

Engaging customers
Engaging colleagues
Delivering growth

Pets At Home Group Plc

Annual Report and Accounts for the year ended 27th March 2014

London Stock Exchange: PETS



Welcome to our first annual report

Pets At Home is the UK's leading national specialist retailer of pets, pet food, pet-related products and pet accessories, as well as operating the UK's largest small animal services business, through our Vets4Pets and Companion Care veterinary practices and Groom Room grooming salons.

Since our first store opened in 1991, we have striven to be the ultimate pet shop experience for pet lovers and their pets, through our extensive and innovative ranges and our highly trained and engaged colleagues who are available to share their expertise.

See further information online at
investors.petsathome.com

Investor proposition

A special business with a great future

Clear leader in the highly attractive, £5.4 billion pet market⁽¹⁾

Unique 'one stop shop' proposition, with a nationwide retail footprint, incorporating pet services and complemented by an extensive online offer

High levels of engagement with customers and colleagues are a key driver of success

Clear growth opportunity driven by multiple levers

Strong financial performance and highly cash generative

Experienced and passionate management team

More information is available online at
investors.petsathome.com

(1) Source: OC&C data, UK Pet Care Market size in 2012.

In this report . . .

2014 Financial Headlines

Revenues
£665.4m ↑ **11.2%**

Like-For-Like Growth⁽²⁾
2.4%

Underlying EBITDA⁽³⁾
£110.7m **16.6%**
margin

Underlying Unlevered FCF Conversion⁽⁴⁾
83.5%

⁽²⁾ 'Like-for-Like' growth comprises total sales revenue in a financial period compared to revenue achieved in a prior period for stores, grooming salons and vets that have been trading for 52 weeks. Also includes revenue from the Group's online store.

⁽³⁾ Underlying EBITDA is calculated as Group underlying operating profit under IFRS (which includes amortisation of landlord and developer contributions received), plus depreciation and amortisation, and profits and losses on disposal where these are included in operating profit. Excludes exceptional items, related party fees, costs commensurate with operating the business as a publicly quoted company and IFRS 2 related share based payment credits and charges.

⁽⁴⁾ Underlying unlevered free cash flow 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, and proceeds from the sale of property, plant and equipment, and is stated before cash flows for exceptional costs and acquisitions of subsidiaries. Financial year 2014 FCF has been adjusted through the removal of a £25.2m increase in other payables reflecting payables associated with IPO costs outstanding at year end.

2014 Operational Headlines

32 new stores opened during the year, bringing the total portfolio to 377

Now the largest small animal veterinary services provider in the UK, with 277 practices

VIP Club reached 2 million members, adding 1.5 million members during the year

Pets At Home website relaunched in January 2014, now featuring a wider range of products, fewer clicks to checkout and enhanced presentation of our pet services

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Strategic Report: Overview

The strategic report details our performance and how it has been achieved, giving a comprehensive picture of the business and our future.

Engagement

Central to our success

Engaged customers and colleagues are central to our success, creating loyalty and like-for-like sales growth. Through our highly trained and engaged colleagues, we seek to increase our share of spend with current customers.

See additional information online at
investors.petsathome.com/our-company/our-services

Pictured: Our colleagues' shared passion for pets drives high levels of service, loyalty and sales.

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Standout leader in the highly attractive UK pet care market

Clear market leader with 377 stores, larger than our five closest competitors combined

The UK's largest pet services provider – number one in both veterinary surgeries and grooming services

Operating in a resilient market worth an estimated £5.4 billion⁽¹⁾

Unique 'one stop shop' proposition, with nationwide retail footprint, pet services and omni-channel

Differentiated product range, including private label and exclusive brands

Pet services, including vet practices, Groom Rooms, microchipping and nutrition consultations, drive footfall to stores and cross-selling opportunities

High degree of engagement with our customers and colleagues – the shared passion for pets drives high levels of service, loyalty and sales

Unique customer loyalty programme, VIP Club, growing fast and offers opportunities for further customer engagement and market share gains

Sector leading pet specialist website, to capture the growing omni-channel opportunity

Clear growth story with multiple levers

Improve like-for-like growth: through product innovation, VIP Club engagement and offers, omni-channel expansion and growing pet services

Space rollout: a target portfolio of >500 stores, >700 veterinary surgeries and >300 Groom Rooms

Significant retrofit opportunity: plans to refit stores with c.30 vet practices and c.35 Groom Rooms per year

Focus on margin improvement: underpinned by continued innovation and mix improvement of high margin, own brand and private label products

Strong financial performance and highly cash generative

Consistent track record of like-for-like and EBITDA growth over the past six years

Strong historical cash returns on invested capital and high unlevered free cash flow conversion

Targeting a dividend payment in the financial year 2015

⁽¹⁾ Source: OC&C data, UK Pet Care Market size in 2012.

Business model

Clear market leader

Pets At Home is the UK's leading national specialist retailer of pets, pet food, pet-related products and pet accessories, as well as operating the UK's largest small animal services business, through our Vets4Pets and Companion Care veterinary practices and Groom Room grooming salons. Pets At Home also owns and operates Ride-away, an equestrian products multi-channel retailer.

Our retail footprint is larger than the closest five competitors combined and we are the only provider in the UK market offering a full suite of both pet products and services.

Unique 'one stop shop'

Pets At Home offers a unique omni-channel proposition for UK pet owners, including a large retail store footprint, multiple websites across our different brands, innovative and exclusive products, and pet services through our vet practices and grooming salons. Our primary retail website, petsathome.com, captures the highest levels of traffic in the UK online pet retail market and drives brand engagement and further customers to stores.

Differentiated products

Through our UK network of 377 stores, Pets At Home provides a differentiated product offering for pet owners. On our website, over 50% of products are unique to Pets At Home. We know that our customers value a wide and varied range of high quality products, which we can provide through our exclusive brands, own label and private label products. Our innovation team provides design and creative input to a large number of the products we introduce each year, with a strong focus on the development of our own brand and private label ranges, which accounted for 42% of total revenues in the year.

UK's leading pet services provider

Veterinary care and grooming services are another way in which Pets At Home stores offer more than typical pet shops. The majority of the veterinary practices are operated as Joint Ventures with our vet partners, under two brands: Companion Care and Vets4Pets, which form the UK's largest branded small animal veterinary surgery group. The 277 veterinary practices are located within stores, as well as in standalone locations throughout the UK, giving customers access to services in locations where the nearest store may not be convenient.

Groom Rooms provide a wide range of services including full grooming, bath and blow dry, microchipping, puppy grooming and nail clipping. There are currently 129 Groom Room salons throughout the UK.

In addition to veterinary care and grooming, our in-store colleagues deliver a wide range of services to customers and their pets. These services include micro-chipping, nutrition consultations, weight checking and advice on licensed medicines from Suitably Qualified Persons (specially trained colleagues, able to advise on such products).

Highly engaged customers and colleagues

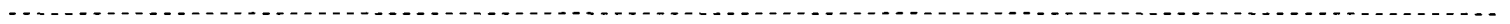
Engagement is a key driver of our success and both our customers' and colleagues' passion for pets drives high levels of service, sales and loyalty. The Pets At Home loyalty card scheme, VIP Club, was voted 'Loyalty Scheme of 2013' by the Direct Marketing Association and gives us a unique channel through which to engage and interact with its 2 million members and their pets.

Community engagement

Pets At Home values engagement with the local community and has established local relationships with schools, colleges and hobby groups including scouts, cubs and beaver groups. In conjunction with the charity Support Adoption For Pets, which Pets At Home helped to establish, we support national animal re-homing charities such as the Royal Society for the Prevention of Cruelty to Animals, The Dogs Trust and Battersea Dogs and Cats Home on behalf of the Charity. At the end of 2014, Pets At Home had adoption centres in 325 stores, which had facilitated the adoption of over 60,000 pets during the year, making the Charity the number one pet re-homing charity in the UK.

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2014 highlights

Financial highlights

Revenues & like-for-like growth

£665.4m

(2013: £598.3m)

Gross margin

53.8%

(2013: 54.1%)

Underlying EBITDA⁽²⁾

£110.7m

(2013: £98.5m)

Underlying unlevered free cash flow &
cash flow conversion⁽³⁾

£92.4m

(2013: £96.8m)

A retail business that has consistently delivered

Revenues grew 11.2% to £665.4m, reflecting store portfolio expansion and strength across food, accessories and services

Like-for-like sales growth of 2.4%, driven by VIP Club success, strength in Advanced Nutrition, omni-channel, and the growing maturity of Groom Rooms and vet practices

Like-for-like growth in revenues generated within the Joint Venture veterinary practices of 14.0%, underpinning fee income growth

Underlying EBITDA margin expansion of 17bps to 16.6%, reflecting the leverage from our services business, which represents 7.6% of Group revenues (financial year 2013: 5.3%)

Financial year ended March

(1) 2011 represents a 53 week financial year, 2012, 2013 and 2014 represent 52 week financial years.

(2) Underlying EBITDA is calculated as Group underlying operating profit under IFRS (which includes amortisation of landlord and developer contributions received), plus depreciation and amortisation, and profits and losses on disposal where these are included in operating profit.

Excludes exceptional items, related party fees, costs commensurate with operating the business as a publicly quoted company and IFRS 2 related share based payment credits and charges.

(3) Unlevered free cash flow before interest and tax is defined as net cash from operating activities 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.

(4) Financial year 2014 FCF has been adjusted through the removal of a £25.2m increase in other payables reflecting payables associated with IPO costs outstanding at year end.

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Operational highlights

Services acceleration, VIP success and the launch of new formats

32 new stores opened during the year, taking our total store portfolio to 377

Now the largest small animal veterinary services provider in the UK with 277 practices, reflective of 47 in-store and 22 standalone openings in the year

Successful integration of Vets4Pets, acquired March 2013, with a single support office now established for the combined vet business

Largest number of Groom Rooms opened in a single year; 42 new salons, bringing the portfolio to 129

VIP Club reached 2 million members at the end of the financial year 2014, with 1.5 million members added in the year

Pets At Home website relaunched in January 2014, now featuring a wider range of products, fewer clicks to checkout and enhanced presentation of our pet services

Space rollout

Stores
377
(2013: 345)

In-store Vets
158
(2013: 111)

Colleague engagement

Colleague retention

Source: HR reports and results of 'We're All Ears' engagement surveys.

Standalone Vets
119
(2013: 97)

Customer engagement

2013

Customer opinions of service, through Net Promoter Score

84%

VIP Club members
0.5m

2014

Customer opinions of service, through Net Promoter Score

84%

VIP Club members
2m

Groomers
129
(2013: 87)

*92 from Vets4Pets acquisition

The Net Promoter Score is gathered through Fish4opinion.co.uk, a customer service survey website operated by the Group

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Tony DeNunzio
Non-Executive Chairman

Dear Shareholder

2014 was an historic year for the business, culminating in our listing on the premium segment of the London Stock Exchange. At the same time, we delivered record financial results, successfully executed our growth strategy, continued to engage our colleagues and pet customers and enhanced our governance with an expanded Board of Directors.

Pets At Home is the leader in the highly attractive UK pet care market. We stand uniquely placed as the only UK retailer offering a full suite of pet products and services across both stores and the Internet. We offer customers a truly differentiated range, which drives engagement and loyalty in a one stop shop environment.

During the year, we believe we have benefited both from positive market dynamics as well as the successful execution of our plans. Historically, the UK pet care market has experienced growth levels above those of the overall non-food sector, driven by pet owners' continued demand for innovative, premium products, the increased uptake of pet services and the desire for owners to treat and care for their pets as one of the family. We believe this dynamic continues.

In the financial year 2014, revenues grew by 11.2% to £665.4m. We experienced another year of like-for-like growth, at 2.4%, driven by VIP Club success, strength in Advanced Nutrition, omni-channel and the increasing maturity of pet services.

Nick Wood and our executive management team have continued to execute our growth strategy for the business. We are very proud to have become the UK's largest small animal veterinary services provider, with 277 practices operating under the Companion Care and Vets4Pets brands at year end. Our Groom Room services expanded at a rapid rate, with 42 salons added to our store portfolio, the largest expansion we have seen in a single year. We also opened 32 stores, bringing our portfolio to 377, larger than the five closest specialist competitors combined. Our success is driven by our highly engaged colleagues who deliver outstanding service to our pet customers. This high level of colleague engagement was recognised by being awarded the Sunday Times Best Place To Work, for large companies, in 2013.

As a public company, our vision remains the same, to be the best pet shop in the world. We have always sought to deliver superior returns to our shareholders through the continued growth, profitability and cash flows of the Company. At listing, we enhanced our corporate governance framework with an expansion of the Board and the appointment of five Independent Non-Executive Directors: Paul Coby, Tessa Green, Amy Stirling and Paul Moody. And we welcomed Dennis Millard as Deputy Chairman and Senior Independent Non-Executive Director. Each Director has been chosen to bring a range of retail, public company, commercial and charitable skills to Pets At Home. Brian Carroll has been appointed as a Non-Executive Director of the Board and representative of our principal shareholder.

Looking ahead, our performance in 2014 has given us a solid platform to build upon. We remain confident in the business and anticipate a further year of growth for Pets At Home.

Finally, on behalf of myself and the Board, I would like to thank all our colleagues for their substantial contribution during this historic year. Their continued passion and enthusiasm for the business are integral to our success.

We will continue to live our values in driving the Company forward, working together as a team and taking great pride in what we do.

Tony DeNunzio
Non-Executive Chairman

11th June 2014

Did you know . . .

We added more than 2,750 products to stores in the year, refreshing over a third of our product range

See additional information online at investors.petsathome.com

Group at a glance

An extensive store and services portfolio with broad national coverage

New stores opened in 2014

Stores	Format	Vet	Groomer
Altrincham	Super	X	✓
Barnsley Cortonwood	Super	✓	✓
Blackpool Warbreck	Super	✓	✓
Bletchley	Super	✓	✓
Bodmin	Small	X	X
Bridgwater	Super	✓	✓
Bromsgrove	Super	X	✓
Burgess Hill	Super	✓	✓
Consett	Small	X	✓
Coventry Walsgrave	Small	✓	✓
Doncaster Thorne	Super	X	✓
Dorchester	Super	✓	✓
Dunfermline	Super	✓	✓
Eltham	Small	X	✓
Greenford	Small	X	✓
Hatfield	Super	✓	✓
Hertford	Super	✓	✓
Keighley	Super	✓	✓
Lancaster	Super	✓	✓
Leicester Beaumont Leys	Small	✓	✓
Luton	Super	✓	✓
Maldon	Small	X	✓
Merry Hill	Super	✓	✓
Old Kent Road	Super	✓	✓
Penrith	Super	✓	✓
Peterborough Bretton	Small	✓	✓
Sutton in Ashfield	Super	X	✓
Sydenham	Super	✓	✓
Tiverton	Small	X	X
Walsall Reedswood	Super	✓	✓
Worksop	Small	X	X

Superstores

Small stores

Multiple brands through which to engage

Pets At Home offers the ultimate pet shop experience, with a UK wide network of 377 stores; 42% of stores have a vet practice, whilst 34% have a Groom Room.

Our veterinary brand operated with our Joint Venture Vet Partners acquired in March 2013, now numbering 158 practices. This will become our dominant vet brand going forward.

Our original veterinary brand operated with our Joint Venture Vet Partners, in operation since 2001 and now numbering 119 practices. Companion Care vets are migrating to the Vets4Pets brand over time.

Our dog & cat grooming service, with 127 locations in stores, plus 2 Groom Rooms located in Vets Plus format practices, where a Groom Room is located alongside a standalone veterinary practice.

A specialist retailer of equestrian supplies with a superstore in York, as well as a website and catalogue.

Our new format, dog focused high street store in Wilmslow, Cheshire. Offering premium products and services targeted at highly engaged dog owners.

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Store locations

377

Service locations

277 vets **129** groomers

Stores

5 flagship

321 superstores

50 small superstores

1 new format, Barkers

In-store services

158 in-store vets

127 in-store groomers

Standalone services

117 standalone vets

2 standalone vet and groomers

Flagship
Small superstores

Superstores

Standalone vets
In-store vets and groomers

Unique Joint Venture veterinary business

Pets At Home operates the only large-scale joint venture veterinary services business in the UK market, under our two veterinary brands – Vets4Pets and Companion Care. The JV model allows each vet practice to operate as an independent business, owned by Pets At Home and a veterinary JV partner, and is funded by small loans into the business by the JV partner and Pets At Home, alongside a larger, independent bank loan. The JV partner pays a service charge if operating from an in-store practice, reflecting the cost of the space occupied, and a percentage of their revenue in the form of fee income to Pets At Home. We provide all the administrative and back office support, allowing the vet partner and their colleagues to focus on clinical excellence and delivering the best possible service to pets and their owners. The JV Partner also receives the benefit from the profit stream in the form of a dividend, as well as potential capital accretion from growing the practice.

Companion Care is our original in-store veterinary brand, whilst Vets4Pets, acquired in March 2013, added 92 standalone vet practices to the Group. The Group successfully integrated the two businesses, ahead of schedule during the course of FY14, which included the implementation of new Joint Venture contracts for new practices, combining support office functions and the commencement of rebranding of practices to Vets4Pets. We are working with our JV partners to migrate all practices to the Vets4Pets brand over time, as well as a single veterinary practice management system across all JV surgeries.

Whilst Pets At Home operates its vets practices principally on a JV basis, the Group is committed to maintaining ten wholly owned Group Venture veterinary practices. One of the functions of such Group Ventures is to allow potential JV partners to experience working as part of the Group, before committing fully to a JV practice. Another function of the Group Ventures is to allow us to trial new initiatives prior to launching them across the JV practices.

In-store

44
Vets4Pets

114
Companion Care

Standalone

114
Vets4Pets

5
Companion Care

Market review

The UK pet care market is large, resilient and growing

The UK pet care market is a large, resilient market worth around £5.4 billion, supported by a stable pet population.

Future growth will be driven by the continued humanisation of pets, customers' increased desire for premium and innovative products, a shift to Advanced Nutrition food and the increasing use of pet services.

In the online channel, penetration of pet products has been increasing at around 1% per annum. Future growth will be driven by Click & Collect, where customers are able to order products online for collection in store.

The market has shown resilience to periods of economic challenge, with no individual year of negative growth from 2006 to 2012, outpacing the broader UK retail sector over the same period.

Market size

UK Pet Care Market Value £5.4bn (2012)

Historic growth

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Pets At Home is the leading pet care retailer and pet care services provider in the UK

The Pets At Home store portfolio is larger than the five closest competitors combined.

We operate the largest branded small animal veterinary business in the UK market, under a unique joint venture model.

Pets At Home is estimated to hold a 12% share of the overall UK pet care market (including food, non-food and services).

Number 1 specialist pet care retailer

	Pets At Home	Kennel Gate	Just for pets	PamPurred Pets	Jollyes	Pets Corner
No. of stores	377	20	22	47	56	82

Number 1 vet group

	Pets At Home	CVS	Medivet	Independent Vetcare	Vets Now	Goddards
No. of vets	277	256	101	88	52	49

(Data as at end of March 2014.)

petsathome.com has grown rapidly and captures 47% of traffic for UK pet retail

Share of UK pet market online traffic

Source: HITWISE 16th May 2014.

Strategic Report: Strategy and Operations

Our strategy is to leverage our leading position in the UK pet care market, exploiting existing growth opportunities, whilst developing new opportunities for growth.

Delivery

Growth Levers

The operational delivery of the strategy is achieved through three growth levers: expanding like-for-like sales, space rollout and footprint optimisation, and continued focus on gross margin development.

See additional information online at
investors.petsathome.com/our-company/our-services

Pictured: The current vet portfolio has 277 small animal veterinary practices.

Chief Executive Officer's review

Pictured: High colleague retention rates place Pets At Home as a leader within the retail industry.

Nick Wood
Chief Executive Officer

Strategic overview

During the financial year 2014, we continued to make strong progress on our strategy to leverage our leading position in the UK pet care market and develop new opportunities for growth.

This strategy is reflected in the Pets At Home PawPrint, the internal articulation of our strategy to all colleagues across the business: To be the best pet shop in the world; by providing world class shops; colleagues who are friendly experts; being at the heart of every community; always new and exciting; offering the best vets and groomers; being a truly amazing place to work and putting pets before profit.

The operational delivery of the strategy is achieved through three growth levers:

- Expanding like-for-like sales
- Space rollout and footprint development
- Continued focus on gross margin improvement

We saw good progression against all three growth levers during the financial year.

