000	2,000	–	–	–	–	–	–	–	–	–
Trade payables (note 19)	52,199	52,199	52,199	–	–	–	42,012	42,012	42,012	–	–	–
Derivative financial liabilities												
Forward exchange contracts used for hedging:												
Outflow (note 13)	–	–	–	–	–	–	110	110	110	–	–	–
Inflow (note 13)	–	–	–	–	–	–	–	–	–	–	–	–
Interest rate swaps used for hedging:												
Outflow (note 13)	1,894	2,141	816	790	535	–	4,061	4,734	4,734	–	–	–
Inflow (note 13)	–	–	–	–	–	–	–	–	–	–	–	–
	473,728	585,159	80,867	34,903	469,389	–	499,137	724,675	88,219	26,661	107,166	502,629

Cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur and to affect profit or loss:

	28 March 2013						29 March 2012					
	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Interest rate swaps:												
Assets (note 13)	–	–	–	–	–	–	–	–	–	–	–	–
Liabilities (note 13)	(1,894)	(2,141)	(816)	(790)	(535)	–	(4,061)	(4,734)	(4,734)	–	–	–
Forward exchange contracts:												
Assets (note 13)	811	811	811	–	–	–	–	–	–	–	–	–
Liabilities (note 13)	–	–	–	–	–	–	(110)	(110)	(110)	–	–	–
	(1,083)	(1,330)	(5)	(790)	(535)	–	(4,171)	(4,844)	(4,844)	–	–	–

22. FINANCIAL INSTRUMENTS *(continued)*

Liquidity risk *(continued)*

The following are the contractual maturities of financial liabilities, including estimated interest payments:

	31 March 2011					
	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5 years and over £000
Non-derivative financial liabilities						
Secured bank loans (note 18)	316,799	430,550	32,134	33,935	99,213	265,268
Subordinated debt (note 18)	137,310	276,978	7,015	7,428	25,174	237,361
Deferred consideration on acquisition (note 18)	–	–	–	–	–	–
Trade payables (note 19)	34,786	34,786	34,786	–	–	–
Derivative financial liabilities						
Forward exchange contracts used for hedging:						
Outflow (note 13)	264	264	264	–	–	–
Inflow (note 13)	–	–	–	–	–	–
Interest rate swaps used for hedging:						
Outflow (note 13)	2,348	9,465	4,199	5,266	–	–
Inflow (note 13)	–	–	–	–	–	–
	491,507	752,043	78,398	46,629	124,387	502,629

Cash flow hedges

The following table indicates the periods in which the cash flows associated with cash flow hedging instruments are expected to occur and to affect profit or loss:

	31 March 2011					
	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2years £000	2 to <5years £000	5years and over £000
Interest rate swaps:						
Assets (note 13)	–	–	–	–	–	–
Liabilities (note 13)	(2,348)	(9,465)	(4,199)	(5,266)	–	–
Forward exchange contracts:						
Assets (note 13)	–	–	–	–	–	–
Liabilities (note 13)	(264)	(264)	(264)	–	–	–
	(2,612)	(9,729)	(4,463)	(5,266)	–	–

Fair values of financial instruments

Investments in equity securities

The fair value of investments are considered to be their carrying value as the impact of discounting future cash flows has been assessed as not material and the investment is non-participatory.

Trade and other payables and receivables

The fair value of these items are considered to be their carrying value as the impact of discounting future cash flows has been assessed as not material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Long-term and short-term borrowings

The fair value of bank loans and other loans approximates to its carrying value as it has an interest rate based on LIBOR.

22. FINANCIAL INSTRUMENTS *(continued)*

Fair values of financial instruments *(continued)*

Short-term deposits

The fair value of short term deposits is considered to be the carrying value as the balances are held in floating rate accounts where the interest rate is reset to market rates.

Derivative financial instruments

The fair value of interest rate swap contracts and forward exchange contracts are calculated by management based on external valuations received from the Group's bankers and is based on forward exchange rates and anticipated future interest yields respectively.

Fair values

The fair values of all financial assets and financial liabilities by class together with their carrying amounts shown in the balance sheet are as follows:

	Carrying amount 2 January 2014	Fair value 2 January 2014	Carrying amount 3 January 2013 (unaudited)	Fair value 3 January 2013 (unaudited)	Carrying amount 28 March 2013	Fair value 28 March 2013	Carrying amount 29 March 2012	Fair value 29 March 2012	Carrying amount 31 March 2011	Fair value 31 March 2011
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Financial assets held for trading (including all derivatives)										
Forward exchange contracts (note 13)	–	–	–	–	811	811	–	–	–	–
Interest rate swaps (note 13)	1,071	1,071	–	–	–	–	–	–	–	–
Available for sale financial assets (note 13)										
Investment in non equity share capital and loans	5,188	5,188	2,912	2,912	3,727	3,727	2,341	2,341	1,215	1,215
Total financial assets at fair value through profit or loss	6,259	6,259	2,912	2,912	4,538	4,538	2,341	2,341	1,215	1,215
Loans and receivables										
Cash and cash equivalents (note 16)	51,163	51,163	63,827	63,827	28,834	28,834	66,728	66,728	43,134	43,134
Trade and other receivables (note 17)	44,942	44,942	29,165	29,165	34,041	34,041	32,609	32,609	28,259	28,259
Total loans and receivables	96,105	96,105	92,992	92,992	62,875	62,875	99,337	99,337	71,393	71,393
Total financial assets	**102,364**	**102,364**	**95,904**	**95,904**	**67,413**	**67,413**	**101,678**	**101,678**	**72,608**	**72,608**

	Carrying amount 2 January 2014	Fair value 2 January 2014	Carrying amount 3 January 2013 (unaudited)	Fair value 3 January 2013 (unaudited)
	£000	£000	£000	£000
Financial assets held for trading (including all derivatives)				
Forward exchange contracts (note 13)	(1,116)	(1,116)	(440)	(440)
Interest rate swaps (note 13)	–	–	(2,504)	(2,504)
Total financial liabilities at fair value through profit or loss	(1,116)	(1,116)	(2,944)	(2,944)
Financial liabilities measured at amortised cost				
Other interest-bearing loans and borrowings (note 18)	(547,900)	(547,900)	(420,036)	(420,036)
Trade and other payables (note 19)	(167,584)	(167,584)	(145,857)	(145,857)
Total financial liabilities measured at amortised cost	(715,484)	(715,484)	(565,893)	(565,893)
Total financial liabilities	(716,600)	(716,600)	(568,837)	(568,837)
Total financial instruments	(614,236)	(614,236)	(472,933)	(472,933)

22. FINANCIAL INSTRUMENTS *(continued)*

Fair values of financial instruments *(continued)*

	Carrying amount 28 March 2013 £000	Fair value 28 March 2013 £000	Carrying amount 29 March 2012 £000	Fair value 29 March 2012 £000	Carrying amount 31 March 2011 £000	Fair value 31 March 2011 £000
Financial assets held for trading (including all derivatives)						
Forward exchange contracts (note 13)	–	–	(110)	(110)	(264)	(264)
Interest rate swaps (note 13)	(1,894)	(1,894)	(4,061)	(4,061)	(2,348)	(2,348)
Total financial liabilities at fair value through profit or loss	(1,894)	(1,894)	(4,171)	(4,171)	(2,612)	(2,612)
Financial liabilities measured at amortised cost						
Other interest-bearing loans and borrowings (note 18)	(419,635)	(419,635)	(452,954)	(452,954)	(454,109)	(454,109)
Trade and other payables (note 19)	(154,015)	(154,015)	(122,662)	(122,662)	(105,890)	(105,890)
Total financial liabilities measured at amortised cost	(573,650)	(573,650)	(575,616)	(575,616)	(559,999)	(559,999)
Total financial liabilities	(575,544)	(575,544)	(579,787)	(579,787)	(562,611)	(562,611)
Total financial instruments	(508,131)	(508,131)	(478,109)	(478,109)	(490,003)	(490,003)

Fair value hierarchy

The table below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value.

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

2 January 2014

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Available for sale financial assets				
Investment in equity securities	–	–	5,188	5,188
Derivative financial assets				
Interest rate swaps	–	1,071	–	1,071
Derivative financial liabilities				
Forward rate contracts	–	(1,116)	–	(1,116)

3 January 2013 (unaudited)

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Available for sale financial assets				
Investment in equity securities	–	–	2,912	2,912
Derivative financial assets	–	–	–	–
Derivative financial liabilities				
Interest rate swaps	–	(2,504)	–	(2,504)
Forward rate contracts	–	(440)	–	(440)

28 March 2013

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Available for sale financial assets				
Investment in equity securities	–	–	3,727	3,727
Derivative financial assets				
Forward rate contracts	–	811	–	811
Derivative financial liabilities				
Interest rate swaps	–	(1,894)	–	(1,894)

22. FINANCIAL INSTRUMENTS *(continued)*

Fair values of financial instruments *(continued)*

29 March 2012

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Available for sale financial assets				
Investment in equity securities	–	–	2,341	2,341
Derivative financial assets	–	–	–	–
Derivative financial liabilities				
Interest rate swaps	–	(4,061)	–	(4,061)
Forward rate contracts	–	(110)	–	(110)

31 March 2011

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Available for sale financial assets				
Investment in equity securities	–	–	1,215	1,215
Derivative financial assets	–	–	–	–
Derivative financial liabilities	–	(2,348)	–	(2,348)
Interest rate swaps	–	(264)	–	(264)
Forward rate contracts	–	–	–	–

Capital management

The Group's objectives when managing capital, which is deemed to be total equity plus total debt, are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, through the optimisation of the debt and equity balance, and to maintain a strong credit rating and headroom on financial covenants. The Group manages its capital structure and makes appropriate decisions in light of the current economic conditions and strategic objectives of the Group.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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

The funding requirements of the Group are met by the utilisation of external borrowings together with available cash, as detailed in note 24.

A key objective of the Group's capital management is to maintain compliance with the covenants set out in the Existing Senior Facilities Agreements and to maintain comfortable headroom over and above these requirements.

Management have continued to measure and monitor covenant compliance throughout the period and the Group has complied with the requirements set.

23. OPERATING LEASES

Non-cancellable operating lease rentals are payable as follows:

				Land and Buildings	
	At 31 March 2011 £000	At 29 March 2012 £000	At 28 March 2013 £000	At 3 January 2013 (unaudited) £000	At 2 January 2014 £000
Less than one year	52,775	57,641	60,539	58,878	63,868
Between one and five years	206,933	223,848	234,583	227,647	247,445
More than five years	305,233	303,375	288,763	285,334	272,771
	564,941	584,864	583,885	571,859	584,084

23. OPERATING LEASES *(continued)*

	At 31 March 2011 £000	At 29 March 2012 £000	At 28 March 2013 £000	At 3 January 2013 (unaudited) £000	Other At 2 January 2014 £000
Less than one year	761	1,360	1,131	1,745	1,606
Between one and five years	1,713	2,439	1,335	2,609	2,007
More than five years	1	–	27	–	–
	2,475	3,799	2,493	4,354	3,613

Land and buildings relate to hire of stores under operating leases. No lease is considered individually significant.

During the period £49,415,000 was recognised as an expense in the income statement in respect of operating leases (period to 28 March 2013 £60,045,000, period to 3 January 2013 £46,003,000, period to 29 March 2012 £54,869,000 and period to 31 March 2011 £50,962,000).

Sublease income

The Group has a number of leases on properties from which it no longer trades. These properties are often sublet to third parties at contracted rates. The income is recognised within selling and distribution expenses in line with the rents payable as set out in the rental agreements, and the balance is held in deferred income.

	At 31 March 2011 £000	At 29 March 2012 £000	At 28 March 2013 £000	At 3 January 2013 (unaudited) £000	Sublets At 2 January 2014 £000
Less than one year	399	604	437	985	583
Between one and five years	1,597	1,597	1,597	1,854	1,495
More than five years	2,108	2,199	1,768	1,214	1,244
	4,104	4,400	3,802	4,053	3,322

24. COMMITMENTS

Capital commitments

At 2 January 2014, the Group is committed to incur capital expenditure of £1,771,000 (at 28 March 2013 £1,095,000, at 3 January 2013 £3,954,000, at 29 March 2012 £4,891,000 and at 31 March 2011 £5,709,000). Capital commitments predominately relate to the costs to fit out new Pets at Home stores and investment in new IT systems.

25. CONTINGENCIES

Contingent liabilities

As at 2 January 2014, the Group had contingent liabilities totalling £34,500,000 relating to transaction costs which will only crystallise upon the successful outcome of the Admission as described in note 1.1 to these financial statements.

Veterinary practice

Provisions are maintained by the Group, where necessary, against certain balances held with the veterinary practice subsidiaries. During the period the Group also had in place certain guarantees over the bank loans taken out by a number of veterinary practice companies in which it holds an investment in non-participatory share capital. At the end of the period, the total amount of bank overdrafts and loans guaranteed by the Group amounted to £2,500,000 (period to 28 March 2013 £2,500,000, period to 3 January 2013 £2,500,000, period to 29 March 2012 £1,500,000 and period to 31 March 2011 £1,500,000).

A further £1,500,000 (period to 28 March 2013 £l,500,000, period to 3 January 2013 £1,500,000, period to 29 March 2012 £nil and 31 March 2011 £nil) is guaranteed by the Group in respect of BACs payments made by the veterinary practice companies.

25. CONTINGENCIES *(continued)*

A guarantee provided to HMRC, under Pets at Home's existing revolving credit facility with Barclays Bank plc in respect of deferred duty in the sum of £400,000.

A guarantee provided to Barclaycard, under Pets at Home's existing revolving credit facility with Barclays Bank plc in respect of amounts due on corporate credit cards in the sum of £100,000.

26. RELATED PARTIES

Goods and services

DeNunzio Associates Ltd, a company in which Tony DeNunzio is interested, was paid a consultation charge in the period of £120,000 (period to 28 March 2013 £156,000, period to 3 January 2013 £120,000, period to 29 March 2012 £156,000, and period to 31 March 2011 £156,000).

Kohlberg Kravis Roberts & Co. L.P. received a management charge in the period of £892,000 (period to 28 March 2013 £1,196,000, period to 3 January 2013 £908,000, period to 29 March 2012 £1,052,000 and period to 31 March 2011 £1,071,000), which includes the provision of non-executive director services and expenses recharged.

Kohlberg Kravis Roberts & Co. L.P. also received management charges of £400,000 (period to 28 March 2013 £1,694,000, period to 3 January 2013 £1,694,000, period to 29 March 2012 £nil and period to 31 March 2011 £nil), relating to professional services associated with debt financing following the refinancing of the Pets at Home Group.

KKR Capstone charged fees in the period of £nil (period to 28 March 2013 £102,000, period to 3 January 2013 £102,000, period to 29 March 2012 £1,280,000, and period to 31 March 2011 £nil).

Transactions with key management personnel

The compensation of key management personnel is as follows:

	53 week period ended 31 March 2011 £000	52 week period ended 29 March 2012 £000	52 week period ended 28 March 2013 £000	40 week period ended 3 January 2013 £000	40 week period ended 2 January 2014 £000
Key management emoluments including social security costs	2,570	1,961	1,749	1,418	2,053
Company contributions to money purchase pension plans	64	88	85	64	75
Exceptional joining bonus	1,364	–	–	–	–
	3,998	2,049	1,834	1,482	2,128

Included within trade and other receivables are related party loans comprising unsecured loans advanced to management of £1,573,000 (period to 28 March 2013 £1,573,000, period to 3 January 2013 £1,208,000, period to 29 March 2012 £1,161,000, period to 31 March 2011 £1,123,000) due from MEP Nominee Limited, which holds unallocated shares in Manco 2 Limited relating to the employee investment scheme.

Also included within the related party loans is a balance with Pets at Home Limited of £700,000 which is ultimately due from an affiliate of the Principal Shareholder (period to 28 March 2013 £700,000, period to 3 January 2013 £700,000, period to 29 March 2012 £nil, period to 31 March 2011 £nil). This loan is unsecured and bears interest at a rate of 8% per annum.

As set out in note 19, the Group also holds related party loan notes due to employees and former employees of Pets at Home Limited who are or were part of the management team.

Veterinary practice transactions

The Group has entered into a number of arrangements with third parties in respect of veterinary practices. These veterinary practices are deemed to be related parties due to the factors explained in note 1.5.

26. RELATED PARTIES *(continued)*

The transactions entered into during the period, and the balances outstanding at the end of the period are as follows:

	53 week period ended 31 March 2011 £000	52 week period ended 29 March 2012 £000	52 week period ended 28 March 2013 £000	40 week period ended 3 January 2013 £000	40 week period ended 2 January 2014 £000
Transaction					
— Fees for services provided to veterinary practices	6,070	7,574	9,304	7,087	16,281
— Rental charges to veterinary practices	2,330	2,982	3,791	2,888	3,759
Balances					
— Due from veterinary practice companies at end of period	1,257	1,435	4,346	6,266	6,553

27. ULTIMATE PARENT COMPANY AND PARENT COMPANY OF LARGER GROUP

PAH Retail Limited ('**the Company**') is controlled by KKR My Best Friend Limited, the ultimate parent company of the Group, which is a portfolio company of funds managed and advised by Kohlberg Kravis & Roberts & Co. L.P. The immediate parent undertaking is PAH UK Finco Limited, a company incorporated in England and Wales.

28. SUBSEQUENT EVENTS

On 10 February 2014, Pets at Home Group Plc was incorporated with one ordinary share of £1.00 allotted and issued as a subscriber share to 470 Limited and subsequently transferred to KKR My Best Friend Limited.

On 14 February 2014, one redeemable preference share of £50,000 was allotted and issued to KKR My Best Friend Limited to facilitate the Company obtaining a trading certificate under Section 761 of the Companies Act.

On 19 February 2014, the Company announced its intention to proceed with an initial public offering and for admission of its ordinary shares to the premium listing segment of the Official List of the UK Listing Authority and to trading on the main market of the London Stock Exchange.

On 26 February 2014, the one ordinary share of £1.00 in the share capital of the Company was sub-divided into 100 ordinary shares of £0.01 each.

On 28 February 2014, Pets at Home Group Plc entered into the Reorganisation Agreement whereby it agreed to acquire (through its wholly owned subsidiary, Pets at Home No. 1 Limited) the entire issued share capital of PAH Retail Limited conditional upon, and with effect from, Admission.

29. ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions concerning the future that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These judgements are based on historical experience and management's best knowledge at the time and the actual results may ultimately differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying value of assets and liabilities are discussed below.

Provisions

Provisions have been made for dilapidations and for closed stores. Information about provisions and contingencies, which are considered to have a risk of material adjustment in the next financial period due to the assumptions and estimations used, are disclosed in note 20. The provisions are based on historical experience and management's best knowledge at the time and are reviewed at each balance sheet date. The actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

29. ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

Impairment of goodwill and other intangibles

Determining whether goodwill and other intangibles are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and other intangible assets have been allocated. The value in use calculation requires estimation of future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Details of CGU's as well as further information about the assumptions made are disclosed in note 11.

Determination of useful lives, residual values and carrying values of property, plant and equipment

Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives as set out in the accounting policies for property, plant and equipment. The selection of these residual values and estimated lives required the exercise of judgement.

The Group is required to assess whether there is indication of impairment to the carrying value of assets. In making that assessment, judgements are made in estimating value in use. The managers consider that the individual carrying values of stores and other operating assets are supportable either by value in use or market values.

Carrying value of inventories

The managers review the market value of and demand for its inventories on a periodic basis to ensure inventory is recorded in the financial statements at the lower of cost and net realisable value. Any provision for impairment is recorded against the carrying value of inventories. The managers use their knowledge of market conditions to assess future demand for the Group's products and achievable selling prices.

Assumptions relating to tax

The Group recognises expected assets for tax based on an estimation of the likely taxes receivable, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual asset arising from these issues differs from these estimates, such differences will have an impact on income tax and deferred tax assets in the period when such determination is made.

PART XIV

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Accountant's report on pro forma financial information

KPMG LLP
St James' Square
Manchester M2 6DS
United Kingdom

The Directors
Pets at Home Group Plc
Epsom Avenue
Stanley Green Trading Estate
Handforth
Cheshire
SK9 3RN

28 February 2014

Dear Sirs

Pets at Home Group Plc

We report on the pro forma financial information (the 'Pro forma financial information') set out in Part XIV of the prospectus dated 28 February 2014, which has been prepared on the basis described therein, for illustrative purposes only, to provide information about how the Transaction might have affected the financial information presented on the basis of the accounting policies to be adopted by Pets at Home Group Plc in preparing the financial statements for the 52 weeks ending 27 March 2014. This report is required by paragraph 7 of Annex II of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

It is the responsibility of the directors of Pets at Home Group Plc to prepare the Pro forma financial information in accordance with Annex II of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of Pets at Home Group Plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of Pets at Home Group Plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion:

- the Pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of Pets at Home Group Plc.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG LLP

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS

The unaudited pro forma net assets statement set out below has been prepared to illustrate the effects of the Offer on the net assets of the Group, had the Offer (and the adjustments set out below as described in notes 2 to 6) taken place on 2 January 2014. The pro forma net asset statement has been prepared for illustrative purposes only in accordance with Annex II of the Prospectus Rules and should be read in conjunction with the notes set out below. Because of its nature, such statement addresses a hypothetical situation and therefore does not represent the Group's financial position or results as at 2 January 2014. No account has been taken of any results or other activity since 2 January 2014.

The unaudited pro forma financial information set out below is compiled on the basis set out above and in accordance with the accounting policies applied in preparing the Group's consolidated historical financial information included in Part XIII (*Historical Financial Information*).

Unaudited pro forma statement of net assets as at 2 January 2014

		Adjustments (see below)					
	Historical net assets at 2 January 2014	Net proceeds from the Offer	New Senior Facilities	Repayment of Existing Senior Facilities	Capitalisation of Shareholder Debt	Repayment of Shareholder Debt	Pro forma net assets at 2 January 2014
	£000 Note 1	£000 Note 2	£000 Note 3	£000 Note 4	£000 Note 5	£000 Note 6	£000
Non-current assets							
Property, plant and equipment	87,672	–	–	–	–	–	87,672
Intangible assets	955,296	–	–	–	–	–	955,296
Other financial assets	6,259	–	–	–	–	–	6,259
	1,049,227	–	–	–	–	–	1,049,227
Current assets							
Inventories	49,032	–	–	–	–	–	49,032
Deferred tax assets	42	–	–	–	–	–	42
Other financial assets	–	–	–	–	–	–	–
Trade and other receivables	44,942	–	–	–	–	–	44,942
Cash and cash equivalents	51,163	316,036	325,000	(567,926)	–	(76,275)	47,997
	145,179	316,036	325,000	(567,926)		(76,275)	142,013
Total assets	1,194,406	316,036	325,000	(567,926)	–	(76,275)	1,191,240
Current liabilities							
Other interest-bearing loans and borrowings	(12,408)	–	–	12,408	–	–	–
Trade and other payables	(118,292)	–	–	–	–	–	(118,292)
Provisions	(743)	–	–	–	–	–	(743)
Other financial liabilities	(1,116)	–	–	–	–	–	(1,116)
	(132,559)	–	–	12,408	–	–	(120,151)
Non-current liabilities							
Other interest-bearing loans and borrowings	(535,492)	–	(325,000)	535,492	–	–	(325,000)
Other payables	(49,292)	–	–	–	12,736	5,497	(31,059)
Provisions	(1,760)	–	–	–	–	–	(1,760)
	(586,544)	–	(325,000)	535,492	12,736	5,497	(357,819)
Total liabilities	(719,103)	–	(325,000)	547,900	12,736	5,497	(477,970)
Net assets	475,303	316,036	–	(20,026)	12,736	(70,779)	713,270

Notes:

(1) The financial information as at 2 January 2014 has been extracted, without material adjustment, from the audited consolidated historical financial information of PAH Retail Limited for the 40 week period ended 2 January 2014 as set out in Part XIII (*Historical Financial Information*). No separate balance sheet of the Company has been presented as, prior to the Company's acquisition (through its wholly owned subsidiary Pets at Home No. 1 Limited) of PAH Retail Limited, this company does not have material equity or reserves, and therefore has no impact on the pro forma combined balance sheet.

(2) The adjustment reflects the receipt by the Company of net proceeds from the Offer of £316,036 thousands and total gross proceeds from the Offer of £356,036 thousands (in each case, through the issue of New Shares). The fees and expenses of the Offer are expected to be approximately £40,000 thousands (excluding VAT). The gross proceeds of the Offer, the net proceeds of the Offer and the fees and expenses of the Offer are based on the assumption that the Offer Price is set at the mid-point of the Price Range and the Offer Size is set at the mid-point of the Offer Size Range.

(3) On Admission, the Company will draw down £325,000 thousands of term debt under the New Senior Facilities Agreement.

(4) The Company intends to use £239,710 thousands of the net proceeds it receives from the Offer, together with £325,000 thousands drawn down under the New Senior Facilities Agreement and approximately £3,216 thousands of the Company's cash, to facilitate repayment of all amounts outstanding under the Existing Senior Facilities Agreement, of which there are three fully drawn term loans and one partially drawn revolving facility agreement. Debt issue costs of £20,026 thousands on the Existing Senior Facilities Agreement will be fully amortised through the income statement in 2014 as a result.

(5) Pursuant to steps comprising the Pre-IPO Reorganisation as described in Section 4 (*Group Structure and IPO Reorganisation*) of Part XVIII (*Additional Information*), Shareholder Debt instruments comprising Midco Loan Notes with a value equal to £12,736 thousands (representing principal and all accrued but unpaid interest thereon) are capitalised and then exchanged for Shares, assuming, in each case, that each relevant Existing Shareholder elects to sell or otherwise receive (through the repayment of Shareholder Debt) its maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement.

(6) Following completion of the Pre-IPO Reorganisation and the relevant steps comprising the Post-IPO Reorganisation as described in Section 4 (*Group Structure and IPO Reorganisation*) of Part XVIII (*Additional Information*), the Company intends to use £76,275 thousands of the net proceeds it receives from the Offer (through the issue of New Shares) to facilitate the repayment of all outstanding amounts of Shareholder Debt including £5,497 thousands comprising Midco Loan Notes, assuming, in each case, that each relevant Existing Shareholder elects to sell or otherwise receive (through the repayment of Shareholder Debt) its maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement.

This pro forma statement of net assets does not constitute financial statements within the meaning of section 434 of the Companies Act.

No adjustment has been made to reflect the trading results of the Group since 2 January 2014 or any other change in financial position in that period. The Directors believe that, had the Offer occurred at the beginning of the last financial period, the consolidated income statement would have been affected. If the Offer and the application of the net proceeds therefrom to reduce the Company's indebtedness had taken place on 29 March 2013, it would have been earnings enhancing for the Group as a result of the reduced interest charges following the repayment of debt.

PART XV

PROFIT FORECAST

SECTION A: PROFIT FORECAST FOR THE 52 WEEKS ENDING 27 MARCH 2014

Set out below is the Directors' Profit Forecast for the Group for the 52 week period ending 27 March 2014 and the letter (set out in Section B of this Part XV) from the Company's reporting accountants, KPMG LLP, in connection with the Profit Forecast.

1. **Profit Forecast**

The Directors forecast that on the basis of preparation and the principal assumptions set out below, Underlying EBITDA of the Group for the 52 week period ending on 27 March 2014 will not be less than £110.2 million (the "**Profit Forecast**").

The Directors have consistently reported Underlying EBITDA of the Group rather than profit before tax. A forecast of Underlying EBITDA has been made as it is used by the Group as a key performance indicator to monitor the business and the Directors believe that it is representative of the underlying results of the business and is consistent with the additional disclosures provided within the financial information contained within this Prospectus.

The Directors believe that Underlying EBITDA enhances a prospective investor's understanding of the Group's results of operations and financial condition and enhances a prospective investor's evaluation of the Group's ability to employ its earnings towards capital expenditures, working capital and repayment of debt.

The Directors consider Underlying EBITDA to be a more accurate reflection of the underlying business performance of the Group and believe that this measure provides additional useful information for prospective investors on the Group's performance, and enhances comparability from period to period and with other companies, and is consistent with how business performance is measured internally. The Group's financial statements separately identify Underlying EBITDA and exceptional costs.

The Profit Forecast has been prepared before taking into account any costs associated with the Offer, known or unknown, which the Company may be required to or has paid on account of Pets at Home Group Plc.

The Profit Forecast has also been prepared before taking into account any charges associated with share based awards.

2. **Basis of Preparation**

The Directors' Profit Forecast for the 52 week period ending 27 March 2014 has been prepared using the accounting policies adopted by the Group in preparing its consolidated financial information for the 40 week period ended 2 January 2014 set out in Part XIII (*Historical Financial Information*). The Profit Forecast is based on:

(a) the audited consolidated financial results of the Group for the 40 week period ended on 2 January 2014; and

(b) the Directors' forecast for the 12 week period ending 27 March 2014.

3. **Principal Assumptions**

The principal assumptions upon which the Profit Forecast is based are:

(a) factors exclusively outside the influence or control of the Directors:

- there will be no fundamental change in the political, economic or environment in the market that the Group operates that will materially affect the Group;
- there will be no significant event or adverse publicity that would materially damage the reputation of the Group and have a material impact on the results;
- there will be no business disruptions that materially affect the Group or its key suppliers;
- there will be no extremes of weather that will have a material impact on the result;

- there will be no material changes to the prices of raw materials and commodities from those currently prevailing and/or anticipated by the Directors; and
- there will be no material change in interest rates, exchange rates, bases of taxes, legislation or regulatory requirements that would have a material impact on the Group.

(b) factors within the influence or control of the Directors:

- there will be no acquisitions or disposals by the Group which will have a material impact on the results.

SECTION B: ACCOUNTANT'S REPORT ON THE PROFIT FORECAST

KPMG LLP
St James' Square
Manchester M2 6DS
United Kingdom

The Directors
Pets at Home Group Plc
Epsom Avenue
Stanley Green Trading Estate
Handforth
Cheshire
SK9 3RN

28 February 2014

Dear Sirs

Pets at Home Group Plc

We report on the profit forecast comprising projected Underlying EBITDA of Pets at Home Group Plc ('the **Company**') and its subsidiaries ('the Group') for the 52 week period ended 27 March 2014 (the 'Profit Forecast'). The Profit Forecast and the material assumptions upon which it is based are set out on pages 172 and 173 of the Prospectus issued by the Company dated 28 February 2014. This report is required by paragraph 13.2 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Profit Forecast in accordance with the requirements of the Prospectus Directive Regulation.

It is our responsibility to form an opinion as required by the Prospectus Directive Regulation as to the proper compilation of the Profit Forecast and to report that opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

Basis of preparation of the Profit Forecast

The Profit Forecast has been prepared on the basis stated on pages 172 and 173 of the Prospectus and is based on the audited financial results for the 40 week period ended 2 January 2014, and a forecast to 27 March 2014. The Profit Forecast is required to be presented on a basis consistent with the accounting policies of the Group.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included evaluating the basis on which the historical financial information included in the Profit Forecast has been prepared and considering whether the Profit Forecast has been accurately computed based upon the disclosed assumptions and the accounting policies of the Group. Whilst the assumptions upon which the Profit Forecast are based are solely the responsibility of the directors of the Company, we considered whether anything came to our attention to indicate that any of the assumptions

adopted by the directors of the Company which, in our opinion, are necessary for a proper understanding of the Profit Forecast have not been disclosed and whether any material assumption made by the directors of the Company appears to us to be unrealistic.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Profit Forecast has been properly compiled on the basis stated.

Since the Profit Forecast and the assumptions on which it is based relate to the future and may therefore be affected by unforeseen events, we can express no opinion as to whether the actual results reported will correspond to those shown in the Profit Forecast and differences may be material.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion the Profit Forecast has been properly compiled on the basis stated and the basis of accounting used is consistent with the accounting policies of the Group.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG LLP

PART XVI

TAXATION

A. UNITED KINGDOM TAX CONSIDERATIONS

The following is a summary of certain United Kingdom tax considerations relating to an investment in the Company's Shares.

The statements set out below are based on current United Kingdom law and published HMRC practice (which may not be binding on HMRC), as at the date of this Prospectus, and which may be subject to change, possibly with retroactive effect. They are intended as a general guide and apply only to shareholders of the Company resident and, in the case of an individual, domiciled in (and only in) the United Kingdom for United Kingdom tax purposes (except insofar as express reference is made to the treatment of non-United Kingdom residents), who hold Shares as an investment (other than under an individual savings account) and who are the absolute beneficial owners of the Shares and any dividends paid on them. (In particular, shareholders holding their Shares via a depositary receipt system or clearance service should note that they may not always be regarded as the absolute beneficial owners thereof.) The discussion does not address all possible tax consequences relating to an investment in the Shares. The statements are not addressed to: (i) special classes of shareholders such as, for example, dealers in securities, broker-dealers, intermediaries, insurance companies and collective investment schemes; (ii) shareholders who hold shares as part of hedging transactions; (iii) shareholders who have (or are deemed to have) acquired their shares by virtue of an office or employment; and (iv) shareholders who hold shares in connection with a trade, profession or vocation carried on in the United Kingdom (whether through a branch or agency or, in the case of a corporate shareholder, through a permanent establishment or otherwise).

Shareholders or prospective shareholders who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own professional advisers immediately.

1. TAXATION OF DIVIDENDS

The Company will not be required to withhold amounts on account of United Kingdom tax at source when paying a dividend.

A United Kingdom resident individual shareholder who receives a dividend from the Company will generally be entitled to a tax credit which may be set off against the shareholder's total income tax liability on the dividend. The tax credit will be equal to 10% of the aggregate of the dividend and the tax credit (the **"Gross Dividend"**) (i.e. one-ninth of the amount of the cash dividend received). An individual shareholder's liability to income tax is calculated on the Gross Dividend which will be regarded as the top slice of the individual's income. A United Kingdom resident individual shareholder who is liable to income tax at the basic rate will be subject to tax on the Gross Dividend at the rate of 10% of the Gross Dividend. However, such shareholder will be able to set the tax credit off against this liability. The effect of that set-off of the tax credit is that a shareholder who is liable to income tax on the dividend wholly at the basic rate will not have to account for any additional tax. A United Kingdom resident individual shareholder who is liable to income tax at a rate not exceeding the higher rate will be subject to income tax on the Gross Dividend at the rate of 32.5% to the extent that the Gross Dividend when treated as the top slice of the shareholder's income falls above the threshold for higher rate income tax. However, such shareholder will be able to set the tax credit off against part of this liability. The effect of that set-off of the tax credit is that a shareholder who is liable to income tax on the dividend wholly at the higher rate will have to account for additional tax equal to 22.5% of the Gross Dividend (which is also equal to 25% of the cash dividend received). A United Kingdom resident individual shareholder who is subject to income tax at the additional rate will be subject to income tax on the gross dividend at 37.5% to the extent that the Gross Dividend when treated as the top slice of the shareholder's income falls above the threshold for additional rate income tax. However, such shareholder will be able to set the tax credit off against part of this liability. The effect of that set-off of the tax credit is that an individual who is liable to income tax on the dividend wholly at the additional rate would have to account for additional tax equal to 27.5% of the Gross Dividend (which is also equal to approximately 30.6% of the cash dividend received).

A United Kingdom resident individual shareholder who is not liable to income tax in respect of the Gross Dividend and other United Kingdom resident taxpayers who are not liable to United Kingdom tax on dividends, including pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by the Company.

Shareholders who are within the charge to corporation tax will be subject to corporation tax on dividends paid by the Company, unless (subject to special rules for such shareholders that are small companies) the dividends fall within an exempt class and certain other conditions are met. Each Shareholder's position will depend on its own individual circumstances, although it would normally be expected that the dividends paid by the Company would fall within an exempt class. Such Shareholders will not be able to claim repayment of tax credits attaching to dividends.

Non-United Kingdom resident shareholders will not generally be able to claim repayment from HMRC of any part of the tax credit attaching to dividends paid by the Company. A shareholder resident outside the United Kingdom may also be subject to foreign taxation on dividend income under applicable local law. Shareholders who are not resident for tax purposes in the United Kingdom should obtain their own tax advice concerning tax liabilities on dividends received from the Company.

2. TAXATION OF CAPITAL GAINS

A disposal or deemed disposal of Shares by a Shareholder who is resident in the UK for tax purposes in the tax year (or part thereof) in question may give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains. This will depend upon the Shareholder's circumstances and is subject to any available exemption or relief (such as the annual exempt amount for individuals and indexation for corporate shareholders).

Shareholders who are not resident in the UK will not generally be subject to UK taxation of capital gains on the disposal or deemed disposal of Shares unless they are carrying on a trade, profession or vocation in the UK through a branch or agency (or, in the case of a corporate shareholder, a permanent establishment) in connection with which the shares are used, held or acquired.

An individual shareholder who acquires Shares while UK resident, ceases to be resident for tax purposes in the UK for a period of less than five years and disposes of all or part of his Shares during that period may be liable to capital gains tax on his return to the UK, subject to any available exemptions or reliefs.

If an individual shareholder who is subject to income tax at the higher or additional rate becomes liable to UK capital gains tax on the disposal of Shares, the applicable rate will be 28%. Other individual shareholders may only be liable to any such capital gains tax at a rate of 18%.