Strategy highlights

Expand like-for-like sales	Product and innovation	More than 2,750 SKUs launched during the year, refreshing over one-third of our store product range New launches in Advanced Nutrition — Wainwright's cat and Wainwright's Grain Free dog food
	VIP Club	VIP Club reached 2 million members and captured over 50% of store revenues by March 2014 Voted 'Best Loyalty Programme' in retail by the Loyalty Awards 2014
	Omni-channel	New website launched in January 2014 Web range expanded and now exceeds in-store range
	Services	Retrofit services added to stores included 18 veterinary practices and 11 Groom Room salons
	Engagement	Colleague retention rate of 81% Customer advocacy Net Promoter Score of 84%
Space rollout and footprint development	Store & services rollout	32 new stores opened, 69 new veterinary practices (47 in-store, 22 standalone), 42 new Groom Room salons Barkers launched in Wilmslow, Cheshire — our trial high end, dog focused, high street store format
Focus on segmental gross margin improvement	Product mix & own brand	Advanced Nutrition now 56% of total dog and cat food sales, excluding treats (FY13: 53%) Wainwright's dog food sales grew by 26.7% to £27.2m (FY13: £21.4m) Own/private label products 42% of store revenues Pet services increasing maturity starting to positively impact margins but still at early stages

Chief Executive Officer's review continued

Like-for-like growth

Product and innovation

Differentiated and unique product is critical to the Group's strategy, driving both customer loyalty and visit frequency. We refreshed our product range with more than 2,750 new SKUs (Stock Keeping Units) in 2014, representing over a third of our total range. During the year, a number of new Advanced Nutrition (AN) brands were introduced to stores, including Barking Heads for dogs and Meowing Heads for cats. AN foods have superior health and nutritional benefits to pets and are the fastest growing segment of the pet food market. New launches within Wainwright's, our private label AN range, also saw strong sales after launch, which included Wainwright's for cats, as well as Wainwright's Grain Free for dogs.

VIP Club

Our VIP Club continues to grow at a rapid rate, reaching 2 million members and capturing over 50% of all revenues spent in stores by the end of March 2014. Increasing use of the loyalty card is also being seen within our in-store veterinary practices and Groom Room salons. VIP allows us to send personalised and targeted marketing to owners and their pets and will continue to be one of the key levers through which we can take further market share. This year, ahead of the Wainwright's cat food launch, we were able to target cat owners within the VIP Club database, particularly those who were already purchasing Wainwright's dog food. These members were sent targeted emails, resulting in 55% of Wainwright's cat food launch sales being attributable to VIP Club members. Our VIP Club also creates charity lifelines each time a card is swiped and generated over £1 million for customer nominated charities in FY14.

Omni-channel

PetsAtHome.com was relaunched in January 2014. The website now features only four clicks to checkout, richer content and offers more than 8,100 SKUs, higher than in-store ranges. Post new site launch, as expected, the website experienced slightly lower levels of traffic as re-indexing within search engines occurred, but more recent data shows that visits to the site have now recovered to pre-launch levels. We have also seen less activity from some competitor websites, meaning our overall share has increased slightly and we remain the highest traffic pet website in the UK, with more than three times the traffic levels of our nearest competitors.

Our food subscription service, which enables customers to receive their fifth order for free, remains in trial. Our Click and Collect (C&C) service, which allows customers to place an order on the website for collection in store within two hours, continues to perform well. C&C sales, as a percentage of total website sales, have been maintained since the new website launch. This is just one lever through which we seek to drive footfall to stores via the website, and we continue to view our online strategy as far more than simply a platform for customer purchases, but as a portal to drive engagement and cross-selling activities.

Looking ahead, we plan to launch mobile and tablet friendly website versions and increase our online product range towards a target of 10,000 SKUs. We will rollout Deliver To Store, which enables customers to order any product available online for delivery into a local store. We are also enabling the redemption of VIP vouchers online. This will create a seamless store and online shopping experience for VIP customers, as well as allowing us to track offer redemption rates and measure success and returns more easily.

"We refreshed our product range with more than 2,750 new SKUs in 2014"

2012

2013

2014

Pictured: Refreshment of our Summer Brights dog bed range

STRATEGIC REPORT

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Services

Retrofitting of veterinary practices and Groom Room salons to existing stores drives like-for-like store sales, by enhancing our overall proposition, driving store footfall and enabling cross-selling of products. During the year, 18 veterinary practices and 11 Groom Room salons were added to existing stores.

Engagement

Customer and colleague engagement is central to the Group's success, creating loyalty and like-for-like sales growth. Through our highly trained and engaged colleagues, we seek to increase our share of spend with current customers and extend the Pets At Home experience to new customers.

colleague engagement levels, which are measured through an internally collated survey, were 93% in FY14 (FY13: 93%). Being able to maintain such a high level of engagement is reflective of our rewards system, the specialist training offered, and the opportunity for colleagues to change roles and diversify their skill sets within the business.

Colleague retention rates decreased marginally in FY14 to 81% (FY13: 83%), but such a rate still places Pets At Home as a leader within the retail industry.

Pets At Home measures customer advocacy through the Net Promoter Score ("NPS"), gathered through Fish4opinion.co.uk, a customer service survey website operated by the Group. With over 110,000 customer feedback points over the year, FY14 NPS levels were maintained at 84% (FY13: 84%). During the year, we implemented some changes to the way in which NPS is measured, effectively raising the threshold at which we consider scores given by customers to represent a positive experience. If we had maintained the same criteria as the previous year, NPS would have been 86%. This is a key example of our values in action: challenging our standards and getting better every day.

Our fundraising initiatives on behalf of our nominated charity, Support Adoption For Pets, also grew strongly during the year. Support Adoption For Pets, which is the largest animal re-homing charity in the UK, raised £2.65m for national animal welfare charities and local re-homing organisations during the year and has raised over £10m since its inception in 2006.

Space and footprint expansion

A key part of the Group's strategy is to increase the number of stores, in-store and standalone veterinary practices, and Groom Room salons.

During FY14, Pets At Home opened 32 new stores, bringing the total store portfolio to 377 across the UK. The portfolio includes the new trial high street store format, Barkers. 'Barkers of Wilmslow' opened in Wilmslow, Cheshire, in March 2014, featuring high end exclusive luxury dog products, at the premium end of the market.

Chief Executive Officer's review continued

Revenues

£665.4m ↑**11.2%**
(2013: £598.3m)

Underlying EBITDA

£110.7m ↑**12.4%**
(2013: £98.5m)

“During the year, we became the largest provider of small animal veterinary services to pet owners in the UK”

During the year, we became the largest provider of small animal veterinary services to pet owners in the UK, with a vet portfolio at year end of 277 practices. Of the 69 new veterinary practices opened, 18 were retrofits to current stores, 29 were new in-store locations and 22 were standalone practices. Pets at Home operates the only large scale Joint Venture veterinary services model in the UK market, under our two veterinary brands – Companion Care, our original veterinary brand, and Vets4Pets, acquired in March 2013. The Joint Venture (JV) model allows each vet practice to operate as an independent business, jointly owned by Pets At Home and a veterinary JV partner, funded by small loans into the business by the JV partner and Pets At Home, alongside a larger, independent bank loan. The ownership structure enables all profits and capital accretion within the JV to accrue to the vet partner. This structure gives us the ability to work closely with the partner to develop their business and overcome any challenges, which is key to the success of the business model. The JV vet partner pays a service charge, reflecting the cost of the space occupied in store, and a percentage of their revenue in the form of fee income to Pets At Home, whilst we

provide all the administrative and back office support, allowing the vet partner and their colleagues to focus on clinical excellence and delivering the best possible service to pets and their owners.

The current vet portfolio has 119 Companion Care practices and 158 Vets4Pets practices (of which 92 were acquired in 2013). Going forward, we are opening all new surgeries under the Vets4Pets brand and working with our current Joint Venture partners to move to Vets4Pets branding, which will enable advertising synergies across the Vet Group, leveraging national brand awareness with potential new customers.

Groom Room rollout was particularly strong during the year, with 42 new openings, of which 11 were retrofits and 31 within new stores. The UK grooming services market is highly fragmented and the Groom Room is positioned as the only branded chain in the market, ideally positioned to benefit from increased demand.

Going forward, Pets At Home has a strong store and services rollout programme. Current analysis, conducted in conjunction with CACI, shows the potential for over 500 stores, 45 in-store vets, over 250 standalone vets and over 300 grooming salons in the UK market.

Focus on gross margin

The Group remains focused on innovation, increasing brand choice for customers and developing its own brand and private label offerings in order to improve margins. Higher margin Advanced Nutrition (AN) and private label products, such as Wainwright's, are an important contributor. During the year, we launched a number of new AN brands to stores, helping to drive AN revenues to 56% of total dog and cat food revenues, excluding food treats (FY13: 53%). Wainwright's dog food also continued to gain popularity, growing by 26.7% to £27.2m (FY13: £21.4m). Own brand and private label products represented 42.4% of gross store revenues during the year (FY13: 42.1%).

As our vet practices and Groom Room salons continue to mature, we have begun to see an increasing contribution to Group profitability.

The JV vet practices take up to seven years to mature, although they are profitable to the Group from opening, through the percentage of revenue payment and start-up fees. As the JVs mature and reach higher utilisation rates there is an opportunity for our revenue stream to increase without a significant increase in our cost base, delivering margin leverage.

Within the Groom Room business, new salons are dilutive in the first two years, with maturity achieved after five years. We remain excited about the further maturation and potential margin benefit the services opportunity presents.

Summary and outlook

Pets At Home has delivered excellent results in the past financial year, increasing like-for-like sales, improving underlying EBITDA margin, delivering on the rollout programme, strengthening our pet services offer and increasing the profile of the brand.

The pet care market outlook remains good. Whilst economic indicators for the UK are positive, the lack of a sustained increase in consumer disposable incomes gives some caution to the outlook. We remain comfortable with market expectations for the coming financial year.

The Group will continue to execute its strategy, leveraging a number of growth opportunities: improving like-for-like sales, increasing space and optimising our footprint through the inclusion of pet services, and maintaining a focus on gross margin. We expect to open around 25 stores, 60 veterinary practices and 50 Groom Room salons in FY15.

The Board and executive management team remain confident in the future prospects of the Group.

Nick Wood

Chief Executive Officer

11th June 2014

“Higher margin Advanced Nutrition and private label products, such as Wainwright's, are an important contributor to gross margin progression”

Strategy in action

Our strategy is to leverage our leading position in the UK pet care market, exploiting existing growth opportunities, whilst developing new opportunities for growth

Our PawPrint

The PawPrint is the internal articulation of our strategy to all colleagues across the business.

Delivering across the PawPrint supports our strategy of driving growth in like-for-like space across gross margin

Growth lever	Execution	Future plans	
Grow Like-for-Like	Product and innovation	Continually refresh the product mix, with new private label and own brand launches, exclusive products which reflect the latest trends, in order to drive customer loyalty and visit frequency.	
	Pricing	Deliver value for money pricing, reflective of product range, exclusivity, convenience, price, service and quality.	
	VIP Club	Develop customer loyalty to the Pets At Home brand by promoting our service offer and targeted discounts, whilst communicating information relevant to customers' pets needs, such as lifestage milestones, based on our unique understanding of customers and their pets.	
	Marketing	Focus on customer acquisition and brand engagement by leveraging the emotional relationships owners have with their pets.	
	Omni-channel	Further develop the cohesiveness and quality of store and web based offerings to become the UK's leading omni-channel pet retailer. Enable customers to shop in-store or online, reserve products and collect in-store, or order in-store and have delivered to the home.	
	Services	Refurbish and retrofit existing space to accommodate new vet practices and/or Groom Rooms, which are vital to the overall customer proposition, driving store footfall and increasing loyalty.	
Grow Space & Optimise Footprint	Optimised store rollout	Open new stores in optimal locations and increase the number of in-store and standalone veterinary practices and Groom Room grooming salons.	
	Grow Gross Margin	Product mix and own brands	Generate the right balance between high and low margin products by maintaining the penetration of own label and private brands, with a focus on advanced nutrition, wet food and life stages food. Our flagship food brand, Wainwright's, provides significant opportunities to enhance revenues and margins.
		Sourcing	Build closer relationships with suppliers and improve contractual terms, improve product quality and access innovative new products. Continue to leverage our sourcing office in Hong Kong, Pets At Home Asia, to develop relationships with existing and new overseas suppliers.
	Terms	Improve buying terms by: driving economies through increased quantities; providing financial support for TV and marketing campaigns; negotiating on working capital terms.	

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Our current strategy leads to a target portfolio of more than 500 stores, 700 vets and 300 groomers.

Detailed market analysis undertaken with CACI, using demand mapping and catchment area identification, has allowed us to identify future store and vet locations.

We intend to open around 25 new stores, 60 veterinary practices and 50 Groom Room salons each year.

Did you know . . .

We retrofitted 18 veterinary practices and 11 Groom Rooms to our stores during the year.

See additional information online at Investors.petsathome.com

We have significant opportunity for expansion

Source: CACI. Pets At Home. Existing store/practice numbers as at 27th March 2014.

Strategy in action continued

Case study, strategy in action

Colleagues, at the centre of our success

We have a very unique culture, with engaged colleagues at the heart of our success. We know that engaged colleagues stay with us for longer and enable us to deliver 'pawsitively outrageous service', creating strong advocacy with customers. Pets At Home measures customer advocacy through the Net Promoter Score ("NPS"), gathered through Fish4opinion.co.uk, a customer service survey website operated by the Group.

Engaged colleagues underpin our business model, creating higher customer advocacy and driving increased spend

Customers with higher levels of advocacy regarding knowledge and friendliness have larger basket sizes
Colleague Knowledge

Colleague Friendliness

Case study, strategy in action

VIP Club experiencing rapid growth

Our VIP Club provides another avenue for engagement with customers. Launched in November 2012, the scheme has a number of unique features which differentiate it from other loyalty programmes. Each time a card is swiped, lifelines are generated for the customer's chosen animal charity. Lifelines then convert to charity donations, in the form of gift cards, funded by Pets At Home.

We encourage our customers to register all their pets as part of their VIP membership, which allows us to deliver communications and offers directly related to their pet – including birthday letters! Membership also allows customers to receive a copy of the VIP magazine, with a broad range of relevant content and a great range of discounts and vouchers in each issue, which has a readership of over 1 million.

VIP Club communications and targeted marketing allow us to cross promote relevant products and services, as well as increase our share of own and private label products. This year, ahead of the Wainwright's cat food launch, we were able to target cat owners within the VIP Club database, particularly those who were already purchasing Wainwright's dog food. These members were sent targeted emails, resulting in 55% of Wainwright's cat food launch sales being attributable VIP Club members.

VIP card swipe rate as a percentage of revenue

VIP customers also have a higher basket value compared with non VIP customers

VIP Club gained over 1.5 million members during the year, ending the year with just under 2 million members

Over £1 million of funds raised for VIP charities during the year

Swipes of the VIP card captured over 50% of all revenues at the end of the year

Voted 'Best Loyalty Programme' in retail by the Loyalty Awards 2013

My VIP magazine voted 'Best consumer membership magazine' by the Content Marketing Association

VIP customers also have a higher basket value compared with non VIP customers

VIP customers have a larger basket size

Strategic Report:

Corporate Responsibility

Responsible retailing is at the heart of our business and is guided by our three pillars: caring for the environment, sourcing with integrity and our pets people.

Responsible retailing

Goals

Our goals are to be a low-carbon, low-waste and low energy company. To achieve this we need to inspire and engage our colleagues, our customers, our suppliers and our communities.

See additional information online at
investors.petsathome.com/our-company/our-services

Pictured: Colleagues are recruited for their passion for pets and their desire to share their love of pets with customers.

Corporate social responsibility

Pets At Home recognises the importance of environmental and social issues and has in place a dedicated corporate social responsibility (CSR) committee. Under the direction of the CSR committee, we scrutinise every aspect of our business operations and seek to

balance the competing aims of the business to ensure that we are fostering the preservation and protection of the environment, whilst at the same time recognising our wider social responsibility through all of our commercial activities and operations.

What this means for Pets At Home

As we expanded over the years, we recognised that our weight of responsibility in these areas grew, so we developed our Responsible Retailing plan.

For us, Responsible Retailing is supported by three pillars:

- Caring for the Environment
- Sourcing with Integrity
- Our Pets People

Caring for the Environment

Caring for the environment means looking at every area of our business and analysing ways in which we can be greener. Climate change is the greatest environmental challenge facing the world today so we have stepped up efforts to address our impact on the environment. In reaching our environmental objectives, Pets At Home is committed to:

Recycling our rubbish

Taking action on waste is essential. This year, the Pets at Home diversion from landfill target was 80%. Pets At Home exceeded this target by achieving 83% diversion from landfill. The majority of waste produced by Pets At Home, such as cardboard, plastic and animal bedding, is recyclable and in total 6,219 tonnes was recycled. Pets At Home also produced 2,431 tonnes of general waste, and working with our service provider, we diverted 964 tonnes to various treatment facilities, such as Refuse Derived Fuel (RDF) where waste is shredded and bulk burned as an alternative to fossil fuels. General waste has also been sent to biomass and incineration.

We are always looking for new ways in which to divert our waste from landfill and this year, we introduced dry mixed recycling (DMR) in those stores where we have both a vet and Groom Room so that we could recycle the plastic bottles, cans, cardboard, paper and other dry general waste produced. This waste is then sent to a waste recovery plant where it is recycled so that it can be used again. We trialled this initiative in 48 stores and we have had some great results which can be seen in our total recycling figures so we are now rolling this out to all stores with the same format.

Using less electricity

In 2007, we asked the Carbon Trust to look at ways we could use less energy. Since then, we have implemented a number of their ideas. This year, we recruited Green Paws Champs in all of our stores to educate other colleagues in-store on energy reduction and possible measures that can be taken to reduce consumption. Green Paws Champs have been contacted on a regular basis with the store energy performance figures, and advised on ways in which to bring down usage.

Together with the work carried out by our Green Paws Champs, we have also rolled out LED lighting into all of our stores in the aquatics fish tanks and also the small animal villages which will reduce the amount of electricity we use in these units. The projected annual saving on this rollout is 1,155,314 kWh on aquatics and 190,944 kWh on small animal villages.

The saving on consumption was not the only driver for the project, there are also pet welfare benefits. Using LED lights in the fish tanks means that less algae builds up so our fish have a much better environment to live in. In the small animal villages, the LEDs do not

generate as much heat (a reduction from 59 to 28 degrees centigrade), resulting in a cooler and better environment for the pets (and air conditioning not having to work as hard). LEDs have been incorporated into the new store specification to ensure that they are installed in both the aquatics and the small animal villages on all new stores.

A signage refurbishment programme was also launched throughout the year so that when the existing fluorescent tubes on sign lights fail, they are now replaced with equivalent LED lamps, with the average payback at less than one year. This will be installed in all new and refurbished store signage going forward.

Next year, we will start measuring the impact of these new fittings on our electricity consumption in stores.

Becoming more fuel-efficient

We continuously focus on getting more miles out of every litre of fuel used in our vehicles. In 2008 we were getting 2.65 kilometres per litre (KPL). In September 2013, we insourced the dedicated transport operations based at our Stoke and Northampton distribution centres (DCs). As part of the engagement programme for the drivers involved in the transition to in-house, we relaunched our fuel efficiency drive (including the driver training) which has resulted in an improved KPL performance from 2.79 KPL in October 2013 to 2.82 KPL in March 2014.

In October 2011, the Department of Transport (DoT) announced that it was preparing the industry to trial 900 trailers in the UK that would be an additional 2 metres in length from the current provisions. This would allow the area of a vehicle that carries the payload (in our case picked pallets of stock for stores) from 13.6 to 15.65 metres. Our main haulage service provider applied to the DoT on our behalf for permission to be part of this trial and in January 2012 we were given the green light. We commissioned four new extra length trailers. These trailers, as with most of the fleet, are double deck trailers but instead of a carrying capacity of 52 pallets, they can carry 60 pallets of stock at a time. Even though we have insourced the majority of our transport fleet, we have retained, through a rental arrangement, with our lead third party provider, the extra length trailers for our inter site trunking operation and this, combined with continued scheduling improvements for the expanding store estate, has further reduced the number of kilometres run per 1,000 cases shipped from 137.7 in FY13 to 126.1 in FY14, an improvement of 8.4%.

Corporate social responsibility continued

Greenhouse Gas Emissions Reporting

This is our first greenhouse gas (GHG) emissions report in line with UK mandatory reporting requirements set out by the Department for Environment, Food & Rural Affairs (DEFRA) and as a result there is no comparative year. The mandatory requirement is for the disclosure of the scope 1 and 2 emissions only. These are direct emissions

such as heating, vehicle fuel and indirect emissions, for example purchased electricity.

Our total GHG footprint in line with DEFRA's mandatory reporting requirement is 40,668 tonnes CO₂e. This is broken down as follows:

Kilometres run per 1000

cases shipped

126.1

(FY13: 137.7)

↓ **8.4%**

Did you know...

We have introduced Microlise across the fleet – a specialist transport system that supports improved driver performance and monitoring.

See additional information online at investors.petsathome.com

Pets At Home Group Plc emissions data for period 29th March 2013 to 27th March 2014

Emissions from	Tonnes of CO ₂ e
Fuel usage by delivery fleet	4,638
Fuel usage by company cars	1,025
Electricity consumption	32,921
Gas consumption	2,084
Total Footprint	40,668

Notes: The emissions declared for the delivery fleet are based on DEFRA 2013 calculated as follows:
Diesel (average biofuel blend) – (Amount of litres * 2.6008)/1,000

The emissions declared for company cars includes fuel used for private consumption and are based on DEFRA 2013 and UK Petrol Industry Association Methodology as follows:
Diesel – (Amount of litres * 2.5835)/1,000
Unleaded – (Amount of litres * 2.2423)/1,000
Super Unleaded – (Amount of litres * 2.2423)/1,000
LPG – (Amount of litres or quantity * 1.5326)/1,000

The emissions declared for electricity and gas are for the period 1st April 2013 – 31st March 2014 in line with the Carbon Reduction Commitment protocol. The emissions for electricity and gas are based on CRC scheme methodology and only include CO₂ emissions as follows:
Electricity – (amount of kWh * 0.5411)/1,000
Gas – (Amount of kWh * 0.1836)/1,000

Pets Before Profit

Pets Before Profit has been a core value at Pets At Home since the business was established in 1991. We have implemented many changes over the years to ensure that we are doing our best to achieve this aim, including making 'We Put Pets before Profit' our number one value.

We have a dedicated pet team in place consisting of an experienced veterinary surgeon as our Head of Pets, who also sits on the board of the Pet Industry Federation and chairs their Pet Ethics Group and is a trustee of The Pet Charity. She is ably assisted by two vet nurses, one with a diploma in nursing exotic species, a Coldwater & Marine Biologist to look after the aquatics, a reptile expert, a pet supply manager who audits our suppliers, and a Pet Operations Manager who manages the team of nine Field Pet Managers, who audit the pet standards in our stores.

In addition to all our in-house expertise, we use a leading Exotic Specialist Vet as a consultant, who also performs an annual welfare audit on our primary suppliers and the Ex-Chief Prosecution Officer for the RSPCA, who advises us on welfare issues.

At the heart of our business is responsible pet ownership and it underpins the way in which we do business. We remain committed to supplying small animals, fish and reptiles that are sourced legally, ethically and with due regard for the environment.

We continue to challenge and revise the codes of practice we have in place for each of our pet suppliers to ensure that they reflect the high standards we expect to be maintained.

This year we retained the services of a leading Royal College of Veterinary Surgeons Vet who will start performing an annual audit of our primary breeders as an extra level of external verification in FY15, and SAI Global, who perform the Red Tractor Audits, will also be carrying out annual audits of our primaries from FY15. These are in addition to the inspections already carried out by our own Pet Team. Red Tractor is a food assurance scheme which covers production standards developed by experts on safety, hygiene, animal welfare and the environment.

We have revamped our Store Pet Audit in FY14 to place even more emphasis on reptiles and increased the number of store audits carried out by our Field Pet Managers. All stores continue to receive a strict annual audit from SAI Global under the Pet Care Trust QA standard as we believe external verification is vital to maintaining standards.

We have introduced an iPad for the pet sales process called PetPad, which ensures that certain questions must be answered correctly or the sale of the pet cannot proceed, to help ensure that we sell responsibly and match the owner to the right pet. All colleagues are empowered to refuse to sell a pet if they have any concerns about the home to which it would be going. We have also introduced this year a three-day temperature check when selling a reptile, to ensure the environment they will be going into is correct, thus preventing impulse buys of reptiles.

Corporate social responsibility continued

Our colleagues, 95% of whom own pets, have to complete a certain level of training before they are even allowed to sell a pet. Our training is industry leading and pet welfare is so important to us that all store colleagues, irrespective of their background or previous animal related qualifications, have to complete our training programme to ensure that we offer consistent knowledge and the latest thinking and advice to our customers.

The Steps programme underpins our training, which comprises four levels of detailed training, with options to specialise in various areas such as 'wet' or 'pet' as you progress. Step 4 was introduced this year and is taking selected colleagues to a high level of expertise in their chosen area. We also have Suitably Qualified Persons (SQPs), who are trained to sell certain medicinal products and Nutritional Consultants who can advise customers on the best diet for their pet. We have introduced compulsory continuing personal development CPD to ensure we stay up to date with our information.

As part of our strategic partnership with the RSPCA, we launched a range of co-branded pet care leaflets which are available free in-store and are given away with every pet purchased.

Our colleagues keep a close eye on the diet and eating habits of our in-store pets, with centrally ordered fruit and vegetables helping to provide nutritional balance. Their homes are carefully monitored, too: we recently changed our rabbit and guinea pig housing from all-wood to glass in order to reduce the risk of infection, while our reptiles are housed in the most up-to-date vivariums. We also constantly review the products we sell to make sure that we have pet welfare at heart. We recently phased out the sale of rabbit muesli in our store due to the potential negative effects it could have on the health of our customers' rabbits.

As detailed above in the section on energy usage, we regularly invest in pet welfare and during the year, we completed an upgrade of our in-store fish system. We have introduced LED lighting in fish tanks and small animal villages as these lights reduce heating in the tanks and enclosures and reduce the growth of algae in tanks, thereby reducing cleaning frequency and pet stress.

Ethical Trading

Our responsible sourcing approach is not limited to our pet suppliers. We have a team of technical experts in both our UK support office and Asian sourcing office. In the UK we have four technical colleagues and a further five in Hong Kong. On top of this, we work very closely with two independent third party quality providers both in the UK and across Asia.

In the UK the technical team develops all the product standards that we believe allow us to sell products to pets that are safe, legal and fit for purpose. The role of the Asian technical team is to ensure that these standards are understood and delivered against by the factories manufacturing our products. The Asia team, alongside the aforementioned independent third parties, is also accountable for ensuring that all the factories we buy from are audited in line with both our ethical and technical requirements.

The Asia team have also held (and will continue to do so) a number of supplier education workshops, by product type, with our Asian supplier base. These interactive workshops allow Pets At Home to ensure its suppliers are fully aware of the technical and ethical standards required, and how these link into our core value of pets before profit. From a supplier's perspective the workshops are a forum to ask questions, seek clarification and also suggest ideas that may help to further improve the quality of our products.

On the food side of our business the UK technical team is also completing random testing on products, with the help of an independent third party. These tests allow us to ensure that declared ingredients, nutritional values and various on-pack claims are correct and in line with all legislation including DNA testing on our meat-based products to verify the source of the raw ingredients.

Basic level reporting, developed within Pets At Home, allows us to monitor the performance of our suppliers, categories and products on a frequent basis. This data is shared with our suppliers on a regular basis, and allows us to receive feedback from our customers as they use our products with their pets. This information has enabled us to make changes to a number of our products such as our Ruffler n Tuffer range that ensure we get better every day and offer continually improved safe, legal and fit for purpose products.

Animal Testing

We are committed to ensuring that our products meet the highest quality and safety standards in the UK Pet Care Market and so in FY13, we 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 quality manual and have been issued to all suppliers. During FY14, we continued to seek confirmation of adherence of our suppliers with the relevant policy.

Did you know . . .

95% of our colleagues own pets

See additional information online at investors.petsathome.com

"We are committed to ensuring that our products meet the highest quality and safety standards in the UK Pet Care Market"

Corporate social responsibility continued

“One of the most significant changes this year has been the move of our largest brand Wainwright’s dry dog food from a paper laminated bag to a plastic laminate material. This has resulted in a reduction in packaging volume by weight in excess of 30% and delivered a significant reduction in product wastage in distribution and at store level due to split bags”

Cutting Down on Packaging Waste

Over the last year, the packaging team has worked to reduce packaging material volume by continually looking to optimize packaging solutions whilst maintaining the primary function of protecting the product, clearly providing customer information and communicating product propositions.

One of the most significant changes this year has been the move of our largest brand Wainwright’s dry dog food from a paper laminated bag to a plastic laminate material. This has resulted in a reduction in packaging volume by weight in excess of 30% and delivered a significant reduction in product wastage in distribution and at store level due to split bags. Currently this material is not recyclable through kerb-side collection in the UK

however we are continuing to pursue a material solution that provides widespread recyclability, product suitability and structural integrity to hold 15kg.

Our Pets At Home cat litter range has made a similar move from paper bags into plastic laminate leading to a 38% reduction in material volume across the premium range delivering a volume saving of over 8,000 kilos (8 tonnes) each time the range is reprinted.

We continue to support the application on all packaging of the WRAP OPRL Guidelines through the application of on pack recycling icons. The icons communicate the component level recyclability of the packaging helping consumers to separate waste effectively and recycle as much as possible.

Our Pets People

Great Place to Work

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 81% in FY14, having increased from 54.1% in the 2007 financial year, and has been maintained at an average in excess of 80% over the past four financial years.

Pets At Home participated in The Sunday Times Best Companies awards, and was recognised as The Best Big Company to Work For in the UK in FY14, after having been placed second in the same awards in 2012. In 2014, we have entered the Great Place to Work survey and will be 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 international benchmarks.

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. As detailed above, for our retail colleagues, a structured training programme known as 'Steps' is mandatory and takes a minimum of nine months to complete.

To encourage our 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.

Management development for the retail business follows a structured programme from 'Rising Stars' to 'FastTrack', allowing colleagues to progress from colleague to store manager.

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.

We are also committed to ensuring a safe environment for all of our colleagues and customers, and actively encourage positive Health and Safety Culture throughout the Group.

Support Adoption for Pets At Home and other pet charities

The Group continues to support the charity 'Support Adoption For Pets' ("Charity") through extensive fundraising activities in Stores, the Support Office and both Distribution Centres. The Charity raised over £2.5m last year with its largest income stream of £1.5m raised through three main fundraising events run throughout the year. The Spring and October Fundraising Drives have contributed the greatest levels of income and are well supported by colleagues, customers and our suppliers. The popularity of the raffle and the volume of ticket sales enabled a car to be offered as the top prize, raising awareness and interest in the fundraising event, which was widely promoted in the local press. The car raffle contributed over £358,260 towards the £457,350 raised over the four weeks.

At Christmas every store supported the new Santa Paws Appeal, when all of our customers were asked to donate 50p to provide a pet in a rescue with a Christmas dinner. This was incredibly well supported with 553,120 dinners being donated from 1st December to Christmas Eve.

60,616 pets have also been re-homed through the Adoption Centres operated in our stores with £563,826 in donations being received from their new owners. The Group continued to support the charity by investing in providing adoption centres in each of its new superstores, bringing the total number of Adoption Centres to 352. The increase in donations and fundraising has enabled the Charity to award £2,150,475 in grants over the last 12 months ranging from £300 to £120,000 to fund a variety of projects for a wide range of rescues and re-homing centres.

Corporate social responsibility continued

This was an increase from the £1,400,000 in grants awarded in the previous year. In addition, the Charity has also been able to fund the development of two further RSPCA re-homing centres within our Friern Barnet and Newport South Wales stores, bringing the RSPCA's centres to three and also the first Battersea Dogs and Cats 'Home from Home' centre in the Sydenham store providing a further centre for the local charity with an international following.

These areas are manned by the Charities with the remainder of the operating costs being paid for by Pets At Home.

The damaged stock scheme operated by both DCs whereby damaged stock from our two Centres is distributed to stores for collection by local rescues continues to increase in popularity with re-homing centres. Since the introduction of the scheme over 435 rescues have registered and received donations. This support is invaluable to rescues since they often need more than just financial help.

The other Charity supported over the last 12 months was Children in Need. A week of fundraising in stores using the 'Round up to £1' function on our tills, where customers are asked to round their shopping to the nearest pound with the difference being donated to the Charity raised £12,722.

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.

Our Community

In order to promote involvement in the local community and competition between stores, a few years ago, we put in place 'My Pond League' where each store earns points for the level of customer service and the number of local events that they hold in-store. This continues to be an important part of the Group's engagement with the local community.

We have worked closely with scouting organisations for years with our sponsorship of their animal care badge and to help members to gain this badge, we offer free workshops in all of our stores. In the year we have more than doubled the number of Beaver and Cub events in-store. In FY13, we held 277 events and this increased to 622 in FY14. We have also become the number one downloaded resource pack in the Scouts organisation.

Pets re-homed through Adoption Centres

Over 60,600

Donations received from new owners

£563,826.10

"At Christmas every store supported the new Santa Paws Appeal, when all of our customers were asked to donate 50p to provide a pet in a rescue with a Christmas dinner. This was incredibly well supported with 553,120 dinners being donated from 1st December to Christmas Eve"

Our colleagues also visit local schools with our store pets to help educate children about responsible pet ownership in line with the national curriculum. We have also doubled the number of school visits from 204 in FY13 to 417 in FY14.

For the first time in FY14 we included local work experience in 'My Pond League' and recorded 855 local school children being given the opportunity to experience working life in our stores.

All these initiative have a combined benefit to both the store and the business since they ensure that each of our stores is seen as a part of the local community and it also allows us to promote responsible pet ownership to the pet owners of the future.

The Group recognises its responsibility for Health and Safety and there is accountability throughout the various management levels with the business.

Our Commitment to health and safety is best evidenced as follows:

The Health and Safety Department are responsible for interpreting health and safety legislation and advising and guiding managers and colleagues in how to manage safely across the Group.

The Department is also responsible for assisting in the development of Safety Management Systems and advising on safety procedures and standards across the Group.

The Vet Group has its own dedicated Health and Safety Manager who reports to the Health and Safety Department, who oversees an external Health and Safety service provider and carries out Inductions at all new Practices as well as being the key contact for day-to-day health and safety issues.

All Vets Practices receive an annual audit from our External service provider.

The Vet Group is now incorporated into the Group Accident Reporting procedure. This, together with an improved awareness of the reporting process across the business, has resulted in a 20% increase in the total number of reported accidents for the Group. However, our accident reporting system continues to aid the in-depth analysis of our accident statistics and will allow us to identify causes of accidents and take further steps to prevent them.

Did you know . . .

Our colleagues visit local schools with our store vets to help educate children about responsible pet ownership

See additional information online at investors.petsathome.com

Number of school visits in FY14

417

(FY13: 204)

“Our colleagues also visit local schools with our store pets to help educate children about responsible pet ownership in line with the national curriculum. We have also doubled the number of school visits from 204 in FY13 to 417 in FY14”

Strategic Report: Performance and Financials

2014 represented another year of substantive growth for Pets At Home, with improvements across a number of key financial metrics.

Growth

Delivery

Pets At Home has delivered excellent results in the past financial year, increasing like-for-like sales, improving underlying EBITDA margin and continuing to deliver strong cash returns on invested capital.

See additional information online at
investors.petsathome.com/our-company/our-services

Pictured: We closely monitor colleague engagement through our annual 'We're All Ears' survey.

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Ian Kellett
Chief Financial Officer

The FY14 accounting period represents 52 weeks to 27th March 2014. The comparative FY13 period represents 52 weeks to 28th March 2013.

Key Performance Indicators

		FY14	FY13	Change
Stores	Number of stores	377	345	32
	New stores ¹	32	32	
Vets	Number of vet practices (total)	277	208	69
	–Of which Joint Venture practices	267	111	
	–Of which wholly owned Group Venture practices	10	5	
	–Of which Vets4Pets acquisition		92	
	Number of standalone vet practices	119	97	22
	Number of in-store vet practices	158	111	47
	–% of stores with vet	42%	32%	
	New vet practices (total)	69	116	
	New standalone vet practices	22	92	
	New in-store vet practices	47	24	
–Of which retrofits	18	17		
Groomers	Number of groomers	129	87	42
	–% of stores with groomer	34%	25%	
	New groomers	42	26	
	–Of which retrofits	11	8	
Revenue	Revenue Split (£m)			
	Food	327.1	297.9	9.8%
	Accessories	288.0	268.5	7.3%
	Total Merchandise revenue	615.1	566.4	8.6%
	Services & other ²	50.3	31.9	57.4%
	Total Group revenue	665.4	598.3	11.2%
	Like-for-Like growth ³	2.4%	2.6%	
	VIP Club members ⁴ (m)	2.0	0.5	1.5
	VIP swipe as % revenue	54%	21%	
	Revenue Mix (% of total revenues)			
	Food	49.2%	49.8%	(62) bps
	Accessories	43.3%	44.9%	(159) bps
	Total Merchandise	92.4%	94.7%	(222) bps
Services & other ³	7.6%	5.3%	+222 bps	
Gross Margin	Merchandise Gross Margin (store + omni-channel)	56.1%	56.0%	+14 bps
	Services & Other Gross Margin	26.3%	22.5%	+386 bps
	Total Gross Margin	53.8%	54.1%	(32) bps
EBITDA	Underlying EBITDA (£m)	110.7	98.5	12.4%
	Underlying EBITDA margin	16.6%	16.5%	17 bps

(1) FY14 openings include new format store, Barkers.

(2) Includes veterinary Joint Venture fees and other income, Groom Room revenue, revenue from live pet sales and insurance commission.

(3) 'Like-for-Like' sales growth comprises total sales/fee revenue in a financial period compared to revenue achieved in a prior period for stores, grooming salons and vets that have been trading for 52 weeks. LFL includes revenue from the Group's online store.

(4) At the end of P13.

Chief Financial Officer's review continued

Sales and revenue

Total revenues in FY14 grew by 11.2% to £665.4m (FY13: £598.3m), with strong growth seen across all revenue categories: food, accessories and services.

Like-for-like sales grew by 2.4% in the period, driven by VIP Club success, strength in Advanced Nutrition (AN), omni-channel, and the growing maturity of our Groom Rooms and vet practices. Cannibalisation as a result of new store rollout had a dilutive impact of around 1.8% on like-for-like sales growth, and we expect a similar cannibalisation impact in the coming year. In addition, sales in June/ July 2013, were adversely impacted by around £2.6m, from the sustained hot weather across the UK. Hot weather results in lower footfall and accessories sales, as shopping trips focus on necessities, principally food.

Total merchandise revenues, which includes food and accessories, grew by 8.6% in the year to £615.1m (FY13: £566.4m).

We saw solid growth in food revenues, increasing by 9.8% to £327.1m (FY13: £297.9m), reflective of strong performance in AN, where revenues grew 17.8%. During the year, we launched a number of new AN brands to stores, including Barking Heads for dogs and Meowing Heads for cats. These new brand launches, as well as the continued success of brands such as Eukanuba, Arden Grange and Burns, helped to drive AN revenues to 56% of total dog and cat food revenues, excluding treats (FY13: 53%). Our private label brand, Wainwright's dog food, also continued to gain in popularity, growing by 26.7% to £27.2m (FY13: £21.4m), supported by the launch of Wainwright's Grain Free. Weaker areas in food revenues included wild bird food sales, which were negatively impacted by a mild autumn/winter with birds feeding adequately from natural sources, and the discontinuation of rabbit muesli following research from Edinburgh University Veterinarian School which demonstrated negative health impacts in rabbits.

In Accessories, revenues grew by 7.3% to £288.0m (FY13: 268.5m), driven by innovative product launches across dog collars, leads, dog fashion and toys. In particular, the 'Summer Brights' dog bed collection and 'Platinum Space' dog range performed well, as well as our 'Rustic Charm' cat collection. We experienced some weakness in areas which are subject to greater discretionary spend, such as live pets, and small animal and aquatics accessories.

Services revenues grew by 57.4% to £50.3m (FY13: £31.9m), reflective of a full year of Vets4Pets revenues, following its acquisition in March 2013. This partly accounts for the increased proportion of services revenues, at 7.6% of total revenues in FY14 (FY13: 5.3%). Removing the impact of the Vets4Pets acquisition, services revenues still grew strongly, by 25.0%, reflecting in part the maturation from new veterinary practices and grooming salons, as well as strong performance from established veterinary practices which we believe continue to grow at above market rates. Like-for-like revenues generated within the Joint Venture veterinary practices grew by 14.0% during the year.

Gross margin

Overall FY14 gross margin contracted by 32bps to 53.8% (FY13: 54.1%), which is attributable to a mix effect, as relatively lower gross margin services became a larger part of the overall business.

Gross margins within Merchandise grew by 14 bps compared with the prior year, at 56.1% (FY13: 56.0%). Positive contributors to the Merchandise gross margin included a continued benefit from improvements in terms negotiations, as well as global sourcing agreements, where we saw margin gains from the procurement of accessories through Asia. Higher margin AN and private label products, such as Wainwright's, were also an important positive contributor to margin expansion.

Whilst we grew gross margins in both Food and Accessories, a 59 bps sales mix shift from higher margin accessories to food diluted the overall Merchandise margin gain to 14 bps during the year.