3. UK INHERITANCE TAX

Shares will be assets situated in the United Kingdom for the purposes of United Kingdom inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to United Kingdom inheritance tax, even if the holder is neither domiciled in the United Kingdom nor deemed to be domiciled there under certain rules relating to long residence or previous domicile. Generally, United Kingdom inheritance tax is not chargeable on gifts to individuals if the transfer is made more than seven complete years prior to death of the donor. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements who hold Shares bringing them within the charge to inheritance tax. Holders of Shares should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any Shares through a trust arrangement. They should also seek professional advice in a situation where there is potential for a double charge to United Kingdom inheritance tax and an equivalent tax in another country or if they are in any doubt about their United Kingdom inheritance tax position.

4. CLOSE COMPANY STATUS

The Directors have been advised that it is likely that the Company will be a close company within the meaning of Part 10 of the Corporation Tax Act 2010, and that following the Offer the Company will continue to be a close company. As a result, certain transactions entered into by the Company or other members of the Group may have tax implications for shareholders in the Company. Shareholders should consult their own professional advisers on the potential impact of the close company rules

4.1 Inheritance Tax

One potential implication is that transfers of value by the Company, or any of the companies in which it owns (directly or indirectly) shares or certain other rights may, in certain circumstances and subject to

applicable exemptions, be attributed to and so give rise to inheritance tax for individual shareholders who are domiciled or deemed to be domiciled in the UK and hold 5% or more of the Shares, or for shareholders whose estate is increased by the transfer. The alteration by the Company of its share or loan capital can also, in certain circumstances give rise to inheritance tax for its Shareholders.

4.2 Capital Gains Tax

Certain transfers at an undervalue by the Company or certain members of the Group may result in a reduction in the chargeable gains tax base cost of the Shares for certain Shareholders.

5. STAMP DUTY AND STAMP DUTY RESERVE TAX ("SDRT")

The statements in this section are intended as a general guide to the current United Kingdom stamp duty and SDRT position. Investors should note that certain categories of person are not liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for tax, be required to notify and account for SDRT under the Stamp Duty Reserve Tax Regulations 1986.

5.1 General

Except in relation to depositary receipt systems and clearance services (to which the special rules outlined below apply), no stamp duty or SDRT will arise on the issue of Shares by the Company.

An agreement to transfer Shares will normally give rise to a charge to SDRT at the rate of 0.5% of the amount or value of the consideration payable for the transfer. SDRT is, in general, payable by the investor.

Instruments transferring Shares will generally be subject to stamp duty at the rate of 0.5% of the consideration given for the transfer (rounded up to the next £5, if necessary). The investor normally pays the stamp duty. An exemption from stamp duty is available on an instrument transferring the Shares where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected does not form part of a larger transaction or series of transactions in respect of which the aggregate amount or value of the consideration exceeds £1,000.

If a duly stamped transfer completing an agreement to transfer is produced within six years of the date on which the agreement is made (or, if the agreement is conditional, the date on which the agreement becomes unconditional), any SDRT already paid is generally repayable, normally with interest, and any outstanding SDRT charge is cancelled.

5.2 CREST

Paperless transfers of Shares within the CREST system are generally liable to SDRT, rather than stamp duty, at the rate of 0.5% of the amount or value of the consideration payable. CREST is obliged to collect SDRT on relevant transactions settled within the CREST system. Deposits of Shares into CREST will not generally be subject to SDRT or stamp duty, unless the transfer into CREST is itself for consideration.

5.3 Depositary Receipt Systems and Clearance Services

Where Shares are transferred (in the case of stamp duty) or issued or transferred (in the case of SDRT) (a) to, or to a nominee or an agent for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or an agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will generally be payable at the higher rate of 1.5% of the amount or value of the consideration given or, in certain circumstances, the value of the Shares. However, following litigation HMRC have confirmed that they will no longer seek to apply the 1.5% SDRT charge on an issue of shares or securities into a clearance service or depositary receipt arrangement on the basis that the charge is not compatible with EU law. HMRC's view is that the 1.5% SDRT or stamp duty charge will continue to apply to transfers of shares or securities into a clearance service or depositary receipt arrangement unless they are an integral part of an issue of share capital. This view is currently being challenged in further litigation. Accordingly, it may be appropriate to seek specific professional advice before incurring a 1.5% stamp duty or SDRT charge.

Any liability for stamp duty or SDRT in respect of a transfer into a clearance service or depositary receipt system, or in respect of a transfer within such a service, which does arise, will strictly be accountable by the clearance service or depositary receipt system operator or their nominee, as the case may be, but will, in practice, be payable by the participants in the clearance service or depositary receipt system.

There is an exception from the 1.5% charge on the transfer to, or to a nominee or agent for, a clearance service where the clearance service has made and maintained an election under section 97A(1) of the Finance Act 1986, which has been approved by HMRC. In these circumstances, SDRT at the rate of 0.5% of the amount or value of the consideration payable for the transfer will arise on any transfer of Shares into such an account and on subsequent agreements to transfer such Shares within such account.

Any person who is in any doubt as to his or her taxation position or who is liable to taxation in any jurisdiction other than the United Kingdom should consult his or her professional advisers.

B. CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES

To ensure compliance with Internal Revenue Service ("IRS") Circular 230, prospective investors are hereby notified that any discussion of tax matters set forth in this Prospectus was written in connection with the promotion or marketing of the transactions or matters addressed herein and was not intended or written to be used, and cannot be used by any prospective investor, for the purpose of avoiding tax-related penalties under federal, state or local tax law. Each prospective investor should seek advice based on its particular circumstances from an independent tax adviser.

The following discussion describes certain United States federal income tax consequences of the ownership of Shares of the Company as of the date hereof. The discussion set forth below is applicable only to United States Holders (as defined below) who acquire the Shares in the Offer and hold such Shares as capital assets (generally, property held for investment). As used herein, the term "United States Holder" means a holder of a Share that is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organised in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This discussion does not represent a detailed description of the United States federal income tax consequences applicable to prospective investors that are subject to special treatment under the United States federal income tax laws, including:

- a dealer in securities or currencies;
- a financial institution;
- a regulated investment company;
- a real estate investment trust;
- an insurance company;
- a tax-exempt organisation;
- a person holding the Shares as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- a trader in securities that has elected the mark-to-market method of accounting for its securities;
- a person liable for alternative minimum tax;
- a person who owns or is deemed to own 10% or more of the voting stock of the Company;
- a partnership or other pass-through entity for United States federal income tax purposes; or
- a person whose "functional currency" is not the United States dollar.

The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "**Code**"), and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in United States federal income tax consequences different from those discussed below.

If an entity that is classified as a partnership for United States federal income tax purposes holds the Shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Partnerships holding the Shares should consult their tax advisors regarding the tax consequences to their partners of acquiring, owning and disposing of such Shares.

This discussion assumes, and the Company expects, that it is not, and will not become, a passive foreign investment company, as described below.

This discussion does not contain a detailed description of all the United States federal income tax consequences to each prospective investor in light of its particular circumstances and does not address the effects of any state, local or non-United States tax laws. It also does not address the federal estate and gift tax, the Medicare contribution tax or the minimum tax on United States Holders. **Prospective investors considering the purchase, ownership or disposition of Shares should consult their own tax advisors concerning the United States federal income tax consequences in light of their own particular situation as well as any consequences arising under the laws of any other taxing jurisdiction.**

1. TAXATION OF DIVIDENDS

The gross amount of distributions on the Shares (including any amounts withheld to reflect United Kingdom withholding taxes) will be taxable as dividends to the extent paid out of the Company's current or accumulated earnings and profits, as determined under United States federal income tax principles. Such income (including any withheld taxes) will be includable in gross income as ordinary income on the day actually or constructively received. Such dividends will not be eligible for the dividends received deduction generally allowed to United States corporations under the Code where such corporations receive dividends from other United States corporations.

With respect to non-corporate United States Holders, certain dividends received from a qualified foreign corporation may be subject to reduced rates of taxation. A qualified foreign corporation includes a foreign corporation that is eligible for the benefits of a comprehensive income tax treaty with the United States which the United States Treasury Department determines to be satisfactory for these purposes and which includes an exchange of information provision. The United States Treasury Department has determined that the current income tax treaty between the United States and the United Kingdom meets these requirements, and the Company believes it is eligible for the benefits of such treaty. However, non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from a risk of loss or that elect to treat the dividend income as "investment income" pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. A prospective investor should consult its own tax advisors regarding the application of these rules to its particular circumstances.

The amount of any dividend paid in pounds sterling will equal the United States dollar value of the pounds sterling received calculated by reference to the exchange rate in effect on the date the dividend is received, regardless of whether the pounds sterling are converted into United States dollars. If the pounds sterling received as a dividend are converted into United States dollars on the date they are received, a United States Holder generally will not be required to recognise foreign currency gain or loss in respect of the dividend income. If the pounds sterling received as a dividend are not converted into United States dollars on the date of receipt, a United Sates Holder will have a basis in the pounds sterling equal to their United States dollar value on the date of receipt. Any gain or loss realised on a subsequent conversion or other disposition of the pounds sterling will be treated as United States source ordinary income or loss.

To the extent the amount of any distribution exceeds the Company's current and accumulated earnings and profits for a taxable year, as determined under United States federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the Shares, and to the extent the amount of the distribution exceeds a United States Holder's tax basis, the excess will be taxed as capital gain recognised on a sale or exchange. The Company does not expect to determine earnings and profits in accordance with United States federal income tax principles. Therefore, a United States Holder should expect that a distribution will generally be treated as a dividend.

2. PASSIVE FOREIGN INVESTMENT COMPANY

The Company does not believe that it is, for United States federal income tax purposes, a passive foreign investment company (a "**PFIC**"), and it expects to operate in such a manner so as not to become a PFIC.

However, the determination of whether the Company is a PFIC is made annually. Accordingly, it is possible that the Company may become a PFIC in the current or any future taxable year due to changes in its asset or income composition. If the Company is or becomes a PFIC, a United States Holder could be subject to materially greater amounts of United States federal income taxes on gain recognised with respect to the Shares and on certain distributions, plus an interest charge on certain taxes treated as having been deferred under the PFIC rules. Non-corporate United States Holders will not be eligible for reduced rates of taxation on any dividends received from the Company if the Company is a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year.

3. TAXATION OF CAPITAL GAINS

For United States federal income tax purposes, a United States Holder will recognise taxable gain or loss on any sale or exchange of a Share in an amount equal to the difference between the amount realised for the Share and its tax basis in the Share, both as determined in United States dollars. Such gain or loss will generally be capital gain or loss. Capital gains of non-corporate United States Holders (including individuals) derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognised will generally be treated as United States source gain or loss. Investors should consult their own tax advisors concerning any potential foreign currency gain or loss in connection with the sale, exchange or other disposition of the Shares for a cash amount paid in pounds sterling or other non-United States currency.

4. INFORMATION REPORTING AND BACKUP WITHHOLDING

In general, information reporting will apply to dividends in respect of the Shares and the proceeds from the sale, exchange or redemption of the Shares that are paid within the United States (and in certain cases, outside the United States), unless the United States Holder establishes, if required to do so, that it is exempt from these rules. A backup withholding tax may apply to such payments if a United States Holder fails to provide a taxpayer identification number or certification of other exempt status or fails to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a credit against a United States Holder's United States federal income tax liability or, as a refund, provided the required information is timely furnished to the IRS.

Certain United States Holders may be required to report information with respect to their investment in the Shares to the IRS if the Shares are not held through a United States financial institution. Investors who fail to report required information could become subject to substantial penalties. Investors are encouraged to consult with their own tax advisors regarding information reporting requirements with respect to their investment in the Shares.

PART XVII

THE OFFER

1. SUMMARY OF THE OFFER

At the bottom of the Price Range

The Offer comprises an offer of 162,500,000 Shares (assuming that the Offer Size is set at the mid-point of the Offer Size Range and there is no exercise of the Over-allotment Option). Of these Shares:

- 154,074,978 are New Shares being offered for subscription by the Company:
  - of which 133,219,048 are New Shares to be issued to facilitate the repayment of outstanding amounts owing under the Existing Senior Facilities Agreement and to pay the estimated fees and expenses of the Offer; and
  - of which 20,855,930 are New Shares to be issued to repay Shareholder Debt;
- 8,425,022 are Existing Shares being offered for sale by the Selling Shareholder (assuming each Beneficial Shareholder elects to sell or otherwise receive (through the repayment of Shareholder Debt) their maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement.

At the mid-point of the Price Range

The Offer comprises an offer of 162,500,000 Shares (assuming that the Offer Size is set at the mid-point of the Offer Size Range and there is no exercise of the Over-allotment Option). Of these Shares:

- 151,504,629 are New Shares being offered for subscription by the Company:
  - of which 119,046,809 are New Shares to be issued to facilitate the repayment of outstanding amounts owing under the Existing Senior Facilities Agreement and to pay the estimated fees and expenses of the Offer; and
  - of which 32,457,820 are New Shares to be issued to repay Shareholder Debt;
- 10,995,371 are Existing Shares being offered for sale by the Selling Shareholder (assuming each Beneficial Shareholder elects to sell or otherwise receive (through the repayment of Shareholder Debt) their maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement.

At the top of the Price Range

The Offer comprises an offer of 162,500,000 Shares (assuming that the Offer Size is set at the mid-point of the Offer Size Range and there is no exercise of the Over-allotment Option). Of these Shares:

- 150,530,046 are New Shares being offered for subscription by the Company:
  - of which 107,600,000 are New Shares to be issued to facilitate the repayment of outstanding amounts owing under the Existing Senior Facilities Agreement and to pay the estimated fees and expenses of the Offer; and
  - of which 42,930,046 are New Shares to be issued to repay Shareholder Debt;
- 11,969,954 are Existing Shares being offered for sale by the Selling Shareholder (assuming each Beneficial Shareholder elects to sell or otherwise receive (through the repayment of Shareholder Debt) its maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement,

in each case by means of an offer of Shares in the United Kingdom and elsewhere outside the United States in accordance with Regulation S and by means of an offer of Shares in the United States to Qualified Institutional Buyers pursuant to Rule 144A of the Securities Act.

However, the number of Shares to be issued or sold pursuant to the Offer may fall outside the Offer Size Range (subject to the minimum free float requirements of the UKLA). See Section 5 (*The Price and Size of*

the Offer) of this Part XVII (*The Offer*) for the steps the Company will take should the Offer Size be set above or below the Offer Size Range. The actual number of New Shares to be issued by the Company and Existing Shares to be sold by the Selling Shareholder in the Offer will only be determined at the time the Offer Price is determined and could be higher or lower than these numbers. In addition, a further 37,500,000 Over-allotment Shares are being made available by the Over-allotment Shareholders pursuant to the Over-allotment Option described below.

Through the issue of New Shares pursuant to the Offer, the Company expects to raise net proceeds of £351 million assuming the Offer Price is set at the top of the Price Range (of which £240 million would be used to facilitate the repayment of outstanding amounts owing under the Existing Senior Facilities Agreement and £112 million would be used to repay Shareholder Debt). If the Offer Price is set at the mid-point of the Price Range, the Company expects to raise net proceeds of £316 million (of which £240 million would be used to facilitate the repayment of outstanding amounts owing under the Existing Senior Facilities Agreement and £76 million would be used to facilitate the repayment of Shareholder Debt). If the Offer Price is set at the bottom of the Price Range, the Company expects to raise net proceeds of £284 million (of which £240 million would be used to facilitate the repayment, outstanding amounts owing under the Existing Senior Facilities Agreement and £44 million would be used to repay Shareholder Debt). Each of the amounts set out above assume that the Offer Size is set at the mid-point of the Offer Size Range and are net of the aggregate underwriting commissions and other fees, taxes and expenses incurred in connection with the Offer and Admission which are to be borne by the Company and are estimated to be approximately £40 million (excluding VAT). The Company intends to pay this amount out of the gross proceeds of the Offer.

Through the sale of Existing Shares pursuant to the Offer, the Company expects the Selling Shareholder to raise £31 million (assuming that the Offer Price is set at the top of the Price Range) £26 million (if the Offer Price is set at the mid-point of the Price Range) and £18 million (if the Offer Price is set at the bottom of the Price Range) and, in each case, assuming there is no exercise of the Over-allotment Option and each Beneficial Shareholder elects to sell or otherwise receive (through the repayment of Shareholder Debt) their maximum entitlement in accordance with the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement.

The Offer outside the United States includes the Intermediaries Offer in the UK, the Channel Islands and the Isle of Man. The final number of Shares allocated pursuant to the Intermediaries Offer will be decided at the absolute discretion of the Company and the Principal Shareholder, after consultation with the Joint Global Coordinators, after the closing date for applications. Shares will be allocated to institutional investors in the United Kingdom and elsewhere on the basis determined by the Joint Global Coordinators (on behalf of the Underwriters), in consultation with the Company and the Principal Shareholder, provided that the final determination as to allocation will be made by the Company and the Principal Shareholder. A number of factors will be considered in determining the basis of allocation, including the level and nature of demand for the Shares being offered and the objective of encouraging the development of an orderly and liquid after-market in the Shares.

Immediately following Admission, in excess of 25% of the Company's issued ordinary share capital will be held in public hands.

The Institutional Offer and the Intermediaries Offer will be fully underwritten by the Underwriters in accordance with the terms of the Underwriting Agreement summarised in Section 11 (*Material Contracts*) of Part XVIII (*Additional Information*). The Colleague Offer will not be underwritten.

Certain restrictions that apply to the distribution of this Prospectus and the Shares being issued or sold in jurisdictions outside the UK are described in Section 13 (*Transfer and Selling Restrictions*) of this Part XVII (*The Offer*).

The Offer is conditional on, among other things:

(a) the Underwriting Agreement becoming unconditional (save for Admission) and not having been terminated in accordance with its terms prior to Admission; and

(b) Admission occurring on or prior to 8.00 a.m. on 18 March 2014 (or such later date as the Joint Global Coordinators (on behalf of the Underwriters) and the Company may agree).

When admitted to trading, the Shares will be registered with ISIN number GB00BJ62K685 and SEDOL number BJ62K68, and will trade under the symbol "PETS". Admission is expected to take place and unconditional dealings in the Shares are expected to commence on the London Stock Exchange at 8.00 a.m. on 18 March 2014.

The Company, the Principal Shareholder and the Underwriters expressly reserve the right to determine, at any time prior to Admission, not to proceed with the Offer. If such right is exercised, the Offer will lapse and any monies received in respect of the Offer will be returned to investors without interest.

The New Shares being issued by the Company pursuant to the Offer will, on Admission, rank pari passu in all respects with the other Shares then in issue and will rank in full for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company. The New Shares will be freely transferable.

2. THE SELLING SHAREHOLDER

As at the date of this Prospectus, MEP Nominee Limited holds legal title to interests in the Group on behalf of certain Colleagues. In connection with the Offer, MEP Nominee Limited will be selling Shares in the Offer on behalf of Colleagues including on behalf of the Executive Directors, the Chairman and the Senior Executives.

Following Admission, to the extent that each Colleague (including the Directors and the Senior Executives) so elects, legal title to the Shares held by that Colleague will be held by Computershare Company Nominees Limited.

3. THE INTERMEDIARIES OFFER

Members of the general public will not be able to apply directly for Shares in the Offer from the Company or the Selling Shareholder. However, members of the general public in the UK, the Channel Islands and the Isle of Man may be eligible to apply for Shares through the Intermediaries, by following their relevant application procedures. The latest time and date for receipt of completed application forms from the Intermediaries is 5.00 p.m. on 11 March 2014. Underlying Applicants may not make more than one application under the Intermediaries Offer (whether on their own behalf or through other means, including, without limitation, through a trust or pension plan).

The Intermediaries Offer is being made to retail investors resident in the UK, the Channel Islands and the Isle of Man only. No Shares allocated under the Intermediaries Offer will be registered in the name of any person whose registered address is outside the UK, the Channel Islands and the Isle of Man or who is otherwise known by the relevant Intermediary to be physically present in the United States. Under the Intermediaries Offer, the Shares will be offered outside the United States only in offshore transactions as defined in, and in reliance on, Regulation S. Individuals who are aged 18 or over, companies and other bodies corporate, partnerships, trusts, associations and other unincorporated organisations are permitted to apply to subscribe for Shares in the Intermediaries Offer.

Applications under the Intermediaries Offer must be by reference to the total monetary amount the applicant wishes to invest and not by reference to a number of Shares or the Offer Price. An application for Shares in the Intermediaries Offer means that the applicant agrees to acquire the Shares at the Offer Price. Each applicant must comply with the appropriate money laundering checks required by the relevant Intermediary. Where an application is not accepted or there are insufficient Shares available to satisfy an application in full, the relevant Intermediary will be obliged to refund the Underlying Applicant as required and all such refunds will be in accordance with the terms provided by the Intermediary to the applicant. All such refunds are the sole responsibility of the relevant Intermediary.

Intermediaries are prohibited from charging any fees, charges or commissions to a retail investor for making an application for Shares on behalf of such retail investor in the Intermediaries Offer. However, Intermediaries may charge retail investors a fee for holding the allocated Shares for them (including any fees relating to the opening of an individual savings account or a self-invested personal pension for that purpose), provided that the Intermediary has disclosed the fees and terms and conditions of providing those services to each retail investor prior to the underlying application being made.

In making an application, each Intermediary will also be required to represent and warrant, among other things, that it is not resident in the United States and is not acting on behalf of anyone resident or otherwise physically present in the United States.

The Intermediaries may prepare certain materials for distribution or may otherwise provide information or advice to retail investors in the UK, the Channel Islands and the Isle of Man, subject to the terms of the Intermediaries Terms and Conditions (further details of which are set out in Section 15 (*Intermediaries Terms and Conditions*) of this Part XVII (*The Offer*)). Any such materials, information or advice are solely the responsibility of the Intermediaries and will not be reviewed or approved by any of the Underwriters or the Company. Any liability

relating to such documents will be for the Intermediaries only. **If an Intermediary makes an offer to a retail investor pursuant to the Intermediaries Offer, that Intermediary shall provide to such retail investor at the time the offer is made (i) a copy of this Prospectus or a hyperlink from which this Prospectus may be obtained; and (ii) the terms and conditions of the relevant offer made by the Intermediary to the retail investor.**

Each Intermediary will be informed by the Intermediaries Offer Adviser by email of the aggregate number of Shares allocated to its underlying clients (or to the Intermediary itself) and the total amount payable in respect thereof. The aggregate allocation of Shares as between the Institutional Offer and the Intermediaries Offer will be determined by the Company and the Principal Shareholder (in consultation with the Joint Global Coordinators). The allocation policy for the Intermediaries Offer will be determined by the Company, the Principal Shareholder and the Joint Global Coordinators. The same allocation policy will apply to all Underlying Applicants. Each Intermediary will be required to apply the allocation policy to each of its underlying applications from retail investors. The allocation policy will be made available to Intermediaries prior to the commencement of conditional dealings in the Shares.

Pursuant to the Intermediaries Terms and Conditions, the Intermediaries have undertaken to make payment of the consideration for the Shares allocated, at the Offer Price, to the Settlement Manager, in accordance with details to be communicated on or after the time of allocation, by means of CREST against the delivery of the Shares at the time and/or date set out Part III (*Expected Timetable of Principal Events*), or at such other time and/or date after the day of publication of the Offer Price as the Joint Global Coordinators may agree with the Company and notify to the Intermediaries.

The publication of this Prospectus and/or any supplementary prospectus and any other actions of the Company, the Principal Shareholder, the Selling Shareholder, the Underwriters, the Intermediaries or other persons in connection with the Offer should not be taken as any representation or assurance by any such person as to the basis on which the number of Shares to be offered under the Intermediaries Offer or allocations within the Intermediaries Offer will be determined, and all liabilities for any such action or statement are hereby disclaimed by the Company, the Principal Shareholder, the Selling Shareholder and the Underwriters.

Each investor who applies for Shares in the Intermediaries Offer through an Intermediary shall, by submitting an application to such Intermediary, be deemed to acknowledge and agree that such investor is not relying on any information or representation other than as is contained in this Prospectus, the Pricing Statement or any supplementary prospectus, that if the laws of any jurisdiction outside the UK are applicable to such investor's agreement to purchase Shares, such investor has complied with all such laws and none of the Company, the Selling Shareholder, the Principal Shareholder or the Underwriters will infringe any laws of any jurisdiction outside the UK as a result of such investor's rights and obligations under such investor's agreement to subscribe for Shares and under the Articles, and that such investor's personal information may be held and used by the Intermediary, the Selling Shareholder or the Company for purposes relating to the Intermediaries Offer, which may include providing its details to third parties for the purpose of performing credit reference checks, money laundering checks and making tax returns, and keeping a record of applicants under the Intermediaries Offer for a reasonable period of time.

For further details on the Intermediaries Offer, see Section 15 (*Intermediaries Terms and Conditions*) of this Part XVII (*The Offer*).

4. COLLEAGUE OFFER

Eligible Colleagues will be able to apply to purchase Shares in the Offer from the Selling Shareholder at the Offer Price i.e. the same price at which the Shares are being offered to subscribers pursuant to the Intermediaries Offer and to institutional investors under the Institutional Offer. Applications for Shares in the Colleague Offer must be made by reference to the total monetary amount which the Colleague wishes to invest in Shares and not by reference to a number of Shares or the Offer Price. Eligible Colleagues may not make more than one application under the Colleague Offer. For Eligible Colleagues applying in the Colleague Offer, there are three application amounts and applications can only be made for one of the following application amounts:

- £250
- £500
- £750

Only one of these amounts may be selected and no other amounts are offered. An application for Shares in the Colleague Offer means that the applicant agrees to acquire Shares at the Offer Price.

In order to participate in the Colleague Offer, Eligible Colleagues must submit a valid Online Application on the Colleague Offer Website by no later than 5.00 p.m. on the date on which the Colleague Offer closes. All valid applications submitted by Eligible Colleagues will be satisfied in full (provided that they are received prior to the Colleague Offer closing) and subject to the terms and conditions of the Colleague Offer more generally.

Each Eligible Colleague who applies for Shares in the Colleague Offer shall, by submitting a valid Online Application, be deemed to acknowledge and agree that such Colleague is not relying on any information or representation other than as is contained in the Prospectus, the Pricing Statement or any supplementary prospectus, that if the laws of any jurisdiction outside the UK are applicable to such Colleague's agreement to purchase Shares, such Colleague has complied with all such laws and none of the Company, the Selling Shareholder, the Principal Shareholder, the Underwriters or Computershare will infringe any laws of any jurisdiction outside the UK as a result of such Colleague's rights and obligations under such Colleague's agreement to purchase Shares and under the Articles, and that such Colleague's personal information may be held and used by the Company, the Underwriters or Computershare for purposes relating to the Colleague Offer, which may include providing the Colleague's details to third parties for the purpose of performing credit reference checks, money laundering checks and making tax returns, and keeping a record of applicants under the Colleague Offer for a reasonable period of time. For further details on the Colleague Offer, see Section 16 (*Colleague Offer Terms and Conditions*) of this Part XVII (*The Offer*).

5. THE PRICE AND SIZE OF THE OFFER

All Shares issued or sold pursuant to the Offer will be issued or sold at the Offer Price.

The Offer Price and the final number of Shares to be issued or sold pursuant to the Offer will be jointly agreed by the Company, the Principal Shareholder and the Joint Global Coordinators and are expected to be announced on or around 13 March 2014.

The Pricing Statement, which will contain the Offer Price and Offer Size, will be published in printed form and available free of charge at the registered office of the Company at Epsom Avenue, Stanley Green Trading Estate, Handforth, Cheshire SK9 3RN. In addition, the Pricing Statement will be published in electronic form and available on the Company's website at http://investors.petsathome.com. The Company, the Principal Shareholder and the Joint Global Coordinators reserve the right to increase or decrease the aggregate number of Shares issued and/or sold under the Offer.

It is currently expected that the Offer Price will be set within the Price Range and that the Offer Size will be set within the Offer Size Range. If (i) the Offer Price is set above the Price Range or the Price Range is revised higher; and/or (ii) the number of Shares to be issued or sold in the Offer is set above or below the Offer Size Range (subject to the minimum free float requirements of the UK Listing Authority), then the Company will make an announcement via a Regulatory Information Service and prospective investors will have a statutory right to withdraw their application for Shares pursuant to section 87Q of FSMA.

In such circumstances, the Pricing Statement would not be published until the period for exercising such withdrawal rights has ended. Therefore, the expected date of publication of the Pricing Statement would be extended. The arrangements for withdrawing offers to subscribe for or purchase Shares would be made clear in the announcement. Full details of statutory rights to withdraw an offer to purchase Shares pursuant to section 87Q of FSMA are set out in Section 17 (*Withdrawals*) of this Part XVII (*The Offer*).

Among the factors which may be considered in determining the Offer Price and the final number of Shares to be issued or sold pursuant to the Offer are the prevailing market conditions, the level and nature of demand for the Shares offered, the prices bid to acquire the Shares under the Institutional Offer, the number of Shares required to be issued by the Company and the objective of encouraging the development of an orderly and liquid after-market in the Shares. Accordingly, the Offer Price will not necessarily be the highest price at which all of the Shares subject to the Offer could be issued or sold.

The Shares allocated under the Institutional Offer and the Intermediaries Offer will be underwritten, subject to certain conditions, by the Underwriters as described in Section 11 (*Underwriting Arrangements*) of this Part XVII (*The Offer*) and Section 11 (*Material Contracts*) of Part XVIII (*Additional Information*). The Colleague Offer will not be underwritten.

The rights attaching to the Shares issued or sold pursuant to the Offer, including any Shares sold pursuant to the Over-allotment Option, will be uniform in all respects, including the right to vote and the right to receive

all dividends and other distributions declared, made or paid in respect of the Company's share capital after Admission. The Shares will, immediately on and from Admission, be freely transferable under the Articles.

The Underwriters will solicit bids from prospective institutional investors to acquire Shares in the Institutional Offer. Prospective investors will be required to specify the number of Shares which they would be prepared to acquire either at prices specified by them or at the Offer Price eventually determined by the Company, the Principal Shareholder and the Joint Global Coordinators.

In the event that demand for the Shares being offered exceeds the number of Shares made available in the Offer, allocations in respect of the Institutional Offer may be scaled down in any manner at the Joint Global Coordinators' discretion, in consultation with the Company and the Principal Shareholder and applicants under the Institutional Offer may be allocated Shares having an aggregate value which is less than the sum applied for. The Joint Global Coordinators, in consultation with the Company and the Principal Shareholder, may allocate such Shares, provided that the final determination as to allocation will be made by the Company and the Principal Shareholder (and there is no obligation to allocate such Shares proportionately).

6. USE OF PROCEEDS

The Offer and Admission will allow the Company to reduce its indebtedness. The Company intends to use £240 million of the net proceeds it receives from the Offer to facilitate the repayment of outstanding amounts owing under the Existing Senior Facilities Agreement of which there are three fully drawn term loans and one partially drawn revolving facility. On Admission, the Company intends to draw down approximately £325 million under the New Senior Facilities Agreement in order to repay the balance owing under the Existing Senior Facilities Agreement.

Goldman Sachs, BofA Merrill Lynch (which is also acting as Sponsor) and Nomura (or their affiliates) are members of the syndicate constituting the lenders under the Existing Senior Facilities Agreement. It is expected that, as a result of the Group's repayment described above, their existing outstanding loan commitments to the Company of approximately £50 million, £5.5 million and £5 million, respectively will be repaid in full, in line with the approach taken with respect to all other members of the existing syndicate, who are lenders under the Existing Senior Facilities Agreement.

In respect of the remaining net proceeds from the Offer, the Company intends to use £76 million (assuming the Offer Size is set at the mid-point of the Offer Size Range and the Price Range is set at the mid-point of the Price Range) of the net proceeds to repay Shareholder Debt.

The Directors believe the Offer and Admission will also further raise the profile of the Company and provide it with access to a new source of long-term capital, enabling it to continue to expand its business and maintain its position as the leader in the UK Pet Care Market.

Additionally, at or about Admission, the Company intends to use approximately £40 million (excluding VAT) of the gross proceeds from the issue of the New Shares to pay commissions and other transaction fees and expenses incurred in connection with the Offer.

7. APPLICATION PROCEDURE AND ALLOCATION

The Institutional Offer

Under the Institutional Offer, the Shares will be offered to (i) certain institutional investors in the United Kingdom and elsewhere outside the United States in reliance on Regulation S and (ii) in the United States, only to persons reasonably believed to be QIBs in reliance on Rule 144A of the Securities Act. Certain restrictions that apply to the distribution of this Prospectus and the offer and sale of the Shares in jurisdictions outside the United Kingdom are described in Section 13 (*Transfer and Selling Restrictions*) of this Part XVII (*The Offer*).

The latest time and date for indications of interest in acquiring Shares under the Institutional Offer are set out in Part III (*Expected Timetable of Principal Events*) but that time may be extended at the discretion of the Joint Global Coordinators (with the agreement of the Company, the Principal Shareholder and the Selling Shareholder).

Participants in the Institutional Offer will be advised verbally or by electronic mail of their allocation as soon as practicable following pricing and allocation. Prospective investors in the Institutional Offer will be contractually committed to acquire the number of Shares allocated to them at the Offer Price, and to the fullest extent permitted by law, will be deemed to have agreed not to exercise any rights to rescind or terminate, or otherwise withdraw from, such commitment.

The Intermediaries Offer

Intermediaries may apply for Shares in the Intermediaries Offer in accordance with the relevant provisions of the Intermediaries Terms and Conditions. The allocation policy for the Intermediaries Offer will be determined by the Company, the Principal Shareholder and the Joint Global Coordinators. The same allocation policy will apply to all Underlying Applicants. Each Intermediary will be required to apply the allocation policy to each of its underlying applications from retail investors. The allocation policy will be made available to Intermediaries prior to the commencement of conditional dealings in the Shares.

Intermediaries will be informed by the Intermediaries Offer Adviser by approximately 8.00 a.m. (London time) on 13 March 2014 by e-mail of the aggregate number of Shares allocated to such Intermediaries and the total amount payable in respect thereof.

Each Intermediary has irrevocably undertaken to the Company and the Underwriters to make payment of the consideration for the Shares allocated, at the Offer Price (on a delivery versus payment basis), to the Settlement Manager in accordance with details to be communicated on or after the time of allocation on 13 March 2014, or at such other time and/or date after the day of publication of the Offer Price as the Joint Global Coordinators may agree with the Company and notify to the Intermediaries.

The Colleague Offer

Eligible Colleagues may apply for Shares in the Colleague Offer in accordance with the full terms of the Colleague Offer set out in this Prospectus and on the Colleague Offer Website. All valid applications submitted by Eligible Colleagues will be satisfied in full provided they are received by the latest time and date set out in Part III (*Expected Timetable of Principal Events*). Eligible Colleagues will be informed by Computershare on or around Admission by e-mail of the aggregate number of Shares allocated to them.

8. DEALING ARRANGEMENTS

Application will be made to the FCA, in its capacity as the UK Listing Authority, for all of the Shares (including the Over-allotment Shares) to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for those Shares to be admitted to trading on the main market for listed securities of the London Stock Exchange. It is expected that dealings in the Shares will commence on a conditional basis on the London Stock Exchange at 8 a.m. on 13 March 2014. The earliest date for settlement of such dealings will be 18 March 2014. It is expected that Admission will become effective and that unconditional dealings in the Shares will commence on the London Stock Exchange at 8 a.m. on 18 March 2014. All dealings in Shares prior to the commencement of unconditional dealings will be on a "when-issued basis" and be of no effect if Admission does not take place, and will be at the sole risk of the parties concerned. The above-mentioned dates and times may be changed without further notice.

Results of the Offer and other related disclosures will be published on the Company's website http://investors.petsathome.com.

It is intended that, where applicable, definitive share certificates in respect of the Offer will be distributed in the week commencing 31 March 2014 or as soon thereafter as is practicable. Temporary documents of title will not be issued. Dealings in advance of crediting of the relevant CREST stock account(s) shall be at the sole risk of the persons concerned.

Following Admission, the Shares held by the Directors, the Senior Executives, the Principal Shareholder, MBF Co-Invest L.P., the Co-Investors and certain other Colleagues will be subject to the lock-up arrangements described in Section 12 (*Lock-up Arrangements*) of this Part XVII (*The Offer*).

9. OVER-ALLOTMENT AND STABILISATION

In connection with the Offer, Merrill Lynch International (as Stabilising Manager), or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law and for stabilisation purposes, over-allot Shares up to a total of 15% of the total number of Shares comprised in the Offer or effect other transactions with a view to supporting the market price of the Shares at a higher level than that which might otherwise prevail in the open market. The Stabilising Manager is not required to enter into such transactions and such transactions may be effected on any securities market, over-the-counter market, stock exchange or otherwise and may be undertaken at any time during the period commencing on the date of the conditional dealings in the Shares on the London Stock Exchange and ending no later than 30 calendar days thereafter. Such stabilisation, if commenced, may be discontinued at any time without prior notice. In no event will

measures be taken to stabilise the market price of the Shares above the Offer Price. Except as required by law or regulation, neither the Stabilising Manager nor any of its agents intends to disclose the extent of any over-allotments made and/or stabilisation transactions conducted in relation to the Offer.