Gross margin within the services business expanded to 26.3% (FY13: 22.5%), mainly attributable to higher gross margin veterinary services being a larger part of the overall mix, resulting from the Vets4Pets acquisition and strong like-for-like growth within existing practices. Margin synergies have been achieved since the acquisition, combining three support offices into one and leveraging the significant scale increase, resulting in the delivery of £2.7m of synergy benefits during the year. This benefit outweighed the dilutive impact of increasing the number of wholly owned Group Venture (GV) veterinary practices by five during the year, as well as the significant Groom Room salon rollout, where recently opened wholly owned vet practices and newer salons are initially margin dilutive. Services and other gross margin was also negatively impacted by our investment in live pet care within stores, where we continually invest to improve welfare standards.

Looking forward, at a total gross margin level for the Group, we expect to begin to see a benefit from services maturation and growth, whilst continuing to see modest Merchandise margin expansion.

Operating costs

Selling and distribution expenses of £233.9m were 35.2% of revenue (FY13: 36.0%) reflecting efficiency improvements in the two distribution centres that serve our growing store base. Rent costs continued to benefit from a relatively benign rental market, as well as the expansion of the Vets Group, with the opening of 18 retrofit practices in-store generating incremental service charge income. Offsetting these improvements, we have seen increased marketing costs from the expansion of our VIP

Club, alongside increased costs from 'auto enrolment' pension legislation and in-store colleagues progressing through our 'Steps' training programme.

Administration expenses of £34.8m, before exceptional items, were 5.2% of revenue (FY13: 5.0%), reflecting increased support for our Ride-Away business in its first full year in the Group and higher depreciation, colleague and licence costs in business systems following the successful implementation of SAP

Underlying EBITDA

Underlying EBITDA of £110.7m represented a 12.4% increase on the previous year (FY13: £98.5m) attributable in part to the acquisition of Vets4Pets and Ride-away at the end of FY13. We also saw expansion in our underlying

EBITDA margin, to 16.6%, reflecting the leverage from our growing services business, which is accretive at an EBITDA level. All direct costs, principally colleague costs, associated with the delivery of the veterinary and Groom Room services are allocated at a cost of sales level, representing the majority of the cost base associated with the delivery of our services. Around £1.9m of indirect costs are allocated within operating expenses.

Exceptional expenses of £10.6m during the year were attributable to costs associated with the Initial Public Offering on 17th March 2014 (£9.4m), and costs associated with the integration of the Vets4Pets business (£2.3m) net of a significant VAT refund (£1.1m).

"Total revenues in FY14 grew by 11.2% to £665.4m (FY13: £598.3m), with strong growth seen across all revenue categories: food, accessories and services"

£000

	FY14	FY13
Operating profit	78,842	72,934
Exceptional items	10,574	6,049
Related party fees	1,221	1,298
IFRS share based payment charges	31	0
Underlying operating profit	90,668	80,281
Depreciation and amortisation	19,990	18,207
Underlying EBITDA	110,658	98,488

Underlying EBITDA is calculated as Group underlying operating profit under IFRS (which includes amortisation of landlord and developer contributions received), plus depreciation and amortisation and profits and losses on disposal where these are included in operating profit. Excludes exceptional items, related party fees, costs commensurate with operating the business as a publicly quoted company and IFRS2 related share based payment credits and charges.

Finance expense

Underlying finance expense for the year was £37.5m. Exceptional finance expenses of £19.2m represent accelerated amortisation costs following the repayment of the senior bank facility of £567.9m during the period.

Going forward, under the new post-IPO capital structure, we expect net financing costs of around 3.0% per annum.

Taxation and profit after tax

Total tax expense for the period was £9.0m, representing a tax expense of £13.7m on underlying trading profit before tax of £52.2m, offset by a tax credit of £4.7m attributable to exceptional items related to the Group restructuring as part of the IPO process.

The tax deductible items included within exceptionals include the amortisation of finance costs in relation to finance which has been repaid, and redundancy costs associated with the Vets4Pets acquisition. Also included in exceptional costs are transaction costs in relation to the IPO process, for which no corporation tax relief is assumed.

Chief Financial Officer's review continued

Within the underlying trading profit before tax of £52.2m, there are some items which are non-deductible for corporation tax purposes, which have resulted in an effective tax rate of 26%, higher than the statutory corporation tax rate for the period of 23%. These items include an element of non-deductible related party interest and non-deductible depreciation in respect of capital expenditure. In addition, prior year adjustments of £0.9m, in respect of current tax and deferred tax, have increased the effective tax rate further. Our expected effective tax rate for the current financial year is 22%.

Profit for the period, after tax, was £13.5m (FY13: £20.5m). The year-on-year movement is representative of a £14.7m increase in exceptional costs, offset by a £7.7m improvement in the profit for the period associated with underlying trading.

Net income and earnings per share

Underlying trading net income for the period was £38.6m (FY13: £30.8m). After subtracting a dividend of £37.6m payable as a consequence of the pre IPO capital structure, basic underlying Earnings Per Share, calculated on an average weighted 175.1m shares in issue, was 1 pence. The weighted average share count for FY14 is reflective of the 166m shares outstanding pre IPO, with 500m shares in issue post listing.

Cash flows

Pets At Home continues to deliver strong cash flow generation. In FY14, the Group generated £124.6m (FY13: £115.0m) of net cash from operating activities. Underlying unlevered free cash flow before interest, tax and acquisitions was £92.4m (FY13: £96.8m), representing a cash conversion rate of 83.5% (FY13: 98.2%). Underlying free cash flow has been adjusted through the removal of a £25.2m increase in other payables, reflecting payments associated with IPO costs outstanding at year end.

Borrowings and net debt

The Group's underlying net debt position at year end was £259.1m, adjusted for a timing difference in IPO and Plc related costs due to be paid from cash received as a result of primary proceeds raised from the IPO. This represents a leverage ratio of 2.34x underlying EBITDA.

We expect our leverage ratio to decline to under 2.0x underlying EBITDA by the end of the current financial year, and to decrease by 0.5x per annum in the following years, as our cash flows remain adequate to fund our space rollout programme, invest for future growth, deliver future returns to shareholders and service debt.

Did you know...

We aim to be the number 1 omni-channel retailer for pet products in the UK

See additional information online at investors.petsathome.com

"Pets At Home continues to deliver strong cash flow generation. In FY14, the Group generated £124.6m (FY13: £115.0m) of net cash from operating activities"

£000	Stated leverage	Underlying leverage
Stated Gross Debt	319.9	319.9
Add back: issue costs	5.1	5.1
Adjusted Gross Debt	325.0	325.0
Cash	90.8	90.8
Less IPO related cash		24.9
Adjusted cash		65.9
Net debt	234.2	259.1
Underlying EBITDA	110.7	110.7
Leverage	2.12x	2.34x

Working capital

Working capital improved by £9.7m in the year (FY13: £19.3m), excluding a £25.2m increase in other payables, reflecting payments associated with IPO costs outstanding at year end. The movement in working capital is made up of additional investment in inventory of £4.0m and an increase in receivables of £8.0m offset by an increase in trade and other payables of £21.7m.

The increase in inventory of £4.0m reflects the growth in the business, specifically the opening of 32 new stores. This increase in inventory is more than offset by an increase in trade creditors.

£5.1m of the increase in trade and other receivables relates to the timing of a refinancing within the Vets Group to ensure the Group had sufficient facilities for new JV partners to draw upon, to deliver our growth plans over the next two years. This required the group to temporarily fund a number of practice openings in the latter stages of the 2014 financial year. The remaining increase in trade and other receivables relates to the impact from integrating Vets4Pets which is more than offset by a corresponding movement within trade and other payables, as the integration overall delivered a net working capital benefit of £3.1m to the Group.

The significant increase in trade and other payables of £21.7m is partially offset by the increase in inventory and the integration of the Vets4Pets business as outlined above. Also contributing to the movement in trade and other creditors are further improvement to supplier terms in the Group, particularly in relation to products sourced through our sourcing office in Asia. The Group also saw a working capital benefit in FY14 relating to the timing of Easter in 2013 when the Easter weekend fell in the first weekend of FY14 accelerating payments pre-year end due to the timing of the Easter bank holidays.

Going forward, we expect a modest improvement in our working capital.

Capital expenditure

Capital expenditure was £30.0m for the FY14 (FY13: £22.0m), reflective of our new store openings, store refurbishment programme to facilitate pet services retrofitting (including the installation of mezzanines where necessary), new services rollout and the introduction of SAP. During the year, 32 new stores were opened with a capital expenditure cost of £10.9m (FY13: 32 stores at £10.7m). Major refurbishment capital expenditure totalled £5.1m as 20 stores were upgraded to facilitate the addition of vets and groomers, with two mezzanine floors added.

In order to support the vet and Groom Room retrofit programme, including mezzanine additions to stores, we expect total capital expenditure requirements to increase to around £34–35m per year going forward, which will be funded from operating cash flows.

Dividend

The Board's current intention is to adopt a progressive dividend policy whilst maintaining an appropriate level of dividend cover, allowing us to retain sufficient capital within the Group to execute our growth strategy and meet our working capital needs, whilst at the same time returning value to shareholders. We still expect to target the commencement of a dividend payment in the FY15, with a payout ratio of 30–40%, split one-third and two-thirds between interim and final dividends respectively.

Ian Kellett

Chief Financial Officer

11th June 2014

“During the year, 32 new stores were opened and 20 stores were upgraded to facilitate the addition of vets and Groom Rooms”

Risks and uncertainties

An effective risk management process has been adopted to help the Group achieve its strategic objectives and enjoy long-term success.

Our risk management process

The Board and Senior Management team are collectively responsible for managing risk across the Group. On a department by department basis risks are reviewed regularly and risk registers are updated at least three times a year. The teams meet to discuss and agree:

Did you know . . .

Our vision is to be the Best Pet Shop in the World!

See additional information online at investors.petsathome.com

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Reputation

Risk

The Group recognises the need to protect its reputation

Impact

Failure to do so could result in a loss of trust and confidence by both customers and colleagues.

Mitigation

As a retailer of small pets across a large number of stores, the highest possible welfare standards must be maintained at all times. This also extends into the supply chain with our pet suppliers. We operate a comprehensive pet welfare audit process, utilising internal and external resources, where all stores receive unannounced visits on a regular basis. This helps ensure our high standards are maintained across the chain. With our suppliers, we expect the same high standards of welfare and all suppliers are visited regularly by vets, third party assessors, our field pet team and an animal welfare organisation and assessed against a comprehensive set of welfare and standards criteria.

The Group also deals with customers' pets on a daily basis through its veterinary surgeries, Groom Room salons and Support Adoption centres, which may on occasion result in the death or injury of pets whilst in our care. We have a clear set of operational protocols, with the veterinary practices subject to the professional standards mandated by the Royal College of Veterinary Surgeons. We also have highly visible field operations resource in respect of in-store pets, grooming and veterinary surgeries. Each area has specific resource focused on ensuring the highest pet welfare standards are maintained.

A 'Reputational Risk forum' meets regularly to discuss this important area. Areas for further improvement are identified and actions implemented to ensure appropriate risk mitigation strategies are in place to protect our brand.

Competition

Risk

The Group competes with a wide variety of retailers and vet practices, including other pet specialists, supermarkets and discounters. Online competition is also a risk, as large well known internet businesses expand into pet products and the established pet product sites improve and expand their offer.

Impact

Failure to keep abreast of, and respond to, developments by our competition in the areas of price, range, quality and service could have an adverse impact on the Group's financial performance and impact opportunities for growth.

Mitigation

We continue to evolve our proposition through the addition of Vets and Groomers into our existing store estate whilst continuing to innovate with the regular introduction of new and exclusive products into our food and accessory ranges. As a specialist retailer, the delivery of friendly expertise through our highly engaged/trained store colleagues is a key element of our proposition and we continue to invest to ensure our service standards, as measured by our customers through Fish4opinion, are continually improved. The Pets At Home website was successfully upgraded in January 2014 to ensure we have a technology platform capable of supporting our online strategy. New site features include: click and collect, quick checkout, subscription services and improved site layout and content.

The VIP (Very Important Pet) Club was launched in November 2012 and has been incredibly successful – attracting just under 2 million members at Financial year end. This customer database enables more targeted marketing, which helps drive up basket values and enables us to build a stronger sense of engagement with our customers and their pets.

Continuous market research is carried out to review the pet market both at home and abroad and understand what our competitors are doing worldwide. This helps identify further changes/initiatives that need to be implemented to help keep Pets At Home ahead of the competition here in the UK and remain a leader in the market.

Stores and Services Expansion

Risk

A key part of the Group's growth strategy is to increase the number of stores and to grow its in-store and standalone veterinary practices and Groom Room grooming salons.

Impact

If we are unable to deliver the number of sites necessary to fulfil the stores and service expansion laid out in our strategy, our expected financial performance could be adversely impacted.

Mitigation

To successfully open a new store, we have to, in the first instance, identify an appropriate location with lease terms that are acceptable. Any proposed new store investment has to deliver an appropriate financial return after taking into account any financial impact on the existing store portfolio. These processes are equally applicable when the Group looks to open a standalone veterinary practice. However, in common with our in-store veterinary practice opening programme, we also need to recruit a joint venture veterinary partner with the ability to fund their investment into the joint venture and with the ability to provide the personal guarantee to the bank providing the third party financing to the joint venture veterinary practice.

The business maintains new store and new joint venture partner pipelines which identify potential locations and potential partners at each stage of our process. This enables the Board to monitor progress in delivering the expected number of new stores, veterinary practices and groom rooms.

Risks and uncertainties continued

Our People

Risk

As a specialist retailer, retaining highly trained and engaged colleagues is fundamental to our continued success and the delivery of our future growth.

Impact

If we do not retain and train our colleagues, it is unlikely that we will be able to deliver the outstanding customer service which is a key element of our proposition.

Mitigation

We continue to invest in training to broaden the skill base of colleagues across the business. We also closely monitor colleague retention rates and engagement, the latter through our annual 'We're All Ears' engagement survey which is followed up by 'We're All Action' to ensure the business responds appropriately to opportunities for improvement raised by colleagues. We also have a rolling programme of listening groups across the business to ensure we are addressing issues on an ongoing basis.

As well as focusing on the development of existing talent within the business, we recognise that the retention of high calibre, talented, senior management with the skills necessary to deliver our growth plans is key to our future success. In this regard, our remuneration policy, as set out on pages 84 to 103, is designed to ensure executives of the necessary calibre are attracted and retained and that through our Long Term Initiative Plans and Company Share Option Plan, colleagues across the business can share in our success. Similarly we continually review the remuneration and benefits packages available to all colleagues to ensure our colleagues are appropriately rewarded for the substantial contribution they make to our growth and success.

Business Systems

Risk

We are aware of the need to keep core business systems up to date, with the capability to support the Group's growth plans.

Impact

If our investments in both systems and infrastructure do not keep pace with the growth of the business there may be a consequent limitation to our ability to trade and expand.

Mitigation

We are in the process of upgrading our business critical systems to industry leading packages, the first of which was SAP which successfully went live this financial year. Our warehouse management system is being replaced with JDA in the next financial year.

Disaster recovery is a key part of our systems strategy, enabling us to continue to trade in the event of a system outage. Disaster Recovery plans have been reviewed and updated and a schedule for regular testing is now in place. The business also undertakes regular system penetration testing.

Supply Chain/Sourcing

Risk

During the financial year, the Group imported approximately 1.7% of its total merchandise via Pets At Home Asia, the Group's global sourcing company based in the Far East, and as a consequence we are exposed to the risks associated with international trade, such as inflation, changing regulatory frameworks and currency exposure. We are also exposed to the risks associated with the quality and safety of products produced globally on behalf of the Group, many of which are own branded or exclusive private labels.

Impact

A failure to adequately manage this risk could lead to reputational damage, reflected in a lack of confidence by customers and colleagues in the Group brands.

Mitigation

Having Pets At Home colleagues on the ground working collaboratively with suppliers enables us to monitor closely compliance with the Group's Code of Ethics and Business Conduct policy, as well as compliance with our Supplier Quality Manual. In addition, unannounced visits are undertaken by an independent third party to further monitor compliance with Group policies.

Liquidity and Credit Risk

Risk

The business requires adequate cash resources to enable it to fund its growth plans through its capital projects and/or an expansion of the Group's working capital requirement.

Impact

Without adequate cash resources the Group may be unable to deliver its growth plans, with a consequent impact on future financial performance.

Mitigation

A key workstream undertaken as part of the IPO was the assessment of the Group's financing requirement in the context of its growth plans.

As a result the Group is confident that it has adequate medium-term financing in place, with a broad syndicate of nine banks.

The Group's growth plans in respect of joint venture veterinary practices is predicated on the availability of finance for new joint venture veterinary partners to fund both the capital cost and working capital requirement for each new practice opening. The Group has two revolving facilities in place with two major high street lenders which give us confidence that our medium-term growth plans are financed adequately.

The Group ensures that all cash surpluses are invested with banks which have credit ratings and investment criteria that meet the requirements set out in the Group Treasury policy, which has been approved by the Board.

The Group's key suppliers are exposed to credit risk and as part of the Group's overall risk management programme, the business has identified alternative suppliers and developed contingency plans, particularly in respect of Own Label and Private Label food products.

Treasury and Financial Risk

Risk

The Group has an exposure to exchange rate risk in respect of the US dollar which is the principal purchase currency for goods sourced from the Far East.

Impact

If we do not adequately manage this exposure there could be an impact on the Group's financial performance with a consequential impact on operational and growth plans.

Mitigation

This exposure to FX fluctuation is managed via forward foreign currency contracts which are designated as cash flow hedges.

The Group has borrowings with floating interest rates linked to LIBOR, thereby exposing the Group to fluctuations in LIBOR and the consequent impact on interest cost. To manage this risk the Group has interest rate swaps in place which fix the interest rate on a significant proportion of the Group borrowings. Further details can be found on page 139.

All hedging activity is undertaken by the Group Treasury function in accordance with the Group Treasury policy which sets out the criteria for counterparties with whom the Group can transact and clearly states that all hedging activities are undertaken in the context of known and forecast cashflows, with speculative transactions specifically prohibited.

Governance

Good corporate governance is important for ensuring that our business environment is fair and transparent and supports our delivery of sustainable good business performance.

See additional information online at
investors.petsathome.com/our-company/our-services

Pictured: The Group's policy is to match the capabilities and talents of each individual to the appropriate job.

Board of Directors

Tony DeNunzio CBE
Non-Executive Chairman

Committee Role

Nomination & Governance Committee and the Pets Before Profit & Corporate Social Responsibility Committee.

Current Commitments

Non-Executive Chairman of Maxeda (the second largest DIY retailer in the Benelux), Non-Executive Director of Alliance Boots, and is a senior adviser to affiliates of Kohlberg, Kravis, Roberts & Co.L.P

Appointment to the Board
18th February 2014.

Biography

Tony joined Pets At Home as Non-Executive Chairman in March 2010. Tony 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

Committee Role

Nomination & Governance Committee, Audit Committee, Remuneration Committee and the Pets Before Profit & Corporate Social Responsibility Committee.

Current Commitments

Dennis is currently the Chairman of Halfords Group plc, having joined in 2009 and is also the Chairman of Connect Group PLC (formerly Smith News PLC) having joined the group on 31st 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).

Appointment to the Board
18th February 2014.

Biography

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.

Dennis is a chartered accountant and holds an MBA from the University of Cape Town GSB. Dennis is also the Chairman of Trustees of the charity The Holy Cross Children's Trust and owns two dogs.

Nick Wood
Chief Executive Officer

Current Commitments

Nick joined Pets At Home as Chief Executive Officer in June 2012.

Appointment to the Board
11th February 2014.

Biography

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.

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Gender breakdown:

	Male	Female
Board of Directors	78%	22%
Senior Management	80%	20%
Group	38%	62%

Nomination & Governance Committee

Tony DeNunzio (Chair)
Dennis Millard
Tessa Green
Amy Stirling
Paul Coby
Brian Carroll

Audit Committee

Amy Stirling (Chair)
Dennis Millard
Paul Coby
Paul Moody

Remuneration Committee

Dennis Millard (Chair)
Tessa Green
Amy Stirling
Paul Moody

Pets Before Profit & Corporate Social Responsibility Committee

Tessa Green (Chair)
Dennis Millard
Paul Coby
Tony DeNunzio

Ian Kellett
Chief Financial Officer

Current Commitments

Ian joined Pets At Home as Chief Financial Officer in April 2006.

Appointment to the Board

11th February 2014.

Biography

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 and 2006 and deputy finance director of JD Wetherspoon plc between 1999 and 2004. Ian owns four dogs.

Brian Carroll
Non-Executive Director

Committee Role

Nomination & Governance Committee.

Current Commitments

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.

Appointment to the Board

18th February 2014.

Biography

Brian joined Pets At Home as a Non-Executive Director in 2011. 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.

Board of Directors continued

Paul Coby
Independent Non-Executive Director

Committee Role

Nomination & Governance Committee, Audit Committee and the Pets Before Profit & Corporate Social Responsibility Committee.

Current Commitments

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.

Appointment to the Board

18th February 2014.

Biography

Paul was CIO at British Airways for ten 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 (Société Internationale de Télécommunications Aéronautique), 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

Committee Role

Nomination & Governance Committee, Remuneration Committee and the Pets Before Profit & Corporate Social Responsibility Committee.

Current Commitments

Tessa 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.

Appointment to the Board

18th February 2014.

Biography

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. Tessa owns one dog and three horses.

Amy Stirling
Independent Non-Executive Director

Committee Role

Nomination & Governance Committee, Audit Committee and the Remuneration Committee.

Current Commitments

Amy is currently the Chief Financial Officer of The Prince's Trust.

Appointment to the Board

18th February 2014.

Biography

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 a chartered accountant and owns one cat.

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Paul Moody
Independent Non-Executive Director

Committee Role

Audit Committee and the Remuneration Committee.

Current Commitments

Paul Moody has a wealth of experience in the FMCG and food and beverage industries, having spent 17 years at Britvic plc, including the last eight years as Chief Executive. Since 2013, Paul has been Chief Executive of Food Freshness Technology, a high tech innovations company focused on delivering comprehensive solutions for food freshness. In addition, Paul currently serves on the Board of Johnson Service Group as a Non-Executive Director and was appointed as Non-Executive Chairman from 1st May 2014.

Appointment to the Board

25th March 2014.

Biography

Paul has held multiple posts in the food and beverage sector and was President of the British Soft Drinks Association from 2007 to 2009. Between 1987 and 1994 he worked at Pedigree Pet Foods, Mars, in various roles including latterly National Field Sales Manager, responsible for sales teams focused on Grocery, Impulse and Specialist Pet Trade.

Louise Stonier
Company Secretary

Current Commitments

Louise joined Pets At Home in 2004 as Head of Legal and Company Secretary and was promoted to Group Legal Director in 2008.

Biography

During her time at Pets At Home, Louise has worked on the management buyout of the Group by Bridgepoint Capital Limited in 2004, the acquisition by an affiliate of Kohlberg Kravis & Roberts L.P in 2010 and more recently the acquisition of Ride-away and Vets4Pets and the Listing of the Pets At Home Group on 17th March this year. Louise is also a trustee of the charity Support Adoption for Pets. Louise graduated from Nottingham University with an LLB (Hons) and joined CMS Cameron McKenna as a trainee solicitor. After qualifying as a Corporate solicitor in 1999, Louise moved to DLA Piper LLP and as an associate in the Corporate Team, acted on a number of corporate finance and M&A transactions.

Executive Management Team

Nick Wood
Chief Executive Officer

Date of joining the Company
Joined the Company in June 2012.

Biography

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

Date of joining the Company
Joined the Company in April 2006.

Biography

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 and 2006 and deputy finance director of JD Wetherspoon plc between 1999 and 2004. Ian owns four dogs.

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

Date of joining the Company
Joined the Company in December 2008.

Biography

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, and services (both veterinary and grooming). She has been at Pets At Home for five 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 of England and on the board of The Institute of Employment Studies, a non-profit organisation. A particular interest in diversity led to a four 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.

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Peter Pritchard
Commercial Director

Date of joining the Company

Joined the Company in January 2011.

Biography

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

Date of joining the Company

Joined the Company in February 2007.

Biography

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 six years working for Tech Data, a global IT distributor, initially as the UK Logistics Director on e-commerce fulfilment 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.

Directors' report

Introduction

This section of the Annual Report includes additional information required to be disclosed under the Companies Act 2006 ("Companies Act"), the UK Corporate Governance Code 2010 and 2012 (Code) (the "UK Corporate Governance Code"), the disclosure and transparency rules ("DTRs") and the listing rules ("LRs") of the Financial Conduct Authority.

Certain information required to be included in the Directors' Report is included in other sections of this Annual Report as highlighted throughout this report and also including:

- The Strategic Report on pages 17 to 27
- The Corporate Governance Report on pages 66 to 75
- The Audit Committee Report on pages 76 to 81
- The Directors' Remuneration Report on pages 82 to 103.

Incorporation, listing and structure

The Company was incorporated and registered in England and Wales on 10th 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 17th February 2014, the Company was issued with a trading certificate under section 761 of the Companies Act entitling it to commence business.

On 17th March 2014, the Company acquired, through its wholly owned subsidiary, Pets At Home No.1 Limited, the entire issued share capital of PAH Retail Limited which holds (through certain wholly owned intermediate holding companies) the Group's operating companies, to become the ultimate holding company of the Group.

On 17th March 2014, the entire issued ordinary share capital of the Company was admitted to premium listing segment of the Official List of the FCA and to trading on the London Stock Exchange plc's main market for listed securities ("Listing").

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.

Principal Activities

The principal activity of the Group is that of a specialist retailer of pet food, pet related products and pet accessories. The Group is also the operator of a small animal veterinary business and pet grooming salons and the multi-channel equestrian retailer, Ride-away. Further information of the Group's principal activities is set out in the front of this report and in the CEO's review on pages 18 to 23. The CEO's review also provides a detailed review of the Group's current activities and potential future developments together with factors likely to affect future development, performance and conditions on pages 48 to 51.

Treasury and risk management

The Group's approach to treasury and financial risk management is explained in the Key Risks and Uncertainties section on page 51. There is also a table of the principal risks and uncertainties likely to affect the Group.

The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in the Financial Review on pages 43 to 47.

Research and Development

The Strategic Report sets out on page 20, the innovation carried out by the Group in relation to product development.

Greenhouse gas emissions

The Board has identified and assessed the significant environment, social and governance risks to the Company's short and long-term value, as well as the opportunities to enhance value that may arise. The Corporate Social Responsibility (CSR) report on pages 30 to 39 reports on the environmental matters, including the impact of the Group's businesses on the environment, the Group's annual quantity of greenhouse gas emissions in tonnes of carbon dioxide, the Group's colleagues, and on social and community issues.

Health and Safety

An overview of health and safety is provided in the CSR report on page 39 and also in the corporate governance report on page 74.

Colleague Engagement and Equal Opportunities

Details of the Group's activities relating to colleague engagement are set out in the Engagement section on page 21.

Details of the Executive Share Schemes are set out in the Directors' Remuneration Report on pages 87 to 90 and details of colleague share ownership and plans are contained in the statement from the Remuneration Committee Chairman on page 82.

The Group's policy for colleagues and all applicants for employment is to match the capabilities and talents of each individual to the appropriate job. We are committed to ensuring that equality of opportunity in all colleague relations. We aim to ensure that no colleague, potential colleague, customer, visitor or contractor will receive less favourable treatment on the grounds of:

Sex

Pregnancy and Maternity

Disability

Religious Beliefs

Marital Status

Race

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Ethnic Origin
Nationality
Age
Sexual orientation or following gender reassignment
Colour

Applications for employment by disabled persons are given full and fair consideration for all vacancies, and are assessed in accordance with their particular skills and abilities. The Group does all that is practicable to meet

its responsibilities towards the training and employment of disabled people, and to ensure that training, career development and promotion opportunities are available to all colleagues.

The Group makes every effort to provide continuity of employment where current employees become disabled. Attempts are made in every circumstance to provide employment, whether this involves adapting the current job role and remaining in the same job, or moving to a more appropriate job role.

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.

All Directors will stand for re-election on an annual basis in line with the recommendations of the UK Corporate Governance Code.

Powers of the Directors

Subject to the Articles, the Companies Act and any directions given by the Company by special resolution and any relevant statutes and regulations, the business of the Company will be managed by the Board who may exercise all the powers of the Company.

Specific powers relating to the allotment and issuance of ordinary shares and the ability of the Company to purchase its own securities are also included within the Articles and such authorities are submitted for approval by the shareholders at the AGM each year. The authorities conferred on the Directors prior to the IPO at a general meeting of the Company held on 27 February 2014, expire on the date of the forthcoming AGM. Since Listing, the Directors have not exercised any powers to issue or purchase ordinary shares in the Company.

Directors

The names of the persons who, at any time during the financial year, were Directors of the Company are:

Name	Date of appointment	Date of resignation
Tony DeNunzio	18th February 2014	N/A
Nick Wood	11th February 2014	N/A
Ian Kellett	11th February 2014	N/A
Dennis Millard	18th February 2014	N/A
Brian Carroll	18th February 2014	N/A
Tessa Green	18th February 2014	N/A
Paul Coby	18th February 2014	N/A
Amy Stirling	18th February 2014	N/A
Paul Moody	25th March 2014	N/A
Michael Adams	10th February 2014	11th February 2014
Praxis Management Limited	10th February 2014	11th February 2014

The current Company's Directors, together with their biographical details and other information required to be included in the Directors' Report, are shown in the Corporate Governance Report on pages 54 to 57.

Appointment and Removal of a Director

The Company may, by ordinary resolution of the shareholders of the Company at a general meeting, remove any Director from office and elect another person in place of a Director so removed from office following recommendation by the Nomination and Corporate Governance Committee in accordance with its terms of reference for approval by the Board.

Pursuant to the Relationship Agreement, the Company has agreed with the Principal Shareholder, KKR My Best Friend Limited, an affiliate of Kohlberg Kravis Roberts & Co. L.P (the "Principal Shareholder"), that it

may appoint and remove 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% of the voting rights over the Company's Shares.

At each Annual General Meeting each Director then in office shall retire from office with effect from the conclusion of the meeting. When a Director retires at an Annual General Meeting in

Directors' Interests

The Directors' interests in shares and options over ordinary shares in the Company are shown in the Directors' Remuneration Report on page 100. In line with the requirements of the Companies Act, each Director has notified the Company of any situation in which he or she has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (a situational conflict). These were considered and approved by the Board in accordance with the Company's Articles of Association and each

Directors' report continued

Director informed of the authorisation and any terms on which it was given. The Board has formal procedures to deal with Directors' conflicts of interest. The Board reviews and, where appropriate, approves certain situational conflicts of interest that were reported to it by Directors, and a register of those situational conflicts is maintained and will be reviewed by the Board going forward.

Directors' Indemnities

The Directors of the Company, and the Company's subsidiaries, have the benefit of a third-party indemnity provision, as defined by section 236 of the Companies Act 2006, in the Company's Articles of Association. In addition, Directors and Officers of the Company and its subsidiaries are covered by Directors' & Officers' liability insurance as well as Prospectus liability insurance which provides cover for liabilities incurred by Directors in the performance of their duties or powers in connection with the issue of the Prospectus in relation to the Listing of the Company's ordinary shares on the London Stock Exchange.

No amount was paid under any of these indemnities or insurances during the year other than the applicable insurance premiums.

Share Capital

The issued share capital of the Company as at 27th March 2014 and 11th June 2014, comprises 500,000,000 ordinary shares of 1p each. Further information regarding the Company's issued share capital can be found on page 140 of the financial statements.

Details of the movements in issued share capital during the year are provided in note 20 to the Group's financial statements contained on page 140.

Shareholders' Voting Rights

All members who hold ordinary shares are entitled to attend and vote at the Annual General Meeting. On a show of hands at a general meeting every member present in person shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every ordinary share held. No shareholder holds ordinary shares carrying special rights relating to the control of the Company.

Restrictions on Transfer of Ordinary Shares

The Articles do not contain any restrictions on the transfer of ordinary shares in the Company other than the usual restrictions applicable where any amount is unpaid on a share. Certain restrictions are also imposed by laws and regulations (such as insider trading and marketing requirements relating to close periods) and requirements of the Listing Rules whereby Directors and certain employees of the Company require Board approval to deal in the Company's securities.

On 28 February 2014, the Company entered into an underwriting agreement (the "Underwriting Agreement") with, among others, the Board (excluding Paul Moody), the Senior Executive Board, Goldman Sachs International, Merrill Lynch International, KKR Capital Markets Limited and Nomura International plc (the "Underwriters"), and the Principal Shareholder in accordance with which:

the Company has agreed that, subject to certain exceptions including, but not limited to, the operation of the colleague Share Schemes, not to dispose of any ordinary shares in the Company for a period of 365 days following Listing without the prior written consent of the Underwriters;

the pre-IPO major corporate shareholders agreed not to dispose of any ordinary shares in the Company for a period of 180 days following Listing without the prior written consent of the Underwriters;

each of the Directors and Senior Executives has agreed not to dispose of any ordinary shares for a period of 365 days following Listing without the prior written consent of the Underwriters;

each of the Executive Directors, the Chairman and the Senior Executives has agreed with the Company not to dispose of any ordinary shares in the Company for an additional 365 day period in respect of approximately 50% of the Shares held by them following Listing without the prior written consent of the Company;

in addition, certain of the Group's colleagues have agreed with the Company not to dispose of any ordinary shares for a period of 365 days following Listing without the prior written consent of the Company; and certain individual pre-IPO shareholders have agreed with the Company not to dispose of any ordinary shares in the Company for a period of 45 days following Listing without the prior written consent of the Company.

All of the above arrangements are subject to certain customary exceptions.

Major Interests in Shares

As at 27th March 2014 and 11th June 2014, the Company has been notified pursuant to DTR5 of the following interests representing 3% or more of the issued ordinary share capital of the Company:

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Name of Shareholder	Number of Ordinary Shares as at 27th March 2014	% of Issued Share Capital	Number of Ordinary Shares as at 11th June 2014	% of Issued Share Capital	Nature of Holding (Direct/Indirect)
KKR My Best Friend Limited*	186,616,538	37.3%	186,616,538	37.3%	Direct
Bank of America Corporation	60,034,403	12.0%	0	0%	Indirect
MBF Co-Invest L.P.*	44,396,548	8.9%	44,396,548	8.9%	Direct
Schroders Plc	29,224,785	5.8%	29,224,785	5.8%	Indirect
GIC Private Limited	18,543,371	3.7%	25,112,894	5.0%	Direct

*An affiliate of Kohlberg Kravis Roberts & Co. L.P.

Transactions with Related Parties

The only material transactions with related parties during the year were:

KKR My Best Friend relationship agreement (Relationship Agreement):

This Relationship Agreement was entered into on 28th February 2014 and regulates the relationship between KKR My Best Friend Limited (Principal Shareholder) and the Company following Listing. Subject to a certain minimum shareholding, the Relationship Agreement details the rights the Principal Shareholder has to representation on the Board and Nomination and Corporate Governance Committee; appoint observers to the Remuneration, Audit and the Pets Before Profit/CSR Committee; and certain anti-dilution rights. 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.

Reorganisation Agreement: This Reorganisation Agreement was entered into on 28th February 2014 between (amongst others) the Company, the Principal Shareholder, certain Group companies, the Executive Directors and the Senior Executives and contained certain reorganisation steps that took place in connection with the IPO within the Group.

Senior Facilities Agreement: KKR Capital Markets ("KCM"), an affiliate of the Principal Shareholder, is entitled to receive a syndication agent fee equal to 0.50% of the total commitments under the terms of the

senior facilities agreement ("SFA") entered into in connection with the Listing. Further details of the Group's banking facilities are shown in note 17 on pages 138 and 139 of the financial statements.

CCMSL Loan Agreement: A loan agreement entered between KKR Corporate Lending (UK) LLC as lender and Companion Care Management Services Limited ("CCMSL") as borrower (the "Loan Agreement"), KKR Capital Markets Limited received a fee equal to £400,000 (being 2% of the total commitments under the Loan Agreement). CCMSL received a 50% rebate of this fee as the Loan Agreement was refinanced on 31st March 2014.

Engagement Letter: On 18th February 2014, KCM (together with other Joint Global Coordinators) entered into an engagement letter with Pets at Home Interco Limited in respect of the provision of services in connection with the Listing.

Underwriting Agreement: The Company and the Principal Shareholder have entered into the Underwriting Agreement referred to above.

Advisory Services Agreement: On 19th March 2010 PAH UK Bidco Limited entered into an advisory services agreement with Kohlberg Kravis Roberts & Co L.P. (the "Adviser"), an affiliate of the Principal Shareholder for the provision of certain consulting and management advisory services to the Group (the "Advisory Services Agreement"). The agreement terminated on Listing.

NW PAH Investments LLP: In March 2013, Pets at Home Limited, Nick Wood and an affiliate of the Principal Shareholder (the "KKR Investor") entered into arrangements 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. The amount of capital invested by KKR Investor of £700,000 was lent to KKR Investor pursuant to a loan agreement with Pets at Home Limited. The return on capital invested by KKR Investor accrued at 8% per annum compounded annually and was calculated on a daily basis. Prior to Listing, NW PAH Investments LLP distributed its assets to Nick Wood and KKR Investor, in accordance with the Reorganisation Agreement. NW PAH Investments LLP is in the process of being dissolved. KKR Investor repaid all amounts owed to Pets at Home Limited following receipt of payment from Nick Wood.

Consultancy agreement: Under the terms of this agreement, DeNunzio Associates Ltd, a company in which Tony DeNunzio is interested, provided consulting services to the Group. This agreement was terminated on Admission.

Further details are contained in note 26 on pages 155 to 156 of the financial statements.

Directors' report continued

Amendment of the Articles

The Articles of Association may only be amended by a special resolution of the Company's shareholders in a general meeting, in accordance with the Companies Act.

Dividend

The Directors are not proposing to recommend any dividend in respect of FY14.

Change of Control

There are no agreements between the Company and its Directors or employees providing for additional compensation for loss of office or employment (whether through resignation, redundancy or otherwise) that occurs because of a takeover bid.

The only significant agreements to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a takeover bid, and the effect thereof, are as follows:

The Relationship Agreement with the Principal Shareholder contains a provision allowing the Principal Shareholder to terminate the agreement with immediate effect if any person acquires control of the Company (namely holding and/or ownership of the beneficial interest in and/or the ability to exercise the voting rights applicable to shares or other securities in the Company which confer, in aggregate on the holders, whether directly or indirectly, more than 50% of the voting rights exercisable at general meetings of the Company) or the Company ceases to be on the official list of the UK Listing Authority.

The SFA contains customary prepayment, cancellation and default provisions 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.

Political Donations

The Company's policy is not to make any political donations and no political donations or expenditure were made or incurred during the year.

Suppliers

The Group understands the importance of maintaining good relationships with suppliers and it is Group policy to agree appropriate terms and conditions for its transactions with suppliers (ranging from standard written terms to individually negotiated contracts) and for payment to be made in accordance with these terms, provided the supplier has complied with its obligations. Average Trade creditors of the Group's UK operations for FY14 were 38 days (FY13: 32 days).

Events Post Year End

In the Company's IPO Prospectus, the Company noted its intention to reduce its share capital by means of a court sanctioned reduction in capital. The capital reduction was approved by a special resolution passed at the general meeting of the Company on 27th February 2014 and will require court approval. It is envisaged that the final court hearing to formally approve the proposed reduction of capital will take place before September 2014.

Going Concern

On the basis of current financial projections and facilities available, the Directors are satisfied that the Group is well placed to manage its business risks successfully and therefore have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Accordingly, the financial statements continue to be prepared on a going concern basis.

Branches outside of the UK

The Company has no branches outside of the UK.

Auditors


So far as each Director is aware, there is no relevant audit information of which the Company's Auditors are unaware and the Directors have taken all the steps which they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act.

On behalf of the Board, the Audit Committee has reviewed the effectiveness, performance, independence and objectivity of the existing external Auditors, KPMG LLP for the year ended 27th March 2014 and concluded that the external Auditors were in all respects effective. KPMG LLP has expressed its willingness to continue in office as Auditors. Accordingly, a resolution proposing the reappointment of KPMG LLP will be proposed at the forthcoming AGM and will be put to the shareholders at the meeting.

Approval of Annual Report

The Strategic Report and the Corporate Governance Report were approved by the Board on 11th June 2014.

Approved by the Board and signed on its behalf by

Louise Stonier

Group Company Secretary
11th June 2014

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Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

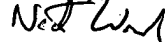
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's Group website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

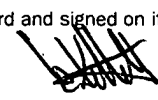
the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and the Strategic Report/Directors' Report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board and signed on its behalf by


Nick Wood

Chief Executive Officer

11th June 2014



Ian Kellett
Chief Financial Officer

11th June 2014

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Tony DeNunzio
Non-Executive Chairman

Chairman's governance statement

Dear Shareholders

Welcome to our first Corporate Governance Report. The shares of Pets At Home Group Plc were admitted to the premium listing segment of the Official List maintained by the Financial Conduct Authority and to trading on the London Stock Exchange (Listing) on 17th March 2014. The Board recognises the importance of, and is committed to, high standards of Plc corporate governance and all Directors are fully aware of their duties and responsibilities under the UK Corporate Governance Code, the Disclosure and Transparency Rules and the Listing Rules. Save as set out in this report, the Board considers that the Group has complied with the requirements of the Code from Listing to the financial year end on 27th March 2014.