For the purposes of allowing the Stabilising Manager to cover short positions resulting from any such over-allotment and/or from sales of Shares effected by it during the stabilising period, it has entered into the Over-allotment Option with the Over-allotment Shareholders pursuant to which the Stabilising Manager may purchase or procure purchasers for the Over-allotment Shares (before any utilisation of the Over-allotment Arrangements) at the Offer Price. The Over-allotment Option may be exercised in whole or in part upon notice by the Stabilising Manager at any time on or before the 30th calendar day after the commencement of conditional dealings in the Shares on the London Stock Exchange. Any Over-allotment Shares made available pursuant to the Over-allotment Option will be subscribed for on the same terms and conditions as Shares being offered pursuant to the Offer and will rank *pari passu* in all respects with, and form a single class with, all other Shares (including for all dividends and other distributions declared, made or paid on the Shares).

For further details regarding the Over-allotment Option, please refer to the heading "Underwriting and Related Agreements" in Section 11 (*Material Contracts*) of Part XVIII (*Additional Information*).

10. CREST

CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another's without the need to use share certificates or written instruments of transfer. On Admission, the Articles will permit the holding of Shares under the CREST system. The Company has applied for the Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in the Shares following Admission may take place within the CREST system if any Shareholder so wishes. CREST is a voluntary system and holders of Shares who wish to receive and retain share certificates will be able to do so.

11. UNDERWRITING ARRANGEMENTS

The Company, the Selling Shareholder, the Principal Shareholder, the Over-allotment Shareholders, the Directors and the Underwriters have entered into the Underwriting Agreement pursuant to which, on the terms and subject to certain conditions contained in the Underwriting Agreement (which are customary in agreements of this nature), including the execution by the Company, the Selling Shareholder, the Over-allotment Shareholders and the Underwriters of the Sale and Purchase Memorandum, the Underwriters have agreed to (i) use reasonable endeavours to procure subscribers or purchasers, as the case may be, for the Shares comprising the Institutional Offer and the Intermediaries Offer, or (ii) failing which, to subscribe for or purchase such Shares themselves, at the Offer Price.

The Offer is conditional upon, among other things, Admission occurring not later than 8 a.m. on 18 March 2014 (or such later date and time as the Company may agree with the Joint Global Coordinators being not later than 25 March 2014) and the Underwriting Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms.

The Underwriting Agreement provides for the Underwriters to be paid a commission and a fee in respect of the Shares comprising the Institutional Offer and the Intermediaries Offer. Any commissions and fees received by the Underwriters may be retained and any Shares acquired by them may be retained or dealt in, by them, for their own benefit. The Colleague Offer is not underwritten.

Under the terms and conditions of the Underwriting Agreement, the Sponsor has agreed to provide certain assistance to the Company in connection with Admission.

Further details of the terms of the Underwriting Agreement are set out under the heading "Underwriting and Related Agreements" in Section 11 *(Material Contracts*) of Part XVIII (*Additional Information*).

12. LOCK-UP ARRANGEMENTS

Pursuant to the Underwriting Agreement, the Company has agreed that, subject to certain exceptions including, but not limited to, the operation of the Colleague Share Schemes, during the period of 365 days from the date of Admission, neither it nor any member of its Group will, without the prior written consent of the Joint Global Coordinators, directly or indirectly, issue, offer, allot, lend, mortgage, assign, charge, pledge, sell or contract to sell or issue options in respect of, or otherwise dispose of, directly or indirectly, or

announce an offering or issue of any Shares (or any interest therein or in respect thereof) or any other securities exchangeable for, or convertible into, or substantially similar to, Shares or enter into any transaction with the same economic effect as any of the foregoing.

Pursuant to the Underwriting Agreement, each of the Principal Shareholder and MBF Co-Invest L.P. has agreed that, subject to certain exceptions, during the period of 180 days from the date of Admission, they will not, without the prior written consent of the Joint Global Coordinators, directly or indirectly, offer, issue, lend, mortgage, assign, charge, pledge, sell or contract to sell, issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering or issue of any Shares (or any interest therein or in respect thereof) or any other securities exchangeable for, or convertible into, or substantially similar to, Shares or enter into any transaction with the same economic effect as any of the foregoing.

Pursuant to the Underwriting Agreement, each of the Directors have agreed that, subject to certain exceptions, during the period of 365 days from the date of Admission, they will not, without the prior written consent of the Joint Global Coordinators, directly or indirectly, offer, issue, lend, mortgage, assign, charge, pledge, sell or contract to sell, issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering or issue of any Shares (or any interest therein or in respect thereof) or any other securities exchangeable for, or convertible into, or substantially similar to, Shares or enter into any transaction with the same economic effect as any of the foregoing.

Pursuant to lock-up agreements, each of the Senior Executives have agreed that, subject to certain exceptions, during the period of 365 days from the date of Admission, they will not, without the prior written consent of the Joint Global Coordinators, directly or indirectly, offer, issue, lend, mortgage, assign, charge, pledge, sell or contract to sell, issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering of any Shares (or any interest therein or in respect thereof) or any other securities exchangeable for, or convertible into, or substantially similar to, Shares or enter into any transaction with the same economic effect as any of the foregoing.

Pursuant to an additional lock-up agreement, the Executive Directors, the Chairman and the Senior Executives have agreed that, following expiry of their respective 365 day lock-up periods set out above, subject to certain exceptions, they will not, in respect of approximately 50% of the Shares held by them following completion of the Offer, without the prior written consent of the Company, directly or indirectly, offer, issue, lend, sell or contract to sell, issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering or issue of those relevant Shares (or any interest therein or in respect thereof) or any other securities exchangeable for, or convertible into, or substantially similar to, those Shares or enter into any transaction with the same economic effect as any of the foregoing.

Pursuant to lock-up arrangements, certain of the Group's Colleagues have agreed that, subject to certain exceptions, during the period of 365 days from the date of Admission, they will not, without the prior written consent of the Company directly or indirectly, offer, issue, lend, mortgage, assign, charge, pledge, sell or contract to sell, issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering of any Shares (or any interest therein or in respect thereof) or any other securities exchangeable for, or convertible into, or substantially similar to, Shares or enter into any transaction with the same economic effect as any of the foregoing.

Each of Highbridge and Oregon have agreed that, subject to certain exceptions, during the period of 180 days from the date of Admission, they will not, without the prior written consent of the Company, directly or indirectly, offer, issue, lend, mortgage, assign, charge, pledge, sell or contract to sell, issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering of any Shares (or any interest therein or in respect thereof) or any other securities exchangeable for, or convertible into, or substantially similar to, Shares or enter into any transaction with the same economic effect as any of the foregoing.

Pursuant to a lock-up agreement, each of the Co-Investors (excluding Highbridge and Oregon) have agreed that, subject to certain exceptions, during the period of 45 days from the date of Admission, they will not, without the prior written consent of the Company, directly or indirectly, offer, issue, lend, mortgage, assign, charge, pledge, sell or contract to sell, issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering of any Shares (or any interest therein or in respect thereof) or any other securities exchangeable for, or convertible into, or substantially similar to, Shares or enter into any transaction with the same economic effect as any of the foregoing.

Further details of the Underwriting Agreement are set out under the heading "Underwriting and Related Agreements" in Section 11 (*Material Contracts*) of Part XVIII (*Additional Information*).

13. TRANSFER AND SELLING RESTRICTIONS

The distribution of this Prospectus and the offer of Shares in certain jurisdictions may be restricted by law and therefore persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

No action has been or will be taken in any jurisdiction (other than the UK) that would permit a public offering of the Shares, or possession or distribution of this Prospectus or any other offering material in any country or jurisdiction where action for that purpose is required. Accordingly, the Shares may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the Shares may be distributed or published, in or from any country or jurisdiction except in circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this Prospectus comes should inform themselves about and observe any restrictions on the distribution of this Prospectus and the Offer. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Prospectus does not constitute an offer to subscribe for or produce any of the Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

13.1 *United States*

The Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and, subject to certain exceptions, may not be offered or sold within the United States. Accordingly, the Shares may only be offered and sold: (a) through the respective US registered broker affiliates of the Joint Bookrunners to persons reasonably believed to be QIBs either in reliance on Rule 144A or pursuant to another exemption from, or in a transaction not subject to the registration requirements of the Securities Act provided by Rule 144A; and (b) outside the United States in offshore transactions in reliance on Regulation S.

In addition, until 40 days after the commencement of the Offer, an offer or sale of Shares within the United States by any dealer (whether or not participating in the Offer) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A of the Securities Act.

The Underwriting Agreement provides that the Underwriters may directly, or through their respective United States registered broker-dealer affiliates, arrange for the offer and resale of Shares within the United States only to QIBs in reliance on Rule 144A of the Securities Act.

Rule 144A transfer restrictions

Each investor in Shares in the United States will be deemed to have represented and agreed that it has received a copy of this Prospectus and such other information as it deems necessary to make an investment decision and that:

(a) it is (A) a QIB; (B) acquiring the Shares for its own account or for the account of one or more QIBs with respect to whom it has the authority to make, and does make, the representations and warranties set forth in this paragraph; (C) acquiring the Shares for investment purposes, and not with a view to further distribution of such Shares; and (D) aware, and each beneficial owner of the Shares has been advised, that the sale of the Shares to it is being made in reliance on Rule 144A of the Securities Act;

(b) it understands and agrees that the Shares have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state, territory or other jurisdiction of the United States and may not be offered, resold, pledged or otherwise transferred, except (A)(1) to a person whom the investor and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A; (2) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S; (3) pursuant to an exemption from the registration requirements of the Securities Act provided by Rule 144 thereunder (if available); or (4) pursuant to an effective registration statement under the Securities Act; and (B) in accordance with all applicable securities laws of any state, territory or other jurisdiction of the United States;

(c) it acknowledges that the Shares (whether in physical, certificated form or in uncertificated form held in CREST) are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, that

the Shares are being offered and sold in a transaction not involving any public offering in the United States within the meaning of the Securities Act and that no representation is made as to the availability of the exemption provided by Rule 144 for resales of Shares;

(d) it understands that in the event Shares are held in certificated form, such certificated Shares will bear a legend substantially to the following effect:

"THE SECURITY EVIDENCED HEREBY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), ANY STATE SECURITIES LAWS IN THE UNITED STATES OR THE SECURITIES LAWS OF ANY OTHER JURISDICTION AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED, EXCEPT: (A) IN A TRANSACTION IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER; (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT; (C) PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144 (IF AVAILABLE); OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THIS SECURITY. EACH INVESTOR IN THIS SECURITY IS HEREBY NOTIFIED THAT THE SELLER OF THIS SECURITY MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER AND EACH INVESTOR WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY INVESTOR IN THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. EACH HOLDER, BY ITS ACCEPTANCE OF THIS SECURITY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING RESTRICTIONS";

(e) notwithstanding anything to the contrary in the foregoing, it understands that Shares may not be deposited into an unrestricted depository receipt facility in respect of Shares established or maintained by a depository bank unless and until such time as such Shares are no longer "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act;

(f) any resale made other than in compliance with the above stated restrictions shall not be recognised by the Company;

(g) it agrees that it will give to each person to whom it transfers Shares notice of any restrictions on transfer of such Shares; and

(h) it acknowledges that the Company, the Joint Bookrunners and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of such acknowledgements, representations or agreements deemed to have been made by virtue of its purchase of Shares are no longer accurate, it will promptly notify the Company, and if it is acquiring any Shares as a fiduciary or agent for one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Regulation S transfer restrictions

Each investor in Shares outside the United States in accordance with Regulation S will be deemed to have represented, agreed and acknowledged that it has received a copy of this Prospectus and such other information as it deems necessary to make an investment decision and that:

(a) it is authorised to consummate the purchase of the Shares in compliance with all applicable laws and regulations;

(b) it acknowledges (or if it is a broker-dealer acting on behalf of a customer, its customer has confirmed to it that such customer acknowledges) that the Shares have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States;

(c) it and the person, if any, for whose account or benefit the investor is acquiring the Shares is purchasing the Shares in an offshore transaction meeting the requirements of Regulation S; and

(d) the Company, the Joint Bookrunners and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of such acknowledgements, representations or agreements deemed to have been made by virtue of its purchase of Shares are no longer accurate, it will promptly notify the Company, and if it is acquiring any Shares as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

13.2 Australia

This Prospectus has not been, and will not be, lodged with the Australian Securities and Investments Commission as a disclosure document under Chapter 6D of the Australian Corporations Act 2001 (the "**Corporations Act**"). This Prospectus does not purport to include the information required of a disclosure document under Chapter 6D of the Corporations Act. Accordingly, this Prospectus and any other document or material in connection with the Offer, or invitation for subscription or purchase, of Shares must not be issued or distributed directly or indirectly in or into Australia, and no Shares may be offered for sale (or transferred, assigned or otherwise alienated) to investors in Australia for at least 12 months after their issue, except in circumstances where disclosure to investors is not required under Part 6D.2 of the Corporations Act.

Each investor acknowledges the above and, by applying for Shares under this Prospectus, gives an undertaking to the Company not to offer, sell, transfer, assign or otherwise alienate those securities to persons in Australia (except in the circumstances referred to above) for 12 months after their issue.

13.3 Japan

The Shares offered hereby have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "*Financial Instruments and Exchange Act*"). Accordingly, no Shares will be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

13.4 EEA

In relation to each Relevant Member State, no Shares have been offered or will be offered pursuant to the Offer to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in the Relevant Member State, all in accordance with the Prospectus Directive, except that offers of Shares may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they are implemented in that Relevant Member State:

(a) to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) to fewer than 100 (or, if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150) natural or legal persons (other than qualified investors as defined in the Prospectus Directive) per Relevant Member State, subject to obtaining the prior consent of the Underwriters; or

(c) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Shares shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a Relevant Member State and each person who initially acquires any Shares or to whom any offer is made under the Offer will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression "an offer of any Shares to the public" in relation to any Shares in any Relevant Member State means the communication to persons in any form and by any means presenting sufficient information on the terms of the Offer and any Shares to be offered so as to enable an investor to decide to acquire any Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State.

In the case of any Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Shares acquired by it in the Offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any Shares to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the Underwriters has been obtained to each such proposed offer or resale. The Company, the Underwriters and their affiliates, and others will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Underwriters of such fact in writing may, with the prior consent of the Underwriters, be permitted to acquire Shares in the Offer.

13.5 Dubai International Financial Centre

This Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("**DFSA**"). This Prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this Prospectus nor taken steps to verify the information set forth herein and has no responsibility for the Prospectus. The Shares to which this Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Shares offered should conduct their own due diligence on the Shares. If you do not understand the contents of this Prospectus you should consult an authorised financial adviser.

In relation to its use in the Dubai International Financial Centre, this Prospectus is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the Shares may not be offered or sold directly or indirectly to the public in the Dubai International Financial Centre.

13.6 Switzerland

The Shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("**SIX**") or on any other stock exchange or regulated trading facility in Switzerland. This Prospectus has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Prospectus nor any other offering or marketing material relating to the offering, the Issuer, the Shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this Prospectus will not be filed with, and the offer of Shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the offer of Shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("**CISA**"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of Shares.

14. TERMS AND CONDITIONS OF THE OFFER

These terms and conditions apply to investors agreeing to subscribe for New Shares and/or purchase Existing Shares under the Offer. Each investor agrees with each of the Company, the Selling Shareholder and the Underwriters to be bound by these terms and conditions as being the terms and conditions upon which Shares will be issued and/or sold under the Offer. For the avoidance of doubt, these terms and conditions do not apply to the purchase or subscription of Shares by an Underlying Applicant who applies for Shares through the Intermediaries Offer and the purchase of Shares by an Eligible Colleague who

applies for Shares through the Colleague Offer. The Intermediaries Terms and Conditions are set out in Section 15 (*Intermediaries Terms and Conditions*) of this Part XVII (*The Offer*). The Colleague Offer Terms and Conditions are set out in Section 16 (*Colleague Offer Terms and Conditions*) of this Part XVII (*The Offer*).

14.1 Agreement to acquire Shares

Conditional on (i) Admission occurring on or prior to 8 a.m. on 18 March 2014 (or such later date as the Joint Global Coordinators (on behalf of the Underwriters) and the Company may agree), and (ii) the investor being allocated Shares, each investor agrees to become a member of the Company and agrees to acquire Shares at the Offer Price. The number of Shares allocated to such investor under the Offer will be in accordance with the arrangements described in Section 7 (*Application Procedure and Allocation*) of this Part XVII (*The Offer*). To the fullest extent permitted by law, each investor acknowledges and agrees that it will not be entitled to exercise any rights to rescind or terminate or, subject to any statutory rights, to withdraw an application for Shares in the Offer, or otherwise to withdraw from, such commitment.

14.2 Payment for Shares

Each investor undertakes to pay the Offer Price for the Shares issued to or acquired by such investor in such manner as shall be directed by the Joint Global Coordinators (on behalf of themselves and the other Underwriters). In the event of any failure by any investor to pay as so directed by the Joint Global Coordinators, the relevant investor will be deemed thereby to have appointed the Joint Global Coordinators or any nominee of the Joint Global Coordinators to sell (in one or more transactions) any or all of the Shares in respect of which payment will not have been made as directed by the Joint Global Coordinators and indemnifies on demand the Joint Global Coordinators and/or any relevant nominee of the Joint Global Coordinators in respect of any liability for stamp duty and/or SDRT arising in respect of any such sale or sales.

Liability for stamp duty and SDRT is described in Section 5 (*Stamp Duty and Stamp Duty Reserve Tax*) of Part XVI (*Taxation*).

14.3 Representations and warranties

Each investor and, in the case of sub-paragraphs (k) and (q) below, any person confirming an agreement to subscribe for and/or to purchase Shares on behalf of an investor or authorising the Joint Global Coordinators (on behalf of themselves and the other Underwriters) to notify the investor's name to the Registrars, represents, warrants and acknowledges to each of the Company, the Selling Shareholder and the Underwriters that:

(a) if the investor is a natural person, such investor is not under the age of majority (18 years of age in the United Kingdom) on the date of such investor's agreement to subscribe for and/or purchase Shares under the Offer;

(b) the content of this Prospectus is exclusively the responsibility of the Company and the Directors and that neither the Underwriters nor any person acting on their behalf is responsible for or will have any liability for any information, representation or statement contained in this Prospectus or any information previously published by or on behalf of the Company or any member of the Group and will not be liable for any decision by an investor to participate in the Offer based on any information, representation or statement contained in this Prospectus or otherwise;

(c) in agreeing to subscribe for and/or purchase Shares under the Offer, the investor is relying on this Prospectus and any supplementary prospectus that may be issued by the Company, and not on any other information or representation concerning the Group, the Selling Shareholder, the Shares or Offer. Such investor agrees that none of the Company, the Selling Shareholder, the Underwriters nor any of their respective officers, partners or directors will have any liability for any such other information or representation and irrevocably and unconditionally waives any rights it may have in respect of any such other information or representation. This Section 14.3 of Part XVII (*The Offer*) will not exclude any liability for fraudulent misrepresentation;

(d) the Underwriters are not making any recommendations to investors or advising any of them regarding the suitability or merits of any transaction they may enter into in connection with the Offer, and each investor acknowledges that participation in the Offer is on the basis that it is not and will not be a client of any of the Underwriters and that the Underwriters are acting for the Company and no one else, and they will not be responsible to anyone else for the protections afforded to their respective clients, and

that the Joint Global Coordinators will not be responsible to anyone other than the Company for providing advice in relation to the Offer, the contents of this Prospectus or any transaction, arrangements or other matters referred to herein, and the Underwriters will not be responsible to anyone other than the relevant party to the Underwriting Agreement in respect of any representations, warranties, undertakings or indemnities contained in the Underwriting Agreement or for the exercise or performance of the Underwriters' rights and obligations thereunder, including any right to waive or vary any condition or exercise any termination right contained therein;

(e) if the laws of any place outside the United Kingdom are applicable to the investor's agreement to subscribe for and/or purchase Shares, such investor has complied with all such laws and none of the Company, the Selling Shareholder, the Principal Shareholder or the Underwriters will infringe any laws outside the United Kingdom as a result of such investor's agreement to subscribe for and/or purchase Shares or any actions arising from such investor's rights and obligations under the investor's agreement to subscribe for and/or purchase Shares and under the Articles (and, in making this representation and warranty, the investor confirms that it is aware of the selling and transfer restrictions set out in Section 13 (*Transfer and Selling Restrictions*) of this Part XVII (*The Offer*);

(f) it understands that no action has been or will be taken in any jurisdiction other than the United Kingdom and (to the extent required) the Channel Islands and the Isle of Man by the Company or any other person that would permit a public offering of the Shares, or possession or distribution of this Prospectus, in any country or jurisdiction where action for that purpose is required;

(g) if the investor is in any Relevant Member State, it is: (i) a legal entity which is a qualified investor as defined in the Prospectus Directive; or (ii) otherwise permitted by law to be offered and sold Shares in circumstances which do not require the publication by the Company of a prospectus pursuant to Article 3 of the Prospectus Directive or other applicable laws;

(h) the investor is not a national, resident or citizen of Australia or Japan or a corporation, partnership or other entity organised under the laws of Australia or Japan, that the investor will not offer, sell, renounce, transfer or deliver, directly or indirectly, any of the Shares in Australia or Japan or to any national, resident or citizen of Australia or Japan and the investor acknowledges that the Sharers have not been and will not be registered under the applicable securities laws of Australia or Japan and that the same are not being offered for subscription or sale, and may not, directly or indirectly, be offered, sold, transferred or delivered, in Australia or Japan;

(i) the investor is participating in the Offer in compliance with the selling and transfer restrictions set out in Section 13 (*Transfer and Selling Restrictions*) of Part XVII (*The Offer*), including the representations and acknowledgements contained therein. The Shares have not been and will not be registered under the US Securities Act, or qualified for sale under the laws of any state of the United States. Subject to certain exceptions, the Shares may not be offered or sold in or into the United States. The Shares are being offered and sold in the United States to persons reasonably believed to be QIBs in reliance on Rule 144A of the US Securities Act and outside the United States in accordance with Regulation S;

(j) the investor is liable for any capital duty, stamp duty, stamp duty reserve tax and all other stamp, issue, securities, transfer, registration, documentary or other duties or taxes (including any interest, fines or penalties relating thereto) payable outside the United Kingdom by it or any other person on the acquisition by it of any Shares or the agreement by it to acquire any Shares;

(k) in the case of a person who confirms to any Underwriter, on behalf of an investor, an agreement to subscribe for and/or purchase Shares and/or who authorises the Joint Global Coordinators (on behalf of themselves and the other Underwriters) to notify the investor's name to the Registrars, that person represents and warrants that he, she or it has authority to do so on behalf of the investor;

(l) the investor has complied with its obligations in connection with money laundering and terrorist financing under the Proceeds of Crime Act 2002, the Terrorism Act 2000 and the Money Laundering Regulations 2007 (the "**Regulations**") and, if it is making payment on behalf of a third party, it has obtained and recorded satisfactory evidence to verify the identity of the third party as required by the Regulations;

(m) the investor is not, and is not applying as nominee or agent for, a person which is, or may be, mentioned in any of sections 67, 70, 93 and 96 of the Finance Act 1986 (depository receipts and clearance services);

(n) if the investor is in the United Kingdom, it is: (a) a person having professional experience in matters relating to investments who falls within the definition of "investment professionals" in Article 19(5) of

the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Financial Promotion Order**"); or (b) a high net worth body corporate, unincorporated association or partnership or trustee of a high value trust as described in Article 49(2) of the Financial Promotion Order, or is otherwise a person to whom an invitation or inducement to engage in investment activity may be communicated without contravening section 21 of FSMA;

(o) if they are acquiring Shares as a fiduciary or agent for one or more investor accounts, they represent that they have sole investment discretion with respect to each such account and they have full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account;

(p) each investor in a relevant member state of the European Economic Area who acquires any Shares under the Offer contemplated hereby will be deemed to have represented, warranted and agreed with each of the Underwriters and the Company that:

(i) it is a qualified investor as that term is defined under the Prospective Directive;

(ii) in the case of any Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) it is one of the Intermediaries; or (ii) the Shares acquired by it in the Offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any relevant member state other than qualified investors, as that term is defined in the Prospectus Directive, or in other circumstances falling within Article 3(2) of the Prospectus Directive and the prior consent of the Underwriters has been given to the offer or resale; or (iii) where Shares have been acquired by it on behalf of persons in any relevant member state other than qualified investors, the offer of those Shares to it is not treated under the Prospectus Directive as having been made to such persons;

For the purposes of this provision, the expression an "offer" in relation to any of the Shares in any Relevant Member States means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Shares, as the same may be varied in that relevant member state by any measure implementing the Prospectus Directive in that Relevant Member State;

(q) in the case of a person who confirms to any Underwriter, on behalf of an investor which is an entity other than a natural person, an agreement to subscribe for and/or to purchase Shares and/or who authorises the notification of such investor's name to the Registrars, that person warrants that he, she or it has authority to do so on behalf of the investor; and

(r) the Company, the Selling Shareholder and the Underwriters will rely upon the truth and accuracy of the foregoing representations, warranties and undertakings.

14.4 ***Supply and disclosure of information***

If the Company or the Joint Global Coordinators (on behalf of themselves and the other Underwriters) or any of their agents request any information about an investor's agreement to subscribe for and/or purchase Shares, such investor must promptly disclose it to them and ensure that such information is complete and accurate in all respects.

14.5 ***Miscellaneous***

(a) The rights and remedies of the Company, the Selling Shareholder and the Underwriters under these terms and conditions are in addition to any rights and remedies which would otherwise be available to them, and the exercise or partial exercise of one will not prevent the exercise of others.

(b) On application, each investor may be asked to disclose, in writing or orally, to the Joint Global Coordinators (on behalf of themselves and the other Underwriters):

(i) if he or she is an individual, his or her nationality; or

(ii) if he, she or it is a discretionary fund manager, the jurisdiction in which the funds are managed or owned.

(c) All documents sent by, to, from or on behalf of the investor will be sent at the investor's risk. They may be sent by post to such investor at an address notified to the Joint Global Coordinators (on behalf of themselves and the other Underwriters).

(d) Each investor agrees to be bound by the Articles (as amended from time to time) once the Shares which such investor has agreed to subscribe for and/or purchase have been issued or transferred to such investor.

(e) The contract to subscribe for and/or purchase Shares and the appointments and authorities mentioned herein will be governed by, and construed in accordance with, English law. For the exclusive benefit of the Company, the Selling Shareholder and the Underwriters, each investor irrevocably submits to the exclusive jurisdiction of the English courts in respect of these matters. This does not prevent an action being taken against an investor in any other jurisdiction.

(f) In the case of a joint agreement to subscribe for and/or purchase Shares, references to an investor in these terms and conditions are to each of such investors and any investors' liability is joint and several.

The Company, the Principal Shareholder and the Joint Global Coordinators (on behalf of themselves and the other Underwriters) expressly reserve the right to modify the Offer (including, without limitation, its timetable and settlement) at any time before the Offer Price and allocations are determined.

15. INTERMEDIARIES TERMS AND CONDITIONS

15.1 *General*

The Intermediaries Terms and Conditions regulate the relationship between the Company, the Intermediaries Offer Adviser, the Joint Global Coordinators and each of the Intermediaries.

The Company consents to the use of this Prospectus by the Intermediaries in connection with the Intermediaries Offer in the UK, the Channel Islands and the Isle of Man on the following terms: (i) in respect of Intermediaries who have been appointed by the Company prior to the date of this Prospectus, from the date of this Prospectus; and (ii) in respect of Intermediaries who are appointed by the Company after the date of this Prospectus, from the date on which they are appointed to participate in the Intermediaries Offer and, in each case, until the closing of the Intermediaries Offer. The Company accepts responsibility for the information contained in this Prospectus with respect to any subscriber for Shares pursuant to the Offer. In each case, the consent to use this Prospectus is conditional upon compliance by the relevant Intermediary with the Intermediaries Terms and Conditions summarised below and the appointment of such Intermediary not having been terminated by the Company.

15.2 *Capacity and liability*

The Intermediaries have agreed that, in connection with the Intermediaries Offer, they will be acting as agent for retail investors in the UK, the Channel Islands and the Isle of Man who wish to acquire Shares under the Intermediaries Offer (the "**Underlying Applicants**"). None of the Company, the Intermediaries Offer Adviser, any of the Underwriters or any of their respective representatives will have any responsibility for any liability, costs or expenses incurred by any Intermediary.

15.3 *Applications for Shares*

A minimum of £1,000 per Underlying Applicant will apply. There is no maximum limit on the monetary amount that Underlying Applicants may apply to invest in the Intermediaries Offer. The Intermediaries have agreed to take reasonable steps to ensure that they will not make more than one application per Underlying Applicant.

The Company and the Principal Shareholder (in consultation with the Joint Global Coordinators) will determine, in their absolute discretion, the final number of Shares to be allocated under the Intermediaries Offer and the Company, the Principal Shareholder and the Joint Global Coordinators will determine the basis of allocation of the Shares in the Intermediaries Offer which the Intermediaries will be required to follow. Accordingly, persons who apply to an Intermediary for Shares under the Intermediaries Offer may not receive all of the Shares that they apply for and it is possible that they may not receive any.

If there is excess demand for Shares in the Intermediaries Offer, allocations of Shares may be scaled down to an aggregate value which is less than that applied for. Each Intermediary will be required by the Company to apply the basis of allocation to all allocations to Underlying Applicants who have applied through such Intermediary.

15.4 *Effect of Intermediaries Offer Application Form*

By completing and returning the Intermediaries Offer Application Form, the Intermediary will be deemed to have irrevocably agreed to invest or procure the investment in Shares of the aggregate amount stated on the

Intermediaries Offer Application Form or such lesser amount in respect of which such application may be accepted. The Company and the Joint Global Coordinators reserve the right to reject, in whole or in part, or to scale down, any application for Shares in the Intermediaries Offer.

15.5 ***Commission and fees***

Conditional upon Admission, the Company will pay each Intermediary a commission of 1.00% of the aggregate value (based on the final Offer Price) of the Shares allocated to and paid for by such Intermediary.

Each Intermediary is prohibited from charging any fees, charges or commissions to an Underlying Applicant for making an application for Shares on behalf of such Underlying Applicant in the Intermediaries Offer.

15.6 ***Information and communications***

The Intermediaries have agreed to give certain undertakings regarding the use of information provided to them in connection with the Intermediaries Offer (both prior to and following publication of this Prospectus). The Intermediaries have given certain undertakings regarding their role and responsibilities in the Intermediaries Offer and are subject to certain restrictions on their conduct in connection with the Intermediaries Offer, including in relation to their responsibility for information, communications, websites, advertisements and their communications with clients and the press.

15.7 ***Representations, warranties and indemnities***

Each Intermediary has given representations and warranties that are relevant for the Intermediaries Offer (including as to their eligibility to act as an Intermediary), and has agreed to indemnify the Company, the Intermediaries Offer Adviser, the Underwriters and their respective representatives against any loss or claim arising out of any breach or alleged breach by them of the Intermediaries Terms and Conditions or as a result of a breach or alleged breach of any duties or obligations under FSMA or under any rules of the FCA or any applicable laws or as a result of any other act or omission by the Intermediary in connection with the subscription for and/or resale of Shares by the Intermediaries or any Underlying Applicant.

16. COLLEAGUE OFFER TERMS AND CONDITIONS

16.1 ***General***

The full terms and conditions of the Colleague Offer can be found on the Colleague Offer Website.

The Company consents to the use of this Prospectus by Computershare in connection with the Colleague Offer from the date of this Prospectus until the closing of the Colleague Offer. The Company accepts responsibility for the information contained in the Prospectus with respect to any subscriber for Shares pursuant to the Offer. In each case, the consent to use this Prospectus is conditional upon the compliance by Computershare with the Colleague Offer Terms and Conditions summarised below and the appointment of Computershare not having been terminated by the Company.

16.2 ***Capacity and liability***

Computershare has agreed that, in connection with the Colleague Offer, it will be acting as administrator to the Colleague Offer on behalf of the Company. Other than as agreed between the Company and Computershare as part of the terms and conditions of Computershare's appointment as administrator, none of the Company, the Selling Shareholder, the Principal Shareholder nor any of the Underwriters or any of their respective representatives will have any responsibility for any liability, costs or expenses incurred by Computershare.

16.3 ***Applications for Shares by Eligible Colleagues***

Three application amounts will apply under the Colleague Offer and Online Applications can only be made for one of these three amounts, namely £250, £500 and £750 (£750 being the "**Individual Priority Limit**"). Eligible Colleagues will not be able to apply for any other amounts.

There is an overall limit on the total number of Shares available for allocation to Colleagues. This limit is 5% of the total Offer Size (the "**Colleague Offer Maximum Limit**"). If Eligible Colleagues submit valid applications for Shares (up to Individual Pricing Limit) in aggregate in excess of the Colleague Offer

Maximum Limit, the Individual Priority Limit will be reduced at the time of allocation in order that the number of Shares allocated to Eligible Colleagues at or below the Individual Pricing Limit will be equal to the Colleague Offer Maximum Limit. All valid applications submitted by Eligible Colleagues are subject to the terms and conditions of the Colleague Offer set out on the Colleague Offer Website more generally.

16.4 ***Effect of Online Application by Eligible Colleagues***

By completing an Online Application, Eligible Colleagues will be deemed to have irrevocably agreed to invest or procure the investment in Shares of the aggregate amount stated in their Online Application. The Company reserves the right to reject, in whole or in part, any application for Shares in the Colleague Offer.

16.5 ***Commission and Fees***

No fees, charges or commissions are payable by Eligible Colleagues to participate in the Colleague Offer.

17. WITHDRAWALS

In the event that the Company is required to publish a supplementary prospectus, applicants who have applied to subscribe for or purchase Shares in the Offer will have at least two clear Business Days following the publication of the supplementary prospectus within which to withdraw their offer to acquire Shares in the Offer.

In addition, in the event that (i) the Offer Price is set above the Price Range or the Price Range is revised higher; and/or (ii) the number of Shares to be issued or sold is set above or below the Offer Size Range, then applicants who have applied to subscribe for or purchase Shares in the Offer would have a statutory right to withdraw their offer to subscribe for or purchase Shares in the Offer in its entirety pursuant to section 87Q of FSMA before the end of a period of two Business Days commencing on the first Business Day after the date on which an announcement of this is published via a Regulatory Information Service announcement (or such later date as may be specified in that announcement). In these circumstances, the Pricing Statement would not be published until the period for exercising such statutory withdrawal rights has ended. Therefore the expected date of publication of the Pricing Statement would be extended.

If the application is not withdrawn within the stipulated period, any offer to apply for Shares in the Offer will remain valid and binding. Institutional investors and Intermediaries wishing to exercise a statutory right to withdraw their offer to subscribe for or purchase Shares in the Offer must do so by lodging a written notice of withdrawal by hand (during normal business hours only) at the offices of the Receiving Agent, Computershare, at Computershare Investor Services Plc. The Pavilions, Bridgwater Road, Bristol BS13 8AE or by facsimile (during normal business hours only) on 0870 703 6112 so as to be received no later than two Business Days after the date on which the supplementary prospectus is published or the date on which an announcement is made (as described above). Notice of withdrawal given by any other means or which is deposited with or received after the expiry of such period will not constitute a valid withdrawal. Applicants who have applied for Shares via the Intermediaries Offer who wish to withdraw an application following publication of a supplementary prospectus or an announcement is made (as described above) should contact the Intermediary through whom they applied for details of how to withdraw an application.

18. FTSE ELIGIBILITY

Subject to satisfying the appropriate criteria, including the sale of sufficient Existing Shares to satisfy the FTSE free float requirement, the Company may be eligible following completion of the Offer for inclusion in the FTSE UK Index Series at the quarterly review in June 2014.

PART XVIII

ADDITIONAL INFORMATION

1. RESPONSIBILITY

The Company and the Directors, whose names appear in Part VIII (*Directors, Senior Management and Corporate Governance*) of this Prospectus, accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company and the Directors (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission that is likely to affect its import.

KPMG, whose registered address is at St James' Square, Manchester, M2 6DS, accepts responsibility for its Accountant's Reports set out in this Prospectus. To the best of the knowledge of KPMG (having taken all reasonable care to ensure that such is the case) the information contained in such Accountant's Report is in accordance with the facts and contains no omissions likely to affect its import.

2. CORPORATE HISTORY

The Company was incorporated and registered in England and Wales on 10 February 2014 under the Companies Act as a public limited company with registration number 8885072 and with the name Pets at Home Group Plc. On 17 February 2014, the Company was issued with a trading certificate under section 761 of the Companies Act entitling it to commence business.

The liability of the members of the Company is limited.

The Company is domiciled in the United Kingdom and its registered office is at Epsom Avenue, Stanley Green Trading Estate, Handforth, Cheshire SK9 3RN. The telephone number of the Company's registered office is +44 161 486 6688.

The principal legislation under which the Company operates, and pursuant to which the share capital of the Company has been created, is the Companies Act and regulations made thereunder. The Shares are denominated in pounds sterling.