In preparation for Listing, we carried out a review of the existing governance structure in conjunction with our advisers KPMG LLP in order to identify any measures that would need to be implemented prior to Listing. The review also enabled the Directors to provide the confirmation that was required on Listing that Pets At Home has established procedures in place which provide a reasonable basis for the Board to make proper judgements on an ongoing basis as to the financial position and prospects of the Group. Based on the findings of the review, we found that the following actions would need to be taken pre IPO:

Strengthen the independence of the Board and the Committees through the addition of five independent Non-Executive Directors;

Set up a formal induction process for new Non-Executive Directors joining pre-IPO and post-IPO;

Amend the current Board and Committee terms of reference to ensure suitability for a Plc Board and all its sub-committees;

Agree an approach to Investor Relations with the Plc Board; and

The Remuneration Committee to set a formal Executive remuneration evaluation process.

We undertook a rigorous process with Korn Ferry to identify suitable Independent Non-Executive Directors with Dennis Millard, Amy Stirling, Tessa Green and Paul Coby being appointed prior to Listing with the final appointment of Paul Moody taking place shortly after. Dennis Millard was appointed Deputy Chairman and Senior Independent Director. Each Independent Non-Executive Director has a proven track record in business at a senior level and expertise of relevance to the Company.

In the period leading up to the IPO, the new Directors received a full induction process so that they could familiarise themselves with the Group through a combination of personal meetings with the Senior Executives and members of the Operating Board, a store and veterinary surgery visit and time spent reviewing and approving on the IPO offer documents.

See pages 54 to 56 for Board of Directors

Chairman's governance statement continued

Following the IPO, we have put in place a more tailored induction process for each of the new Directors, including Paul Moody, and the Board calendar has been planned to ensure that Directors are briefed on a wide range of topics, have the opportunity to visit the Group's various business locations and discuss aspects of the Group's activities with colleagues across the business.

We have implemented a Committee structure in accordance with the requirements of a premium listed Plc. The membership, roles and activities of the Committees are detailed in separate sections of this report together with reports of the Audit and Risk Committee and Remuneration Committee. There is no separate report of the Nominations Committee as the Board of Directors was newly appointed, and as a consequence there has been no need for the Committee to meet on a formal basis in the short period between Listing and the year end.

We recognise the importance of communicating to our shareholders and so shortly after Listing, we appointed a dedicated Head of Investor Relations, Amie Gramlick. Investor relations will be led by the Chief Executive Officer and Chief Financial Officer with support from Amie. A full programme of regular meetings and dialogue with major institutional shareholders, fund managers, analysts, retail brokers and credit investors has been established and the Board will receive regular updates at Board meetings.

During the IPO process, Deloitte LLP were engaged as the remuneration adviser. They advised on the remuneration policy which sets down the Group's forward-looking policy on the remuneration of Executive and Non-Executive Directors and is contained at pages 82 to 103 of this report.

I look forward to continuing with the Company as Non-Executive Chairman as we continue with the transition from private company to a Plc. We believe that good corporate governance allows boards to direct their companies effectively and we are pleased to present our report on the governance arrangements the Board has adopted since the IPO on 17th March 2014.

Tony DeNunzio
Chairman, Pets At Home Group Plc

11th June 2014

“In preparation for Listing, we carried out a review of the existing governance structure in conjunction with our advisers KPMG LLP, in order to identify any measures that would need to be implemented prior to Listing”

Corporate governance report

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Introduction

The Board is committed to the highest standards of corporate governance. Save as set out in the paragraphs below, since Listing, the Board has complied with 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 also report to its Shareholders on its compliance with the UK Corporate Governance Code in accordance with the Listing Rules ("LRs").

Board balance and independence

The UK Corporate Governance Code recommends that at least half the board of directors of a UK-listed company, 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. The Pets At Home Group Plc Board consists of five independent Non-Executive Directors, one Non-Executive Chairman, one non-independent Non-Executive Director appointed by KKR My Best Friend Limited, an affiliate of, Kohlberg Kravis Roberts & Co L.P. (the "Principal Shareholder") and two Executive Directors. A list of the Directors is provided on pages 54 to 57.

Chairman

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. Tony DeNunzio joined Pets At Home in 2010 and has been Non-Executive Chairman of the Group since March 2010. Notwithstanding that the Board considered at the time of Listing, and continues to believe, that Tony DeNunzio does not 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, Tony should remain as Non-Executive Chairman of the Group. The Board believes Tony brings vast retail experience and knowledge to the Pets At Home team. Tony is Non-Executive Chairman of Maxeda, a major Benelux DIY retailer, and is a Non-Executive Director of Alliance Boots Group. Tony is a senior adviser to affiliates of the Principal Shareholder and was appointed as Non-Executive Chairman by the Principal Shareholder, KKR My Best Friend Limited, an affiliate of Kohlberg Kravis Roberts & Co. L.P., pursuant to the terms of the relationship agreement entered into as part of the IPO process to avoid potential future conflicts of interest (Relationship Agreement).

Senior Independent Director

The UK Corporate Governance Code recommends that the board of directors of a company with a premium listing should appoint one of the Non-Executive Directors as a 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, when contact through the normal channels of the Chief Executive Officer has failed to resolve, or for which such contact is inappropriate.

Dennis Millard has also been appointed Deputy Chairman as well as Senior Independent Director and has considerable experience of acting as an independent Non-Executive Director on plc boards. Dennis is currently the chairman of Halfords Group plc, and is the

chairman of Smiths News plc. Dennis is also currently a Non-Executive Director and Senior Independent Director of each of Premier Farnell plc and Debenhams plc.

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% of the voting rights over the Company's Shares. 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, the Principal Shareholder has agreed that for so long as it has the right to appoint two Directors to the Board and Tony 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 page 63.

Board Observers

Each of Sally Hopson, Peter Pritchard and Phil Hackney have been appointed as Board observers 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 voting rights over more than 10% of the Company's Shares. Such Board observers 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.

Corporate governance report continued

Appointment Terms and Elections of Directors

All Directors have service agreements or letters of appointment in place and the details of their terms are set out in the Remuneration Report on pages 93 to 95. The service agreements and letters of appointment are available for inspection at the Company's registered office during normal business hours.

The UK Corporate Governance Code 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.

How the Board operates

Pets At Home Group Plc has established a clear division of responsibilities between the respective responsibilities of the Non-Executive Chairman of the Board and the Chief Executive Officer. This separation of responsibilities between the Chairman and the Chief Executive Officer, coupled with the reserved matters described below, ensures that no individual has unfettered powers of decision-making.

The matters reserved for the Board include:

- Agreement of the Group's strategy;
- Changes to the structure and capital of the Group;
- Reviewing the effectiveness of internal controls;
- Approval of the Annual Report and Accounts, Interim Reports, and Interim Management Statements together with any announcements;
- Approving significant expenditure, material transactions and contracts;

Reviewing and agreeing Group tax and treasury policy;

Delegation of authority to the Chief Executive Officer;

Board and Senior Management appointments, arrangements and succession planning;

Communication with shareholders;

Review of the Group's overall corporate governance matters.

It is important to the Board that Non-Executive Directors have the ability to influence and challenge appropriately. New Directors receive a full, formal and tailored induction on joining the Board, including meeting with the Executive Management and other members of the Group's Operating Board and advisers. The induction includes visits to the Group's stores, veterinary surgeries and other operational locations.

As a result of the short period between Listing on 17th March 2014 and the year end on 27th March 2014, the current Board held one meeting. In future, the Board intends to meet at least eight times per year, with additional ad hoc meetings as required.

Topics for the Board meetings are determined at the beginning of the year and new items are added to this as and when appropriate.

All Directors receive papers in advance of Board meetings. These include a monthly Board report with updates from each of the Executive Management Team and the Operating Board, which monitors the achievements of the Group's key performance indicators, both financial and strategic. The Group's Operating Board are also invited to present at Board meetings so that Non-Executive Directors keep abreast of developments in the Group.

Tony DeNunzio (Chair)
Amy Stirling (Chair)
Dennis Millard (Chair)
Tessa Green (Chair)

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The Chairman intends to meet regularly with the Non-Executive Directors without the Executive Directors present. This ensures that any concerns can be raised and discussed outside formal Board meetings. The Senior Independent Director will also attend these sessions where possible and, if required, will discuss any pertinent matters with the other independent Non-Executive Directors.

It is important to the Group that all Directors understand external views of the Group. It is the intention that regular reporting will be provided to the Board by the Company's Head of Investor Relations, covering broker reports and the output of meetings with significant shareholders. As stated below, the Board has also delegated certain matters to a number of Board Committees.

merit, the key criterion being whether or not the appointee can add to or complement the existing range of skills and experience on the Board. Notably, two of the five newly appointed independent Non-Executive Directors, Tessa Green and Amy Stirling, are females together with the Group Legal Director and Company Secretary, Louise Stanier and a member of the Executive Management Team, Sally Hopson. These appointments were made on merit, and not on gender, the appointees being by far the strongest candidates for the positions with their skill sets and overall experience fitting the objective role description approved by the Board at the outset of the recruitment process.

Number of meetings attended

Attendance from Listing on 17th March 2014 to the year end for all scheduled Board and Board Committee meetings is given in the table below.

	Board	Remuneration
Number of meetings ⁽¹⁾	1	1
Director⁽²⁾	Board	Remuneration
Tony DeNunzio (Chairman)	1	—
Dennis Millard (Deputy Chairman)	1	1
Nick Wood	1	—
Ian Kellett	1	—
Amy Stirling	1	1
Tessa Green	1	1
Paul Coby	1	—
Paul Moody ⁽³⁾	1	—
Brian Carroll	1	—

1. Excludes meetings held in relation to the IPO. The Audit Committee and the Nomination Committee have not met during the period.
2. Only attendance of formal members of the meetings is included. Attendance as an observer is not included.
3. Paul Moody did not attend the Remuneration Committee in his capacity as a Director on 25th March 2014 since he was not appointed to the Committee until after the meeting. He attended as an observer.

Board Evaluation and Effectiveness

The Group Legal Director and Company Secretary ensures the Board is made aware of new laws, regulations and other information appropriate to the Group to ensure that all Directors continually update their skills, knowledge and familiarity of the Group in order to fulfil their roles. Additionally, each Director has access to the advice and services of the Company Secretary and also has the ability to take independent external advice if required.

Considering Diversity

At the time of the IPO, the process of recruiting independent Non-Executive Directors with a broad range of skills to complement the business took into account diversity. The Board understands the importance of having a diverse membership and recognises that diversity encompasses not only gender but also background and experience. The Board believes that appointments should be made solely on

This policy applies equally to all appointments in the Company and so, two of the most recent appointments to the board of the Pets At Home Vets Group were female, Sally Hopson and Amanda Radford, in addition to the existing serving Managing Director, Jane Balmain. The Group also has four female colleagues on the Operating Board.

The Company used an external search consultancy, Korn Ferry, in the appointment of all Independent Non-Executive Directors during the period.

Corporate governance report continued

Board Committees

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 Profit and CSR Committee which will comprise both Non-Executive Directors and colleagues and the Investment Committee which will comprise the Executive Directors and other members of the Executive Management and colleagues. If the need should arise, the Board may set up additional committees as appropriate.

Audit and Risk Committee

The Audit and Risk Committee has delegated responsibility from the Board for:

- Agreeing the scope of the annual audit of the consolidated accounts and the annual audit plan and monitoring the same;
- Monitoring, making judgements and recommendations on the financial reporting process and the integrity and clarity of the Group's financial statements;
- Considering the appointment of the Group's Auditors and their remuneration including reviewing and monitoring of independence and objectivity and agreeing and monitoring the extent of the non-audit work that may be undertaken;
- Reviewing and monitoring the effectiveness of the internal control, internal audit and risk management policies and systems in place; and
- Reporting to the Board on how it has discharged its responsibilities.

The Audit Committee gives due consideration to laws and regulations, the provisions of the UK Corporate Governance Code and the requirements of the LRs. 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 is chaired by Amy Stirling, and its other members are Dennis Millard, Paul Coby and Paul Moody. As a former chief financial officer of Talk Talk Telecom Group Plc, 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 meets not less than three times a year.

Only committee members have the right to attend and vote at its meetings but the Principal Shareholder has a right to appoint an observer to attend meetings of the Audit and Risk Committee for so long as it (and/or any of its associates, when taken together) holds 10% or more of the voting rights over the Company's Shares.

The Audit and Risk Committee chair 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.

The Audit and Risk Committee has access to sufficient resources to carry out its duties, including the services of the Group Legal Director and Company Secretary and the Group's internal audit function. Independent external legal and professional advice can also be taken by the Audit and Risk Committee if it believes it necessary to do so.

The Audit and Risk Committee's terms of reference, which are available on request from the Company Secretary and are published on the Group's website (investors.petsathome.com), comply with the Code.

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;
- 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 Executive Management;
- ensuring compliance with the UK Corporate Governance Code in relation to remuneration.

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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 is chaired by Dennis Millard, and its other members are Tessa Green, Amy Stirling and Paul Moody, all of whom are independent Non-Executive Directors. The Remuneration Committee will meet not less than twice a year. Non-Executive Directors' and the Chairman's fees are determined by the full Board.

Only committee members have the right to attend and vote at its meetings, but the Principal Shareholder has a right to appoint an observer to attend meetings of the Remuneration Committee for so long as it (and/or any of its associates, when taken together) holds 10% or more of the voting rights over the Company's Shares.

The Remuneration Committee has access to sufficient resources to carry out its duties, including the services of the Group Legal Director and Company Secretary and the Group's Customer, People and Development Director. Independent external legal and professional advice can also be taken by the Remuneration Committee if it believes it necessary to do so.

The Remuneration Committee's terms of reference, which are available on request from the Company Secretary and are published on the Group's website (investors.petsathome.com), comply with the Code.

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;

periodically reviewing the Board's structure and identifying potential candidates to be appointed as Directors or committee members as the need may arise;

the consideration and development of appropriate corporate governance principles including, amongst other things, those relating to potential related party transactions;

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 making 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 are Dennis Millard, Paul Coby, Tessa Green, Amy Stirling and Brian Carroll. The Nomination and Corporate Governance Committee will meet not less than once a year.

The Nomination and Corporate Governance Committee has access to sufficient resources to carry out its duties, including the services of the Group Legal Director and Company Secretary. Independent external legal and professional advice can also be taken by the Nomination and Corporate Governance Committee if it believes it necessary to do so.

The Nomination and Corporate Governance Committee's terms of reference, which are available on request from the Company Secretary and are published on the Group's website (investors.petsathome.com), comply with the Code.

Other Pets At Home Committees Pets Before Profit and Corporate Social Responsibility (CSR) Committee

The Pets Before Profit and CSR Committee assists the Board in:

ensuring that matters in respect of the welfare standards of all 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 Profit';

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 pets in stores and all ethical matters in respect of the supply, transportation and sale of pets;

reviewing all the individual elements of the Group's CSR strategy including caring for the environment, sourcing with integrity and 'Our Pets People'.

Corporate governance report continued

The Pets Before Profit and CSR Committee is chaired by Tessa Green, and its other members are Tony DeNunzio, Dennis Millard and Paul Coby. A number of the Group's colleagues (including the Executive Management) are also entitled to attend meetings of the Pets Before Profit and CSR Committee.

The Pets Before Profit and CSR Committee meets formally at least twice a year and otherwise as may be required.

Only committee members have the right to attend and vote at its meetings but the Principal Shareholder has a right to appoint an observer to attend meetings of the Pets Before Profit and CSR Committee for so long as it (and/or any of its associates, when taken together) holds 10% or more of the voting rights in respect of the Company's Shares.

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 is chaired by Nick Wood and its other members are Ian Kellett, Sally Hopson and the Property Director. A number of the Group's colleagues are entitled to attend meetings of the Investment Committee.

The Investment Committee meets 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 and standalone surgery acquisitions by a Group company, approving all material variations to proposed new stores and standalone surgery 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 approved by the Investment Committee is subject to the further approval of the Board where it falls within the level expenditure requiring full Board approval. The Investment Committee formally updates the Board at least once a year in addition to regular updates on matters approved within the monthly Board packs.

Other Committees and Board Meetings Executive Management and Operating Board

In addition to the new Board, the Group has both an Executive Management Board as detailed in the Corporate Governance Report on pages 58 to 59 and Operating Board (the "Operating Board") for which respective roles are clearly defined. The Operating Board meets frequently to discuss the following:

- Current trading
- New Developments
- Operational issues
- Marketing
- People

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.

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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.

Further details of the work of the health and safety committee are contained on page 39 of our Corporate Social Responsibility Report.

Risk management and internal control

Details of the internal controls of the Company (including a description of the main features of its internal control and risk management arrangements and the manner in which the Board and its Committees assess the effectiveness of these controls) are set out in the report of the Audit Committee on page 78.

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 LRs. The code adopted will apply to the Directors and other relevant PDMR employees of the Company.

Board evaluation and effectiveness

As the Board has only been in existence for a short period of time, an evaluation of performance has not been undertaken. The first full evaluation is scheduled for 2015 and will be annual thereafter.

Relations with Shareholders

The Board believes it is important to explain business developments and financial results to the Company's Shareholders and to understand any Shareholder concerns. We intend to communicate with Shareholders on a regular basis.

As part of the IPO process, the Company met regularly with analysts and institutional investors and such meetings will continue. The Chief Executive Officer and Chief Financial Officer have lead responsibility for investor relations. They are supported by a dedicated Head of Investor Relations who, amongst other matters, organises presentations for analysts and institutional investors and will also ensure that procedures are in place to keep the Board regularly informed of such investors' views.

The formal reporting of our full and half yearly results will be a combination of presentations, group calls and one-to-one meetings in a variety of locations where we have institutional Shareholders. All the Non-Executive Directors and, in particular, the Chairman and Senior Independent Director are available to meet with major Shareholders, if they wish to raise issues separately from the arrangements as described above. The Company also plans to communicate with Shareholders through the Annual General Meeting, at which the Chairman will give an account of the progress of the business over the last year and a review of current issues, and will provide the opportunity for Shareholders to ask questions.

Pets At Home's investor website is also regularly updated with news and information including this Annual Report which sets out our strategy and performance together with our plans for future growth (investors.petsathome.com).

Annual General Meeting

The Company's first AGM since Listing will be held on Tuesday, 9th September 2014 at the Hilton, 303 Deansgate, Manchester, M3 4LQ. Full details of the meeting are set out in the Notice of Annual General Meeting sent with this Report. The AGM provides all Shareholders with the opportunity to attend and vote on the resolutions put to Shareholders and those Shareholders unable to attend are encouraged to vote using the proxy card enclosed with this Report or electronically by following the instructions set out in the Notice of Meeting (whether personally or by proxy). Information relating to votes cast will, following the AGM, be available on the Company's website (investors.petsathome.com).

Report of the Audit committee

“The Directors recognise the need to maintain the financial reporting procedures, review them on an ongoing basis and adapt them to changing circumstances”

Amy Stirling
Chair of the Audit Committee

Audit Committee

Amy Stirling (Chair)
Dennis Millard
Paul Coby
Paul Moody

Letter from the Audit Chair

Dear Shareholder

I am pleased to present the Company's first Audit and Risk Committee (Committee) Report following its admission to the premium listing segment of the Official List maintained by the Financial Conduct Authority and to trading on the London Stock Exchange's main market for listed securities ("Admission") of the London Stock Exchange on 17th March 2014. Due to the relatively short time between Admission and the year end on 27th March 2014, no Committee meetings took place between these two dates. Following the year end, however, the Committee has met on two occasions prior to the approval of the financial statements. As a result, this report focuses on the matters considered by the Committee prior to Admission, the work undertaken to transition from the Group's private company status to a Plc and the focus of the Committee going forward.

Leading up to Admission, the Company identified the need to strengthen the independence of the Committee to ensure that it complied with the recommendations of the UK Corporate Governance Code. As a result, the composition of the Committee changed on Admission and it is now entirely made up of independent Non-Executive Directors. The members of the Audit and Risk Committee are myself as Chair, Dennis Millard, Paul Coby and Paul Moody. The Board considers that I have recent and relevant financial experience.

The Committee is a sub-committee of the Board and its terms of reference were approved at the time of the Admission and are fully aligned to the UK Corporate Governance Code. The primary function of the Committee is to assist the Board in fulfilling its responsibilities to protect the interest of the Shareholders with regard to the integrity of the financial reporting, audit, risk management and internal controls. We aim to provide Shareholders with timely communication on significant matters

relating to the Company's financial position and prospects and we are also responsible for monitoring fraud risk.

The Committee will meet at least three times a year.

During the IPO, as part of completing the Group's Financial Position, Prospects and Procedures Report (FPP), KPMG LLP and the Directors undertook a detailed assessment of the following key areas:

- Board governance including the Committee and the procedure for assessing the Group's key risks;

- Management accounting process and the information provided to the Board;

- External financial reporting procedures and Audit arrangements and reporting standards;

- Internal control environment both at high and detailed levels;

- Complex transactions, potential exposure and risk;

- Information Systems; and

- Budgeting and Forecasting procedures and controls.