3. SHARE CAPITAL

3.1 The share capital history of the Company is as follows:

(a) on incorporation, one ordinary share of £1.00 was allotted and issued, fully paid, as a subscriber share to 470 Limited and subsequently transferred to KKR My Best Friend Limited;

(b) on 14 February 2014, one redeemable preference share of £50,000 was allotted and issued to KKR My Best Friend Limited;

(c) by resolutions passed at a general meeting of the sole member of the Company on 27 February 2014 it was resolved that:

(i) the one ordinary share of £1.00 be sub-divided into 100 ordinary shares of £0.01 each; and

(ii) the Directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act to allot shares or grant rights to subscribe for or to convert any security into shares:

(A) up to an aggregate nominal amount of £4,999,999;

(B) following Admission, up to an aggregate nominal amount of £1,666,666, equal to one third of the Company's share capital on Admission; and

(C) following Admission, up to an aggregate nominal amount of £3,333,333 (such amount to be reduced by the extent the authority granted by paragraph 3.1(c)(ii)(B) is utilised) in connection with an offer by way of a rights issue to ordinary shareholders in proportion to their existing shareholdings (and holders of any equity securities entitled to participate or as the directors otherwise consider necessary),

such authorities to expire (unless previously revoked, varied or renewed) in the case of the authority in paragraph 3.1(c)(ii)(A), on Admission and in the case of the authorities described in paragraphs 3.1(c)(ii)(B) and (C) on the earlier of the conclusion of the first annual general meeting of the Company and the close of business on 27 September 2014 (save that the Company may before the expiry of such periods make offers or agreements which would or might require shares to be allotted or rights to be granted, after expiry of these authorities, and the Directors may allot shares or grant rights in pursuance of any such offer or agreement to subscribe for or convert any security into shares notwithstanding the authority conferred has expired).

(iii) the Directors be generally empowered to allot equity securities (within the meaning of section 560 of the Companies Act), as if section 561 of the Companies Act did not apply to any such allotment:

(A) pursuant to the authority granted as described in paragraph 3.1(c)(ii)(A);

(B) pursuant to the authorities granted as described in paragraphs 3.1(c)(ii)(B) and (C) above in connection with a pre-emptive offer; and

(C) up to an aggregate nominal amount of £250,000, equal to 5% of the Company's share capital on Admission,

provided always that such powers expire (unless previously revoked, varied or renewed), in the case of the authorities in paragraph 3.1(c)(iii)(A) on Admission and in the case of the authorities in 3.1(c)(iii)(B) and (C) on the earlier of the conclusion of the first annual general meeting of the Company and the close of business on 27 September 2014 (save that the Company may before the expiry of such periods make offers or agreements which would or might require equity securities to be allotted or rights to be granted after expiry of these authorities and the Directors may allot equity securities or grant rights in pursuance of any such offer or agreement to subscribe for or convert any security into a share notwithstanding the authorities conferred have expired). For the purposes of this paragraph 3.1(c)(iii), a "pre-emptive offer" means an offer of equity securities to ordinary shareholders in proportion to their existing holdings but subject to such exclusions or other arrangements as the Directors may deem necessary or appropriate in relation to treasury shares, fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of, any territory;

(iv) conditional upon Admission, the Company be authorised to make market purchases of ordinary shares pursuant to section 701 of the Companies Act, subject to the following conditions:

(A) the maximum number of ordinary shares authorised to be purchased is 50,000,000, equal to 10% of the Company's share capital on Admission;

(B) the minimum price which may be paid for an ordinary share is the nominal value of an ordinary share at the time of such purchase;

(C) the maximum price which may be paid for an ordinary share shall be the higher of: (i) an amount equal to 105% of the average of the middle market quotations of an ordinary share as derived from the London Stock Exchange Daily Official List for the five Business Days immediately preceding the day on which an ordinary share is contracted to be purchased; and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share on the trading venues where the trade is carried out, in each case exclusive of expenses;

(D) the authority shall expire on the earlier of the conclusion of the first annual general meeting of the Company and the close of business on 27 September 2014; and

(E) a contract to purchase Shares under this authority may be made prior to the expiry of this authority, and concluded in whole or in part after expiry of this authority; and

(v) a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice;

(vi) conditional upon Admission and approval of the High Court of Justice of England and Wales (the "**Court**"), the entire amount standing to the credit of the share premium account and capital redemption reserve of the Company as at 5.00 p.m. (London time) on the day immediately preceding the day on which the Court makes an order confirming the reduction of capital described in Section 4.5 (*Proposed Reduction of Capital*) of this Part XVIII (*Additional Information*) be cancelled;

(vii) conditional upon Admission, the Articles be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association;

(viii) the Company be authorised to make donations to political parties and/or independent election candidates, donations to political organisations; and to incur other political expenditure, not exceeding in each case £100,000 in total; and

(ix) the Reorganisation Agreement and the matters set out therein, including the transactions with the Directors be approved.

3.2 Notwithstanding the resolution approving donations to political parties and political organisations referred to in Section 3.1(c)(viii) above it is not the Company's policy to donate to political parties or other political

organisations. However, the Company may from time to time make donations to animal welfare organisations, societies and charities. Accordingly, the Directors believe it prudent to have obtained the approval of the Company's sole Shareholder in respect of political donations and/or expenditure in order to ensure there are no inadvertant breach of the company law restrictions on donations to political organisations.

3.3 Save as disclosed above, or as set out in Part XIII (*Historical Financial Information*), Section 4 (*Group Structure and IPO Reorganisation*), Section 7 (*Colleague Share Schemes and Colleague Trusts*) and Section 11 (*Material Contracts*) of this Part XVIII (*Additional Information*):

(a) no share or loan capital of the Company has, within three years of the date of this Prospectus, been issued or agreed to be issued, or is now proposed to be issued (other than pursuant to the Offer), fully or partly paid, either for cash or for a consideration other than cash, to any person;

(b) there has been no change in the amount of the issued share or loan capital of the Company and no material change in the amount of the issued share or loan capital of any other member of the Group (other than intra-group issues by wholly owned subsidiaries) within three years of the date of this Prospectus;

(c) no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital of any such company; and

(d) no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

The Company will be subject to the continuing obligations of the UK Listing Authority with regard to the issue of Shares for cash. The provisions of section 561(1) of the Companies Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees' share scheme as defined in section 1166 of the Companies Act) apply to the unissued share capital of the Company (in respect of which the Directors have authority to make allotments pursuant to section 551 of the Companies Act as referred to in paragraph 3.1(c)(ii) above), except to the extent such provisions have been disapplied as referred to in paragraph 3.1(c)(iii) above.

The Board considers the authorities and powers set out above to be appropriate in order to allow the Group flexibility to finance business opportunities or to conduct a pre-emptive offer or rights issue without the need to comply with the strict requirements of the statutory pre-emption provisions. The Board intends to adhere to the provisions in the Pre-emption Group's Statement of Principles not to allot shares for cash on a non pre-emptive basis (other than pursuant to a rights issue or pre-emptive offer) in excess of an amount equal to 5% of the total issued ordinary share capital of the Company for the duration of this authority, and 7.5% of the total issued ordinary share capital of the Company within a rolling three-year period without prior consultation with shareholders.

The Directors consider it desirable to have the maximum flexibility permitted by corporate governance guidelines to respond to market developments and to enable allotments to take place to finance business opportunities as they arise. The Directors, however, fully intend to comply with the guidelines on "Directors' Powers to Allot Share Capital and Disapply Shareholders' Pre-Emption Rights" as published by the Association of British Insurers. As at the date of this Prospectus, the Company does not hold any shares in treasury. There are no present plans to undertake a rights issue or to allot new shares other than in connection with employee share and incentive plans.

The issued and fully paid share capital of the Company, as at the date of this Prospectus is, and immediately following Admission will be, as follows:

Class of shares	**Outstanding as at the date hereof**		**Outstanding following Admission**	
	Number	*Amount*	*Number*	*Amount*
Ordinary shares	1	£ 1.00	500,000,000	£5,000,000
Redeemable Preference Share[(1)]	1	£50,000	0	0

Notes:

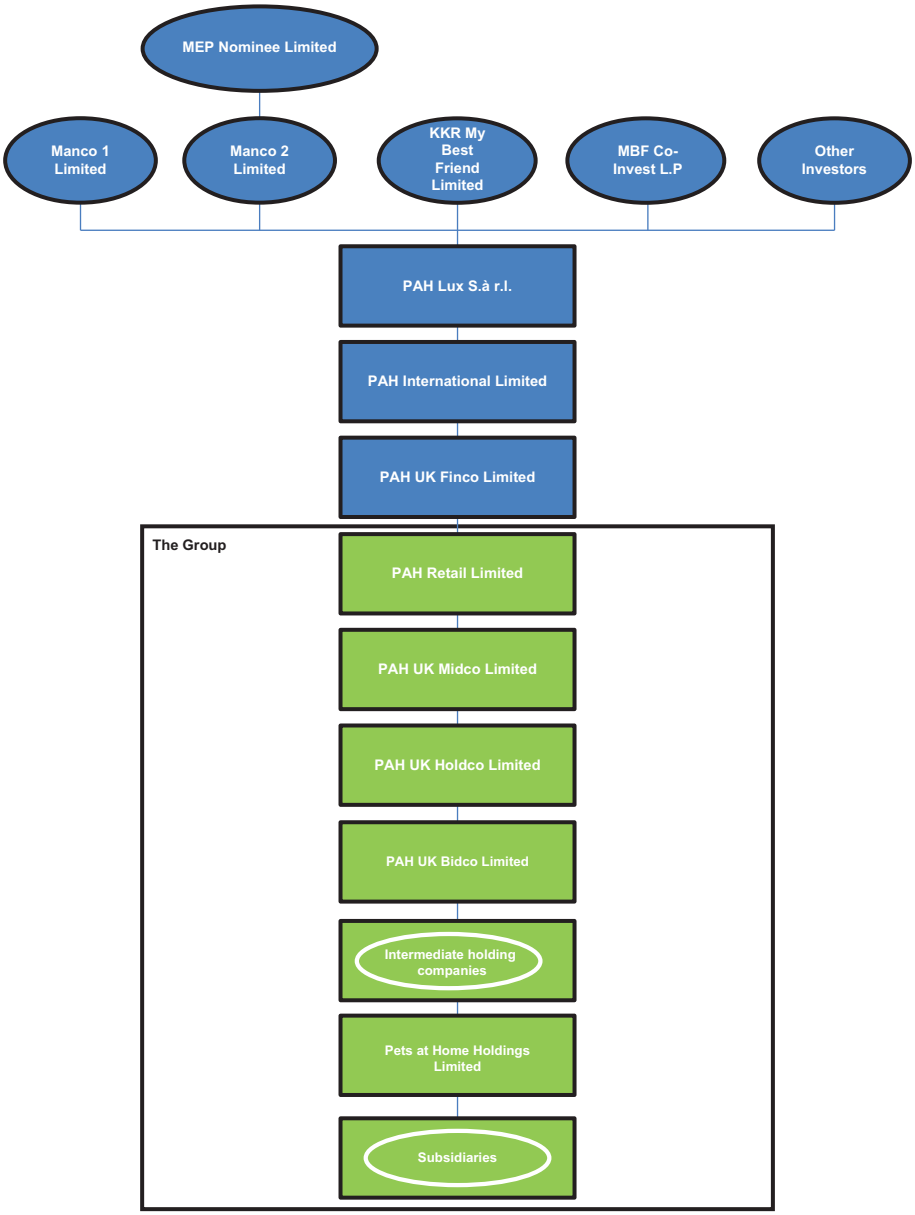
(1) The Redeemable Preference Share will be redeemed shortly following Admission out of the proceeds of the issue of New Shares.

The Company has no convertible securities, exchangeable securities or securities with warrants in issue.

4. GROUP STRUCTURE AND IPO REORGANISATION

4.1 The diagram below sets out the simplified Group structure as at the date of this Prospectus. KKR My Best Friend Limited indirectly controls PAH Retail Limited via investments in the Transferring Companies. The

Executive Directors, the Chairman, the Senior Executives and approximately 450 Colleagues and former Colleagues directly and indirectly own interests in either Manco 1 Limited and Manco 2 Limited, two management companies established for the purpose of facilitating Colleague ownership in the Group, each of which in turn indirectly owns interests in PAH Retail Limited via investments in the Transferring Companies. Other investors in the Group include the Co-Investors. Each of the Existing Shareholders owns a mixture of Luxco Shares in, and/or PECs issued by, PAH Lux S.à r.l., and/or Manco Shares in Manco 1 Limited and/or Manco 2 Limited and/or Midco Loan Notes issued by PAH UK Midco Limited. It is not possible to translate these interests into Shares or a value until the Pricing Statement is published and a calculation has been carried out by reference to the Offer Price in accordance with the terms of the existing shareholder arrangements applying to the Group.



4.2 In connection with the Pre-IPO Reorganisation (as defined below), on 11 February 2014, the Company incorporated and registered Pets at Home No. 1 Limited in England and Wales under the Companies Act as a private limited company limited by shares with registration number 08887355. On 28 February 2014, the Company, Pets at Home No. 1 Limited and a number of Group companies entered into a reorganisation agreement with existing direct and indirect shareholders of the Group (the "**Reorganisation Agreement**") in which it was agreed that the following reorganisation steps be carried out in the order set out below, each step being effective on and conditional upon Admission occurring:

(a) each of the shareholders of Manco 1 Limited and Manco 2 Limited transfer their Manco Shares to the Company in exchange for the allotment and issue by the Company of a number of Shares to be determined following the publication of the Pricing Statement;

(b) the shareholders and PEC holders of PAH Lux S.à r.l. transfer their Luxco Shares and a proportion of their PECs to the Company in exchange for the allotment and issue by the Company of a number of Shares to be determined following the publication of the Pricing Statement;

(c) the Company transfers the Luxco Shares and PECs it has acquired to Pets at Home No. 1 Limited in exchange for the allotment and issue by Pets at Home No. 1 Limited of Pets at Home No. 1 Limited shares;

(d) Pets at Home No. 1 Limited purchases all remaining PECs from PEC holders in exchange for the issue of loan notes (the "**New Loan Notes**");

(e) PAH UK Midco Limited capitalises a proportion of the Midco Loan Notes so that its loan note holders receive new shares in PAH UK Midco Limited ("**New Midco Shares**");

(f) holders of New Midco Shares transfer their New Midco Shares to the Company in exchange for the allotment and issue by the Company of a number of Shares to be determined following the publication of the Pricing Statement;

(g) the receivable comprising all outstanding amounts owing by PAH UK Finco Limited to PAH Lux S.à r.l. pursuant to the terms of the quoted eurobonds (the "**QEB**") is transferred by PAH Lux S.à r.l. to PAH International Limited in exchange for the allotment and issue of a number of new shares in PAH International Limited;

(h) the receivable comprising the QEB is capitalised by PAH UK Finco Limited so that PAH International Limited receives new shares in PAH UK Finco Limited;

(i) PAH UK Finco Limited transfers the entire issued share capital of PAH Retail Limited to Pets at Home No. 1 Limited, the consideration for which is left outstanding as an intercompany balance (the "**Interco Proceeds Balance**");

(j) the Company transfers its New Midco Shares to Pets at Home No. 1 Limited in exchange for the allotment and issue of new shares in Pets at Home No. 1 Limited;

(k) Pets at Home No. 1 Limited transfers its New Midco Shares to PAH Retail Limited in exchange for the allotment and issue of new shares in PAH Retail Limited,

each of the foregoing steps comprising and being the "**Pre-IPO Reorganisation**". On and with effect from Admission, all pre-Admission shareholder agreements and arrangements shall be automatically terminated.

4.3 Shortly following Admission, each of the following steps shall be carried out in the order set out below in accordance with the terms of the Reorganisation Agreement:

(a) the Company shall use a portion of the proceeds raised from the Offer of New Shares to subscribe in cash for new Pets at Home No. 1 Limited shares. Pets at Home No. 1 Limited will use the subscription monies to redeem and repay all outstanding New Loan Notes;

(b) the Company shall use a portion of the proceeds raised from the Offer of New Shares to advance an interest free loan to PAH UK Midco Limited to be used by PAH UK Midco Limited to redeem and repay all outstanding Midco Loan Notes;

(c) the Company shall use a portion of the proceeds raised from the Offer of New Shares to redeem the Redeemable Preference Share;

(d) PAH UK Finco Limited will be placed into a members' voluntary liquidation pursuant to section 84 of the Insolvency Act 1986 and the Company will give PAH UK Finco Limited and/or the liquidator of PAH UK Finco Limited an indemnity in a customary form including in respect of any liquidation distributions. It is anticipated that a liquidation distribution of the Interco Proceeds Balance will be made to PAH International Limited shortly after PAH UK Finco Limited is placed into a members' voluntary liquidation;

(e) subject to the receipt of the Interco Proceeds Balance, PAH International Limited will repurchase its entire issued share capital (save for one share) from PAH Lux S.à r.l. in exchange for the transfer to PAH Lux S.à r.l. of the Interco Proceeds Balance;

(f) the PECs held by Pets at Home No. 1 Limited will be capitalised so that Pets at Home No. 1 Limited receives new shares in PAH Lux S.à r.l;

(g) PAH Lux S.à r.l. will be placed into a members' voluntary (or equivalent) liquidation and the Company will give PAH Lux S.à r.l. and/or the liquidator of PAH Lux S.à r.l. an indemnity in a customary form including in respect of any liquidation distributions. It is anticipated that liquidation distributions of the

Interco Proceeds Balance will be made pro rata to each of Pets at Home No. 1 Limited, Manco 1 Limited and Manco 2 Limited shortly after PAH Lux S.à r.l. is placed into liquidation;

(h) the Transferring Companies will be transferred out of the Group. This shall be effected by each of Pets at Home No. 1 Limited, Manco 1 Limited and Manco 2 Limited transferring their respective shares in PAH Lux S.à r.l. to KKR My Best Friend Limited for a nominal consideration;

(i) the deferred share in Manco 1 Limited held by KKR My Best Friend Limited will be transferred to the Company for a nominal consideration, following which Manco 1 Limited will be placed into a members voluntary liquidation pursuant to section 84 of the Insolvency Act 1986 and the Company will give Manco 1 Limited and/or the liquidator of Manco 1 Limited an indemnity in a customary form including in respect of any liquidation distributions. It is anticipated that a liquidation distribution of its pro rata entitlement of the Interco Proceeds Balance will be made to the Company shortly after Manco 1 Limited is placed into a members' voluntary liquidation;

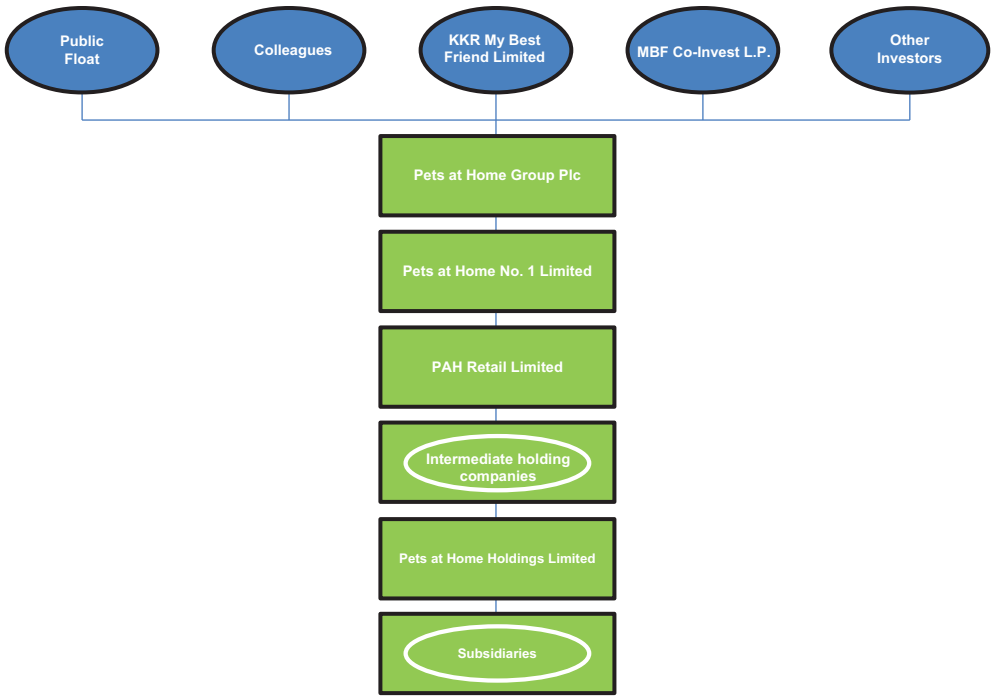
(j) the deferred share in Manco 2 Limited held by KKR My Best Friend Limited will be transferred to the Company for a nominal consideration, following which Manco 2 Limited will be placed into a members voluntary liquidation pursuant to section 84 of the Insolvency Act 1986 and the Company will give Manco 2 Limited and/or the liquidator of Manco 2 Limited an indemnity in a customary form including in respect of any liquidation distributions. It is anticipated that a liquidation distribution of its pro rata entitlement of the Interco Proceeds Balance will be made to the Company shortly after Manco 2 Limited is placed into a members' voluntary liquidation; and

(k) Pets at Home No. 1 Limited shall capitalise the Interco Proceeds Balance so that the Company receives new shares in Pets at Home No. 1 Limited,

each of the foregoing steps comprising and being the "**Post-IPO Reorganisation**". The Post-IPO Reorganisation will be carried out as soon as reasonably practicable following Admission but prior to 27 March 2014.

Following the Post-IPO Reorganisation, it is anticipated that certain intermediate holding companies will be liquidated. For further details, see Section 16 (*Subsidiaries*) of this Part XVIII (*Additional Information*).

4.4 The diagram below sets out the simplified Group structure following completion of the Post-IPO Reorganisation.



4.5 Proposed Reduction of Capital

The Company has not traded since incorporation and lacks distributable reserves. This could restrict the Company's ability to pay future dividends. Therefore, the Company intends to undertake a court-approved capital reduction following Admission in accordance with the Companies Act and the Companies (Reduction of Share Capital) Order 2008 in order to provide it with the distributable reserves required to

support the dividend policy described in Section 11 (*Dividend Policy*) of Part VII (Information on the Business). The proposed capital reduction will reduce all amounts standing to the credit of the Company's share premium account following Admission. The capital reduction has been approved (conditional on Admission) by a special resolution passed at the general meeting of the Company on 27 February 2014 and will require court approval after Admission.

5. ARTICLES OF ASSOCIATION

The Company's objects are not restricted by its Articles. Accordingly, pursuant to section 31 of the Companies Act, the Company's objects are unrestricted. The Articles (which have been adopted by the Company conditional upon and with effect from Admission) include provisions to the following effect:

5.1 Shares

Respective rights of different classes of shares

Without prejudice to any rights attached to any existing shares, the Company may issue shares with such rights or restrictions as determined by either the Company by ordinary resolution or, if the Company passes a resolution to so authorise them, the directors. The Company may also issue shares which are, or are liable to be, redeemed at the option of the Company or the holder.

Variation of rights

(a) Whenever the share capital of the Company is divided into different classes of shares, the special rights attached to any class may be varied or abrogated either with the written consent of the holders of three-quarters in nominal value of the issued shares of the class (excluding shares held as treasury shares) or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of the class and may be so varied or abrogated either while the Company is a going concern or during or in contemplation of a winding-up.

(b) The rights attached to a class of shares are not, unless otherwise expressly provided for in the rights attaching to those shares, deemed to be varied by the creation, allotment or issue of further shares ranking in priority to, *pari passu* with or subsequent to them or by the purchase or redemption by the Company of its own shares.

Transfer of shares

(a) Transfers of certificated shares must be effected in writing, and signed by or on behalf of the transferor and, if any of the shares are not fully paid shares, by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the register of members in respect of those shares. Transfers of uncertificated shares shall be effected by means of a relevant system (i.e. CREST) unless the Uncertificated Securities Regulations 2001 provide otherwise.

(b) The directors may decline to register any transfer of a certificated share unless: (i) the instrument of transfer is in respect of only one class of share; (ii) the instrument of transfer is lodged at the place where the register of members is situated, and accompanied by the relevant share certificate(s) or other evidence reasonably required by the directors to show the transferor's right to make the transfer or, if the instrument of transfer is executed by some other person on the transferor's behalf, the authority of that person to do so; (iii) the certificated share is fully paid; (iv) it is for a share upon which the Company has no lien; and (v) it is duly stamped or duly certificated or otherwise shown to the satisfaction of the directors to be exempt from stamp duty (if so required).

(c) The directors may also refuse to register an allotment or transfer of shares in favour of more than four persons jointly.

(d) When a transfer of shares has been lodged with the Company, the Company must either register the transfer, or give the transferee notice of refusal to register the transfer, together with its reasons for the refusal (as soon as practicable and in any event within two months after the date on which the transfer is lodged with it).

Restrictions where notice not complied with

If any member, or any person appearing to be interested in shares (within the meaning of Part 22 of the Companies Act) held by such member, has been duly served with a notice under section 793 of the

Companies Act (which confers upon public companies the power to require information as to interests in its voting shares) and is in default for a period of 14 days in supplying to the Company the information required by that notice then (unless the directors otherwise determine):

(a) the holder of those shares shall not (for so long as the default continues) be entitled to attend or vote (in person or by proxy) at any general meeting, unless the directors otherwise determine; and

(b) the directors may in their absolute discretion, where those shares represent 0.25% or more of the issued shares of the class in question, by notice to the holder, direct that:

  (i) any dividend or part of a dividend (including shares issued in lieu of a dividend) or other money which would otherwise be payable on the shares will be retained by the Company without any liability for interest; and/or

  (ii) (with various exceptions set out in the Articles) transfers of the shares will not be registered.

Forfeiture and lien

(a) If a member fails to pay in full any sum which is due in respect of a share on or before the due date for payment, then, following notice by the directors requiring payment of the unpaid amount with any accrued interest and any expenses incurred, such share may be forfeited by a resolution of the directors to that effect (including all dividends declared in respect of the forfeited share and not actually paid before the forfeiture).

(b) A share forfeited or surrendered shall become the property of the Company and may be sold, re-allotted or otherwise disposed of to any person (including the person who was, before such forfeiture or surrender, the holder of that share or entitled to it) on such terms and in such manner as the directors think fit.

(c) A member whose shares have been forfeited will cease to be a member in respect of the shares, but will remain liable to pay the Company all monies which at the date of forfeiture were payable, together with interest. The directors may in their absolute discretion enforce payment without any allowance for the value of the shares at the time of forfeiture or for any consideration received on their disposal, or waive payment in whole or part.

(d) The Company shall have a lien on every share that is not fully paid for all monies called or payable at a fixed time in respect of such share. The Company's lien over a share takes priority over the rights of any third party and extends to any dividends or other sums payable by the Company in respect of that share. The directors may waive any lien which has arisen and may resolve that any share shall for some limited period be exempt from such a lien, either wholly or partially.

(e) The Company may deliver an enforcement notice in respect of any share if a sum in respect of which a lien exists is due and has not been paid. The Company may sell any share in respect of which an enforcement notice, delivered in accordance with the Articles, has been given if such notice has not been complied with. The net proceeds of sale (after payment of the costs of the sale and of enforcing the lien) shall first be applied towards payment of the amount in respect of which the lien exists to the extent that amount was due on the date of the enforcement notice and then, on surrender of the share certificate for cancellation, to the person entitled to the shares immediately prior to the sale.

5.2 ***General meetings***

Annual general meeting

Annual general meetings will be held in accordance with the Companies Act.

Convening of general meetings

The directors may, whenever they think fit, call a general meeting. The directors are required to call a general meeting once the Company has received requests from its members to do so in accordance with the Companies Act.

Notice of general meetings, etc.

(a) An annual general meeting shall be convened by not less than 21 clear days' notice. All other general meetings shall be called by not less than 14 clear days' notice. As the Company is a traded company (as defined in the Companies Act), the provisions of section 307A of the Companies Act must be complied with if the meeting is to be called by less than 21 clear days' notice, unless the meeting is of holders of a class of shares.

(b) Notices of general meetings shall include all information required to be included by the Companies Act and shall be given to all members other than members who are not entitled to receive such notices from the Company under the provisions of the Articles. The Company may determine that only those persons entered on the register of members at the close of business on a day decided by the Company, such day being no more than 21 days before the day that notice of the meeting is sent, shall be entitled to receive such a notice.

(b) For the purposes of determining which persons are entitled to attend or vote at a meeting, and how many votes such persons may cast, the Company must specify in the notice of the meeting a time, not more than 48 hours (excluding any part of a day that is not a working day) before the time fixed for the meeting, by which a person must be entered on the register in order to have the right to attend or vote at the meeting.

Quorum and voting

(a) No business other than the appointment of a chairman shall be transacted at any general meeting unless a quorum is present at the time when the meeting proceeds to business. Five members present in person or by proxy shall be a quorum.

(b) At any general meeting any resolution put to the vote shall be decided on a show of hands unless the directors have decided in advance that it will be decided as a poll or a poll is (before the resolution is put to the vote on a show of hands, or on the declaration of the result of the show of hands) demanded by:

(i) the chairman of the meeting;

(ii) not less than five members present in person or by proxy and entitled to vote;

(iii) a member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

(c) At a general meeting, subject to any special rights or restrictions attached to any shares or class of shares:

(i) on a show of hands, every member present in person and every duly appointed proxy present shall have one vote;

(ii) on a show of hands, a proxy has one vote for and one vote against the resolution if the proxy has been duly appointed by more than one member entitled to vote on the resolution and the proxy has been instructed:

(A) by one or more of those members to vote for the resolution and by one or more other of those members to vote against it; or

(B) by one or more of those members to vote either for or against the resolution and by one or more other of those members to use his discretion as to how to vote; and

(iii) on a poll, every member present in person or by proxy has one vote for every share of which such member is the holder.

(d) A proxy shall not be entitled to vote on a show of hands or on a poll where the member appointing the proxy would not have been entitled to vote on the resolution had he been present in person.

(e) Unless the directors resolve otherwise, no member shall be entitled in respect of any share held by such member to vote either personally or by proxy or to exercise any other right in relation to general meetings if any call or other sum due from such member to the Company in respect of that share remains unpaid.

Conditions of admission

(a) The directors may put in place such arrangements or restrictions as they think fit to ensure the safety and security of attendees at a general meeting and the orderly conduct of the meeting, including requiring attendees to submit to searches. Any member, proxy or other person who fails to comply with such arrangements or restrictions may be refused entry into, or removed from, the general meeting.

(c) The directors may decide that a general meeting shall be held at two or more locations to facilitate the organisation and administration of such meeting. A member present in person or by proxy at the designated "satellite" meeting place may be counted in the quorum and may exercise all rights that they would have been able to exercise if they had been present at the principal meeting place. The directors may make and change from time to time such arrangements as they shall in their absolute discretion consider appropriate to:

(i) ensure that all members and proxies for members wishing to attend the meeting can do so;

(ii) ensure that all persons attending the meeting are able to participate in the business of the meeting and to see and hear anyone else addressing the meeting;

(iii) ensure the safety of persons attending the meeting and the orderly conduct of the meeting; and

(iv) restrict the numbers of members and proxies at any one location to such number as can safely and conveniently be accommodated there.

5.3 ***Directors***

General powers

The directors shall manage the business and affairs of the Company and may exercise all powers of the Company other than those that are required by the Companies Act or by the Articles to be exercised by the Company in the general meeting.

Borrowing powers

The directors may exercise all powers of the Company to borrow money, to guarantee, indemnify, mortgage or charge its undertaking, property, assets (present and future) and called capital and to issue debentures and other securities whether outright or as collateral security for any debt, liability or other obligation of the Company or any third party. The directors must restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings so as to secure that the aggregate of the amounts borrowed by the group (excluding any undertaking in which Pets at Home Vets Group Limited holds an interest) and remaining outstanding at any time (excluding intra-group borrowing) do not exceed an amount equal to two times the Adjusted Capital and Reserves (as defined in the Articles) of the group (excluding any undertaking in which Pets at Home Vets Group Limited holds an interest). However, the shareholders may pass an ordinary resolution allowing borrowings to exceed such limit.

Number of directors

The directors shall not be less than two nor more than 20 in number, save that the Company may, by ordinary resolution, from time to time vary the minimum number and/or maximum number of directors.

Share qualification

A director shall not be required to hold any shares of the Company by way of qualification. A director who is not a member of the Company shall nevertheless be entitled to attend and speak at general meetings.

Directors' fees

(a) Directors' fees are determined by the directors from time to time, except that they may not exceed £2,000,000 per annum in aggregate or such higher amount as may from time to time be determined by ordinary resolution of the shareholders.

(b) Any director who holds any executive office (including for this purpose the office of Chairman or Deputy Chairman whether or not such office is held in an executive capacity), or who serves on any committee of the directors, or who otherwise performs services which in the opinion of the directors are outside the scope of the ordinary duties of a director, may be paid extra remuneration by way of salary, commission or otherwise or may receive such other benefits as the directors may determine.

Executive directors

The directors may from time to time appoint one or more of their number to be the holder of any executive office and may confer upon any director holding an executive office any of the powers exercisable by them

as directors upon such terms and conditions, and with such restrictions, as they think fit. They may from time to time revoke, withdraw, alter or vary the terms of any such appointment and has all or any of such delegated powers.

Shareholder directors

The Principal Shareholder shall, for so long as it (together with its associates) holds 20% or more of the voting rights attaching to any shares which are generally exercisable at general meetings of the Company, be entitled to immediately appoint (and remove and, subject to such removal being effective, reappoint from time to time at its discretion) two non-executive directors from time to time, and, for so long as it (together with its associates) holds 10% or more but less than 20% of the voting rights attaching to any shares which are generally exercisable at general meetings of the Company, be entitled to immediately appoint (and remove and, subject to such removal being effective, reappoint from time to time at its discretion) one non-executive director from time to time, in each case by notice given by it to the company secretary or at a meeting of the directors.

Directors' retirement

(a) At each annual general meeting each director then in office shall retire from office with effect from the conclusion of the meeting.

(b) When a director retires at an annual general meeting in accordance with the Articles, the Company may, by ordinary resolution at the meeting, fill the office being vacated by re-electing the retiring director. In the absence of such a resolution, the retiring director shall nevertheless be deemed to have been re-elected, except in the cases identified by the Articles.

Removal of a director by resolution of Company

The Company may, by ordinary resolution of which special notice has been given, remove any director from office in accordance with the Companies Act, and elect another person in place of a director so removed from office. Such removal may take place notwithstanding any provision of the Articles or of any agreement between the Company and such director, but is without prejudice to any claim the director may have for damages for breach of any such agreement.

Proceedings of the Board

(a) Subject to the provisions of the Articles and subject as provided in the Relationship Agreement and as long as it is in effect, the directors may meet for the despatch of business and adjourn and otherwise regulate its proceedings as they think fit.

(b) The quorum necessary for the transaction of business of the Directors may be fixed from time to time by the directors and unless so fixed at any other number shall be three directors present in person. A Board meeting may be adjourned for a lack of quorum to a specified time and place not less than one day after the original date. The quorum necessary for such adjourned Board meeting may be fixed from time to time by the directors and unless so fixed at any other number shall be three.

(c) The directors may elect from their number a Chairman, a Deputy Chairman (or two or more Deputy Chairmen) and a Senior Independent Director and decide the period for which each is to hold office.

(d) Questions arising at any meeting of the directors shall be determined by a majority of votes. The chairman of the meeting shall not have a casting vote.

Directors' interests

(a) For the purposes of section 175 of the Companies Act, the directors shall have the power to authorise any matter which would or might otherwise constitute or give rise to a breach of the duty of a director to avoid a situation in which he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company.

(b) Any such authorisation will be effective only if:

  (i) the matter in question was proposed in writing for consideration at a meeting of the directors, in accordance with the directors' normal procedures or in such other manner as the directors may resolve;

  (ii) any requirement as to the quorum at the meeting at which the matter is considered is met without counting the director in question or any other interested director; and

(iii) the matter was agreed to without such interested directors voting or would have been agreed to if their votes had not been counted.

(c) The directors may extend any such authorisation to any actual or potential conflict of interest which may arise out of the matter so authorised and may (whether at the time of the giving of the authorisation or subsequently) make any such authorisation subject to such conditions or limitations as they may resolve. The directors may also terminate any such authorisation at any time.

Restrictions on voting

(a) Except as provided below, a director may not vote in respect of any contract, transactions, arrangement or any other proposal in which the director, or a person connected with the director, is interested. Any vote of a director in respect of a matter where the director is not entitled to vote shall be disregarded.

(b) Subject to the provisions of the Companies Act, a director is entitled to vote and be counted in the quorum in respect of any resolution concerning any contract, transaction or arrangement, or any other proposal (among other things):

(i) in which the director has an interest of which the director is not aware or which cannot reasonably be regarded as likely to give rise to a conflict of interest;

(ii) in which the director has an interest only by virtue of interests in the Company's shares, debentures or other securities or otherwise in or through the Company;

(iii) which involves the giving of any security, guarantee or indemnity to the director or any other person in respect of obligations incurred by him and guaranteed by the Company (or vice versa);

(iv) concerning an offer of securities by the Company or any of its subsidiary undertakings in which the director is or may be entitled to participate as a holder of securities or as an underwriter or sub-underwriter;

(v) concerning any other body corporate, provided that the director and any connected persons do not own or have a beneficial interest in 1% or more of any class of share capital of such body corporate, or of the voting rights available to the members of such body corporate;

(vi) relating to an arrangement for the benefit of employees or former employees which does not award the director any privilege or benefit not generally awarded to the employees or former employees to whom such arrangement relates;

(vii) concerning the purchase or maintenance of insurance for any liability for the benefit of director;

(viii) concerning the giving of indemnities in favour of the director;

(ix) concerning the funding of expenditure by any director or directors (i) on defending criminal, civil or regulatory proceedings or actions against the director or directors, (ii) in connection with an application to the court for relief, (iii) on defending the director or directors in any regulatory investigations or (iv) incurred doing anything to enable him to avoid incurring such expenditure; or

(x) in respect of which the director's interest has been authorised by ordinary resolution.

Confidential information

If a director, otherwise than by virtue of the director's position as director, receives information in respect of which he owes a duty of confidentiality to a person other than the Company, he shall not be required to disclose such information to the Company or otherwise use or apply such confidential information for the purpose of or in connection with the performance of his duties as a director, provided that such an actual or potential conflict of interest arises from a permitted or authorised interest under the Articles. This is without prejudice to any equitable principle or rule of law which may excuse or release the director from disclosing the information, in circumstances where disclosure may otherwise be required under the Articles.

Delegation of powers of the directors

(a) The directors may delegate any of their powers or discretions (including those involving the payment of remuneration or the conferring of any other benefit to the directors) to such person or committee and in such manner as they think fit. Any such person or committee shall, unless the directors otherwise resolve, have the power to sub-delegate any of the powers or discretions delegated to them. The directors may make regulations in relation to the proceedings of committees or sub-committees.

(b) The directors may establish any local boards or appoint managers or agents to manage any of the affairs of the Company, either in the United Kingdom or elsewhere, and may:

(i) appoint persons to be members or agents or managers of such local board and fix their remuneration;

(ii) delegate to any local board, manager or agent any of the powers, authorities and discretions vested in the directors, with the power to sub-delegate;

(iii) remove any person so appointed, and may annul or vary any such delegation; and

(iv) authorise the members of any local boards, or any of them, to fill any vacancies on such boards, and to act notwithstanding such vacancies.

(c) The directors may appoint any person or fluctuating body of persons to be the attorney of the Company with such purposes and with such powers, authorities and discretions and for such periods and subject to such conditions as they may think fit.

(d) Any director may at any time appoint any person (including another director) to be the director's alternate director and may at any time terminate such appointment.

Directors' liabilities

(a) So far as may be permitted by the Companies Act, every director (a "**Relevant Officer**") of the Company or of an Associated Company (as defined in section 256 of the Companies Act) of the Company may be indemnified by the Company out of its own funds against any liability incurred by the Relevant Officer in connection with any negligence, default, breach of duty or breach of trust by the Relevant Officer or any other liability incurred by the Relevant Officer in connection with the Relevant Officer's duties, powers or office.

The directors may also purchase and maintain insurance for or for the benefit of:

(i) any person who is or was a director or secretary of a Relevant Company (as defined in the Articles); or

(ii) any person who is or was at any time a trustee of any pension fund or employees' share scheme in which employees of any Relevant Company are interested, including insurance against any liability (including all related costs, charges, losses and expenses) incurred by or attaching to him in relation to his duties, powers or offices in relation to any Relevant Company, or any such pension fund or employees' share scheme.

(b) So far as may be permitted by the Companies Act, the Company may provide a Relevant Officer with defence costs in relation to any criminal or civil proceedings in connection with any negligence, default, breach of duty or breach of trust by the Relevant Officer in relation to the Company or an Associated Company of the Company, or in relation to an application for relief under section 205(5) of the Companies Act. The Company may do anything to enable such Relevant Officer to avoid incurring such expenditure.

5.4 ***Dividends***

(a) The Company may, by ordinary resolution, declare final dividends to be paid to its shareholders. However, no dividend shall be declared unless it has been recommended by the directors and does not exceed the amount recommended by the directors.

(b) If the directors believe that the profits of the Company justify such payment, they may pay the fixed dividends on any class of share where the dividend is payable on fixed dates. They may also pay interim dividends on shares of any class in amounts and on such dates and in respect of such periods as they think fit. Provided the directors act in good faith, they shall not incur any liability to the holders of any shares for any loss they may suffer by the payment of dividends on any other class of shares having rights ranking after or equal with those shares.

(c) Unless the share rights otherwise provide, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid, and apportioned and paid proportionately to the amounts paid on the shares during any portion or portions of the period in respect of which the dividend is paid.

(d) Any unclaimed dividends may be invested or otherwise applied for the benefit of the Company until they are claimed. Any dividend unclaimed for 12 years from the date on which it was declared or became due for payment shall be forfeited and may be kept by the Company.

(e) The directors may, if authorised by ordinary resolution, offer to ordinary shareholders the right to elect to receive, in lieu of a dividend, an allotment of new ordinary shares credited as fully paid.

5.5 *Failure to supply an address*

A shareholder who has no registered address within the United Kingdom and has not supplied to the Company an address within the United Kingdom for the service of notices will not be entitled to receive notices from the Company.

5.6 *Disclosure of shareholding ownership*

The Disclosure and Transparency Rules require a member to notify the Company if the voting rights held by such member (including by way of certain financial instruments) reach, exceed or fall below 3% and each 1% threshold thereafter up to 100%. Under the Disclosure and Transparency Rules, certain voting rights in the Company may be disregarded.

5.7 *Changes in capital*

The provisions of the Articles governing the conditions under which the Company may alter its share capital are no more stringent than the conditions imposed by the Companies Act.

6. DIRECTORS

6.1 *Other Directorships, Partnerships and Positions*

Save as set out below, no Director or Senior Executive has held any directorships of any company, other than in relation to companies in the Group, or been a partner in, or a member of, a partnership at any time in the five years prior to the date of this Prospectus.

Director	Current appointments	Former appointments
Tony DeNunzio	Alliance Boots Ltd Maxeda Retail Group BV DeNunzio Associates Ltd	Asda plc Howden Joinery Group Ltd (previously MFI/Galiform)
Dennis Millard	Debenhams plc Halfords Group plc Holy Cross Children's Trust Premier Farnell plc Smiths News plc	Xchanging plc Xchanging UK Limited
Nick Wood	NW PAH Investments LLP	American Golf Holdings Limited
Ian Kellett	—	—
Brian Carroll	Cognita Holdings Limited Cognita Topco Limited KKR 1996 Overseas, Limited KKR 2006 DI-I GP Limited KKR 2006 SLP GP Limited KKR 2009 Limited KKR Asia SLP GP Limited KKR Columba Limited KKR DI 2006 GP Limited KKR Europe III SLP GP Limited KKR Management LLC KKR MIF GP Limited KKR PI-II GP Limited KKR Sprint SLP Limited Kohlberg Kravis Roberts & Co. (International) Partners LLP Kohlberg Kravis Roberts & Co. Partners LLP Laureate Education International Northgate Information Solutions Limited Sealy Holding LLC SMCP SAS Wengen Investments Limited	Harman International Industries Hydrus Acquisition Limited KKR 2006 Limited KKR Asia Limited KKR Europe Limited KKR Europe II Limited KKR Europe III Limited KKR IFI Limited KKR I-H Limited KKR KFC Holdings Limited KKR Millenium Limited Rockwood Holdings Sealy Corporation

Director	Current appointments	Former appointments
Paul Coby	E-Skills UK Sector Skills Council Limited National Skills Academy For IT P & O Ferries Holdings Limited Randalls Cottages Ltd Societe Internationale De Telecommunications Aeronautiques	On Air NV
Tessa Green	Barts Health NHS Trust Board of Trustees of the Royal Botanic Gardens at Kew Board of Trustees of the Royal Foundation of the Duke and Duchess of Cambridge and Prince Harry BUPA Association Member Tangent Charitable Trust Tangent Estates Limited Tangent Group Limited Tangent Industries Limited The Diana, Princess of Wales Memorial Fund Trustee	Board of Trustees of the Institute of Cancer Research Board of Trustees of the National Portrait Gallery Board of Trustees of the Royal Marsden Cancer Campaign Board of Trustees of the Royal Marsden Hospital Charity Royal Marsden Cancer Campaign Trading Company Limited Royal Marsden NHS Foundation Trust
Amy Stirling	The Prince's Trust	Core Telecommunications Limited CPW Network Services Limited CPW Property Management Limited Executel Limited Fresh Telecom Limited Gis Telecom Limited Martin Dawes Switched Services Limited Mviva Limited Old Opal Telecom Limited Onetel Telecommunications Limited Opal Business Solutions Limited Opal Connect Limited Opal Telecommunications plc Pipex Communications Services Limited Pipex Internet Limited Pipex UK Limited Switch2 Telecoms Limited Talktalk Brands Limited Talktalk Business (2cch) Limited Talktalk Communications Limited Talktalk Corporate Limited Talktalk Direct Limited Talktalk Group Limited Talktalk RB Limited Talktalk Services Limited Talktalk Technology Limited Talktalk Telecom Group plc Talktalk Telecom Holdings Limited Talktalk Telecom Limited Talktalk UK Communication Services Limited Telco Global Limited Telco Holdings Limited The Carphone Warehouse Services Limited Tiscali Network Distribution Limited Tiscali UK Limited Toucan Residential Limited UK Telco (GB) Limited V Networks Limited Video Networks Limited
Sally Hopson	Institute for Employment Studies J. W. Lees – Brewery & Pubs	—
Peter Pritchard	—	Asda Stores Ltd Wilkinsons Asia
Phil Hackney	—	—

6.2 ***Directors' and Senior Executives' Confirmations***

During the last five years, no Director has:

(a) been convicted in relation to a fraudulent offence;

(b) been associated with any bankruptcy, receivership or liquidation while acting in the capacity of a member of the administrative, management or supervisory body or senior management of any company;

(c) been subject to any official public incrimination and/or sanction by statutory or regulatory authorities (including designated professional bodies);

(d) been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of any issuer or from acting in the management or conduct of the affairs of any issuer;

(e) been a partner in a partnership which, while he was a partner or within 12 months of his ceasing to be a partner, was put into compulsory liquidation or administration or which entered into any partnership or voluntary arrangement, or had a receiver appointed over any partnership asset;

(f) had a receiver appointed with respect to any assets belonging to him; or

(g) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or administration or which entered into any company voluntary arrangement or any composition or arrangement with its creditors generally or any class of creditors, at any time during which he was a director of that company or within 12 months after his ceasing to be a director.

6.3 *Directors' and Senior Executives' Interests*

It is estimated that the beneficial interests of the Directors and the Senior Executives in the share capital of the Company on Admission and the corresponding estimates of their beneficial interests immediately following Admission will be as set out in the tables below. An updated table will be published in the Pricing Statement.

(A) Bottom of the Price Range

Director/Senior Executive	Number of Shares on Admission [1] [2] [3] [4] [5] [6]	Percentage of issued Shares on Admission [1] [2] [3] [4] [5] [6]	Number of Shares to be sold pursuant tothe Offer [1] [3] [4] [5] [6]	Percentage of Shares to be sold pursuant tothe Offer [1] [3] [4] [5] [6]	Number of Shares immediately following Admission [1] [3] [4] [5] [7]	Percentage of issued Shares immediately following Admission [1] [3] [4] [5] [7]
Tony DeNunzio [8] [10]	3,038,192	0.6%	555,359	18.3%	2,482,833	0.5%
Dennis Millard [9]	19,048	0.0%	0	0.0%	19,048	0.0%
Nick Wood [10] [11]	5,641,241	1.1%	1,410,310	25.0%	4,230,931	0.8%
Ian Kellett [8] [10]	3,506,533	0.7%	215,431	6.1%	3,291,102	0.7%
Brian Carroll [12]	47,619	0.0%	0	0.0%	47,619	0.0%
Paul Coby [9]	4,762	0.0%	0	0.0%	4,762	0.0%
Tessa Green [9]	47,619	0.0%	0	0.0%	47,619	0.0%
Amy Stirling [9]	19,048	0.0%	0	0.0%	19,048	0.0%
Sally Hopson [8] [10]	3,305,243	0.7%	700,229	21.2%	2,605,014	0.5%
Peter Pritchard [10]	3,257,817	0.7%	814,454	25.0%	2,443,363	0.5%
Phil Hackney [10]	2,115,465	0.4%	528,866	25.0%	1,586,599	0.3%

Notes:

(1) Following completion of the Pre-IPO Reorganisation described in Section 4 (*Group Structure and IPO Reorganisation*) of Part XVIII (*Additional Information*).

(2) Prior to the completion of the Offer.

(3) Assuming the Offer Size is set at the mid-point of the Offer Size Range.

(4) Not including any Matching Awards under the CIP which are awarded on Admission. See the table below for details of Matching Awards under the CIP awarded to the Executive Directors and Senior Executives on Admission.

(5) Assuming that no Director or Senior Executive acquires any Shares pursuant to the Colleague Offer.

(6) MEP Nominee Limited will hold and/or sell such Shares on behalf of each relevant Director and Senior Executive.

(7) Computershare Company Nominees Limited will hold legal title to such Shares on behalf of each Director and/or Senior Executive unless otherwise directed.

(8) Each of Tony DeNunzio, Ian Kellett and Sally Hopson will receive a number of Shares on Admission (as set out above) and an amount of cash following completion of (i) the Pre-IPO Reorganisation and (ii) steps (a) and (b) of the Post-IPO Reorganisation steps described in Section 4.3 (*Group Structure and IPO Reorganisation*) of Part XVIII (*Additional Information*). Each of Tony DeNunzio, Ian Kellett and Sally Hopson have elected (x) to receive a cash amount (following (i) and (ii) above through repayment of Shareholder Debt held by them) in lieu of and equal in value at the Offer Price to a corresponding number of Shares which they would have otherwise been entitled to receive and sell in the Offer pursuant to the terms of the pre-Admission shareholder arrangements and in accordance with the steps comprising the Pre-IPO Reorganisation and (y) to sell the number of Existing Shares set out in the table above. The total proceeds receivable by each of Tony DeNunzio, Ian Kellett and Sally Hopson are equal to 25.0% of the value to which they would have otherwise been entitled to receive in the form of Shares. Accordingly, Tony DeNunzio will receive a cash amount of £571,727, Ian Kellett will receive a cash amount of £1,851,365 and Sally Hopson will receive a cash amount of £353,028 in addition to the gross proceeds receivable from the sale of Existing Shares. References to Ian Kellett in this paragraph and the table above also refer to IPS (2008) SIPP – IM Kellett, a SIPP established by Ian Kellett.

(9) Brian Carroll and Tessa Green have each agreed to subscribe in cash for a number of Shares equal in value to £100,000, Dennis Millard and Amy Stirling have each agreed to subscribe in cash for a number of Shares equal in value to £40,000 and Paul Coby has agreed to subscribe in cash for a number of Shares equal in value to £10,000. On Admission, the Company will allot and issue the Shares set out against their names above. These Shares will not form part of the Offer and will not be underwritten.

(10) Assuming that each Beneficial Shareholder elects to sell or otherwise receive (through the repayment of Shareholder Debt) its maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement.
(11) References to Shares held by Nick Wood in this table also include any Shares held by his spouse.
(12) Brian Carroll has been appointed as a Non-Executive Director of the Company by the Principal Shareholder in accordance with the terms of the Relationship Agreement.

(B) Top of the Price Range

Director/Senior Executive	Number of Shares on Admission [1] [2] [3] [4] [5] [6]	Percentage of issued Shares on Admission [1] [2] [3] [4] [5] [6]	Number of Shares to be sold pursuant to the Offer [1] [3] [4] [5] [6]	Percentage of Shares to be sold pursuant to the Offer [1] [3] [4] [5] [6]	Number of Shares immediately following Admission [1] [3] [4] [5] [7]	Percentage of issued Shares immediately following Admission [1] [3] [4] [5] [7]
Tony DeNunzio [8] [10]	4,064,500	0.8%	851,203	20.9%	3,213,297	0.6%
Dennis Millard [9]	15,385	0.0%	0	0.0%	15,385	0.0%
Nick Wood [10] [11]	7,469,584	1.5%	1,867,395	25.0%	5,602,189	1.1%
Ian Kellett [8] [10]	4,778,260	1.0%	660,516	13.8%	4,117,744	0.8%
Brian Carroll [12]	38,462	0.0%	0	0.0%	38,462	0.0%
Paul Coby [9]	3,846	0.0%	0	0.0%	3,846	0.0%
Tessa Green [9]	38,462	0.0%	0	0.0%	38,462	0.0%
Amy Stirling [9]	15,385	0.0%	0	0.0%	15,385	0.0%
Sally Hopson [8] [10]	4,402,272	0.9%	998,733	22.7%	3,403,539	0.7%
Peter Pritchard [10]	4,313,685	0.9%	1,078,421	25.0%	3,235,264	0.6%
Phil Hackney [10]	2,801,094	0.6%	700,273	25.0%	2,100,821	0.4%

Notes:

(1) Following completion of the Pre-IPO Reorganisation described in Section 4 (*Group Structure and IPO Reorganisation*) of Part XVIII (*Additional Information*).
(2) Prior to the completion of the Offer.
(3) Assuming the Offer Size is set at the mid-point of the Offer Size Range.
(4) Not including any Matching Awards under the CIP which are awarded on Admission. See the table below for details of Matching Awards under the CIP awarded to the Executive Directors and Senior Executives on Admission.
(5) Assuming that no Director or Senior Executive acquires any Shares pursuant to the Colleague Offer.
(6) MEP Nominee Limited will hold and/or sell such Shares on behalf of each relevant Director and Senior Executive.
(7) Computershare Company Nominees Limited will hold legal title to such Shares on behalf of each Director and/or Senior Executive unless otherwise directed.
(8) Each of Tony DeNunzio, Ian Kellett and Sally Hopson will receive a number of Shares on Admission (as set out above) and an amount of cash following completion of (i) the Pre-IPO Reorganisation and (ii) steps (a) and (b) of the Post-IPO Reorganisation steps described in Section 4.3 (*Group Structure and IPO Reorganisation*) of Part XVIII (*Additional Information*). Each of Tony DeNunzio, Ian Kellett and Sally Hopson have elected (x) to receive a cash amount (following (i) and (ii) above through repayment of Shareholder Debt held by them) in lieu of and equal in value at the Offer Price to a corresponding number of Shares which they would have otherwise been entitled to receive and sell in the Offer pursuant to the terms of the pre-Admission arrangements and in accordance with the steps comprising the Pre-IPO Reorganisation and (y) to sell the number of Existing Shares set out in the table above. The total proceeds receivable by each of Tony DeNunzio, Ian Kellett and Sally Hopson are equal to 25.0% of the value to which they would have otherwise been entitled to receive in the form of Shares. Accordingly, Tony DeNunzio will receive a cash amount of £571,727, Ian Kellett will receive a cash amount of £1,851,365 and Sally Hopson will receive a cash amount of £353,028 to the gross proceeds from the sale of Existing Shares. References to Ian Kellett in this paragraph and the table above also refer to IPS (2008) SIPP – IM Kellett, a SIPP established by Ian Kellett.
(9) Brian Carroll and Tessa Green have each agreed to subscribe in cash for a number of Shares equal in value to £100,000, Dennis Millard and Amy Stirling have each agreed to subscribe in cash for a number of Shares equal in value to £40,000 and Paul Coby has agreed to subscribe in cash for a number of Shares equal in value to £10,000. On Admission, the Company will allot and issue the Shares set out against their names above. These Shares will not form part of the Offer and will not be underwritten.
(10) Assuming that each Beneficial Shareholder elects to sell or otherwise receive (through the repayment of Shareholder Debt) its maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement.
(11) References to Shares held by Nick Wood in this table also include any Shares held by his spouse.
(12) Brian Carroll has been appointed as a Non-Executive Director of the Company by the Principal Shareholder in accordance with the terms of the Relationship Agreement.

Colleague Share Scheme Awards

The table below sets out the Matching Awards under the CIP which will be made to the Executive Directors and the Senior Executives conditional upon and with effect from Admission:

Executive Director/Senior Executive	Number of Shares over which Matching Awards have been made with effect from Admission [1]
Nick Wood	452,128
Ian Kellett	340,426
Sally Hopson	319,149
Peter Pritchard	372,340
Phil Hackney	255,319

Notes:

(1) Assuming the Offer Price is set at the mid-point of the Price Range.

Save as disclosed in this Section 6.3, none of the Directors nor any Senior Executives have any interest in the share capital of the Company.

Save as set out below, there are no actual or potential conflicts of interest between any duties to the Company of the Directors and members of the Senior Executive Board and their private interests and/or other duties:

(a) Tony DeNunzio is a senior adviser to affiliates of the Principal Shareholder; and

(b) Brian Carroll is a member of Kohlberg Kravis Roberts & Co. Partners LLP and Kohlberg Kravis Roberts & Co. (International) Partners LLP as well as a number of other affiliated entities, details of which are set out in the table in Section 6.1 (*Other Directorships, Partnerships and Positions*) of this Part XVIII (*Additional Information*).

Although the foregoing positions set out in (a) and (b) above are considered by the Board to represent potential conflicts of interest, as at the date of this Prospectus they are not considered by the Board to represent actual conflicts of interest. The Board has approved those conflicts of interest in accordance with the Companies Act.

The Company and KKR My Best Friend Limited have entered into the Relationship Agreement to regulate the relationship between the Principal Shareholder and the Company following Admission. The Relationship Agreement restricts each Director appointed by the Principal Shareholder from voting at any Board meeting on any matter giving rise to a conflict of interests. Further details of the Relationship Agreement are set out at Section 9.1 (*Relationship Agreement*) of this Part XVIII (*Additional Information*).

There are no arrangements or understandings with the Principal Shareholder, customers, suppliers or others pursuant to which any Director or member of the Senior Executive Board was selected other than the appointment of Brian Carroll pursuant to the terms of the Relationship Agreement (see Section 9.1 (*Relationship Agreement*) of this Part XVIII (*Additional Information*)).

Save as set out in Section 12 (*Lock-Up Arrangements*) of Part XVII (*The Offer*), there are no restrictions agreed by any Director or Senior Executive on the disposal within a certain time of their holdings in the Company's securities.

There are no family relationships between any of the Directors.

6.4 *Transactions with Directors and Senior Executives*

The Group has entered into arrangements with the following Directors and Senior Executives:

(a) Pets at Home Limited, Nick Wood and an affiliate of the Principal Shareholder ("**KKR Investor**") entered into arrangements in March 2013 to facilitate the acquisition by NW PAH Investment LLP, a limited liability partnership incorporated under the United Kingdom Limited Liability Partnerships Act 2000 and controlled by Nick Wood and KKR Investor, of shares in Manco 1 Limited. In March 2013 Nick Wood together with KKR Investor made capital contributions to NW PAH Investments LLP of £300,000 and £700,000 respectively. The amount of capital invested by KKR Investor was lent to KKR Investor pursuant to a loan agreement with Pets at Home Limited. The return on capital invested by KKR Investor accrues at 8% per annum compounded annually and is calculated on a daily basis. Prior to Admission, NW PAH Investments LLP will distribute its assets to Nick Wood and KKR Investor, with Nick Wood receiving shares in Manco 1 Limited and KKR Investor receiving its priority return of capital by way of a payment obligation assumed by Nick Wood. Nick Wood's shares in Manco 1 Limited will be exchanged for Shares in accordance with the steps comprising the Pre-IPO Reorganisation further described in Section 4 (*Group Structure and IPO Reorganisation*) of this Part XVIII (*Additional Information*). It has been agreed that Nick Wood will satisfy this payment obligation out of the proceeds of the sale of Shares pursuant to the Offer and that NW PAH Investments LLP will be dissolved shortly after Admission. KKR Investor will repay all amounts owed to Pets at Home Limited following receipt of payment from Nick Wood.

(b) Pets at Home Limited entered into loan arrangements with each of Ian Kellett, Sally Hopson and Peter Pritchard in March 2013 to facilitate the acquisition of shares in Manco 1 Limited and Manco 2 Limited (as applicable). The principal amount of £97,212.50 was lent to each of Ian Kellett, Sally Hopson and Peter Pritchard with interest accruing on such amount at the official rate of interest as published by HM Revenue & Customs from time to time and which is applied for the determination of

the annual taxable benefit on employment related loans pursuant to Chapter 7, Part 3 of the Income Tax (Earnings and Pensions) Act 2003. The principal amount together with all accrued but unpaid interest is repayable on Admission and will be repaid to the Group following receipt of the proceeds receivable by each of Ian Kellett, Sally Hopson and Peter Pritchard pursuant to the Offer.

(c) DeNunzio Associates Ltd, a consultancy company in which Tony DeNunzio is interested, provides consulting services to the Group pursuant to a consulting agreement. This agreement will be terminated on Admission.

6.5 *Remuneration of the Directors*

Set out below is information on the current employment and remuneration arrangements for the Directors and Senior Executives of the Company.

(a) Executive Directors' Remuneration and Service Agreements

On 25 February 2014, each of Nick Wood and Ian Kellett entered into a service agreement with the Company which is effective upon Admission. Nick Wood's agreement is terminable by either him or the Company on not less than 12 months' prior written notice. Ian Kellett's agreement is terminable by either him or the Company on not less than six months' prior written notice. Under their respective agreements, Nick Wood and Ian Kellett are entitled to receive an annual salary of £425,000 and £320,000 respectively. This salary will be reviewed by the Remuneration Committee on an annual basis (with no obligation to increase the same).

General Terms

Nick Wood is entitled to an annual contribution to a pension scheme equivalent to 9% of his fixed annual salary. Ian Kellett is entitled to receive an annual salary supplement in lieu of pension contributions, equivalent to 9% of his fixed annual salary. Nick Wood and Ian Kellett are also eligible to be considered for an annual bonus, at the sole discretion of the Remuneration Committee. The Company shall pay premiums in respect of Nick Wood and Ian Kellett to a permanent health insurance scheme and a life assurance scheme. Nick Wood and Ian Kellett will receive full pay and benefits for the first three months of any period of sickness absence and benefits plus 75% of salary for the second three months of any period of sickness absence, in each case during any rolling 12 month period.

Nick Wood and Ian Kellett will be entitled to be reimbursed for all reasonable expenses incurred in the course of their duties and shall be provided with a car or a car allowance of £11,500 per annum. Nick Wood and Ian Kellett will be entitled to 31 days' paid holiday per annum (in addition to public and bank holidays in England and Wales).

Nick Wood and Ian Kellett are each permitted to hold one other non-executive director position in another organisation or business with the prior consent of the Company (not to be unreasonably withheld) and provided that such role does not detract from the proper and timely performance of their duties.

Termination Provisions

Nick Wood and Ian Kellett may be put on garden leave during their notice period, and the Company can elect to terminate their employment by making a payment in lieu of notice equivalent to up to basic salary and benefits (subject to a reduction if the executive finds alternative employment).

The employment of each Executive Director will be terminable with immediate effect without notice in certain circumstances, including where such Executive Director commits any act of serious misconduct, commits any material or persistent breach of any of the terms or conditions of his service agreement, has a bankruptcy order made against him, is convicted of any criminal offence, commits any act which constitutes an offence under the Bribery Act, is disqualified acting as a director, acts in any way which may bring the Company or the Group into disrepute or discredit, fails to comply in any material respect with any policy of the Company or the Group which has been communicated to him or is guilty of a breach of the rules and regulations of the UK Listing Authority (including the Model Code) or the FCA.

The service agreements of Nick Wood and Ian Kellett also contain post-termination restrictions. These include restrictions on competition with the Group and solicitation of employees or customers of the Group for a period of 12 months (reduced by any time spent on garden leave).

(b) Non-Executive Directors Letters of Appointment

Each of the Non-Executive Directors has been appointed by letters of appointment. The key terms of the letter of appointment are set out below. Details of the terms of each Non-Executive Director's appointment with the Company are set out below.

Name	Date of initial appointment[1]	Committee Chairmanships/ Other Board Positions	Non-executive fee per annum (£)
Tony DeNunzio	18 February 2014	Chairman of the Board Nomination and Corporate Governance Committee	£200,000
Dennis Millard	18 February 2014	Deputy Chairman Senior Independent Director Remuneration Committee	£ 80,000
Brian Carroll [2]	18 February 2014	–	£ 50,000
Paul Coby	18 February 2014	–	£ 50,000
Tessa Green	18 February 2014	Pets Before Profits and CSR Committee	£ 60,000
Amy Stirling	18 February 2014	Chairman of the Audit Committee	£ 60,000

Notes:

(1) Each of the Non-Executive Directors will stand for re appointment at the first AGM.

(2) Brian Carroll has been appointed as a Non-Executive Director of the Company by the Principal Shareholder in accordance with the terms of the Relationship Agreement.

In addition, each Non-Executive Director is entitled to be reimbursed for all reasonable travelling, hotel and incidental expenses incurred in the performance of the Non-Executive Director's duties. The Non-Executive Directors do not participate in any Colleague Share Schemes. On Admission each of Brian Carroll and Tessa Green will subscribe in cash for a number of Shares with a value equal to £100,000, each of Dennis Millard and Amy Sterling will subscribe in cash for a number of Shares with a value equal to £40,000 and Paul Coby will subscribe in cash for a number of Shares with a value equal to £10,000. These Shares will form part of the Offer but will not be underwritten.

The Non-Executive Directors are appointed for three years subject to annual review and notice and will stand for re-appointment at the first AGM. Appointment is terminable on three months' notice. Continuation of appointment is contingent on satisfactory performance and each Non-Executive Director is required to devote sufficient time to meet the expectation and requirements connected with their appointments. The appointment of a Non-Executive Director shall terminate summarily, including any entitlement to receive outstanding director's fees, without payment in lieu of notice, or other compensation, should they materially or persistently breach the terms of their appointment; have a bankruptcy order made against you or compound with or enter into any voluntary arrangements with your creditors; or be disqualified from acting as a director.

Save as set out above, there are no existing or proposed service agreements between any Director and any member of the Group providing for benefits upon termination of employment.

(c) Directors' and Senior Executives' Remuneration for FY13

The aggregate remuneration paid (including salary and other benefits) to Nick Wood, Ian Kellett, Sally Hopson, Peter Pritchard and Phil Hackney for the financial year ended 28 March 2013 was £1,814,000 of which £1,367,600 comprised salaries and £446,400 comprised benefits in kind (granted under any description whatsoever).

Each of the Directors was appointed during 2014.

(d) Pension Arrangements of the Executive Directors

No amounts have been set aside or accrued by the Group to provide pension, retirement or other benefits to the Executive Directors.

7. COLLEAGUE SHARE SCHEMES AND COLLEAGUE TRUSTS

Paragraphs 7.1 to 7.5 below summarise the Colleague Share Schemes. Paragraphs 7.6 and 7.7 below summarise the Colleague Trusts. Please be aware that the information provided in relation to the Colleague Share Schemes and the Colleague Trusts in this Section 7 of Part XVIII (and the remainder of this Prospectus) is provided as a summary only. In particular, it is not intended to be a substitute for the rules of

the Colleague Share Schemes or the terms and conditions attaching to any option or award granted pursuant to these rules (together, the **"Colleague Share Scheme Documents"***). In the event of a conflict the terms of the Colleague Share Scheme Documents will prevail.*

7.1 The CIP

On 25 February 2014 the Company adopted the CIP. It is currently proposed that matching awards under the CIP (as described in section 7.1(b) below) will be made on Admission to Executive Directors and the Senior Executives over a maximum total of 1,946,429 Shares representing 0.4% of the issued Shares on Admission (assuming that the Offer Price is set at the bottom of the Offer Price Range). These awards are proposed to be made by reference to corresponding investment pledges by the Executive Directors and the Senior Executives over a maximum total of 1,946,429 of their own Shares representing 0.4% of the issued Shares on Admission (assuming that the Offer Price is set at the bottom of the Offer Price Range). These matching awards will vest over a period of three years subject to the satisfaction of performance conditions and once vested as to performance, will become exercisable in equal one-third tranches in years three, four and five subject to continued employment with the Group. It is further proposed that these awards will be granted at nil cost.

(a) **Eligibility**

All Colleagues are eligible to participate in the CIP at the discretion of the Remuneration Committee. However, it is intended that only the Executive Directors, the Senior Executives and certain other senior Colleagues will be selected to participate in the CIP. It is currently proposed that matching awards will only be granted on, and for a limited period of time following, Admission (subject to close and other restricted periods).

(b) **Type of Awards**

Colleagues are invited to participate in the CIP by making an 'investment' or 'pledge' of their own Shares (the "**Co-Invest Shares**"), which can include existing, locked-in Shares or new Shares acquired with cash, in return for a nil cost-matching award over Shares (the "**Matching Award**"). It is proposed that Matching Awards will be granted by reference to a ratio not exceeding one matched Share for every Co-Invest Share 'pledged'. Matching Awards under the CIP will not form part of a participant's pensionable earnings and are not transferable other than on death.

(c) **Individual Limits**

It is proposed that the Executive Directors and the Senior Executives will pledge Co-Invest Shares with a market value equal to 2.5 times their annual salary (as at Admission). It is further proposed that other senior Colleagues who elect to participate in the CIP will pledge Co-Invest Shares with a market value equal to a limit specified by the Remuneration Committee, but not exceeding 1 times their annual salary (as at Admission).

(d) **Scheme Limits**

It is intended that Matching Awards under the CIP will be satisfied using existing Shares. Nonetheless, under the rules of the CIP the number of new issue Shares over which (or in respect of which) Matching Awards may be granted on any date shall be limited so that:-

(i) the total number of Shares issued and issuable in respect of options or awards granted in any ten year period under the CIP and any other discretionary share option scheme of the Company (including the CSOP and the PSP but other than to satisfy dividend equivalent payments) is restricted to 5% of the Company's issued Shares calculated at the relevant time; and

(ii) the total number of Shares issued and issuable pursuant to options or awards granted under the CIP and any other employee share scheme operated by the Company (including the CSOP, PSP, SAYE and SIP but other than to satisfy dividend equivalent payments) in any ten year period is restricted to 10% of the Company's issued Shares calculated at the relevant time.

For the purposes of these limits, no account will be taken of options or awards granted before, on or in connection with Admission and no account will be taken of options or awards which have lapsed, been surrendered or otherwise become incapable of exercise or vesting. Shares held in treasury will be treated as newly issued Shares for the purposes of these limits (as long as this is required by institutional investor guidelines), but (for the avoidance of doubt) Shares acquired in the market will not.

(e) **Performance, Vesting and Performance Adjustment**

It is proposed that the Matching Awards granted on, or in connection with, Admission will vest subject to the satisfaction of the performance conditions outlined below. To the extent that any future awards are granted, different conditions may apply (in the absolute discretion of the Remuneration Committee).

The proposed performance conditions are as follows: 75% of a Colleague's total Matching Award will be subject to the CAGR in the Company's earnings per share ("**EPS**") over three financial years, namely FY14, FY15 and FY16 (together the "**Performance Period**") (which, for the avoidance of doubt, ends on 31 March 2017). If the CAGR in the Company's EPS is 10%, then 10% of the total Matching Award will vest. If the CAGR in the Company's EPS is 17.5% or more, then 75% of the total Matching Award will vest. Vesting will be on a straight line basis between these two points. For the avoidance of doubt, if the CAGR in EPS is less than 10% over the Performance Period then the amount of the Matching Award which will vest under this EPS performance condition will be nil.

It is further proposed that the remaining 25% of the total Matching Award will be subject to the Company's total shareholder return ("**TSR**") as compared to the UK General Retail Index over the Performance Period. Vesting of 6.25% of the total Matching Award will occur for median performance. Vesting of the maximum 25% of the total Matching Award will occur for upper quartile performance or above. Vesting will occur on a straight line basis between these two points. If the Company's TSR performance over the Performance Period is below median, then the amount of the Matching Award which will vest under this TSR performance condition will be nil.

To the extent vested as to performance, Matching Awards will become exercisable in three equal amounts on the third, fourth and fifth anniversary of Admission, but subject to continued employment with the Group.

(f) **Dividend Equivalents**

The Remuneration Committee will have absolute discretion to specify, on or at any time following the relevant date of grant, whether Colleagues will be entitled to receive additional Shares and/or a cash payment representing the value of dividends declared during the vesting period on the number of Shares which have vested subject to the Colleague's Matching Award under the CIP.

Dividends declared during the vesting period on the Co-Invest Shares will be paid to Colleagues in cash in their capacity as a shareholder in the usual way.

(g) **Manner of Exercise of Matching Award**

Within 30 days of receipt of a notice of exercise of a vested Matching Award, together with a payment (or arrangements to pay) for any income tax and National Insurance contributions due, the Shares in respect of which the Matching Award has been exercised must be issued by the Company or the Company must procure their transfer to the Colleague. Shares issued or transferred by the Company on the exercise and/or vesting of awards will rank *pari passu* with existing Shares.

(h) **Termination of Employment**

Within the first 24 months following Admission

If a Colleague who is an Executive Director or a Senior Executive voluntarily resigns less than 18 months following the date of Admission, that Colleague will be required to forfeit his/her Co-Invest Shares back to an employee trust (or such other person as the Board may direct) for nil consideration. The Colleague will also forfeit his/her Matching Award for nil consideration.

If any other Colleague participating in the CIP voluntarily resigns less than 18 months following Admission, he/she will be permitted to retain their Co-Invest Shares, but he/she will forfeit their Matching Award for nil consideration.