The Directors recognise the need to maintain the financial reporting procedures, review them on an ongoing basis and adapt them to changing circumstances. Their continuous review will form part of the Committee's agenda going forward together with its wider role and responsibilities which are set out in more detail on page 77 of the report.

I look forward to meeting with Shareholders at the AGM.

Amy Stirling
Chair of the Audit Committee

11th June 2014

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Admission to the Premium Listing segment of the Official List and to Trading on the London Stock Exchange

Prior to the establishment of the current Group Committee, the Group had in place a Committee which was chaired by the Group Chairman, Tony DeNunzio and comprised two representatives from the Principal Shareholder together with the Chief Executive Officer and the Chief Financial Officer. The last meeting of the previous Committee took place on 28th January 2014 and references to the Committee in this report include activities both before and after Listing.

Membership of the Audit and Risk Committee

The Committee is chaired by Amy Stirling, and its other members are Dennis Millard, Paul Coby and Paul Moody. Amy Stirling is a Chartered Accountant and until May 2013 served as the Chief Financial Officer of the Talk Talk Telecom Group plc. Amy is also the chief financial officer of The Prince's Trust. The Directors consider that Amy Stirling has recent and relevant financial experience in accordance with the requirements of the UK Corporate Governance Code.

The Chief Financial Officer, the Chief Executive and the Group's Head of Internal Audit attend meetings by invitation along with representatives from the Group's external Auditors, KPMG together with an observer appointed by the Principal Shareholder.

The Company Secretary acts as secretary to the Committee.

The Committee meets separately with the Head of Internal Audit and the external Auditors to review their reports and discuss issues in detail.

Role and Responsibilities

The Committee has received delegated authority from the Board as set out in its written terms of reference which were approved at the time of the IPO. The principal responsibilities of the Committee include:

Agreeing the scope of the annual audit and the annual audit plan and monitoring the same;

Monitoring, making judgements and recommendations on the financial reporting process and the integrity and clarity of the Group's financial statements;

Considering the appointment of the Group's Auditors and their remuneration including reviewing and monitoring of independence and objectivity and agreeing and monitoring the extent of the non audit work that may be undertaken;

Reviewing and monitoring the adequacy and effectiveness of the internal control and risk management policies and systems currently in place; and

Reporting to the Board on how it has discharged its responsibilities.

Audit and Risk Committee Calendar for year ended March 2014

The Committee will meet at least three times a year with any additional meetings being called as required. Two formal Committee meetings were held pre IPO, one on 19th July 2013 to present KPMG's audit findings for the year ended March 2013 and the other on 28th January 2014 to present the audit strategy for the year ended 27th March 2014. However, a number of meetings were held with KPMG LLP throughout the IPO process in their capacity as reporting accountants.

Main Activities of the Audit and Risk Committee during the year

A key systems project during the year was the implementation of some key elements of SAP's enterprise resource planning system in May 2013, covering key financials, master data, pricing and promotions, HR, business reporting and business intelligence. Ciber were chosen as the system integration partner and KPMG worked alongside Internal Audit during the three months prior to go live to provide assessment and challenge over key project areas. KPMG LLP focused on data migration procedures and Internal Audit focused on system testing and business readiness. The system went live with no issues.

During the year, the Committee reviewed certain relevant documentation in relation to the IPO, notably a detailed review and discussion on the detailed findings within the FPP and also the audit work carried out in relation to the 40 week period ended 2nd January 2014.

Report of the Audit committee continued

Further work of the Committee in the year principally fell under the following main areas:

Internal Controls

Reviewed and considered the reports of the Head of Internal Audit on audits completed and follow-up action plans to address areas of weakness. Further details of the areas covered are set out on page 80;

Received reports from KPMG LLP on the Group's internal control environment at the time of the IPO;

Undertook an assessment of the internal control environment facilitated by discussion with relevant management including a review of procedures and processes in place at the Pets At Home Vets Group following acquisition of Vets4Pets in March 2013;

Reviewed a report from the Head of Internal Audit on the Group's risk assessment process and the way that significant business risks are managed and mitigated; and

Reviewed the Company's arrangements by which colleagues may raise concerns in confidence as part of a review of the Group's anti-bribery and corruption policy.

External Auditors

Considered and approved the external Auditors' plans for the annual audit of the Company including the additional reporting requirements and accounting implications arising from the Listing;

Approved the fees of the external audit and reviewed the Company's policy on the engagement of the external Auditors to supply non-audit services;

Reviewed the reports and findings of the external audit; and

Reviewed the effectiveness and recommending the reappointment of the external Auditors.

Accounting, Tax and Financial reporting

Reviewed the appropriateness of the annual and the financial statements for the 40 week period ended 2nd January 2014 with a focus on, amongst other matters, the quality and acceptability of accounting policies and procedures, material areas where significant judgements have been applied or there has been a significant discussion with the Group's external Auditors, and the clarity of disclosures and compliance with financial reporting standards; and

Considered and approved the Group's tax policy which covers the Group's approach on the Group's key tax principles, the Group's attitude to tax and risk, our relationship with HMRC, the various individuals in the organisation who input into the various tax processes, our relationships with external tax advisers, a summary of our processes for assessing and providing for tax exposure where appropriate and making payments when due.

Main Activities of the Audit and Risk Committee Post Year-End

In June 2014, the Committee had two further meetings which covered the following:

Reviewed whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's strategy, business model and performance;

Reviewed the reports and findings of the external Auditors;

Reviewed the effectiveness and recommended the reappointment of the external Auditors; and

Considered the risk assessment, mitigation actions and assurance activities produced by management.

Key Areas of Audit Focus

Following discussion with the Executive Directors, key members of the management team and the external Auditors, the Committee have agreed with KPMG that the key audit focus areas are:

Stock valuation; and

Financial Statements – accounting for the IPO and enhanced plc disclosures.

The Corporate structure in place prior to the IPO on 17th March 2014 was complex in nature and structured to meet the needs of the Group and its shareholder base pre IPO. The Group engaged appropriate legal, accounting and tax advisers to develop a steps plan to facilitate a Group structure commensurate with its new status on the premium list of the London Stock Exchange. The Group engaged advisers who had been involved in the establishment of the structure at inception and who had maintained a close involvement with the Group and the structure's evolution through to IPO. The steps developed included a detailed articulation of the accounting treatment necessary both pre and post the IPO and we have worked closely with our advisers to ensure the accounting entries necessary have been executed correctly.

Subsequent to the IPO we have considered at length the appropriate presentation of our first IPO results as a PLC. The key area of technical consideration was the application of the principles of reverse acquisition accounting to the Group and the technical requirement to consolidate three companies from the old Group structure which were immediately liquidated following IPO.

The Group has deployed additional technical accounting resource to ensure appropriate peer to peer internal review of our IPO accounting. This additional resource has ensured we have been able to adequately deal with increased reporting requirements and disclosures commensurate with delivering our first PLC accounts under IFRS having worked closely with our external Auditors to ensure we are compliant.

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Stock Valuation

The Group has a number of formal processes and controls to ensure that the value of stock presented in the annual report accurately reflects the stock on hand and that it is properly valued at the lower of cost or net realisable value. The business continually counts stock both in-store and in the distribution centres and the frequency of each department count is based on a risk assessment which is reviewed on an ongoing basis. The business has processes in place

to manage the risk from out of date stock and the finance team and supply team meet weekly to discuss in detail the stock file and to agree actions to ensure slow moving lines are cleared and our overall stock investment is optimised such that our working capital targets are delivered. An inherent element of the process to introduce new ranges into the business is a clear focus on the clean and timely exit of any discontinued lines. Our provisioning process is undertaken on a product by product basis and reflects the current understanding of the

finance and supply teams as regards the likely realisations for stock with significant forward cover of stock that has been designated discontinued. Our provision also reflects, based on historical count history, the likely stock loss between the last count of a specific department and the balance sheet date.

Risk Management and Internal Controls

The Board has overall responsibility for risk management and the system of internal control and for reviewing their effectiveness.

Risk Management responsibilities are allocated as follows:

Executive Board	Collectively responsible for managing risk Key risks are allocated an Executive Board member for oversight and ultimate ownership. The full Executive Management Board supported by key members of the Operating Board are responsible for closely managing the most significant risks. Receives regular risk updates and reports.
Operating Board	Has line responsibility for managing risks within their areas Reviews risk registers periodically (three times a year). Takes action, as agreed and documented in the risk registers. Identifies new risks for inclusion in the registers.
Audit Committee	Oversees the risk management process Receives and reviews detailed risk reports prepared on a department by department basis (twice a year). Chairman completes a detailed review of the risk reports.
Internal Audit	Co-ordinates the Risk Management processes Holds meetings with all Risk Owners across the business three times a year. Updates the individual risk registers, including actions and progress made, assesses risk ratings and determines if these should change (up or down) and documents the controls in place that help mitigate each risk.
Health and Safety Committee	Assists the Board in managing the risk of health, safety and security Holds meetings quarterly with stakeholders from across the Group. Reviews the Group's risk register, health and safety policy and compliance with applicable regulations. Recommends to the Board and Group appropriate policies and procedures. Updates the Board on accidents across the Group.

Report of the Audit committee continued

Internal Control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. The Board delegates to Executive Management the responsibility for designing, operating and monitoring these systems. The systems are based on a process of identifying, evaluating and managing key risks and include the risk management processes set out above.

The systems of internal control were in place throughout the period and up to the date of approval of the Annual Report. The systems of internal control are designed to manage rather than eliminate the risk of failure to achieve business objectives. They can only provide reasonable and not absolute assurance against material errors, losses, fraud or breaches of law and regulations. The Group operates a number of internal controls across its business; the key controls the business relies upon are set out below:

An annual Group-wide strategic review of the business culminating in the preparation of a detailed three year strategic plan which is reviewed and approved by the Board. Immediately following this approval, the business undertakes its annual budget cycle, again culminating in a formal review and approval by the Board.

Review of period end management accounts with comparison of actual performance against budget; consideration of the out-turn for the year; and Management accounts are reviewed at Board Meetings by the Board. The period end accounts are prepared by the management accounts team and reviewed by the Chief Financial Officer and the Finance Director.

Approval by the Chief Financial Officer is required for all capital investments; an authority framework is in place which details the approvals required at specific levels of capital spend including those capital projects requiring full Board approval. The Board has delegated certain powers in respect of the acquisition and fit-out of new stores and new standalone veterinary practices to an investment committee chaired by the CEO; see page 74 for further details.

There is an internal audit department in place which has its scope agreed with the Audit Committee and which reports formally twice a year on specific issues. All Internal Audit reports are presented to the Audit Committee for review and consideration of any material findings.

A clearly articulated delegated authority framework in respect of all purchasing activity is in place across the Group. This is complemented by systemic controls which reflect the agreed authority framework.

A clear segregation of duties between relevant functions and departments.

A schedule of matters reserved for the Board is in place for approving significant transactions and strategic and organisational change.

Internal Audit

The Internal Audit function was formally established in January 2013 and comprises one full-time colleague (Head of Internal Audit and Risk) whose activities have been assisted where necessary with appropriate external resource. The Head of Internal Audit and Risk has a direct reporting line to the Chairman of the Audit Committee but on a day-to-day basis reports to the CFO.

The Internal Audit department has an annual plan in place, covering the key areas to be reviewed in the financial year. The plan is prioritised according to the risk register and areas are covered in priority order. The plan has been reviewed and approved both by the Board and the Committee and this will be done on an annual basis going forward.

2013/14 Plan

The Internal Audit Plan for 2013/14 included pet welfare, the launch of the new Pets At Home multichannel website, the SAP implementation, business continuity plans, the deployment of the new warehouse system (JDA), a recovery audit of accounts payable accounts for the Vets Group and Pets At Home and a quality audit for UK and Hong Kong Sourcing Office.

During FY14, three internal audit reports have been issued covering pet welfare, the launch of the Pets At Home multichannel website and the implementation of SAP.

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Recommendations from Internal Audit are prioritised based on risk. The three reports issued to date included a number of priority findings for management attention and these have been actioned.

The focus to date of internal audit has been operational matters, aligned to the risk assessment of the business by the Board. Internal audit resources will be increased in the forthcoming year to ensure the scope of internal audit is extended such that the internal audit programme in the areas of finance and systems are commensurate with best practice for a business of our size with our risk profile.

Looking Forward

Following Listing, the Board plans to undertake an external review of Internal Audit function once the Committee has had the opportunity to identify the scope we wish to adopt for the Group whilst ensuring the necessary resource is made available to deliver the agreed plan. The external review is expected to be completed by March 2015 representing the time the department has been in operation for two full financial years.

External Audit

The Group's external Auditors are KPMG LLP and they have been the Group's Auditors since the period ended 30th March 2000.

In each year an unqualified audit opinion has been given.

The Committee oversees the appointment and termination of the external Auditors, and ensures there is sufficient independence in place in regards to the audit and non-audit fees taken by KPMG LLP

Representatives from KPMG LLP are invited to the Committee to report the findings of their annual audit.

The Board is aware of the regulatory proposals that would require a compulsory tender of the statutory audit. The last tender of the audit service was performed in 2000 when KPMG LLP were appointed and therefore under the FRC guidelines the tender process might be deferred until five years after the expiry of the current engagement partner's tenure. However, the matter will be considered by the Committee in the forthcoming year.

Remuneration report

“Our policy recognises the importance of attracting and retaining high-quality talent. Our culture is underpinned by an engaged colleague base who are at the heart of our success”

Dennis Millard

Chairman of the Remuneration Committee

Remuneration Committee

Dennis Millard (Chair)

Tessa Green

Amy Stirling

Paul Moody

Statement from the Remuneration Committee Chairman

Dear Shareholder

I am pleased to present our remuneration report for the financial year ended 27th March 2014, which has been prepared in compliance with the new UK reporting regulations.

This report consists of two sections:

Policy Report — This sets out the Directors' Remuneration Policy for all Directors of Pets At Home Group Plc and will be subject to a binding Shareholder vote at our 2014 Annual General Meeting (AGM); and

Annual Report on Remuneration — This sets out details of how our Directors were paid during FY14 and how the Policy will be applied in FY15. This will be subject to an advisory Shareholder vote at our 2014 AGM.

Context to the Committee Decisions

The shares of Pets At Home Group Plc were admitted to the premium listing segment of the Official List maintained by the Financial Conduct Authority and to trading on the London Stock Exchange's main market for listed securities ("Admission") shortly before the FY14 year end. Prior to the IPO, we undertook a detailed review of our remuneration framework to ensure that post Admission, it was aligned with best practice whilst at the same time preserving the core values of our business.

Our policy recognises the importance of attracting and retaining high-quality talent. Our culture is underpinned by an engaged colleague base who are at the heart of our success. We know that engaged colleagues stay with us for longer and this supports our business model, creating higher customer advocacy and driving increased spend. Over the year:

Colleague retention was 81%

Colleague engagement was 93%

Pets At Home won the Sunday Times '25 Best big Companies To Work For' award

The transition of Pets At Home Group Plc to a listed company has enabled us to broaden our colleague share ownership through:

a one-off colleague share offer that enabled all colleagues to purchase shares directly in the IPO with over 2,700 colleagues deciding to participate in the investment opportunity; and

the grant on Admission of awards under discretionary share plans with over 800 participants.

We intend to ensure that widespread share ownership remains an integral part of our culture and will be adopting an all-colleague Sharesave plan later this year alongside the above discretionary plans.

FY 2015 Pay Structure

As part of the pre IPO review, the CEO's and CFO's remuneration packages have been rebalanced to bring them more in line with typical listed practice. This resulted in an increase to their salary and bonus opportunity, positioning them in line, but not above, levels in the broader retail sector.

Post Admission, we also implemented two long-term incentive plans for senior executives, including the Executive Directors:

Co-Investment Plan (CIP)

Performance Share Plan (PSP)

Co-Investment Plan

The Remuneration Committee recognises the need to sustain the long-term success of Pets At Home by retaining key Executives beyond the IPO, many of whom now have significant shareholdings. As a result, we adopted a co-investment plan (CIP) on Admission which is a one-off arrangement tailored to our post-IPO position. The CIP will create incentive and lock in, and also align interests with those of Shareholders.

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The CIP required Executive Directors to make and retain a significant personal investment in return for a matching award subject to achieving stretching performance conditions. It is a one-off arrangement and current Executive Directors will receive no further awards under the plan.

The CIP has been designed as a tool to both incentivise and retain the existing team, by the inclusion of a penalty through the forfeiture of invested shares in the event the Executives resign from the employment of the Group within two years of Listing.

Performance Share Plan

The Performance Share Plan will be our ongoing long-term incentive plan. Due to their participation in the CIP, the intention is for Executive Directors to receive their first award under the PSP in 2016.

FY14 Performance and Remuneration Outcomes

Highlights of the Group's financial and operational highlights include:

Financial Highlights

Revenues grew 11.2% to £665.4m, reflecting store portfolio expansion and strength across food, accessories and services

Like-for-like sales growth of 2.4%, driven by VIP Club success strength in Advanced Nutrition, omni-channel, and the growing maturity of Groom Rooms and vet practices

Like-for-like growth in revenues generated within the Joint Venture veterinary practices of 14.0%, underpinning fee income growth

Underlying EBITDA margin expansion of 17bps to 16.6%, reflecting the leverage from our services business, which represents 7.6% of Group revenues (FY13: 5.3%)

Operational Highlights

Now the largest vet services provider in UK with 277 practices, reflective of 47 in-store openings and 22 standalone openings during the year

32 new Pets At Home stores opened during the year, including the new, high-end, dog focused high street format, Barkers

Largest number of Groom Rooms ever opened in a single year; 42 new salons were opened, bringing the portfolio to 129 salons

Annual Bonus Payments in respect of FY14 Performance

On the basis of Pets At Home's financial performance and also taking into account individual performance against objectives set by the pre IPO remuneration committee, the Remuneration Committee agreed bonus payments.

Shareholder engagement

We value all feedback from Shareholders and as a public company we intend to engage with our investors on a regular basis. We hope to receive your support for our Policy Report and our Annual Report on Remuneration at our AGM on 9th September 2014.

Dennis Millard

Chairman of the Remuneration Committee

11th June 2014

Remuneration report continued

Remuneration policy

a) Policy Report

The following section on pages 84 to 97 sets out our Directors' Remuneration Policy, in accordance with section 439A of the Companies Act 2006. This Policy will be put forward for Shareholder approval at our AGM on 9th September 2014 and will apply from that date. It is currently intended that the Policy will apply for three years.

Overall remuneration is structured and set at levels to enable the recruitment and retention of high calibre executives and encourage them to enhance the Company's performance, in a responsible manner, in line with the business's strategy and Shareholders' interests.

A significant portion of the package is performance related. Remuneration has been set taking into account practice within the FTSE 250 and practice at other retail companies.

Purpose and link to strategy	Operation and performance measurement	Maximum opportunity
<p>Fixed elements — base salary</p> <p>Core element of remuneration, recognising the role and responsibilities of the role</p>	<p>Paid in cash and are pensionable.</p> <p>The Committee takes into consideration a number of factors when setting salaries, including (but not limited to):</p> <ul style="list-style-type: none"> — Size and scope of the individual's responsibilities; — The individual's skills, experience and performance; — Typical salary levels for comparable roles within appropriate pay comparators including practice for retail companies and the broader FTSE 250; and — Pay and conditions elsewhere in the Group. <p>In FY15, basic salaries will be reviewed at the June Remuneration Committee meeting and subsequent reviews will take place annually at the March Remuneration Committee meeting. Any change will usually be effective from the first period in the following financial year.</p>	<p>Whilst there is no maximum salary level, any increases will normally be broadly in line with the wider colleague population within the relevant geographic area.</p> <p>Higher increases may be made under certain circumstances, at the Committee's discretion. For example, this may include:</p> <ul style="list-style-type: none"> — Increase in the scope and/or responsibility of the individual's role; and — Development of the individual within the role. <p>Annual base salaries for the Executive Directors are set out in Part 3(a) of this report.</p>

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Purpose and link to strategy **Operation and performance measurement**

Fixed elements — benefits

To provide colleagues with market competitive benefits

The Company provides a range of benefits, which may include:

- a company car (or cash equivalent)
- life assurance
- permanent health insurance
- private medical insurance.

These benefits are not pensionable.

Other benefits may be considered by the Committee, if considered appropriate.

The Company may also meet certain mobility costs, such as relocation support, expatriate allowances, temporary living and transportation expenses, in line with the prevailing mobility policy and practice for other senior Executives.

Executive Directors are eligible to participate in any tax-approved all-colleague share plans operated by the Company on the same basis as other eligible colleagues. Whilst it does not currently operate such a plan, the Company intends to introduce a Sharesave scheme during the term of this Policy.