Between 24 months and 36 months following Admission

In recognition of the fact they have been required to pledge Co-Invest Shares with a market value equal to 2.5 times their salary and that these Co-Invest Shares are subject to forfeiture for no payment, within the first 18 months following Admission, if a Colleague who is an Executive Director or a Senior Executive voluntarily resigns between 18 months and 30 months following the date of Admission (and completes at least two years of service from the date of Admission by working his notice or being put on garden leave or would have completed at least two years of service but for the fact that he or she is

paid in lieu of notice), such Colleague will be entitled to retain his/her Co-Invest Shares and will also be permitted to retain a proportion of the Matching Award subject to the achievement of the following targets:

If the CAGR in the Company's EPS over the first two financial years (FY14 and FY15, ending on 31 March 2016) is 10%, then 10% of a departing Colleague's total Matching Award will vest (i.e. 10% of 100% of the total Matching Award). If the CAGR in the Company's EPS over the first two financial years is 17.5% or more, then 20% of a departing Colleague's total Matching Award will vest (i.e. 20% of 100% of the total Matching Award). Vesting will occur on a straight line basis between these two points.

To the extent vested, the Matching Award will become exercisable from the end of the second financial year or, if later, the date on which the Colleague ceases to be employed. For the avoidance of doubt, if the CAGR in Company's EPS over the first two financial years is less than 10% then the amount of the departing Colleague's Matching Award that will vest is nil.

If any other Colleague participating in the CIP voluntarily resigns between 18 months and 30 months following the date of Admission, he/she will be permitted to retain their Co-Invest Shares, but he/she will forfeit their Matching Award for nil consideration, unless the Remuneration Committee permits otherwise in its absolute discretion.

On or after 36 months following Admission

If any Colleague participating in the CIP voluntarily resigns on or after 30 months following the date of Admission (and completes at least three years of service from the date of Admission by working his notice or being put on garden leave or would have completed at least three years service but for the fact he or she is paid in lieu of notice), that Colleague will be entitled to retain his/her Co-Invest Shares and, if he is a 'good leaver' (as for the PSP described in Section 7.3 below), all his/her vested Matching Award. The Colleague will be required to forfeit his/her unvested Matching Award unless the Remuneration Committee permits otherwise in its absolute discretion.

If any Colleague participating in the CIP is dismissed for fraud or negligence at any time during the life of the award, then that Colleague will forfeit his/her Co-Invest Shares, together with any Matching Award.

(i) **Change of Control**

If a change of control event occurs (at any time), such as a takeover, reconstruction (but not including an internal re-organisation) or voluntary winding up of the Company, then Colleagues will be entitled to retain their Co-Invest Shares and all restrictions in relation to them will be lifted.

Furthermore, the Remuneration Committee will determine, in its absolute discretion, whether and to what extent subsisting Matching Awards (whether vested or unvested) shall vest and become exercisable, but taking into account all relevant factors and circumstances including, but not limited to, the performance of the Company, the period of time which has elapsed since the relevant date of grant and the interests of the Company's shareholders generally.

(j) **Variation of Share Capital**

In the event of a capitalisation issue or offer by way of rights (including an open offer), or upon any consolidation, subdivision or reduction or other variation of the Company's capital and/or a demerger of the Group or payment of a special dividend, the number of Co-Invest Shares and/or the Shares the subject of a Matching Award and/or the exercise price (if any) may be adjusted in such manner as the Board (following consultation with the Remuneration Committee) shall, in its opinion, consider fair and reasonable.

(k) **Amendments and General**

No rights under the CIP may be transferred by a Colleague to any other person except in the event of a Colleague's death when rights will be transferred to the Colleague's personal representative(s).

The CIP may be amended by the Board in any way provided that:

(i) no amendment, addition or deletion may be made to the CIP which would materially prejudice the interests of Colleagues in relation to awards already granted to them under the CIP unless the prior consent of at least 75% of the affected Colleagues has been obtained; and

(ii) no material amendments can be made to the CIP to the advantage of Colleagues on or after Admission without the prior consent of the Company in general meeting unless they are minor

amendments to benefit the administration of the scheme or to obtain or maintain favourable tax, exchange control or regulatory treatment for Colleagues, the Company, a member of the Group or a trustee or nominee.

7.2 CSOP

On 25 February 2014 the Company adopted the CSOP (HMRC approval of which is expected to be received on or shortly following Admission). Part I of the CSOP will be tax approved under Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 and provides for the grant of tax approved options. Part II of the CSOP provides for the grant of unapproved options. It is proposed that tax approved options under Part I of the CSOP will be made on or as soon as possible following Admission to selected Colleagues with a maximum aggregate value of £6.2 million. These options will be exercisable between the third and tenth anniversary of the date of grant, subject to continued employment with the Group. It is anticipated that these awards will be granted with an exercise price equal to the market value of the Shares on Admission (as agreed with HMRC).

(a) **Eligibility**

All Colleagues, including the Executive Directors and Senior Executives, are eligible to participate in the CSOP, at the discretion of the Remuneration Committee.

(b) **Grant of Options**

Options may be granted by the Board (or a trustee) to eligible Colleagues during the period of 42 days from (and including) the date of Admission and thereafter in each period of 42 days from (and including) (i) the date on which any amendment to the CSOP is approved and adopted by the Company's Shareholders (ii) the announcement of the Company's final or interim results for any financial period, (iii) the occurrence of an event which the Board (following consultation with the Remuneration Committee) considers to be an exceptional event concerning the Group and/or (iv) the commencement of an eligible Colleague's employment with the Group, and/or (v) any date on which changes to the legislation affecting share option schemes approved or treated as qualifying by HMRC are proposed or made. If any of the above periods is a 'close period' as a result of the application of the Model Code for Securities Transactions by Directors of Listed Companies (or as a result of the Company's equivalent internal share dealing rules) then options may be granted within 42 days of the end of such close period.

Options may also be granted subject to the option holder paying any employer's National Insurance contributions due upon exercise of the options. Options may be granted and/or satisfied by the trustee of an employee benefit trust. No options may be granted more than ten years after the adoption of the CSOP. Options under the CSOP will not form part of a Colleague's pensionable earnings.

(c) **Vesting and Performance**

Options may be granted on terms that their exercise is subject to the satisfaction of challenging performance conditions over a specified performance period of no less than three years. Performance conditions will be determined prior to or on the date of grant, following consultation with the Remuneration Committee. Colleagues who receive options under the CSOP and under the PSP on, or in connection with, Admission, will be subject to the same performance conditions described in Section 7.1 (e) above in respect of both grants. Colleagues who only receive options under the CSOP on, or in connection with, Admission will not be subject to performance conditions.

(d) **Exercise Price**

The price at which an option holder may acquire Shares on the exercise of an option shall be determined by the Board but shall not be less than the greater of market value of a Share at the time of grant and its nominal value.

(e) **Scheme Limits**

The number of newly issued Shares over which (or in respect of which) options may be granted under the CSOP on any date shall be limited so that:

(i) the total number of Shares issued and issuable in respect of options granted in any ten year period under the CSOP and any other discretionary share option scheme of the Company (including the CIP and the PSP but other than to satisfy dividend equivalent payments) is restricted to 5% of the Company's issued Shares from time to time; and

(ii) the total number of Shares issued and issuable pursuant to rights granted in any ten year period under any other employee share scheme operated by the Company (including the CIP, PSP, SAYE and SIP but other than to satisfy dividend equivalent payments) is restricted to 10% of the Company's issued Shares from time to time.

For the purposes of these limits no account will be taken of options or awards granted before, on or in connection with Admission and no account will be taken of options or awards which have lapsed, been surrendered or otherwise become incapable of exercise or vesting. Shares held in treasury will be treated as newly issued Shares for the purposes of these limits (as long as this is required by institutional investor guidelines), but (for the avoidance of doubt) Shares acquired in the market will not.

(f) **Individual Limits**

No option may be granted to an eligible Colleague under Part I of the CSOP which would result in the aggregate exercise prices of Shares comprised in all outstanding options granted to him under Part I, when aggregated with outstanding options held under any other tax approved executive share option scheme established by the Company, exceeding the tax approved limit (currently £30,000).

In addition, (both under Part I and II of the CSOP) the aggregate exercise price of Shares comprised in options granted to an individual under the CSOP and the PSP in any financial year shall not exceed 150% of his annual salary for that year. In exceptional circumstances, (including, but without limitation, in the year of recruitment) this annual limit may be increased to 200% if the Remuneration Committee, in its absolute discretion, determines that exceptional circumstances justify an increased grant including, but not limited to, facilitating the recruitment of a prospective eligible Colleague.

For the purposes of these limits market value will be calculated by reference to the market value of the Shares on or prior to the relevant date of grant as determined by the Board (following consultation with the Remuneration Committee) and subject to HMRC approval if applicable.

(g) **Manner of Exercise**

Within 30 days of the receipt of a notice of exercise of a vested option, together with a payment (or arrangements to pay) for the aggregate exercise price due and a payment (or arrangements to pay) for any income tax and National Insurance contributions due, the Shares in respect of which the option has been exercised must be issued by the Company or the Company must procure their transfer to the Colleague. Shares issued or transferred by the Company on the exercise and/or vesting of options will rank *pari passu* with existing Shares.

(h) **Termination of Employment**

Options will normally only be exercisable by an option holder who is still an eligible Colleague of the Group after the third anniversary of grant and before the tenth anniversary of grant. Unvested options will normally lapse on cessation of employment save in the circumstances set out below.

If an option holder is a 'good leaver' i.e. if he dies or leaves employment through injury, disability, redundancy or retirement or by reason of his employing company or business that he works for ceasing to be part of the Group, or for any other reason determined by the Remuneration Committee (in its absolute discretion), then the Remuneration Committee may permit that option holder (or his personal representatives if appropriate) to retain his unvested option until the relevant vesting date and permit exercise at that time subject to the satisfaction of the performance conditions (if any) and a pro-rata reduction for the time that has elapsed since the relevant date of cessation.

Alternatively, the Remuneration Committee may, in its discretion, permit unvested options held by 'good leavers' to vest and be exercised early, in a limited period following cessation, having regard to the achievement of the performance conditions (if any) and a pro rata reduction for the time that has elapsed since the relevant date of grant. Save that in both cases the Remuneration Committee reserves the right to permit vesting subject to a lesser reduction or no reduction at all.

If a Colleague ceases employment in any circumstances other than the 'good leaver' circumstances referred to above then ordinarily all his options (vested and unvested) will lapse on such cessation unless the Remuneration Committee exercises its discretion otherwise.

(i) **Change of Control**

If a change of control event occurs, such as a takeover, scheme of arrangement or reconstruction (but not including an internal re-organisation) or voluntary winding up of the Company, then the

Remuneration Committee will determine, in its absolute discretion, whether and to what extent subsisting options (whether vested or unvested) shall vest and become exercisable, but taking into account all relevant factors and circumstances including, but not limited to, the performance of the Company (where applicable) to that date, the period of time which has elapsed since the relevant date of grant and the interests of the Company's shareholders generally.

(j) **Variation of Share Capital**

In the event of a capitalisation issue or offer by way of rights (including an open offer), or upon any consolidation, subdivision or reduction or other variation of the Company's capital, the number of Shares the subject of an option and/or the exercise price (if any) may subject to the prior approval of HMRC (if applicable) be adjusted in such manner as the Board (following consultation with the Remuneration Committee) shall consider to be, in its opinion, fair and reasonable, provided that the exercise price remains at least equal to the nominal value of a Share. If the exercise price would otherwise fall below the nominal value, the Company may capitalise reserves to the extent it is lawful to pay up additional Shares for allotment to option holders.

(k) **Amendments and General**

No rights under an option may be transferred by a Colleague to any other person except in the event of a Colleague's death when rights will be transferred to the Colleague's personal representative(s).

The CSOP may be amended by the Board in any way provided that:

(i) no amendment, addition or deletion may be made to the CSOP which would materially prejudice the interests of option holders in relation to options already granted to them under the CSOP unless the prior consent of option holders has first been obtained;

(ii) no material amendment to the advantage of option holders may be made to the CSOP on or after Admission without the prior consent of the Company in general meeting unless they are minor amendments to benefit the administration of the scheme or to obtain or maintain favourable tax, exchange control or regulatory treatment for Colleagues, the Company, a member of the group or a trustee or nominee; and

(iii) (if applicable) no amendment to a key feature of the CSOP shall take effect without the prior approval of HMRC.

Notwithstanding the above, the Board may amend the CSOP by way of separate schedules to enable it to be operated overseas.

(l) **Part II**

Part II of the CSOP provides for the grant of unapproved options. This enables Options to be granted under the same terms as Part I of the CSOP but without complying with the particular requirements of the legislation applicable to tax approved CSOP Schemes. The provisions of the CSOP that do not apply under Part II include the £30,000 limit and the need to seek HMRC approval for the scheme and subsequent amendments (as applicable).

7.3 PSP

On 25 February 2014 the Company adopted the PSP. It is proposed that awards under the PSP will be made on Admission to selected Colleagues over a maximum total of 1,675,140 Shares representing 0.3% of the issued Shares on Admission (assuming that the Offer Price is set at the bottom of the Price Range. These awards will be exercisable between the third and tenth anniversary of the date of grant, subject to continued employment with the Group and the satisfaction of performance conditions. It is anticipated that these awards will be granted at nil or nominal cost.

(a) **Eligibility**

All Colleagues, including the Executive Directors and Senior Executives, are eligible to participate in the PSP at the discretion of the Remuneration Committee. However, it is intended that only the Executive Directors, the Senior Executives and certain other senior Colleagues will be selected to participate in the PSP.

(b) **Grant of Awards**

Awards may take the form of (i) a conditional right to acquire Shares at nil cost or nominal value, (ii) an option to acquire Shares at nil cost or nominal value or (iii) such other form that will confer on the Colleague an equivalent benefit, such as phantom awards that deliver cash rather than Shares.

Awards may be granted by the Board or a trustee to eligible Colleagues during the period of 42 days from (and including) the date of Admission and thereafter in each period of 42 days from (and including) (i) the date on which any amendment to the PSP is approved or adopted by the Company's shareholders, (ii) the announcement of the Company's final or interim results for any financial period, (iii) the occurrence of an event which the Remuneration Committee considers to be an exceptional event concerning the Group, and/or (iv) the commencement of an eligible Colleague's employment with the Group. If any of the above periods is a 'close period' as a result of the application of the Model Code for Securities Transactions by Directors of Listed Companies (or as a result of the Company's equivalent internal share dealing rules) then options may be granted within 42 days of the end of such close period.

Awards may also be granted on terms that their exercise/vesting will be subject to the Colleague paying any employer's National Insurance contributions due pursuant to the exercise. Awards may be granted by a trustee of an employee benefit trust. Awards may be granted over newly issued Shares, Shares held in treasury or Shares purchased in the market.

Awards under the PSP will not form part of a Colleague's pensionable earnings. Awards are not transferable (other than on death) without the consent of the Remuneration Committee.

(c) **Exercise Price**

The price at which a Colleague may acquire Shares on the exercise or vesting of an award under the PSP shall be determined by the Remuneration Committee on the date of grant, and may, if the Remuneration Committee determines be nil or nominal value only.

(d) **Scheme Limits**

The number of newly issued Shares over which (or in respect of which) awards may be granted under the PSP on any date shall be limited so that:

(i) the total number of Shares issued and issuable in respect of options or awards granted in any ten year period under the PSP and any other discretionary share option scheme of the Company (including the CIP and the CSOP but other than to satisfy dividend equivalent payments) is restricted to 5% of the Company's issued Shares calculated at the relevant time; and

(ii) the total number of Shares issued and issuable pursuant to options or awards granted in any ten year period under the PSP and any other employee share scheme operated by the Company (including the CIP, CSOP, SAYE and SIP but other than to satisfy dividend equivalent payments) is restricted to 10% of the Company's issued Shares calculated at the relevant time.

For the purposes of these limits no account will be taken of options or awards granted before, on or in connection with Admission and no account will be taken of options or awards which have lapsed, been surrendered or otherwise become incapable of exercise or vesting. Shares held in treasury will be treated as newly issued Shares for the purposes of these limits (as long as this is required by institutional investor guidelines), but (for the avoidance of doubt) Shares acquired in the market will not.

(e) **Individual Limits**

The aggregate market value of Shares comprised in awards granted to an individual under the PSP and the CSOP in any financial year shall not exceed 150% of his annual salary for that year. In exceptional circumstances, (including, but without limitation, in the year of recruitment) this annual limit may be increased to 200% if the Remuneration Committee, in its absolute discretion, determines that exceptional circumstances justify an increased grant including, but not limited to, facilitating the recruitment of a prospective eligible Colleague.

For the purposes of awards granted on (or before) Admission, market value for these purposes will be calculated by reference to the Offer Price. For the purposes of awards granted following Admission, market value for these purposes will be calculated by reference to the market value of the Shares on the relevant date of grant as determined by the Board (following consultation with the Remuneration Committee) in its absolute discretion.

(f) **Performance, Vesting and Performance Adjustment**

Awards must be granted on terms that their vesting and/or call will be subject to the satisfaction of challenging performance conditions reflecting the Company's objectives, including non-financial performance conditions where appropriate, which shall be measured over a specified performance period of no less than three years. Performance conditions will be determined prior to or on the date of grant, by the Remuneration Committee. However, for awards granted on, or in connection with, Admission, the performance conditions will be the same as for the CIP outlined in Section 7.1(e) above.

Awards may also be granted on terms that all or a proportion of unvested awards may be forfeited back to the Company in exceptional circumstances of fraud, financial misstatement and misconduct (as determined by the Remuneration Committee in its absolute discretion).

(g) **Dividend Equivalents**

The Remuneration Committee will have absolute discretion to specify, on or at any time following the relevant date of grant, whether Colleagues will be entitled to receive additional Shares and/or a cash payment representing the value of dividends declared during the vesting period on the number Shares which have vested subject to the Colleague's award under the PSP.

(h) **Manner of Exercise**

Within 30 days of vesting and/or the receipt of a notice of exercise of an award, together with a payment (or arrangements to pay) for the aggregate exercise price due and a payment (or arrangements to pay) for any income tax and National Insurance contributions due, the Shares in respect of which the award has been exercised must be issued by the Company or the Company must procure their transfer to the Colleague. Shares issued or transferred by the Company on the exercise and/or vesting of awards will rank *pari passu* with existing Shares.

Notwithstanding the above, the Remuneration Committee may also satisfy awards in cash, 'equity settled share appreciation rights' or other assets provided that Colleagues receive the same economic value as would have been provided by an award of Shares.

(i) **Termination of Employment**

Awards will normally only be exercisable by a Colleague who is still an eligible Colleague of the Group on the vesting date. Unvested options will normally lapse on cessation of employment save in the circumstances set out below.

If a Colleague is a 'good leaver' i.e. if he dies or leaves employment through injury, disability or retirement or by reason of his employing company or the business he works for ceasing to be part of the Group or for any other reason determined by the Remuneration Committee (in its absolute discretion), then the Remuneration Committee may permit that Colleague (or his personal representatives if appropriate) to retain his unvested award until the relevant vesting date and permit exercise at that time subject to the satisfaction of the performance conditions (if any) and a pro rata reduction for the time that has elapsed since the relevant date of grant relative to the original vesting period.

Alternatively, the Remuneration Committee may, in its discretion, permit unvested awards held by 'good leavers' to vest and be exercised early, in a limited period following cessation, having regard to the achievement of the performance conditions (if any) to that date and the period of time that has passed since the relevant date of grant. Save that in both cases the Remuneration Committee reserves the right to permit vesting subject to a lesser reduction or no reduction at all.

If a Colleague ceases employment in any circumstances other than the 'good leaver' circumstances referred to above then ordinarily all his awards (vested and unvested) will lapse on such cessation unless the Remuneration Committee exercises its discretion otherwise.

(j) **Change of Control**

If a change of control event occurs, such as a takeover, reconstruction (but not including an internal re-organisation) or voluntary winding up of the Company, then the Remuneration Committee will determine, in its absolute discretion, whether and to what extent subsisting awards (whether vested or unvested) shall vest and, in the case of options, become exercisable, but taking into account all relevant

factors and circumstances including, but not limited to, the performance of the Company (where applicable), the period of time which has elapsed since the relevant date of grant and the interests of the Company's shareholders generally.

(k) **Variation of Share Capital**

In the event of a capitalisation issue or offer by way of rights (including an open offer), or upon any consolidation, subdivision or reduction or other variation of the Company's capital, and/or a demerger of the Group or payment of a special dividend the number of Shares the subject of an award and/or the exercise price (if any) may be adjusted in such manner as the Board (following consultation with the Remuneration Committee) shall, in its opinion, consider fair and reasonable.

(l) **Amendments and General**

No rights under an award may be transferred by a Colleague to any other person except in the event of a Colleague's death when rights will be transferred to the Colleague's personal representative(s).

The PSP may be amended by the Board in any way provided that:

(i) no amendment, addition or deletion may be made to the PSP which would materially prejudice the interests of Colleagues in relation to awards already granted to them under the PSP unless the prior consent of at least 75% of the affected Colleagues has been obtained; and

(ii) no material amendment to the advantage of Colleagues may be made to the PSP on or after Admission without the prior consent of the Company in general meeting unless they are minor amendments to benefit the administration of the scheme or to obtain or maintain favourable tax, exchange control or regulatory treatment for Colleagues, the Company, a member of the Group or a trustee or nominee.

Notwithstanding the above, the Board may amend the PSP by way of separate schedules to enable it to be operated overseas.

7.4 SAYE

On 25 February 2014 the Company adopted the SAYE (HMRC approval of which is expected to be received on or shortly following Admission). The rules of the SAYE are approved under Schedule 3 to the Income Tax (Earnings and Pensions) Act 2003 and provide for the grant of tax approved options. It is proposed that invitations under the SAYE will be made as soon as practicable following the announcement of the Company's results post-Admission. It is currently proposed that invitations will be made to eligible Colleagues (including the Executive Directors and Senior Executives) for the grant of options under the SAYE by the end of the calendar year. All of these options will be exercisable in normal circumstances between the third and tenth anniversary of the date of grant. It is anticipated that these options will be granted with an exercise price to be agreed with HMRC which will be no less than 80% of the market value of the Shares on the date of issue of the invitations.

(a) **Eligibility**

All Colleagues and full-time directors of the Group, who have been in continuous service for such period of time (not exceeding five years) as may be determined by the Board prior to the relevant date of grant of an option and who are liable to UK income tax, will be eligible to participate in the SAYE. Participation may also be offered, at the discretion of the Board (taking account of the recommendations of the Remuneration Committee), to other directors or employees who otherwise do not satisfy all of the above criteria, although non-executive directors are not eligible to participate in the SAYE.

(b) **Issue of Invitations**

Invitations to participate in the SAYE may be made during the period of 42 days from (and including) the date of Admission and thereafter in each 42 day period from (and including) (i) the date on which any amendment to the SAYE is approved or adopted by the company's shareholders (ii) the announcement of the Company's final or interim results for any financial period, (iii) the occurrence of an event which the Remuneration Committee considers to be an exceptional event concerning the Group or (iv) changes to the legislation affecting tax approved SAYE option schemes coming into effect. If any of the above periods is a 'close period' as a result of the application of the Model Code

for Securities Transactions by Directors of Listed Companies (or as a result of the Company's equivalent internal share dealing rules) and the Company is prohibited from issuing invitations and/or granting options as a result then invitations may be made within 42 days of the end of the close period. Invitations may be issued by the trustee of an employee benefit trust. No invitations may be issued or options granted more than ten years after the adoption of the SAYE.

(c) **Exercise Price**

The price at which an option holder may acquire Shares on the exercise of an option shall be determined by the Board but shall not be less than the greater of 80% of the market value of a Share at the time of grant and its nominal value.

(d) **Savings Contract**

Options may be granted by the Board or the trustee of an employee benefit trust. Upon applying for an option, the Colleague will be required to enter into an approved savings contract with a savings institution nominated by the Company which lasts for either three or five years. The maximum amount which an employee is permitted to contribute under SAYE contracts is £250 per month (increasing to £500 per month from 6 April 2014). The Board may set lower savings limits than this for different Colleagues by reference to objective criteria such as levels of salary or length of service. The minimum contribution is £5 per month (or such greater amount as the Board may specify, not to exceed £10). The total exercise price of the Shares over which the option is granted may not exceed the aggregate of the monthly contributions and bonus payable at the end of the Colleague's related SAYE contract.

(e) **Scheme Limits**

The number of newly issued Shares over which (or in respect of which) options may be granted under the SAYE on any date of grant shall be limited so that the total number of Shares issued or capable of being issued in any ten year period under all the Company's employee share schemes (including the CIP, CSOP, PSP and SIP but other than to satisfy dividend equivalent payments) is restricted to 10% of the Company's issued Shares calculated at the relevant time. Any options or rights to acquire shares granted before, on or in connection with Admission will be excluded from this limit, and no account will be taken of options or awards which have lapsed, been surrendered or otherwise become incapable of exercise or vesting.

(f) **Exercisability**

Options will normally be exercisable during a period of six months following the allocation of a bonus under the related SAYE contract and will normally lapse upon cessation of employment. Earlier exercise is, however, permitted if the Colleague dies or leaves employment through injury, disability, redundancy or retirement or where a Colleague leaves employment of the Group by reason of his employing company ceasing to be a member of the Group, or if the undertaking in which he is employed is sold outside the Group. Early exercise will also be permitted in the event of a takeover, reconstructions or voluntary winding up of the Company.

(g) **Manner of Exercise**

Within 30 days of the receipt of a notice of exercise of an option, the Shares in respect of which the option has been exercised must be issued by the Company or the Company must procure their transfer (which for the purposes of the scheme includes the transfer of shares out of treasury) to the option holder and shall issue a definitive certificate in respect of the Shares allotted or transferred. Shares issued or transferred by the Company on the exercise of options will rank *pari passu* with existing Shares.

(h) **Exchange of Options on Change of Control**

If any company obtains control of the Company as a result of a takeover offer or the sanctioning of a scheme of arrangement under sections 895 to 899 of the Companies Act 2006 or if a company has become bound or entitled to acquire all the Shares under sections 974 to 991 of that Act, an option holder may, by agreement with that other company, seek the release of his options in return for the grant of equivalent options over shares in that other company (subject to HMRC approval where appropriate).

(i) **Variation of Share Capital**

In the event of a capitalisation issue or offer by way of rights (including an open offer), or upon any consolidation, subdivision or reduction or other variation of the Company's capital, the number of Shares the subject of an option and/or the exercise price may, subject to the prior approval of HMRC (if applicable), be adjusted in such a manner as the Board (following consultation with the Remuneration Committee) shall consider to be, in its option, fair and reasonable provided that the exercise price per share remains at least equal to the nominal value of a Share. If the exercise price would otherwise fall below the nominal value, the Company may capitalise reserves to the extent it is lawful to pay up additional shares for allotment to option holders.

(j) **Amendments and General**

No rights under an option may be transferred by an option holder to any other person except in the event of an option holder's death when rights will become exercisable by the option holder's personal representative within 12 months of the date of death. Options granted under the SAYE shall not be pensionable.

The SAYE may be amended by the Board in any way provided that:

(i) no amendment may be made which would materially prejudice the interests of option holders in relation to options already granted to them under the SAYE unless the sanction of option holders has been obtained;

(ii) no material amendment may be made to the SAYE on or after Admission without the prior consent of the Company in general meeting unless they are minor amendments to benefit the administration of the SAYE or to obtain or maintain favourable tax, exchange control or regulatory treatment for the Company any member of the Group or any trustee or nominee; and

(iii) (if applicable) no amendment of a key feature shall take effect without the prior approval of HMRC.

There is a schedule to the SAYE that enables the Board to modify the scheme to take account of overseas legal, taxation or securities laws (if applicable).

7.5 SIP

On 25 February 2014 the Company adopted the SIP (HMRC approval of which is expected to be received on or shortly following Admission). The rules of the SIP are approved under Schedule 2 to the Income Tax (Earnings and Pensions) Act 2003 and provide for the grant of tax approved share awards. The Company does not currently propose to grant awards under the SIP on or shortly following Admission.

(a) **Administration**

The SIP is a tax approved share ownership plan. All shares obtained under the plan must initially be held in a UK resident employee benefit trust (the **"SIP Trust"**). Computershare Trustees Limited has consented to act as the corporate trustee of the SIP Trust (the **"SIP Trustee"**) and Computershare Limited has been appointed to act as administrators of the SIP (the **"Administrators"**). The SIP will be operated by the Board (following consultation with the Remuneration Committee).

(b) **Eligibility**

All UK-resident Colleagues (including executive directors) of the Group, who have been continuously employed for a qualifying period (not exceeding 18 months where no accumulation period is provided for and 6 months where an accumulation period is provided for) as determined by the Board are eligible to participate in the SIP. Non-executive directors are not eligible to participate in the SIP.

(c) **Types of Awards**

The SIP is an 'all-purpose' plan and may be operated with any or all of the features described in the paragraphs below.

Awards of Shares may be made by the SIP Trustee on a free (the **"Free Shares"**) and/or matching (the **"Matching Shares"**) basis. Employees can also agree to the acquisition of partnership shares (the **"Partnership Shares"**) out of their pre-tax salary by the SIP Trustee on their behalf.

(i) Free Shares

Under the SIP, up to £3,000 worth of Free Shares in the Company may be awarded to each eligible Colleague in each tax year (increasing to £3,600 from 6 April 2014). The award of Free Shares can be linked to individual, team, divisional and corporate performance. Free Shares must be held by the SIP Trustee for between three and five years. Free Shares may be made subject to forfeiture if a Colleague ceases to be a Colleague of the Group within three years of the award other than by reason of his death, injury, disability, redundancy or retirement or the transfer of the business or company for which he works.

(ii) Partnership Shares

Under the SIP, Partnership Shares may be purchased on behalf of eligible Colleagues by the SIP Trustee. Up to a maximum of £1,500 per year or 10% of a Colleague's annual pre-tax salary (whichever is lower) can be used to buy Partnership Shares (increasing to £1,800 per year or 10% of a Colleague's pre-tax salary (whichever is lower) from 6 April 2014). Partnership Shares can be withdrawn from the SIP at any time, but can also be subject to forfeiture. Partnership Shares acquired pursuant to the SIP will rank *pari passu* with existing Shares.

(iii) Matching Shares

Colleagues who elect to purchase Partnership Shares may be awarded Matching Shares on the basis of up to two Matching Shares for each Partnership Share purchased. Matching Shares may be forfeited in certain circumstances if the Colleague ceases to be employed by a Participating Company within the three years following their award (other than for one of the reasons specified in relation to Free Shares in (i) above) or if the corresponding Partnership Shares are transferred out of the SIP within three years.

(d) **Dividends and Voting Rights**

Colleagues who elect to purchase Partnership Shares may be awarded Matching Shares on the basis of up to two Matching Shares for each Partnership Share purchased. Matching Shares may be forfeited in certain circumstances if the Colleague ceases to be employed by a Participating Company within the three years following their award (other than for one of the reasons specified in relation to Free Shares in (i) above) or if the corresponding Partnership Shares are transferred out of the SIP within three years.

(e) **Limit on the Number of Shares used for the SIP**

The number of newly issued Shares used to satisfy awards under the SIP on any date of grant shall be limited so that the total number of Shares issued or capable of being issued in any ten year period under all the Company's employee share schemes (including the CIP, CSOP, PSP and SAYE but other than to satisfy dividend equivalent payments) is restricted to 10% of the Company's issued Shares calculated at the relevant time. Any options or rights to acquire shares granted before, on or in connection with Admission will be excluded from this limit, and no account will be taken of options or awards that have lapsed, been surrendered or otherwise become incapable of exercise.

(f) **Timing of Awards**

Invitations to participate in the SIP may be made during the period of 42 days from (and including) Admission and thereafter in each period of 42 days from (and including) (i) the date on which any amendments to the SIP is approved or adopted by the Company's shareholders, (ii) the announcement of the Company's final or interim results for any financial period, (iii) the occurrence of an event which the Remuneration Committee considers to be an exceptional event concerning the Group or (iv) changes to the legislation affecting tax approved SIPs being proposed or coming into effect. If any of the above periods is a 'close period' as a result of the application of the Model Code for Securities Transactions by Directors of Listed Companies (or as a result of the Company's equivalent internal share dealing rules) and the Company is prohibited from issuing invitations and/or granting awards under the SIP as a result invitations may be made and/or awards may be granted within 42 days of the end of such close period.

(g) **Variation of Share Capital**

In the event of a capitalisation issue or offer by way of rights (including an open offer), or upon any consolidation, subdivision or reduction or other variation of the Company's capital, the number of

Shares the subject of an award may, subject to the prior approval of HMRC (if applicable), be adjusted in such a manner as the Board (following consultation with the Remuneration Committee) consider to be, in its option, fair and reasonable.

(h) **Amendments and General**

No rights under the SIP may be transferred by a Colleague to any other person other than on death and awards made under the SIP shall not be pensionable.

The SIP may be amended by the Board in any way provided that:

(i) no amendment may be made which would materially prejudice the interests of Colleagues in relation to awards already granted to them and shares already acquired by them under the SIP unless the sanction of Colleagues has been obtained;

(ii) no material amendment to the advantage of Colleagues may be made to the SIP on or after Admission without the prior consent of the Company in general meeting unless they are minor amendments to benefit the administration of the SIP or to obtain or maintain favourable tax, exchange control or regulatory treatment for Colleagues, the Company, a member of the Group or a trustee or nominee; and

(iii) (if applicable) no amendment of a key feature shall take effect without the prior approval of HMRC.

The Remuneration Committee may add to, vary or amend the rules of the SIP by way of a separate schedule to take account of overseas legal, taxation or securities laws (if applicable).

7.6 The Existing EBT

On 25 February 2005 the Existing EBT was established for the benefit of Colleagues and former Colleagues of the Group. On Admission, the Existing EBT will hold 1,664,563 Shares (assuming the Offer Price is set at the mid-point of the Offer Price Range and the Offer Size is set at the mid-point of the Offer Size Range) in the trust fund. The Company proposes to make recommendations to the Existing EBT regarding these Shares shortly following Admission.

7.7 The New EBT

On 25 February 2014 the Company resolved to adopt the New EBT.

(a) **Constitution**

The New EBT is a discretionary trust constituted by a trust deed made between the Company and an independent off-shore professional trustee. The New EBT is constituted as an employees' share scheme within the meaning of s.1166 of the Companies Act 2006, with the purpose of encouraging and facilitating the holding of shares by bona fide employees of the Company (which, for these purposes includes executive directors) and its subsidiaries, former employees and certain of their relatives or for their benefit.

(b) **Power and Funding**

The trustee of the New EBT will have full discretion with regard to the application of the trust fund. Whilst under the terms of the trust deed it will be required to consult with a trustee liaison committee appointed by the Company in certain circumstances, the views expressed by the trustee liaison committee are in no respect binding upon it.

The trustee of the New EBT will have the power to subscribe for or acquire Shares and any Shares so subscribed for or acquired may be used for the purposes of any employees' share scheme operated by the Company, including awards or options under the CIP, CSOP, PSP, SAYE or SIP (as applicable).

The New EBT may be funded by way of loan or gift to acquire Shares in the Company either by market purchase or by subscription and such funding should constitute lawful financial assistance for the purposes of an employees' share scheme as permitted by the Companies Act 2006.

(c) **Limits to Holdings and Dividend Waiver**

Any Shares issued to the New EBT in order to satisfy options or awards it has granted or has agreed to satisfy will be treated as counting towards the dilution limits that apply to the CIP, CSOP, PSP, SAYE and SIP (as applicable). For the avoidance of doubt, any Shares acquired by the New EBT in the market in order to satisfy options or awards it has granted or has agreed to satisfy will not count towards these limits.

In addition, without prior shareholder approval, the New EBT will not, at any one time, hold more than 5% of the ordinary share capital of the Company (other than for the purposes of satisfying awards/ options that it has granted or agreed to satisfy). Unless directed otherwise the trustee of the New EBT will waive any dividends paid on the Shares settled in the trust fund.

8. SIGNIFICANT SHAREHOLDERS

Insofar as is known to the Company, as at the date of this Prospectus, the persons set out in the tables below are expected to have notifiable interests in 3% or more (being the threshold for notification of interests that applies to the Company and Shareholders as of Admission pursuant to Chapter 5 of the Disclosure and Transparency Rules) of the issued share capital of the Company. Expected interests both on and following Admission are disclosed in the tables below (and are calculated on the basis that there is no exercise of the Over-allotment Option). An updated table will be published in the Pricing Statement:

(A) Bottom of the Price Range

	On Admission		Immediately following Admission	
Shareholder	**Number of Shares [1][2]**	**Percentage of issued share capital [1][2]**	**Number of Shares [1][2][3]**	**Percentage of issued share capital [1][2][3]**
KKR My Best Friend Limited [4][5][6]	223,006,700	44.6%	223,006,700	44.6%
MBF Co-Invest L.P. [4][5]	53,033,314	10.6%	53,033,314	10.6%
MEP Nominee Limited [6][7]	36,146,760	7.2%	27,721,738	5.5%

Notes:

(1) Following completion of the Pre-IPO Reorganisation described in Section 4 (*Group Structure and IPO Reorganisation*) of Part XVIII (*Additional Information*).

(2) Assuming that the Offer Size is set at the mid-point of the Offer Size Range.

(3) Assuming no exercise of the Over-allotment Option.

(4) Each of KKR My Best Friend Limited and MBF Co-Invest L.P. will receive a number of Shares on Admission (as set out above) and an amount of cash following completion of (i) the Pre-IPO Reorganisation and (ii) steps (a) and (b) of the Post-IPO Reorganisation steps described in Section 4.3 (*Group Structure and IPO Reorganisation*) of Part XVIII (*Additional Information*). Each of KKR My Best Friend Limited and MBF Co-Invest L.P. has elected to receive a cash amount (following (i) and (ii) above through repayment of Shareholder Debt held by them) in lieu of and equal in value at the Offer Price to a corresponding number of Shares which they would have otherwise been entitled to receive and sell in the Offer pursuant to the terms of the pre-Admission shareholder arrangements and in accordance with the steps comprising the Pre-IPO Reorganisation. The total proceeds receivable by each of KKR My Best Friend Limited and MBF Co-Invest L.P. are equal to 5.8% of the total value to which they would have been entitled to receive in the form of Shares. Accordingly, KKR My Best Friend Limited will receive a cash amount of £28,879,779 and MBF Co-Invest L.P. will receive a cash amount of £6,867,912.

(5) Assuming KKR My Best Friend Limited, MBF Co-Invest L.P. and the Co-Investors elect to receive their maximum entitlement pursuant to pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement.

(6) Assuming each Beneficial Shareholder elects to sell or otherwise receive (through the repayment of Shareholder Debt) their maximum entitlement pursuant to the pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement.

(7) In the event that each Beneficial Shareholder elects for legal title to their Shares to be issued to Computershare Company Nominees Limited, Computershare Company Nominees Limited (and not MEP Nominee Limited) will hold legal title to such Shares following Admission on behalf of the relevant Beneficial Shareholder with the remainder of Shares which are unallocated and not beneficially owned by Colleagues being transferred to the New EBT.

(B) Top of the Price Range

	On Admission		Immediately following Admission	
Shareholder	**Number of Shares [1][2]**	**Percentage of issued share capital [1][2]**	**Number of Shares [1][2][3]**	**Percentage of issued share capital [1][2][3]**
KKR My Best Friend Limited [4][5][6]	216,248,100	43.2%	216,248,100	43.2%
MBF Co-Invest L.P. [4][5]	51,453,536	10.3%	51,453,536	10.3%
MEP Nominee Limited [6][7]	48,155,365	9.6%	36,185,411	7.2%

Notes:

(1) Following completion of the Pre-IPO Reorganisation described in Section 4 (*Group Structure and IPO Reorganisation*) of Part XVIII (*Additional Information*).

(2) Assuming that the Offer Size is set at the mid-point of the Offer Size Range.

(3) Assuming no exercise of the Over-allotment Option.

(4) Each of KKR My Best Friend Limited and MBF Co-Invest L.P. will receive a number of Shares on Admission (as set out above) and an amount of cash following completion of (i) the Pre-IPO Reorganisation and (ii) steps (a) and (b) of the Post-IPO Reorganisation steps described in Section 4.3 (*Group Structure and IPO Reorganisation*) of Part XVIII (*Additional Information*). Each of KKR My Best Friend Limited and MBF Co-Invest L.P. has elected to receive a cash amount (following (i) and (ii) above through repayment of Shareholder Debt held by them) in lieu of and equal in value at the Offer Price to a corresponding number of Shares which they would have otherwise been entitled to receive and sell in the Offer pursuant to the terms of the pre-Admission shareholder arrangements and in accordance with the steps comprising the Pre-IPO Reorganisation. The total proceeds receivable by each of KKR My Best Friend Limited and MBF Co-Invest L.P. are equal to 12.2% of the total value to which they would have been entitled to receive in the form of Shares. Accordingly, KKR My Best Friend Limited will receive a cash amount of £78,099,040 and MBF Co-Invest L.P. will receive a cash amount of £18,582,692.

(5) Assuming KKR My Best Friend Limited, MBF Co-Invest L.P. and the Co-Investors elect to receive their maximum entitlement pursuant to pre-Admission shareholder arrangements and in accordance with the terms of the Reorganisation Agreement.

(6) Assuming Beneficial Selling Shareholder elects to sell or otherwise receive (through the repayment of Shareholder Debt) their maximum entitlement pursuant to the pre-Admission stockholder arrangements and in accordance with the terms of the Reorganisation Agreement.

(7) In the event that each Beneficial Shareholder elects for legal title to their Shares to be issued to Computershare Company Nominees Limited Computershare Company Nominees Limed (and not MEP Nominee Limited) will hold legal title to such Shares following Admission on behalf of the relevant Beneficial Shareholder with the remainder of Shares which are unallowed and not beneficially owned by Colleagues being transferred to the New EBT.

Immediately after Admission:

(a) other than the Principal Shareholder, the Company is not aware of any persons who, directly or indirectly, jointly or severally, will exercise or could exercise control over the Company; and

(b) none of the Shareholders set out above has or will have different voting rights.

9. RELATIONSHIP WITH PRINCIPAL SHAREHOLDER

The Company notes that the UKLA is currently consulting, among other things, on changes to the Listing Rules in relation to companies with controlling shareholders and relationship agreements (CP13/15). As at the date of this Prospectus, the proposed changes have been published in draft form only and, as such, the Company is unaware of the form, if any, in which such proposals will be finally implemented.

9.1 *Relationship Agreement*

On 27 February 2014, the Company entered into a relationship agreement with KKR My Best Friend Limited (the "**Relationship Agreement**"), which will come into force on Admission. The principal purpose of the Relationship Agreement is to ensure that the Company is capable at all times of carrying on its business independently of the Principal Shareholder.

If any person acquires control of the Company or the Company ceases to be admitted to the Official List, the Relationship Agreement may be terminated by the Principal Shareholder. If the Principal Shareholder (together with its associates) ceases to hold 10% or more of the voting rights over the Company's Shares, the Relationship Agreement shall terminate save for certain specified provisions.

The Relationship Agreement provides that:

(a) all transactions shall be on arm's length terms and on a normal commercial basis and the Principal Shareholder shall, and shall take all reasonable steps to ensure that its associates shall abstain from voting on any resolution to approve a related party transaction involving it or its associates required for the purposes of Chapter 11 of the Listing Rules;

(b) the Principal Shareholder shall not, and shall procure, so far as it is able, that its associates shall not exercise its voting rights to prevent the Company from being managed in accordance with the UK Corporate Governance Code, save as disclosed in this Prospectus or as agreed by a majority of the independent directors;

(c) neither the Principal Shareholder nor any of its associates shall take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules; and

(d) the Principal Shareholder shall not, and shall procure, so far as it is able, that its associates shall not vote in favour of or propose any shareholder resolution which would be inconsistent with or reduce the parties' rights set out in the Relationship Agreement or prevent there being a majority of independent directors on the Board otherwise than on a temporary basis pending the election or appointment of future independent directors.

The Company also has agreed that, for so long as the Relationship Agreement is in effect, the Principal Shareholder will be entitled to appoint two non-executive directors to the Board for so long as the Principal Shareholder (and/or any of its associates when taken together) hold 20% or more of the voting rights over the Company's Shares and one non-executive director to the Board for so long as the Principal Shareholder and/or any of its associates holds 10% or more but less than 20% of the voting rights over the Company's Shares. The Principal Shareholder shall also be entitled to appoint one observer to the Board for so long as it holds voting rights over more than 10% of the Shares. The Chairman, Tony DeNunzio, is a senior adviser to affiliates of the Principal Shareholder and therefore is not deemed to be independent of the Principal Shareholder. Although Tony DeNunzio has not been appointed to the Board as a KKR nominated director

pursuant to the terms of the Relationship Agreement, the Principal Shareholder has agreed that for so long as it has the right to appoint two directors to the Board and Tony DeNunzio is a director, the Principal Shareholder shall not exercise its right to appoint a second director to the Board.

The Principal Shareholder will have certain information rights for the purposes of its accounting or other regulatory requirements. The Principal Shareholder has also undertaken to hold information it receives on the Group in confidence and in accordance with applicable law. The Relationship Agreement confirms that the Principal Shareholder and its associates are not restricted from competing with the Group.

The Relationship Agreement also provides for the Company to provide, subject to certain limitations and exceptions, certain assistance to the Principal Shareholder in the event of a sale of the Shares by the Principal Shareholder at any time following the Offer. The Relationship Agreement provides for the Principal Shareholder to indemnify the Company against certain losses incurred in respect of sales of Shares and for the Principal Shareholder to pay and reimburse the Company for certain costs arising in connection with the assistance provided by the Company in the event of a sale of the Shares by the Principal Shareholder at any time following the Offer. The Relationship Agreement is governed by the laws of England.

The Board believes that the terms of the Relationship Agreement will enable the Company to carry on its business independently from the Principal Shareholder and its affiliates, and ensure that all transactions and relationships between the Company and the Principal Shareholder are, and will be, at arm's length and on a normal commercial basis.

10. RELATED PARTY TRANSACTIONS

Details of related party transactions entered into by members of the Group during the period covered by the financial information and up to the date of this Prospectus are set out in note 26 (*Related Parties*) of Part XIII (*Historical Financial Information*).

In addition:

(a) the Relationship Agreement has been entered into between the Company and KKR My Best Friend Limited to ensure that the Company is capable at all times of carrying on its business independently of the Principal Shareholder (and its associates). The Company has also undertaken to cooperate with the Principal Shareholder in the event of a sale of the Shares by the Principal Shareholder at any time following the Offer. See Section 9 (*Relationship with Principal Shareholder*) of this Part XVIII (*Additional Information*) for further details on the Relationship Agreement.

(b) The Reorganisation Agreement has been entered into between (amongst others) the Company, the Principal Shareholder, certain Group companies, the Executive Directors and the Senior Executives. Pursuant to the terms of the Reorganisation Agreement and the steps comprising the Pre-IPO Reorganisation, each of KKR My Best Friend Limited, MBF Co-Invest L.P. and the Executive Directors has agreed to transfer, conditional upon and with effect from Admission, their existing interests in PAH Lux S.à r.l., Manco 1 Limited, Manco 2 Limited and/or PAH UK Midco Limited in each case, as may be applicable, for Shares in the Company and/or a cash amount to be received through the repayment of Shareholder Debt. For more details on the Reorganisation Agreement and the Pre-IPO Reorganisation, see Section 4 (*Group Structure and IPO Reorganisation*) of this Part XVIII (*Additional Information*).

(c) In connection with the provision of the New Senior Facilities Agreement, KKR Capital Markets, an affiliate of the Principal Shareholder, is entitled to receive a syndication agent fee equal to 0.50% of the total commitments as at the date of New Senior Facilities Agreement, such fee to be payable on the First Utilisation Date.

(d) In connection with the loan agreement entered into with CCMSL, KKR Capital Markets, an affiliate of the Principal Shareholder, is entitled to receive a fee equal to 2% of the commitments under such loan agreement (being £20 million) subject to a rebate of 50% of such fee if the loan agreement is refinanced on or prior to 31 March 2014. In the event that the facility under the loan agreement remains available on 30 June 2014, and each quarter end thereafter, additional fees are payable.

(e) On 18 February 2014, KKR Capital Markets (together, with other Joint Global Coordinators), an affiliate of the Principal Shareholder, entered into an engagement letter with Pets at Home Interco Limited in respect of the provision of services in connection with the Offer. KKR Capital Markets is acting as one of the Joint Global Coordinators in connection with the Offer.

(f) The Company and the Principal Shareholder have entered into the Underwriting Agreement with, amongst others, KKR Capital Markets, an affiliate of the Principal Shareholder. Pursuant to the terms of the Underwriting Agreement, KKR Capital Markets, has agreed, subject to the execution of the Sale and Purchase Memorandum and other terms and conditions, to severally (i) use its reasonable endeavours to procure subscribers for and purchasers, as the case may be, or failing which (ii) to subscribe for or purchase, as the case may be for itself, at the Offer Price, the Shares to be issued or sold pursuant to the Institutional Offer and the Intermediaries Offer. KKR Capital Markets shall be paid its share of the fees and commissions to be paid to the Underwriters in connection with underwriting the Institutional Offer and Intermediaries Offer. The Company, the Directors and the Principal Shareholder have given certain representations, warranties and undertakings (including in respect of lock-up undertakings) to KKR Capital Markets and certain other parties. Further details of the Underwriting Agreement, are set out in Section 11 (*Material Contracts*) of this Part XVIII (*Additional Information*).

(g) On 19 March 2010 PAH UK Bidco Limited (formerly KKR My Best Friend UK Bidco Limited) entered into an advisory services agreement with Kohlberg Kravis Roberts & Co L.P. (the "**Adviser**"), an affiliate of the Principal Shareholder, pursuant to which the Adviser agreed to provide certain consulting and management advisory services to the Group (the "**Advisory Services Agreement**").

The parties have agreed to terminate the Advisory Services Agreement conditional upon and with effect from Admission. In accordance with the terms of the Advisory Services Agreement, the Adviser shall be paid a fee of £8 million[1] on Admission.

(h) Pets at Home Limited, Nick Wood and an affiliate of the Principal Shareholder ("**KKR Investor**") entered into arrangements in March 2013 to facilitate the acquisition by NW PAH Investment LLP, a limited liability partnership incorporated under the United Kingdom Limited Liability Partnerships Act 2000 and controlled by Nick Wood and KKR Investor, of shares in Manco 1 Limited. In March 2013 Nick Wood together with KKR Investor made capital contributions to NW PAH Investments LLP of £300,000 and £700,000 respectively. The amount of capital invested by KKR Investor was lent to KKR Investor pursuant to a loan agreement with Pets at Home Limited. The return on capital invested by KKR Investor accrues at 8% per annum compounded annually and is calculated on a daily basis. Prior to Admission, NW PAH Investments LLP will distribute its assets to Nick Wood and KKR Investor, with Nick Wood receiving shares in Manco 1 Limited and KKR Investor receiving its priority return of capital by way of a payment obligation assumed by Nick Wood. Nick Wood's shares in Manco 1 Limited will be exchanged for Shares in accordance with the steps comprising the Pre-IPO Reorganisation further described in Section 4.2 (*Group Structure and IPO Reorganisation*) of Part XVIII (*Additional Information*). It has been agreed that Nick Wood will satisfy this payment obligation out of the proceeds of the sale of shares pursuant to the Offer and that NW PAH Investments LLP will be disolved shortly after Admission. KKR Investor will repay all amounts owed to Pets at Home Limited following receipt of payment from Nick Wood.

(i) DeNunzio Associates Ltd, a company in which Tony DeNunzio is interested, provides consulting services to the Group pursuant to a consulting agreement. This agreement will be terminated on Admission.

It is expected that from time to time there may be ordinary course transactions with affiliates of the Principal Shareholder on normal arms length commercial terms.

Save as set out above, and for the related party transactions set out in the financial information in note 26 (*Related Parties*) of Part XIII (Historical Financial Information) and the information contained in Section 9 (*Relationship with Principal Shareholder*) of this Part XVIII (*Additional Information*), there are no related party transactions that were entered into during the period covered by the historical financial information and during the period from 2 January 2014 to the date of this Prospectus.

11. MATERIAL CONTRACTS

Save as disclosed below, there are no contracts (other than contracts entered into in the ordinary course of business) to which the Company or any member of the Group is a party which: (i) are, or may be, material to the Group and which have been entered into in the two years immediately preceding the date of this Prospectus; or (ii) contain obligations or entitlements which are, or may be, material to the Group as at the date of this Prospectus.

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[1] Assuming the Offer Price is set at mid-point at the Price Range and the Offer Size is set at the mid-point of the Offer Size Range.

Underwriting and Related Agreements

On 28 February 2014 the Company, the Directors, the Principal Shareholder, the Selling Shareholder, the Over-allotment Shareholders and the Underwriters entered into the Underwriting Agreement pursuant to which the Underwriters have agreed, subject to the execution by the Company, the Selling Shareholder, the Over-allotment Shareholders and the Underwriters of the Sale and Purchase Memorandum and other terms and conditions, to severally (and not jointly or jointly and severally) (i) use their reasonable endeavours to procure subscribers and purchasers, as the case may be, or failing which (ii) to subscribe for or purchase, as the case may be, for themselves, at the Offer Price, the Shares to be issued or sold pursuant to the Institutional Offer and the Intermediaries Offer.

The Underwriting Agreement contains, amongst others, the following further provisions:

(a) the Company has appointed BofA Merrill Lynch as Sponsor and each of BofA Merrill Lynch, Goldman Sachs and KKR Capital Markets as Joint Global Coordinators and Joint Bookrunners and Nomura as Co-Lead Manager in connection with the Institutional Offer and the Intermediaries Offer;

(b) the Over-allotment Shareholders have granted to Merrill Lynch International as Stabilising Manager, an Over-allotment Option pursuant to which the Stabilising Manager may require the Over-allotment Shareholders to sell Shares (in an amount of up to 15% of the aggregate number of Shares to be made available in the Offer) at the Offer Price to cover over-allotments, if any, made in connection with the Offer and/or, amongst other things, to cover any short positions resulting from stabilisation transactions. The Over-allotment Option may be exercised at any time up to and including the Stabilisation End Date. Save as required by law or by regulation, neither the Stabilising Manager nor its agents intend to disclose the extent of any over-allotments made and/or any stabilisation transactions;

(c) the several obligations of the Underwriters to (i) use their reasonable endeavours to procure subscribers and purchasers, as the case may be, or failing which (ii) to subscribe for or purchase, as the case may be, the Shares issued or to be sold pursuant to the Institutional Offer and the Intermediaries Offer themselves pursuant to the Underwriting Agreement, are subject to certain conditions that are typical for an agreement of this nature including, amongst others, execution of the Sale and Purchase Memorandum, Admission having occurred by not later than 8.00 a.m. (London time) on 18 March 2014 (or such later time and/or date as the Joint Global Coordinators may agree being not later than 25 March 2014) and there having occurred no material adverse change in relation to the Group prior to Admission. The Joint Global Coordinators may terminate the Underwriting Agreement prior to Admission in certain customary circumstances, including, among others, the occurrence of a material adverse change in relation to the Group and certain changes in market and economic conditions. The Underwriting Agreement will become unconditional, upon Admission;

(d) subject to, among other things, the conditions set out in the Underwriting Agreement having been satisfied or waived and the Underwriting Agreement not having been terminated prior to Admission, the Company and the Selling Shareholder have agreed that the Settlement Manager may deduct (on behalf of itself and the other Underwriters) from the aggregate gross proceeds of the Institutional Offer and the Intermediaries Offer payable to each of the Company and the Selling Shareholder a commission of 2% of the amount equal to the Offer Price multiplied by the aggregate number of New Shares or Existing Shares (excluding Over-allotment Shares) agreed to be issued or sold (as applicable) by the Company or the Selling Shareholder in the Institutional Offer and Intermediaries Offer, together with an amount equal to any applicable VAT payable thereon. In addition, it is agreed that the Stabilising Manager may deduct (on behalf of itself and the other Underwriters) from the proceeds payable to the Over-allotment Shareholders a commission of 2% of the amount equal to the Offer Price multiplied by the total number of Over-allotment Shares transferred in accordance with the Underwriting Agreement, together with an amount equal to any applicable VAT payable thereon. In addition, the Company may, in its absolute discretion and subject to the agreement of the Principal Shareholder, as to the amount (if any) and as to the allocation between the Underwriters, pay to the Settlement Manager (on behalf of itself and the other Underwriters) a further fee of up to 1.25% of the aggregate gross proceeds of the Institutional Offer and Intermediaries Offer (including any proceeds from the sale of the Over-allotment Shares). In respect of the Intermediaries Offer, the Company and the Underwriters have agreed that (i) a commission of 1% of the amount equal to the Offer Price multiplied by the number of New Shares allocated to and paid for by an Intermediary (the "**Intermediary Fee**"), together with an amount equal to any VAT payable thereon, shall be paid to each Intermediary by the Settlement Manager (on behalf of the Company) out of the aggregate proceeds to be received by the Company, in connection with the Offer; and (ii) a commission of 0.25%

of the amount equal to the Offer Price multiplied by the number of New Shares allocated to and paid for by an Intermediary (the "**Intermediary Adviser Fee**") together with an amount equal to any VAT payable thereon shall be paid to the Intermediary Offer Adviser by the Settlement Manager (on behalf of the Company) out of the aggregate proceeds to be received by the Company, in connection with the Offer. In addition the Company and the Underwriters have agreed that a commission of 0.25% of the amount equal to the Offer Price multiplied by the number of Shares acquired by investors set out in a list provided by the Intermediary Offer Adviser and agreed with the Joint Global Coordinators in connection with the Institutional Offer (the "**Intermediary Adviser Agreed List Fee**") together with an amount equal to any VAT payable thereon shall be paid to the Intermediary Offer Adviser by the Settlement Manager (on behalf of the Company) out of the aggregate proceeds to be received by the Company in connection with the Offer. The aggregate commissions and fees payable to the Underwriters by the Company in connection with the Institutional Offer and the Intermediaries Offer shall be reduced by the aggregate of the Intermediary Fee paid to each Intermediary, the Intermediary Adviser Fee and the Intermediary Adviser Agreed List Fee;

(e) the Company has agreed to pay or cause to be paid (together with, in each case, any related VAT) certain costs, charges, fees and expenses of, or in connection with, or incidental to, amongst other things, the Offer and/or Admission. The Selling Shareholder and, as may be applicable, the Over-allotment Shareholders have agreed to pay or cause to be paid (together with any related VAT) certain costs, charges, fees and expenses expressed in the Underwriting Agreement to be payable by them in connection with, or incidental to, amongst other things the sale of Existing Shares (including the Over-allotment Shares) in the Offer;

(f) the Company has undertaken, amongst other things, not to (and shall procure that no member of the Group will), for the period ending 60 days from the date of Admission without the prior consent of the Joint Global Coordinators, and for a further period of 30 days ending on the date 90 days from the date of Admission without prior consultation with the Joint Global Coordinators, enter into any agreement, commitment or arrangement and which is or is reasonably likely to be material in the context of the business or affairs of the Company and/or the Group or in relation to application for Admission or the Offer, provided that the foregoing shall not apply to any agreement, commitment or arrangement which is set out or described in the Group's business plan and/or the Prospectus, is in the ordinary course of business or has otherwise been approved by any member of the Group prior to the date of the Underwriting Agreement;

(g) the Company, Selling Shareholder, the Over-allotment Shareholders, (including the Principal Shareholder) and the Directors have given certain representations and warranties to the Underwriters and, in addition, the Company has given certain indemnities to the Underwriters. The Company's liabilities are unlimited as to time and amount, the liabilities of the Selling Shareholder and the Over-allotment Shareholders are limited as to amount, and the Directors' liabilities are limited as to time and amount;

(h) the Company has agreed that, subject to certain customary exceptions, during the period of 365 days from the date of Admission, neither it nor any member of its group will, without the prior written consent of the Joint Global Coordinators, directly or indirectly, issue, offer, allot, lend, mortgage, assign, charge, pledge, sell or contract to sell or issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering or issue of, any Shares (or any interest therein or in respect thereof) or any other securities exchangeable for, or convertible into, or substantially similar to, Shares or enter into any transaction with the same economic effect as any of the foregoing;

(i) each of the Principal Shareholder and MBF Co-Invest L.P. has agreed that, subject to certain customary exceptions, during the period of 180 days from the date of Admission, it will not, without the prior written consent of the Joint Global Coordinators, directly or indirectly, offer, issue, lend, mortgage, assign, charge, pledge, sell or contract to sell, issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering or issue of any Shares (or any interest therein or in respect thereof) or any other securities exchangeable for, or convertible into, or substantially similar to, Shares or enter into any transaction with the same economic effect as any of the foregoing;

(j) each of the Directors have agreed that, subject to certain customary exceptions, during the period of 365 days from the date of Admission, they will not, without the prior written consent of the Joint Global Coordinators, directly or indirectly, offer, issue, lend, mortgage, assign, charge, pledge, sell or contract to sell, issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering or issue of any Shares (or any interest therein or in respect thereof) or any other securities exchangeable for, or convertible into, or substantially similar to, Shares held by them after Admission

or any Shares which accrue to them as a result of such holding or enter into any transaction with the same economic effect as any of the foregoing; and

(k) Certain of the Directors, the Senior Executives, the Co-Investors and certain of the Group's Colleagues have agreed to lock-up or further lock-up restrictions with the Company following Admission. For more details of these arrangements, see Section 12 (*Lock-up arrangements*) of Part XVII (*The Offer*).

Stock Loan Agreement

In connection with the arrangements detailed in Section 9 (*Over-allotment and Stabilisation*) of Part XVII (*The Offer*), the Stabilising Manager has entered into a Stock Loan Agreement with the Over-allotment Shareholders, pursuant to which the Stabilising Manager will be able to borrow, from the Over-allotment Shareholders free of charge, Shares on Admission up to an amount equal to 15% of the size of the Offer for the purposes, amongst other things, of allowing the Stabilising Manager to settle, at Admission, over-allocations, if any, made in connection with the Offer. If the Stabilising Manager borrows any Shares pursuant to the Stock Loan Agreement it will be required to return equivalent securities to the Over-allotment Shareholders by no later than three Business Days following the Stabilisation End Date.

Reorganisation Agreement

On 28 February 2014, the Company, Pets at Home No. 1 Limited and a number of the Group companies entered into a reorganisation agreement in connection with proposed initial public offering of the Company with existing direct and indirect shareholders of the Group (the "**Reorganisation Agreement**"). Details of the reorganisation steps governed by the Reorganisation Agreement are set out in Sections 4.2 and 4.3 of this Part XVIII (*Additional Information*). The Reorganisation Agreement also contains provisions governing the determination of the number or shares and securities to be transferred, issued, redeemed or repaid as part of the various reorganisation steps and certain warranties and undertakings by the parties. Under the Reorganisation Agreement, the Company will also give an indemnity to each of PAH UK Finco Limited, PAH Lux S.à r.l., Manco 1 Limited and Manco 2 Limited, together with an undertaking in favour of the liquidation of each such company, in a customary form including in respect of any liquidation distributions. KKR My Best Friend Limited has also agreed that it will acquire the Transferring Companies for nominal consideration as part of the steps comprising the Post-IPO Reorganisation.

Advisory Services Agreement

On 19 March 2010 PAH UK Bidco Limited entered into the Advisory Services Agreement with Kohlberg Kravis Roberts & Co. L.P.

The parties have agreed to terminate the Advisory Services Agreement conditional upon and with effect from Admission. In accordance with the terms of the Advisory Services Agreement, Kohlberg Kravis Roberts & Co. L.P. shall be paid a fee of £8 million on Admission, assuming that the Offer Price is set at the mid-point of the Price Range and the Offer Size is set at the mid-point of the Offer Size Range.

Intermediaries Agreement

The Company, the Joint Global Coordinators, the Intermediaries Offer Adviser and the Intermediaries who have been appointed by the Company prior to the date of this Prospectus have entered into an intermediaries agreement dated 18 February 2014 pursuant to which:

- the Intermediaries agree that, in connection with the Intermediaries Offer, they will be acting as agent for their clients who apply for shares in the Intermediaries Offer (the "**Underlying Applicants**"). None of the Company, the Intermediaries Offer Adviser, the Underwriters or any of their respective representatives will have any liability to the Intermediaries for liabilities, costs or expenses incurred by the Intermediaries in connection with the Intermediaries Offer;
- the Intermediaries Offer Adviser agrees to coordinate applications from the Intermediaries under the Intermediaries Offer. Determination of the Offer Price and the number of Shares offered will be determined solely by the Company and Principal Shareholder (in consultation with the Joint Global Coordinators). Allocations to Intermediaries will be determined solely by the Company, the Principal Shareholder and the Joint Global Coordinators;
- the Intermediaries agree to procure the investment of the maximum number of Shares which can be acquired at the Offer Price for the sum applied for by such Intermediaries on behalf of their respective Underlying Applicants;

- a minimum application of £1,000 per Underlying Applicant will apply. Intermediaries agree to take reasonable steps to ensure that they will not make more than one application per Underlying Applicant;
- conditional upon Admission, the Company agrees to pay the Intermediaries a commission of 1.00% of the aggregate value of the Shares allocated to and paid for by each Intermediary in the Intermediaries Offer. This commission shall be deducted by the Settlement Manager from the gross proceeds of the Intermediaries Offer. No Intermediary shall be entitled to deduct any of this commission from any amount they are required to pay under the Intermediaries Offer;
- the Intermediaries give certain undertakings regarding their use of information in connection with the Intermediaries Offer. The Intermediaries also give undertakings regarding the form and content of written and oral communications with clients and other third parties; and
- the Intermediaries also give representations and warranties which are relevant for the Intermediaries Offer, and indemnify the Company, the Intermediaries Offer Adviser, the Underwriters and their respective representatives against any loss or claim arising out of any breach or alleged breach by them of the Intermediaries Terms and Conditions or as a result of a breach or alleged breach of any duties or obligations under FSMA or under any rules of the FCA or any applicable laws or as a result of any other act or omission by the Intermediary in connection with the subscription for and/or resale of Shares by the Intermediaries or any Underlying Applicant.

Existing Senior Facilities Agreement

PAH UK Holdco Limited and certain of its subsidiaries are party to the Existing Senior Facilities Agreement which provides for the following facilities, all of which are to be refinanced in full on Admission:

- a £75 million term loan A which was drawn down in full in March 2010 by PAH UK Bidco Limited (of which £38.7 million remains outstanding as of 2 January 2014), and which amortises from 30 March 2011 with the final repayment on 23 March 2016. Borrowings under this facility bear interest at LIBOR plus mandatory costs plus a margin varying between 3.00% and 4.50%;
- a £270 million term loan B which was drawn down in full in March 2010 by PAH UK Bidco Limited (of which £265.3 million remains outstanding as of 2 January 2014) and a £130 million term loan C which was drawn down in full in June 2012 by PAH UK Bidco Limited (of which £128.9 million remains outstanding as of 2 January 2014). Repayment of term loans B and C is to be made through a single, bullet repayment on 23 March 2017 in respect of term loan B and on 23 March 2018 in respect of term loan C. Borrowings under these facilities bear interest at LIBOR plus mandatory costs plus a margin varying between 4.50% and 5.00%;
- a £135 million term loan D which was drawn down in full in April 2013 by PAH UK Bidco Limited (of which £135.0 million remains outstanding as of 2 January 2014). Repayment of term loan D is to be made through a single, bullet repayment on 30 March 2019. Borrowings under this facility bears interest at LIBOR plus mandatory costs plus a margin varying between 4.50% and 5.00%; and
- a £30 million revolving facility which commenced in March 2010 and can be drawn down as required and is available until 23 March 2016. As of 30 January 2014 of £3.6 million of this facility has been allocated to available ancillary facilities. Borrowings under this facility bear interest at LIBOR plus mandatory costs plus a margin varying between 3.00% and 4.50%.

New Senior Facilities Agreement

On 18 February 2014, the Company entered into the New Senior Facilities Agreement with, amongst others, Bank of America Merrill Lynch International Limited, Barclays Bank PLC, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, GE Corporate Finance Bank SAS, Goldman Sachs Bank USA, Lloyds Bank plc, Mizuho Bank, Ltd and Nomura International plc as arrangers, Bank of America Merrill Lynch International Limited, Barclays Bank PLC, Commerzbank Aktiengesellschaft, Crédit Agricole Corporate and Investment Bank, GE Corporate Finance Bank SAS, Goldman Sachs Bank USA, Lloyds Bank plc, M&G Conservative European Loan Fund Limited, M&G European Loan Fund Limited, M&G Versatile European Loan Fund Limited, Mizuho Bank, Ltd, Nomura

International plc and Stichting Shell Pensioenfonds as original lenders ("**Original Lenders**") and GE Corporate Finance Bank SAS, London Branch, as facility agent ("**Facility Agent**") and security agent ("**Security Agent**"). Under the New Senior Facilities Agreement, the following facilities are made available to Pets at Home Group Plc and certain of its subsidiaries (i) a term loan A facility of £90 million ("**Facility A**"), (ii) a term loan B facility of £235 million ("**Facility B**" and together with Facility A, the "**Term Facilities**"), and (iii) a revolving credit facility of £30 million (the "**Revolving Credit Facility**" and together with the Term Facilities, the "**Facilities**").

The Term Facilities may be utilised by way of loans for the purpose of (directly or indirectly) refinancing the indebtedness of the Group, financing the transaction costs, and/or financing or refinancing the general corporate purposes of the Group. The Revolving Credit Facility may be utilised by way of loans and/or letters of credit for the purpose of (directly or indirectly) financing or refinancing the general corporate purposes and/or working capital requirements of the Group. The Revolving Credit Facility may also be utilised by way of ancillary facilities provided by the lenders of the Revolving Credit Facility on a bilateral basis.

Facility A is required to be repaid in semi-annual installments from 1 October 2015 with the final instalment due on the date which falls 60 months after the date of first drawdown under the New Senior Facilities Agreement (the "**First Utilisation Date**"). Facility B is required to be repaid in one single repayment due on the date which falls 72 months after the First Utilisation Date. Each loan made under the Revolving Credit Facility is repayable on the last day of its interest period. The interest period of a loan made under the Revolving Credit Facility can be one, two, three or six months or any such period as agreed by the Facility Agent (or if greater than 6 months, all lenders participating in the relevant loan). The scheduled final maturity date of the Revolving Credit Facility is the date which falls 60 months after the First Utilisation Date.

Interest is payable on amounts drawn by way of loans under the New Senior Facilities Agreement at a margin over LIBOR or, in the case of a loan in euros, EURIBOR ranging between (i) in respect of Facility A and the Revolving Credit Facility, 1.50% and 2.25% (depending on the ratio of total net debt to consolidated EBITDA) and (ii) in respect of Facility B, 1.75% and 2.50% (depending on the ratio of total net debt to consolidated EBITDA. For the first 12 months following the First Utilisation Date, the margin is fixed at 2.00% for Facility A and the Revolving Credit Facility and 2.25% for Facility B. Additionally, a commitment fee is payable on unutilised amounts under the Revolving Credit Facility at a rate of 35% of the applicable margin. Customary fees are payable to the Facility Agent and Security Agent and an issuing bank fee of 0.125% is also payable in respect of any bank guarantees in issue.

The New Senior Facilities Agreement is guaranteed by the guarantors thereto, and the Original Lenders' rights under it are secured with reference to first ranking security over all of the Company's and each Guarantor's assets, pursuant to an English law debenture. Such security must be released by the Security Agent if requested by a member of the Group provided certain conditions are met.

The New Senior Facilities Agreement also contains customary prepayment, cancellation and default provisions and customary representations and warranties (subject to certain exceptions and qualifications) and operational and a financial covenant, including:

- if required by a lender, mandatory prepayment of all utilisations provided by that lender upon the sale of all or substantially all of the business and assets of the Group or a change of control;
- a financial covenant (tested twice annually) which require that the ratio of total net debt to consolidated EBITDA, when tested, does not exceed 3.75:1;
- covenants that impose restrictions on the Group's ability to enter mergers, incur additional financial indebtedness, make disposals or make a substantial change to the general nature of the business of the Group (in each case subject to certain exceptions) provided that the restrictions on mergers and financial indebtedness will be suspended upon (i) the ratio of total net debt to consolidated EBITDA being equal to or less than 2.50:1 or (ii) the long term corporate credit rating of the Company (or certain of its affiliates) is equal to or better than Baa3 or BBB- (as applicable) according to at least two of Moody's, Standard & Poor's and Fitch;
- voluntary prepayment of loans or letters of credit (subject to minimum amounts and prior notice);
- events of default including non-payment, failure to comply with financial covenant (subject to equity cure provisions), breaches of representation and other obligors, insolvency and cross default (in relation to certain other financial indebtedness of the Group, subject to a £25 million de minimis threshold) (in each case, subject to customary grace periods and thresholds); and
- certain ongoing financial information provisions.

12. PROPERTY

As of 21 February 2014, the Group operated throughout the United Kingdom from 371 store premises. All of Pets at Home's stores occupy leasehold properties with an average unexpired term of nine years. Seven percent of the Company's stores have leases which are expiring in the next 5 years. These leases typically have a five yearly rent review cycle.

There are fixed and floating charges in favour of GE Corporate Finance Bank SAS that affect the properties. The Company does not believe that there are any other material encumbrances that affect the Group's properties.

No individual store premise, of the Group, accounts for more than 1% of the Group's annual revenue. Details of the material properties of the Group as of 21 February 2014 are set out below:

Location	Primary Use	Size (approx. sq ft)	Own/ Lease	Rent (per annum exclusive of VAT)	Next Rent Review	Term
Epsom Avenue Stanley Green Trading Estate Handforth Cheshire SK9 3RN	Head Office	26,010	Freehold	N/A	N/A	N/A
Stanley Matthews Way Trentham Lakes Stoke on Trent	Northern Distribution Centre	330,000	Leasehold	1,114,200.50	29 September 2016	18 August 2006 - 17 February 2023
Swan Valley Way, Northampton	Southern Distribution Centre	303,000	Leasehold	488,081.25	7 March 2016	11 April 2011 - 6 March 2026

The Company does not believe that there are any material environmental issues which may affect the Group's utilisation of its tangible fixed assets.

13. INTELLECTUAL PROPERTY

As of 21 February 2014, the Group owned 103 registered UK trademarks in relation to its business and its own label and private brand products. These include, among others, trademarks for the main Pets At Home name and logo, Ride-away, Vets4Pets, Companion Care, Fishmongers, Ruff and Tuff, Wainwright's, Wellpet, Willow's, the Boutique logo and the Woodlands logo. In addition, as of 21 February 2014, the Group has registered 2 Pets at Home trademarks and the 2 Vets4Pets trademarks in the European Community. The Group has also registered the Pets At Home trademark in Australia and New Zealand.

As of 21 February 2014, the Group has (i) registered 110 domain names in relation to the Pets at Home business including Ride-away; (ii) 80 registered domain names in relation to the Vets4Pets business; and (iii) 82 in relation to the Companion Care veterinary services business. A number of these domain names are in the course of being renewed.

The Group also holds design rights for 7 'value pack' designs for its own label value range.

The Group is licensed, pursuant to commercial participators' agreements between the Company and its charitable partners including Support Adoption for Pets, the Battersea Cats and Dogs Home, the Dogs Trust and the RSPCA to use such charity's trademarks.

Save as set out above or elsewhere in this Prospectus, the Group is not dependent on any other intellectual property.

As of 21 February 2014, no member of the Group is, or has in the 12 months preceding the date of this Prospectus been, a party to any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) with respect to any infringements by the Group of third party intellectual property rights or brought by a member of the Group against third parties for breach of its intellectual property rights which may have, or have had during the 12 months preceding the date of this Prospectus, a significant effect on the Company or the Group or their respective financial position or profitability.

14. INSURANCE

The Group maintains insurance policies for property damage and business interruption, product liability, employer's liability, vehicle, engineering, personal accidents and business travel, pension fund liabilities,

directors and officers liabilities, computers, marine as well as a specific veterinary practice insurance policy covering the veterinary business for, among others, contents, business interruption, employer's liability, personal assault and legal expenses.

The Company believes that the Group's insurance coverage is in accordance with industry custom, including the terms of and the coverage provided by such insurance. The Group's policies are subject to standard deductions, exclusions and other limitations and therefore insurance might not necessarily cover all losses incurred by the Group. The Group cannot provide any assurance that it will not incur losses or suffer claims beyond the limits of, or outside the relevant coverage of, the Group's insurance policies.

15. HEALTH AND SAFETY

Health and safety is a key priority for the Board and senior management and is an item for review and discussion at each Board meeting. The Board has established a health and safety committee which meets at least on a quarterly basis and is chaired by the Customer, People and Development Director with the agenda led by the Head of Health and Safety. The committee is attended by key individuals in the business that are responsible for certain areas of health and safety including the veterinary business, and Ride-away and the committee is tasked with reviewing the Group's overall health and safety performance. A health and safety policy is in place for the Group which is reviewed on a regular basis.

The distribution centres have their own dedicated health and safety manager and a separate health and safety sub-committee which also meets on a regular basis. The newly integrated veterinary business also has a designated health and safety manager.

The health and safety policy for the Group's Companion Care veterinary services is implemented by an annual assessment by an external company called The Xact Group Ltd, an established provider of compliance and health and safety advice. The Vets4Pets veterinary surgeries had a similar arrangement with a specialist veterinary-specific health and safety advisory service called SalusQP, however, following the acquisition of the Vets4Pets business in 2013 the Group is currently in the process of transferring these surgeries to the Xact contract.

16. SUBSIDIARIES

The Company will become the holding company of the Group with effect and conditional upon Admission. The following table shows details of the Company's significant subsidiaries with effect from that time, the principal activities of which are the provision of pets products and services, veterinary services and equestrian services:

Name of subsidiary	Incorporated and registered in	Proportion of share capital owned by the Group (%)	Principal Activity
Brand Development Limited	Guernsey	100	Services company
Companion Care (Services) Limited	England and Wales	100	Services company
Farm Away Limited	England and Wales	100	Operating company
Les Boues Limited	Jersey	100	Holding company
PAH Retail Limited	England and Wales	100	Holding company
PAH UK Bidco Limited	England and Wales	100	Holding company
PAH UK Holdco Limited	England and Wales	100	Holding company
PAH UK Midco Limited	England and Wales	100	Holding company
PAH Financial Services Limited	England and Wales	100	Asset holding entity
PAH Intermediate Holdings Limited	England and Wales	100	Historic holding company
PAH Investments Limited	England and Wales	100	Historic holding company
PAH Pty Ltd	Australia	100	Intellectual property holding company
Pet City Holdings Limited	England and Wales	100	Holding company
Pet City Limited	England and Wales	100	Lease holding entity
Pets at Home (Asia) Limited	Hong Kong	100	Global sourcing company
Pets at Home Interco Limited	England and Wales	100	Holding company
Pets at Home Holdings Limited	England and Wales	100	Holding company
Pets at Home Limited	England and Wales	100	Operating company
Pets at Home Midco Limited	England and Wales	100	Historic holding company
Pets at Home Retail Limited	England and Wales	100	Previous Group holding company
Pets at Home Superstores Limited	England and Wales	100	Holding company
Pets at Home Vets Group Limited	England and Wales	100	Holding company
Ride-away (York) Limited	England and Wales	100	Operating company
Vets4Pets (I.P.) Ltd	Guernsey	100	Intellectual property holding company
Vets4Pets Limited	Guernsey	100	Services company
Vets4Pets Services Limited	England and Wales	100	Services company
Vets4Pets Veterinary Group Limited	England and Wales	100	Holding company

With effect from Admission, the Company will hold indirect interests in PAH Lux S.à r.l, PAH International Limited and PAH UK Finco Limited as a result steps carried out to effect the Pre-IPO Reorganisation. In accordance with the terms of the Reorganisation Agreement it is envisaged that these companies will be transferred out of the Group prior to 27 March 2014. In addition to the proposed liquidations of Manco 1 Limited and Manco 2 Limited following Admission in accordance with the terms of the Reorganisation Agreement and the steps comprising the Post-IPO Reorganisation, the Board also anticipate that the following non-operating Group companies will be placed into liquidation in 2014: PAH UK Midco Limited, PAH UK Holdco Limited, PAH UK Bidco Limited, Pets at Home Interco Limited, Pets at Home Midco Limited, Pets at Home Retail Limited, PAH Intermediate Holdings Limited and PAH Investments Limited.

17. TAKEOVER BIDS

The City Code on Takeovers and Mergers (the "**City Code**") is issued and administered by The Panel on Takeovers and Mergers (the "**Takeover Panel**"). The Company is subject to the City Code and therefore its Shareholders are entitled to the protections afforded by the City Code.

17.1 *Mandatory bids*

Rule 9 of the City Code provides that, except with the consent of the Takeover Panel, when: (a) any person acquires, whether by a series of transactions over a period of time or not, an interest in shares which (taken together with shares in which persons acting in concert with him are interested) carry 30% or more of the voting rights of a company; or (b) any person, together with persons acting in concert with him, is interested in shares which in the aggregate carry not less than 30% of the voting rights of a company but does not hold shares carrying more than 50% of such voting rights and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested, then, in either case, that person, together with the persons acting in concert with him, is normally required to extend offers in cash, at the highest price paid by him (or any persons acting in concert with him) for shares in the Company within the preceding 12 months, to the holders of any class of equity share capital whether voting or non-voting and also to the holders of any other class of transferable securities carrying voting rights.

17.2 *Squeeze-out*

Under the Companies Act, if a "takeover offer" (as defined in section 974 of the Companies Act) is made for the Shares and the offeror were to acquire, or unconditionally contract to acquire, not less than 90% in value of the shares to which the takeover offer relates (the "**Takeover Offer Shares**") and not less than 90% of the voting rights attached to the Takeover Offer Shares within three months of the last day on which its offer can be accepted, it could acquire compulsorily the remaining 10% It would do so by sending a notice to outstanding shareholders telling them that it will acquire compulsorily their Takeover Offer Shares and then, six weeks later, it would execute a transfer of the outstanding Takeover Offer Shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose Takeover Offer Shares are acquired compulsorily under the Companies Act must, in general, be the same as the consideration that was available under the takeover offer.

17.3 *Sell-out*

The Companies Act also gives minority shareholders a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the Shares and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90% of the Shares to which the offer relates, any holder of Shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those Shares. The offeror is required to give any shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of the minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a shareholder exercises his or her rights, the offeror is bound to acquire those Shares on the terms of the offer or on such other terms as may be agreed.

18. WORKING CAPITAL

In the opinion of the Company, taking into account the Minimum Net Proceeds of the Offer receivable by the Company, the working capital available to the Group is sufficient for the Group's present requirements, that is, for at least the next 12 months from the date of this Prospectus.

19. SIGNIFICANT CHANGE

There has been no significant change in the financial or trading position of the Group since 2 January 2014, the date to which the audited financial information for the Group in Part XIII (*Historical Financial Information*) was prepared.

20. LITIGATION

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have, or have had during the 12 months preceding the date of this Prospectus, a significant effect on the Group or its financial position or profitability.

21. CONSENTS

KPMG LLP (a member of the Institute of Chartered Accountants in England and Wales) has given and has not withdrawn its written consent to the inclusion in this Prospectus of its reports set out in Part XIII (*Historical Financial Information*), Part XIV (*Unaudited Pro Forma Financial Information*) and Part XV (*Profit Forecast*) in the form and context in which they appear and has authorised the contents of those parts of this Prospectus which comprise its reports for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules. As the offered Shares have not been and will not be registered under the Securities Act, KPMG LLP has not filed and will not be required to file a consent under the Securities Act.

22. GENERAL

The total costs and expenses of, and incidental to, Admission and the Offer (including the London Stock Exchange fee, the FCA's listing fee, printer's fees, advisers' fees, professional fees and expenses, the costs of printing and distribution of documents and stamp duty) are estimated to amount to £40 million (excluding VAT) and are payable by the Company.

The financial information contained in this Prospectus which relates to the Company does not constitute full statutory accounts as referred to in section 434(3) of the Companies Act.

The information set out in this Prospectus that has been sourced from third parties has been accurately reproduced and, so far as the Company is aware and has been able to ascertain from that published information, no facts have been omitted which would render the reproduced information inaccurate or misleading. Where third-party information has been used in this Prospectus, the source of such information has been identified.

23. INTERMEDIARIES

The Intermediaries authorised at the date of this Prospectus to use this Prospectus in connection with the Intermediaries Offer are:

Name	Address
Barclays Bank PLC	1 Churchill Place, London E14 5HP
Beaufort Asset Clearance Services Limited	131 Finsbury Pavement, London EC2A 1NT
Hargreaves Lansdown Asset Management Limited	1 College Square South, Anchor Road, Bristol BS1 5HL
iDealing.com Ltd	Quadrant House, 4 Thomas More Square, London E1W 1YW
Interactive Investor Trading Ltd	Standon House, 21 Mansell Street, London E1 8AA
Redmayne-Bentley LLP	9 Bond Court, Leeds LS1 2JZ
Reyker Securities plc	17 Moorgate, London EC2R 6AR
TD Direct Investing (Europe) Ltd	Exchange Court, Duncombe Street, Leeds LS1 4AX
The Share Centre Ltd	Oxford House, Oxford Road, Aylesbury HP21 8SZ
W.H. Ireland Limited	11 St James's Square, Manchester M2 6WH

Any new information with respect to financial intermediaries unknown at the time of the publication of this Prospectus, including in respect of: (i) any intermediary financial institution that is appointed by the Company in connection with the Intermediaries Offer after the date of this Prospectus following its agreement to adhere to and be bound by the Intermediaries Terms and Conditions; and (ii) any Intermediary that ceases to participate in the Intermediaries Offer, will, in each case, be made available on the Company's website at http://investors.petsathome.com.

24. DOCUMENTS FOR INSPECTION

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for the life of this Prospectus at the offices of Simpson Thacher & Bartlett LLP at CityPoint, One Ropemaker Street, London EC2Y 9HU:

(a) the Memorandum and Articles;

(b) the Accountant's Reports;

(c) the letters of consent referred to in the Section "Consents" above; and

(d) this Prospectus.

Dated: 28 February 2014

PART XIX

DEFINITIONS

The following definitions apply throughout this Prospectus unless the context otherwise requires:

2010 PD Amending Directive	Directive 2010/73/EU;
Accountant's Reports	the reports from KPMG LLP which are set out in Parts XIII (*Historical Financial Information*), XIV (*Unaudited Pro Forma Financial Information*) and XV (*Profit Forecast*) of this Prospectus;
Adjusted FY11	the 52 week period ended 24 March 2011;
Adopted IFRS	IFRS as adopted by the European Union;
Admission	admission of the Shares to the premium listing segment of the Official List and to trading on the main market for listed securities of the London Stock Exchange becoming effective;
Advisory Services Agreement	has the meaning given in Section 10 (*Related Party Transactions*) of Part XVIII (*Additional Information*);
AML Regulations	Proceeds of Crime Act 2002, Terrorism Act 2008 and the Money Laundering Regulations 2007;
Articles	the Articles of Association of the Company which have been adopted conditional upon Admission;
ATCA	has the meaning given in Part XI (*Operating and Financial Review*)
Audit and Risk Committee	the audit and risk committee of the Board or a sub-committee of it;
Auditors	KPMG LLP;
Beneficial Shareholders	Colleagues and former Colleagues who will, on Admission, be beneficially interested in Shares;
BofA Merrill Lynch	Merrill Lynch International;
Bribery Act	the Bribery Act 2010;
BTE	BT Expedite's Connected Retailer;
Business Days	days (not being a Saturday or a Sunday) on which banks are generally open for business in London, United Kingdom;
CAGR	Compound Annual Growth Rate;
CCSL	Companion Care (Services) Limited, a private limited company, incorporated in England and Wales with registered number 08878037 and its registered office at Epsom Avenue, Stanley Green Trading Estate, Handforth, Cheshire SK9 3RN;
CCMSL	Companion Care Management Services Limited, a private limited company, incorporated in England and Wales with registered number 08878037 and its registered office at Epsom Avenue, Stanley Green Trading Estate, Handforth, Cheshire SK9 3RN;

CEO	chief executive officer;
CFO	chief financial officer;
CGU	Cash Generating Units;
Chairman	Tony DeNunzio;
Charity	Support Adoption for Pets;
CIP	the Pets at Home Group Plc co-investment plan as more particularly described in Section 7.1 (*The CIP*) of Part XVIII (*Additional Information*);
City Code	the City Code on Takeovers and Mergers;
CISA	Swiss Federal Act on Collective Investment Schemes;
Co-Investors	Anthony Preston, John Farrell, Catriona Marshall, Matthew Davies, Kathryn Toft, Dominic Jordan, Highbridge and Oregon;
Code	the Internal Revenue Code of 1986;
Colleague Offer	the offer of Shares to Eligible Colleagues as described in Sections 4 (*Colleague Offer*) and 16 (*Colleague Offer Terms and Conditions*) Part XVII (*The Offer*);
Colleague Offer Terms and Conditions	the terms and conditions upon which Computershare has agreed to be appointed as administrator to the Colleague Offer, details of which are set out in Section 16 of Part XVII (*The Offer*);
Colleague Offer Website	the Colleague Offer website at www.computershare.com/PETSatHOME;
Colleague Share Schemes	the CIP, CSOP, PSP, SAYE and SIP;
Colleague Trusts	the Existing EBT and the New EBT;
Colleagues	the term used internally by the Group to refer to Group employees;
Co-Lead Manager	Nomura;
Companies Act	the UK Companies Act 2006, as amended;
Company or Issuer	Pets at Home Group Plc, a public limited liability company incorporated under the laws of England and Wales, with its registered office at Epsom Avenue, Stanley Green Trading Estate, Handforth, Cheshire, SK9 3RN;
Compound annual growth rate	the year-over-year growth rate calculated as a percentage over a specified period of time;
Computershare	Computershare Investor Services PLC in its capacity as administrator to the Colleague Offer;
Corporations Act	Australian Corporations Act 2001;
Costs of products sold	the cost of products sold before promotional and over-rider discounts;
CREST	the electronic transfer and settlement system for the paperless settlement of trades in listed securities operated by Euroclear UK & Ireland Limited;

CSOP	the Pets at Home Group Plc tax approved CSOP scheme as more particularly described in Section 7.2 (*The CSOP*) of Part XVIII (*Additional Information*);
Deputy Chairman and Senior Independent Director	Dennis Millard;
DFSA	Dubai Financial Services Authority;
DIF	direct import facility;
Directors or Board	the Executive and Non-Executive Directors of the Company;
Disclosure and Transparency Rules	the rules made by the FCA under Part VI of FSMA relating to the disclosure of information (as amended from time to time);
EBITDA	has the meaning given to in Section 3.3 (*Non-adopted IFRS Information*) of Part V (*Important Information*);
Element	as described in Part I (*Summary*);
Eligible Colleague	means a Colleague or a Director of the Company as at the date of this Prospectus whom is aged 18 or over, has a United Kingdom or Isle of Man address or is located in the United Kingdom or the Isle of Man and who (i) remains employed continuously by a Group company until Admission; (ii) has not been served notice of termination of employment or notice of redundancy at any time prior to Admission; or (iii) has not resigned prior to Admission;
European Economic Area or EEA	the European Union, Iceland, Norway and Liechtenstein;
European Union or EU	an economic and political union of 27 Member States which are located primarily in Europe;
Eurozone	the Member States of the European Union that have adopted the euro as their common currency and sole legal tender;
Exchange Act	the United States Securities Exchange Act of 1934, as amended;
Executive Directors	each of Nick Wood and Ian Kellett;
Existing EBT	the Group's existing employee benefit trust, constituted by a trust deed dated 25 February 2005, as amended by a deed of amendment on 4 July 2008 and entered into between (i) PAH Group Interco Limited (formerly Pets at Home Group Limited), (ii) Pets at Home Retail Limited and (iii) the Trustee, as more particularly described in Section 7.6 (*The Existing EBT*) of Part XVIII (*Additional Information*);
Existing Senior Facilities Agreement	has the meaning given to it in Part XI (*Operating and Financial Review*);
Existing Shareholder	a person who is entitled to receive Shares conditional upon and with effect from Admission in exchange for securities held (indirectly) in the Group prior to Admission pursuant to the terms of Reorganisation Agreement;
Existing Shares	the issued share capital of the Company to be issued to Existing Shareholders conditional upon and with effect from Admission pursuant to the terms of the Reorganisation Agreement, excluding, for the avoidance of doubt, the New Shares;

Facility Agent	GE Corporate Finance Bank SAS;
Facilities	has the meaning given to it in Part XI (*Operating and Financial Review*);
FCA	the UK Financial Conduct Authority;
Financial Instruments and Exchange Act	Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended);
Financial Promotion Order	Financial Services and Markets Act 2000 (Financial Promotion) Order 2005;
First Utilisation Date	has the meaning given in Part XI (*Operating and Financial Review*);
FSMA	the UK Financial Services and Markets Act 2000, as amended;
FY11	the 53 week period ended 31 March 2011;
FY12	the 52 week period ended 29 March 2012
FY13	the 52 week period ended 28 March 2013;
FY14	the 52 week period ended 27 March 2014;
Goldman Sachs	Goldman Sachs International;
Gross Margin	has the meaning given to in Section 3.3 (*Non-adopted IFRS Information*) of Part V (*Important Information*);
Gross Store Revenue	revenue in store including click and collect before basket discounts excluding services;
Group or Pets at Home	(i) with effect from Admission, or otherwise as the context may require, the Company and its subsidiaries and subsidiary undertakings from time to time but excluding, except where the context otherwise requires, following the completion of the Post-IPO Reorgansation, each of the Transferring Companies, Manco 1 Limited and Manco 2 Limited; and (ii) prior to Admission, PAH Retail Limited and its subsidiaries and subsidiary undertakings from time to time;
Highbridge	Highbridge Principal Strategies — Mezzanine Partners L.P., Highbridge Mezzanine Partners Offshore Investment Master Fund, L.P. and Highbridge Principal Strategies — Institutional Mezzanine Partners, L.P.;
HMRC	HM Revenue and Customs;
IAS	International Accounting Standards;
IFRS	International Financial Reporting Standards;
Institutional Offer	the offer of Shares to certain institutional and other investors, including QIBs in the United States, as described in Part XVII (*The Offer*);

Intermediaries	the entities listed in Section 23 (*Intermediaries*) of Part XVIII (*Additional Information*), together with any other intermediary (if any) that is appointed by the Company in connection with the Intermediaries Offer after the date of this Prospectus;
Intermediaries Offer	the offer of Shares to the Intermediaries as described in Part XVII (*The Offer*);
Intermediaries Offer Adviser	Scott Harris UK Ltd;
Intermediaries Offer Application Form	the form of application for Shares in the Intermediaries Offer used by the Intermediaries;
Intermediaries Terms and Conditions	the terms and conditions set out in the Intermediaries Agreement dated 18 February 2014 upon which the Intermediaries have agreed to be appointed by the Company to act as an Intermediary in the Intermediaries Offer and pursuant to which the Intermediaries may apply for Shares in the Intermediaries Offer, details of which are set out at Section 15 (*Intermediaries Terms and Conditions*) of Part XVII (*The Offer*);
IRS	Internal Revenue Service;
ISIN	International Securities Identification Number;
Issuer	see definition of "Company or Issuer" above;
Joint Bookrunners	BofA Merrill Lynch, Goldman Sachs and KKR Capital Markets;
Joint Global Coordinators	BofA Merrill Lynch, Goldman Sachs and KKR Capital Markets;
KKR or Principal Shareholder	KKR My Best Friend Limited;
KKR Capital Markets	KKR Capital Markets Limited;
KKR Capstone	Capstone Europe Limited (which uses "KKR" under licence but is not, for the avoidance doubt, an affiliate of Kohlberg Kravis Roberts & Co. L.P.);
KKR My Best Friend Limited	an exempt limited company, incorporated under the laws of the Cayman Islands with its registered office at c/o Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands, a majority interest in which is owned by KKR European Fund III, L.P., a fund managed and advised by Kohlberg Kravis Roberts & Co. L.P.;
Like-for-Like Sales Growth	has the meaning given to in Section 3.3 (*Non-adopted IFRS Information*) of Part V (*Important Information*);
Listing Rules	the listing rules made by the FCA under Part VI of FSMA (as amended from time to time);
London Stock Exchange or LSE	London Stock Exchange plc;
LTM	last twelve months;
Luxco Shares	the shares comprising the issued share capital of PAH Lux S.à r.l;
Manco 1 Limited	Manco 1 Limited a private limited company, incorporated in England and Wales with registered number 08326838 and its registered office at Epsom Avenue, Stanley Green Trading Estate, Handforth, Cheshire SK9 3RN;

Manco 2 Limited	Manco 2 Limited a private limited company, incorporated in England and Wales with registered number 08326847 and its registered office at Epsom Avenue, Stanley Green Trading Estate, Handforth, Cheshire SK9 3RN;
Manco Shares	the shares comprising the issued share capital of Manco 1 Limited and Manco 2 Limited;
Matching Award	has the meaning given in Section 7.1(b) (*CIP*) of Part XVIII (*Additional Information*);
Matching Shares	has the meaning given in Section 7.5 (*SIP*) of Part XVIII (*Additional Information*);
MBF Co-Invest L.P.	a limited partnership, incorporated under the laws of the Cayman Islands with its registered office at c/o Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands and an affiliate of Kohlberg Kravis Roberts & Co. L.P.;
Member State	member state of the European Economic Area;
MEP Nominee Limited	MEP Nominee Limited, an exempt limited company incorporated under the laws of the Cayman Islands with its registered office at c/o Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands and an affiliate of Kohlberg Kravis Roberts & Co. L.P.;
Midco Loan Notes	the loan notes issued by PAH UK Midco Limited;
Minimum Net Proceeds	£240 million;
Model Code	the model code on directors' dealings in securities set out in Annex I to Chapter 9 of the Listing Rules;
NDC	the Group's northern distribution centre details of which are set out in Section 8 (*Operations*) of Part VII (*Information on the Business*);
New EBT	a new employee benefit trust to be established by the Company by or for the benefit of Colleagues, as more particularly described in Section 7.7 (*The New EBT*) of Part XVIII (*Additional Information*);
New Loan Notes	has the meaning given in Section 4.2 of Part XVIII (*Additional Information*);
New Senior Facilities Agreement	has the meaning given to it in Part XI (*Operating and Financial Review*);
New Shares	those Shares to be issued by the Company pursuant to the Institutional Offer and the Intermediaries Offer as described in Part XVII (*The Offer*);
Nomination and Corporate Governance Committee	the nomination committee of the Board or a sub-committee of it;
Nomura	Nomura International plc;
Non-Executive Directors	each of Tony DeNunzio, Dennis Millard, Brian Carroll, Paul Coby, Tessa Green and Amy Stirling;

Non-IFRS Measures	certain financial measures that are not defined or recognised under IFRS as described in Section 3.3 (*Non-adopted IFRS Information*) of Part V (*Important Information*) of this Prospectus;
NPS	Net Promoter Score;
Offer	the offer of Shares pursuant to the Institutional Offer, the Intermediaries Offer and the Colleague Offer;
Offer Price	the price at which each Share is to be issued or sold under the Offer;
Offer Size	the number of Shares comprised in the Offer;
Offer Size Range	the range within which the Offer Size is expected to fall being between 125,000,000 Shares and 200,000,000 Shares (excluding any Shares which may be sold pursuant to the Over-allotment Option);
Official List	the Official List maintained by the FCA;
Online Application	an application for Shares in the Colleague Offer completed and submitted online on the Colleague Offer Website;
Order	Financial Services and Markets Act 2000 (Financial Promotion) Order 2005;
Oregon	Oregon Public Employees Retirement Fund;
Original Lenders	has the meaning given in Part XI (*Operating and Financial Review*);
Over-allotment Arrangements	the arrangements described in Section 9 (*Over-allotment and Stabilisation*) of Part XVII (*The Offer*) pursuant to which Existing Shares representing up to an additional 15% of the Shares comprised in the Offer may be made available by the Over-allotment Shareholders;
Over-allotment Option	the over-allotment option granted by the Over-allotment Shareholders in respect of Existing Shares to the Stabilising Manager (on behalf of itself and the other Underwriters) in the Underwriting Agreement;
Over-allotment Shareholders	each of the Principal Shareholder, MBF Co-Invest L.P., Highbridge and Oregon;
Over-allotment Shares	those Shares comprised in the Over-allotment Option (if it is exercised);
Partnership Shares	has the meaning given in Section 7.5 (*SIP*) of Part XVIII (*Additional Information*);
PAH International Limited	an exempt limited company incorporated under the laws of the Cayman Islands with its registered office at c/o Maples Corporate Services Limited, P.O. Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands;
PAH UK Finco Limited	a private limited company, incorporated in England and Wales with registered number 07133145 and its registered office at 5th Floor, 6 St. Andrew Street, London EC4A 3AE;
PAH UK Midco Limited	a private limited company, incorporated in England and Wales with registered number 07133502 and its registered office at 5th Floor, 6 St. Andrew Street, London EC4A 3AE;

PAH Lux S.à r.l.	a société à responsabilité limitée incorporated under the laws of the Grand Duchy of Luxembourg, and whose registered office is at 63, rue de Rollingergrund, L-221 Luxembourg, registered with the Luxembourg Trade and Companies register under number B151291;
PAH Retail Limited	a private limited company incorporated in England and Wales with registered number 07142242 and its registered office at 5th Floor, 6 St. Andrew Street, London EC2A 3AE;
PD Regulation	the Prospectus Directive Regulation (2004/809/EC);
PECs	preferred equity certificates issued by PAH Lux S.à r.l.
Pets at Home	see definition of the "Group or Pets at Home" above;
Pets at Home No.1 Limited	a private limited company, incorporated in England and Wales with registered number 08887355 and its registered office at Epsom Avenue, Stanley Green Trading Estate, Handforth, Cheshire SK9 3RN;
PFIC	passive foreign investment company;
Post-IPO Reorganisation	has the meaning given in Section 4.3 of Part XVIII (*Additional Information*);
Pre-IPO Reorganisation	has the meaning given in Section 4.2 of Part XVIII (*Additional Information*);
Price Range	the range within which the Offer Price is currently expected to be set, being between £2.10 to £2.60 per Share;
Pricing Statement	the pricing statement to be published on or about 13 March 2014 by the Company detailing (amongst other items) the Offer Price and the number of Shares which are the subject of the Offer;
Principal Shareholder	see definition of "KKR or Principal Shareholder" above;
Product revenue	total product revenues excluding discounts;
Profit Forecast	has the meaning given in Section A of Part XV (*Profit Forecast*);
Prospectus	this document;
Prospectus Directive	Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State;
Prospectus Rules	the prospectus rules made by the FCA under Part VI of FSMA (as amended, from time to time);
PSP	the Pets at Home Group Plc performance share plan as more particularly described in Section 7.3 (*The PSP*) of Part XVIII (*Additional Information*);
Qualified Institutional Buyer or QIB	Qualified Institutional Buyer within the meaning given by Rule 144A;
Quarterly	the first quarter incorporates the first 16 weeks of trading, whereas the remaining quarters are 12 weeks;

Redeemable Preference Share	the one redeemable preference share of £50,000 in the Company's issued share capital;
Registrars	Computershare Investor Services PLC;
Regulation S	Regulation S under the Securities Act;
Relationship Agreement	the relationship agreement between the Company and the Principal Shareholder dated 28 February 2014, further details of which are set out in Section 9.1 (*Relationship Agreement*) of Part XVIII (*Additional Information*);
Relevant Member State	each Member State of the European Economic Area that has implemented the Prospectus Directive;
Remuneration Committee	the remuneration committee of the Board or a sub-committee of it;
Reorganisation Agreement	has the meaning given in Section 4.2 of Part XVIII (*Additional Information*);
Revolving Credit Facility	has the meaning given in Part XI (*Operating and Financial Review*);
Rule 144A	Rule 144A under the US Securities Act of 1933;
Sale and Purchase Memorandum	the sale and purchase memorandum to be executed by the Company, MEP Nominee Limited, the Over-allotment Shareholders and the Underwriters immediately prior to the announcement of the Offer Price pursuant to which each of the Underwriters agrees, severally, to (i) use its reasonable endeavours to procure subscribers and purchasers for, or failing which (ii) to subscribe for and/or purchase itself, its relevant proportion of the Shares to be issued, sold and transferred under the Institutional Offer and the Intermediaries Offer as set out therein, in each case at the Offer Price;
SAYE	the Pets at Home Group Plc tax approved SAYE option scheme as more particularly described in Section 7.4 (*SAYE*) of Part XVIII (*Additional Information*);
Security Agent	has the meaning given in Part XI (*Operating and Financial Review*);
SIP	the Pets at Home Group Plc tax approved SIP as more particularly described in Section 7.5 (*SIP*) of Part XVIII (*Additional Information*);
SIP Trust	has the meaning given in Section 7.5 of Part XVIII (*Additional Information*);
SIP Trustee	has the meaning given in Section 7.5 of Part XVIII (*Additional Information*);
SDC	the Group's southern distribution centre details of which are set out in Section 8 (*Operations*) of Part VII (*Information on the Business*);
SDRT	stamp duty reserve tax;
Securities Act	the United States Securities Act of 1933, as amended;
Security Agent	has the meaning given in Part XI (*Operating and Financial Review*);

SEDOL	Stock Exchange Daily Official List;
SIPP	Self Invested Personal Pension
Selling Shareholder	MEP Nominee Limited;
Senior Executives	each of Sally Hopson, Peter Pritchard and Phil Hackney details of whom are set out in Section 2 (*Senior Executive Board*) of Part IX (*Directors, Senior Executives and Corporate Governance*);
Settlement Manager	Goldman Sachs;
Shareholder	a holder of Shares;
Shareholder Debt	all outstanding amounts owed in respect of principal and all accrued but unpaid interest to certain Existing Shareholders pursuant to the terms of the PECs and Midco Loan Notes and/or any debt instrument for which the foregoing have been exchanged, converted or substituted pursuant to any relevant step comprising the Pre-IPO Reorganisation in accordance with the terms of the Reorganisation Agreement details of which are set out in Section 4 (*Group Structure and IPO Reorganisation*) in Part XVIII (*Additional Information*);
Shares	ordinary shares of £0.01 each in the capital of the Company;
SIX	SIX Swiss Exchange;
SIX Listing Rules	the listing rules of SIX
SQPs	suitably qualified persons;
Sponsor	BofA Merrill Lynch;
Stabilisation End Date	12 April 2014;
Stabilising Manager	Merrill Lynch International;
Statutory Like-for-Like Sales	consists of total revenue in a financial period if the revenue achieved in the prior period for stores, surgeries and grooming salons have been trading for 52 weeks. Like-for-Like Sales includes omni-channel, Groom Room grooming sales and fee income from veterinary surgeries; Change in Statutory Like-for-Like Sales excludes revenues from stores, grooming salons and veterinary practices that have been open for less than 52 weeks and is reported exclusive of VAT;
Stock Loan Agreement	the stock loan agreement between the Stabilising Manager and the Over-allotment Shareholders;
Takeover Panel	the UK Panel on Takeovers and Mergers;
Takeover Offer Shares	has the meaning given to in Section 17.2 (*Squeeze Out*) of Part XVIII (*Additional Information*);
Term Facilities	has the meaning given in Part XI (*Operating and Financial Review*);
Transferring Companies	PAH Lux S.à r.l, PAH International Limited and PAH UK Finco Limited;
Trustee	Appleby Trust (Jersey) Limited in its capacity as trustee of the Existing EBT;

UK	the United Kingdom of Great Britain and Northern Ireland;
UK Corporate Governance Code	the UK Code on Corporate Governance (as amended from time to time);
UK GAAP	Generally Accepted Accounting Practice in the UK;
UK Listing Authority or UKLA	the FCA acting in its capacity as the competent authority for the purposes of Part VI of FSMA;
UK Pet Care Market	has the meaning given to it in Section 1 (*UK Pet Care Market*) of Part VI (*Market Overview*);
Underlying Applicants	has the meaning given to it in Section 15.2 (*Capacity and Liability*) of Part XVII (*The Offer*);
Underlying EBITDA	has the meaning given to in Section 3.3 (*Non-adopted IFRS Information*) of Part V (*Important Information*);
Underlying Operating Cashflow	operating cashflow before charging/crediting exceptional costs and Kohlberg Kravis Roberts & Co. L.P.-related management charges;
Underlying Operating Profit	has the meaning given to it in Section 3.3 (*Non-adopted IFRS Information*) of Part V (*Important Information*);
Underwriters	the Joint Global Coordinators and Co-Lead Manager;
Underwriting Agreement	the underwriting and sponsor's agreement entered into between the Company, the Directors, the Underwriters, the Principal Shareholder, and the Over-allotment Shareholders on 28 February 2014 and described in Part XVIII (*Additional Information*); and
United States or US	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia;
Unlevered Free Cashflow	has the meaning given to in Section 3.3 (*Non-adopted IFRS Information*) of Part V (*Important Information*);
United States Holder	a beneficial owner of Shares that is (1) an individual who is a citizen or resident of the United States for US federal income tax purposes; (2) a corporation (or other entity treated as a corporation for US federal income tax purposes) created or organised under the laws of the United States or any state thereof or the District of Columbia; (3) an estate the income of which is subject to US federal income taxation regardless of its source; or (4) a trust (A) if a court within the United States is able to exercise primary supervision over its administration and one or more US persons have authority to control all substantial decisions of the trust or (B) that has a valid election in effect under applicable US Treasury regulations to be treated as a US person;
US SEC	United States Securities and Exchange Commission;
US Treasury	US Department of the Treasury;
VIP Club	the Group's 'Very Important Pets' customer loyalty programme;
VAT	value added tax;
Website	www.petsathome.com;
Working Capital Change	movement in inventories, trade and other receivables, trade and other payables and provisions;

YTDQ313	the 40 week period ended 3 January 2013; and
YTDQ314	the 40 week period ended 2 January 2014.

All references to legislation in this Prospectus are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation shall include any amendment, modification, re-enactment or extension thereof.

For the purpose of this Prospectus, "**subsidiary**" and "**subsidiary undertaking**" have the meanings given by the Companies Act.

Words importing the singular shall include the plural and vice versa, and words importing the masculine gender shall include the feminine or neutral gender.

All data which is expressed to be as at 21 February 2014 in this Prospectus has been extracted as at that date because the Directors believe that date to be the closet practicable date prior to the publication of this Prospectus from which to accurately measure and extract such data.

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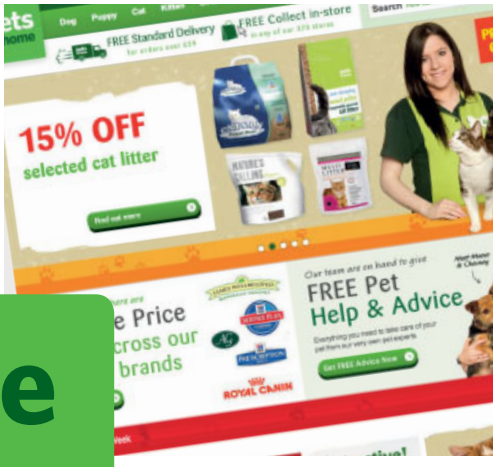

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