Fixed elements — pensions

To provide colleagues with an allowance for retirement planning

Pension contributions are made to either the Group Pension Plan, to personal pension schemes or cash allowances in lieu of contributions are paid.

Maximum opportunity

The cost to the Company of providing other benefits may vary depending on, for example, market practice and the cost of insuring certain benefits.

The Committee keeps the level of benefit provision under regular review.

Details of current benefit provision for the Executive Directors are set out in Part 3(a) of this report.

The contribution level for an individual Executive Director is capped at 9% of base salary per annum for employer contributions.

Details of current pension provision for the Executive Directors are set out in Part 3(a) of this report.

Remuneration report continued

Purpose and link to strategy	Operation and performance measurement	Maximum opportunity
<p>Short-term elements — annual bonus</p> <p>To incentivise the delivery of our business plan on an annual basis.</p> <p>To reward performance against key performance indicators which are critical to the delivery of our business strategy</p>	<p>annual bonus</p> <p>Delivery will normally be in cash and is not pensionable.</p> <p>Performance measures are set annually and payout levels are determined by the Committee after the year end, based on performance against those targets during the relevant financial year.</p> <p>Each year, the Committee determines the measures and weightings within the following parameters:</p> <ul style="list-style-type: none"> — At least 75% of the annual bonus will be based on financial performance measures; and — No more than 25% of the annual bonus will be based on performance against non-financial measures, including for example, individual and strategic objectives. <p>The Committee ensures that targets are appropriately stretching in the context of the business plan and that there is an appropriate balance between incentivising Executive Directors to meet financial targets for the year and to deliver specific non-financial goals. This balance allows the Committee to effectively reward performance against the key elements of our strategy.</p> <p>The Company may amend the performance measures or targets in exceptional circumstances, where it considers that they are no longer appropriate.</p> <p>There is no provision for recovery.</p>	<p>The maximum bonus opportunity is 100% of base salary. 20% is payable for threshold performance.</p>

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Long-term incentives – overview

At the time of IPO, the Committee wished to put in place long-term incentive arrangements which would provide for the continued alignment of Executive Directors with our shareholders. As such, the Committee approved three long-term incentive plans: the Co-Investment Plan (CIP), the Performance Share Plan (PSP) and the Company Share Option Plan (CSOP).

CIP — a one-off arrangement, tailored to our post-IPO position. It requires Executive Directors to make a significant personal investment in order to be eligible to receive a Company match providing that stretching performance conditions are reached. Awards were made on IPO and there is no intention to make any further awards to current Executive Directors under the Plan.

PSP — intended to be our regular, ongoing long-term incentive plan in future years. Given that Executive Directors were made awards under the CIP in 2014, there is no intention for current Executive Directors to receive awards under the PSP until 2016.

CSOP — for Executive Directors, this plan is used to allow the Company and participant to benefit from HMRC-approved option tax treatment in respect of the initial part of a PSP award (currently up to £30,000). As such, in line with the PSP above, it is not intended for current Executive Directors to receive awards under the CSOP until 2016.

In addition, the Committee intends to introduce a Sharesave plan during the term of this Policy, in which all colleagues will be eligible to participate (including Executive Directors).

Although we do not intend to make any further awards under the CIP to current Executive Directors following IPO, we have provided details of the Plan in the Policy Table below for clarity. No individual will be eligible to receive two awards under the CIP. The Committee may consider granting a new Executive Director a CIP award if it considers it to be appropriate to promote alignment across the Executive team.

Purpose and link to strategy	Operation and performance measurement	Maximum opportunity
<p>Long-term elements — Co-Investment Plan (CIP)¹</p> <p>To promote continued alignment between Executive Directors and shareholders in the years following IPO. Current Executive Directors will not receive any further awards under the CIP</p>	<p>Matching Awards vest after three, four and five years, subject to achievement of performance conditions.</p> <p>Additional shares (or cash) may be awarded in lieu of dividends on any Matching Awards which vest, which would have been paid during the vesting period.</p> <p>The performance measures under the CIP are:</p> <ul style="list-style-type: none"> — 75% EPS growth — to reflect the financial performance of our business and a direct and focused measure of Company success. — 10% of the total Matching Award will vest for EPS growth of 10% per annum, rising to 75% of the total Matching Award will vest for EPS growth of 17.5% per annum. — 25% Relative TSR against the UK General Retail Index — a measure of the ultimate delivery of shareholder returns, promoting alignment between Executive Director remuneration and the shareholder experience. — 6.25% of the total Matching Award will vest for median TSR performance against the Index, and 25% of the total Matching Award will vest for upper quartile TSR performance against the Index. 	<p>Executive Directors invested 250% of base salary in the CIP at IPO (Invested Shares).</p> <p>Subject to performance, Invested Shares may be eligible for up to a 1:1 Company match on this amount (Matching Award).</p>

1. The Committee may in the event of any variation of the Company's share capital, demerger, delisting, or other event which may affect the value of awards, adjust or amend the terms of awards in accordance with the rules of the relevant share plan. In the case of the SAYE, any changes may be subject to HMRC approval if required.

Remuneration report continued

Purpose and link to strategy

Operation and performance measurement

Maximum opportunity

The Committee considers that the performance measures are fully aligned with our corporate strategy. The Committee has set the targets to be appropriately stretching, with regard to a number of internal and external reference points, and considers that delivery of these targets should create sustainable value for shareholders.

The plan rules also stipulate that the Committee may amend the performance measures or targets in exceptional circumstances, where it considers that they are no longer appropriate. If this discretion was used, we would consult with our major shareholders and the rationale would be clearly explained in the remuneration report.

Unvested and unexercised awards are subject to malus in case of misconduct or misstatement.

Invested shares may also be forfeited in case of fraud, misconduct or negligence.

Under the terms of the CIP, the treatment of leavers depends on the length of the period between grant and cessation with Invested Shares being forfeited in the event of Early Leavers. See page 94 for further details.

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Purpose and link to strategy	Operation and performance measurement	Maximum opportunity
<p>Long-term elements — Performance Share Plan (PSP)¹</p> <p>To incentivise the delivery of our business plan on an annual basis.</p> <p>To reward performance against key performance indicators which are critical to the delivery of our business strategy.</p> <p>The intention is that current Executive Directors will not receive awards under the PSP until 2016</p>	<p>Awards vest after three years, subject to achievement of performance conditions.</p> <p>Additional shares (or cash) may be awarded in lieu of dividends on any shares which vest, which would have been paid during the vesting period.</p> <p>Share awards are normally made in the form of conditional share awards, but may be awarded in other forms if appropriate (such as nil cost options). The plan rules specify that awards may also be satisfied in cash although this is unlikely to apply to Directors.</p> <p>The ultimate goal of the Company's strategy is to provide long-term sustainable returns to shareholders. The Committee strives to do this by aligning the performance measures under the PSP with the long-term strategy of the Company and considers that strong performance under the chosen measures should result in sustainable value creation:</p> <ul style="list-style-type: none"> — Financial measure — to reflect the financial performance of our business and a direct and focused measure of Company success. The Committee sets targets to be appropriately stretching, with regard to a number of internal and external reference points. — Share price performance measure – a measure of the ultimate delivery of shareholder returns. This promotes alignment between Executive Director reward and the Shareholder experience. Targets are set with reference to wider market practice and positioned at a level which the Committee considers represents stretching performance. <p>The Committee sets targets each year, achievement of which it considers would represent stretching performance in the context of the business plan.</p> <p>Normally the weighting would be split equally across these two measures, although the Committee may vary this as appropriate to reflect strategic priorities.</p>	<p>The maximum award opportunity under the PSP is normally 150% of base salary (or 200% of salary in circumstances which the Committee considers to be exceptional).</p>

1. The Committee may in the event of any variation of the Company's share capital demerger, delisting, or other event which may affect the value of awards, adjust or amend the terms of awards in accordance with the rules of the relevant share plan. In the case of the SAYE, any changes may be subject to HMRC approval if required.

Remuneration report continued

Purpose and link to strategy

Operation and performance measurement

Maximum opportunity

For 'threshold' levels of performance, 25% of the maximum award vests, increasing to 100% of the award for maximum performance.

The plan rules also stipulate that the Committee may amend the performance measures or targets in exceptional circumstances, where it considers that they are no longer appropriate. If this discretion was used, we would consult with our major shareholders and the rationale would be clearly explained in the remuneration report.

Unvested and unexercised awards are subject to malus in case of misconduct or misstatement.

The Committee may at its discretion structure awards as Approved Company Share Option Plan (CSOP) awards. CSOP awards enable the participant and Company to benefit from HMRC approved option tax treatment in respect of part of the award, without increasing the pre-tax value delivered to participants. CSOP awards may be structured either as an approved option for the part of the award up to the HMRC limit (currently £30,000) with an unapproved option for the balance and a 'linked award' to fund the exercise price of the approved option, or as an approved option and a PSP award, with the vesting of the PSP award scaled back to take account of any gain made on exercise of the approved option.

SAYE¹

An all-colleague plan, which encourages long-term shareholding and to align the interests of UK colleagues with shareholders. Executive Directors are eligible to participate

SAYE is an HMRC-approved scheme where eligible colleagues are granted savings-related share options to subscribe for ordinary shares in the Company. It is intended that the plan will be implemented during 2014.

Options are granted to be exercisable in conjunction with either a three-year or five-year savings contract with a monthly savings limit of £500.

Options are normally granted at a discount of 20% to market price at the time of invitation.

There are no performance measures attached to awards under the SAYE.

The market value of the shares under option at the date of maturity of the Sharesave savings contract, less the grant price of the option at the contract start date.

1. The Committee may in the event of any variation of the Company's share capital demerger, delisting, or other event which may affect the value of awards, adjust or amend the terms of awards in accordance with the rules of the relevant share plan. In the case of the SAYE, any changes may be subject to HMRC approval if required.

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b) Chairman and Non-Executive Director remuneration policy

Purpose and link to strategy	Operation and performance measurement	Maximum opportunity
<p>Overall remuneration</p> <p>To attract and retain high calibre individuals by offering market competitive fee arrangements</p>	<p>Non-Executive Directors receive a basic fee in respect of their Board duties.</p> <p>Further fees are paid to Non-Executive Directors in respect of Deputy Chairman of the Board and/or chairmanship of Board committees.</p> <p>The Non-Executive Chairman receives an all-inclusive fee for the role.</p> <p>The remuneration of the Non-Executive Chairman is set by the Remuneration Committee, whilst the Board as a whole is responsible for determining Non-Executive Director fees. These fees are the sole element of Non-Executive remuneration and they are not eligible for incentive awards, pensions or other benefits.</p> <p>Fees are typically reviewed annually.</p> <p>Expenses incurred in the performance of Non-Executive duties for the Company may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on the benefits.</p>	<p>Current fee levels can be found on page 102.</p> <p>Fees are set at a level which is considered appropriate to attract and retain the calibre of individual required by the Company.</p> <p>The Company's articles of association provide that the total aggregate remuneration paid to the Non-Executive Chairman and the NEDs will be within the limits set by shareholders.</p>

Legacy matters

The Committee will honour remuneration related commitments to current and former Executive Directors (including the exercise of any discretions available to the Committee in relation to such commitments) where the terms were agreed prior to the approval and implementation of the remuneration policy detailed in this report (provided that, in the opinion of the Committee, the payment was not in consideration for the individual becoming an Executive Director of the Company).

For these purposes, payments include the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are agreed at the time the award is granted.

Remuneration arrangements throughout the Company

The remuneration policy for our Executive Directors is designed in line with the remuneration philosophy and principles that underpin remuneration for the wider Company.

All our reward arrangements are built around the common objectives and principles outlined below:

Performance driven — The Company intentionally places significant focus on variable remuneration, ensuring that a meaningful proportion of remuneration is based on performance. Performance targets are typically aligned with those of the Executive Directors. As a result, individuals are incentivised towards consistent financial and non-financial business goals and objectives, in addition to appropriate individual goals.

Colleagues as Shareholders — The Committee intends to put in place a Sharesave plan during the term of this Policy, to allow our wider colleague population to build up a Shareholding in the Company. In addition, under the terms of our IPO, colleagues were permitted to buy shares on Listing and over 2,700 colleagues took up this opportunity.

Remuneration report continued

c) Recruitment policy

The following table sets out the various components which would be considered for inclusion in the remuneration package for the appointment of an Executive Director and the approach to be adopted by the Committee in respect of each component.

Element	Policy and operation
Overall	<p>The Committee's approach when considering the overall remuneration arrangements in the recruitment of a member of the Board from an external party is to take account of the Executive Director's remuneration package in their prior role, the market positioning of the remuneration package, and to not pay more than necessary to facilitate the recruitment of the individual.</p> <p>Where an Executive Director is appointed from within the business, in addition to considering the matters detailed above for external candidates, the normal policy of the Company is that any legacy arrangements would be honoured in line with the original terms and conditions.</p>
Fixed elements (Base salary, benefits and other benefits)	<p>We recognize that salary levels drive other elements of the package and would therefore seek to pay a salary which is competitive, but no more than necessary to secure the individual.</p> <p>The Executive Director would be eligible to participate in our benefit and pension plans, including coverage under all Executive Director and colleague pension and benefit programmes in accordance with the terms and conditions of such plans, as may be amended by the Company from time to time.</p> <p>The Company may meet certain mobility costs, including relocation support, expatriate allowances, temporary living and transportation expenses in line with the prevailing mobility policy and practice for senior executives.</p>
Short-term Incentives	<p>The individual will be eligible to participate in the annual bonus plan, in accordance with the rules and terms of the plan in operation at the time.</p> <p>The maximum level of opportunity will be no greater than that set out in the Policy Table above (i.e. 100% of base salary).</p>
Long-term Incentives	<p>The individual will be eligible to participate in the Performance Share Plan (and the associated Company Share Option Plan), in accordance with the rules and terms of the plan in operation at the time. The maximum level of opportunity will be no greater than that set out in the Policy Table above (i.e. 200% of base salary).</p> <p>Alternatively, whilst not currently envisaged at this time, the Committee may consider the individual eligible to participate in the Co-Investment Plan, which would operate under the same terms as for current participants. The maximum level of opportunity will be no greater than that set out in the Policy Table above (i.e. a maximum Matching Award of 250% of base salary), and would be pro-rated to reflect the length of the performance period which the individual was due to serve.</p>

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Element	Policy and operation
Buy-out awards	<p>The Committee will consider what buy-out awards (if any) are reasonably necessary to facilitate the recruitment of a new Executive Director in all circumstances. This includes an assessment of the awards which would be forfeited on leaving their current employer.</p> <p>The Committee will seek to structure any buy-out awards such that overall they are no more generous in terms of quantum or vesting period than the awards due to be forfeited.</p> <p>In determining the quantum and structure of these commitments, the Committee will seek to provide broadly equivalent value and replicate, as far as practicable, the timing and performance requirements of the awards forfeited.</p> <p>Buy-out awards, if used, will be granted using the Company's existing long-term incentive plans to the extent possible, although awards may also be granted outside of this plan if necessary and as permitted under the Listing Rules.</p> <p>In the case of an internal hire, any outstanding awards made in relation to the previous role will be allowed to pay out according to their original terms.</p> <p>If promotion is part way through the year, an additional top-up award may be made to bring the Executive Director's opportunity to a level that is appropriate in the circumstances.</p>

d) Service contracts and loss of office arrangements

The Committee's policy on service contracts and termination arrangements for Executive Directors is set out below. On principle, it is the Committee's policy that there should be no element of reward for failure. The Committee's approach when considering payments in the event of a loss of office is to take account of the individual circumstances including the reason for the loss of office, Company and individual performance, contractual obligations of both parties as well as share plan and pension scheme rules.

The key employment terms and conditions of the current Executive Directors, as stipulated in their service contracts are set out below:

Area	Policy
Notice period	<p>The service contracts for Nick Wood and Ian Kellett provide for a notice period from both the Company and the individual of 12 months for Nick Wood, and six months for Ian Kellett.</p> <p>New Executive Directors will be appointed on service contracts that have a notice period of not more than 12 months for both the Company and the individual.</p> <p>The Committee considers this policy provides an appropriate balance between the need to retain the services of key individuals for the benefit of the business and the need to limit the potential liabilities of the Company in the event of termination.</p>
Contractual payments	<p>Executive Directors' service contracts allow for termination with contractual notice from the Company or termination by way of payment in lieu of notice (PILON), at the Company's discretion. Payment in lieu of notice would be made where circumstances dictate that the Executive Directors' services are not required for their full notice period.</p> <p>Neither notice nor PILON will be given in the event of gross misconduct.</p> <p>Payment in lieu of notice will be limited to base salary and contractual benefits for the relevant notice period.</p> <p>There is no contractual entitlement to a payment under the annual bonus in respect of the notice period.</p> <p><i>Service contracts allow for mitigation if the individual finds alternative employment.</i></p>

Remuneration report continued

Area	Policy
Short-term incentives	<p>The Committee's policy is not to award an annual incentive for any portion of the notice period not served.</p> <p>Where an Executive Director leaves office after the end of a performance year but before the payment is made, the Executive will remain eligible for an annual bonus for that performance year, subject to the normal assessment of performance achieved over the period.</p> <p>Where an Executive Director leaves office during a performance year, any bonus would be at the Committee's absolute discretion and would take into account performance and the time served during the period.</p> <p>No bonus will be paid in the event of gross misconduct.</p>
Long-term incentives	<p>The treatment of unvested long-term incentive awards is governed by the rules of the relevant incentive plan.</p> <p>CIP</p> <p>Treatment under the CIP is dependent on the period elapsed since the IPO.</p> <p>a. Within the first 24 months following Admission</p> <p>Where an individual with a six month notice period voluntarily resigns less than 18 months following the date of admission, they will forfeit their Invested Shares and their Matching Awards.</p> <p>b. Between 24 months and 36 months following Admission</p> <p>Where an individual with a six month notice period voluntarily resigns between 18 months and 30 months following the date of admission (and completes at least two years' service by working his notice period or being put on garden leave, or would have done so but is given PILON), they will retain their Invested Shares and may retain a portion of their Matching Award subject to achievement of performance targets measured over the first two years of the performance period.</p> <p>c. On or after 36 months following admission</p> <p>Where an individual with a six month notice period voluntarily resigns on or after 30 months following the date of admission (and completes at least three years' service by working his notice period or being put on garden leave, or would have done so but is given PILON), they will retain their Invested Shares and, if a good leaver (defined as under the PSP), also their Matching Award, unless the Committee determines otherwise.</p> <p>Any participant who is dismissed for reasons of fraud or negligence will forfeit their Invested Shares and Matching Awards in full.</p> <p>PSP</p> <p>Under the PSP the default position is for unvested awards to lapse upon a loss of office event.</p> <p>Where an individual is determined to be a 'good' leaver (which include for reasons of death, illness, injury, disability, retirement or any other reason at the discretion of the Committee) the Committee may allow unvested awards to subsist until the relevant vesting date, subject to satisfaction of the performance conditions and pro-rated for time served.</p> <p>Alternatively, the Committee may, at its discretion, allow awards to vest at an earlier date, having regard to the achievement of performance conditions to that date and the period of time that has passed since the date of grant. The Committee may choose to apply no reduction in the amount vesting if it is considered appropriate given the particular circumstances.</p>

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Area	Policy
Change in control	<p>The Committee's policy is that service contracts should not provide for additional compensation on severance as a result of a change in control.</p> <p>Under the PSP, the Committee will determine whether and to what extent awards shall vest, taking into account all relevant factors including Company performance, the period of time elapsed since the date of grant and the interests of our shareholders.</p> <p>Under the CIP, participants will be eligible to retain their full Invested Shares and all restrictions on them will be lifted. The Committee will determine whether and to what extent Matching Awards shall vest, taking into account Company performance, and the period of time elapsed since the date of grant.</p>

External appointments

Executive Directors are permitted to hold an external appointment with the prior consent of the Board. Any fees may be retained by the individual.

Chairman and Non-Executive Directors

The Non-Executive Directors, including the Chairman of the Board, have letters of appointment which set out their duties and responsibilities. They do not have service contracts.

The key terms of the appointments are set out in the table below:

Provision	Policy
Period	Initially appointed for a period of three years, subject to annual review and notice.
	In line with the UK Corporate Governance Code, all directors will seek annual re-appointment by Shareholders at the AGM.
Loss of office	Three months' notice by either the Company or the Non-Executive Director.
	Non-Executive Directors and the Chairman of the Board are not entitled to compensation on leaving the Board.
Fees	As set out on page 102.
Expiry of current term	See page 99 for details of the expiry of the current term of Non-Executive Directors' letters of appointment.

Availability of documentation

Service contracts and letters of appointment for all Directors are available for inspection by any person at our registered office in Handforth, Cheshire. They will also be available for inspection during the 30 minutes prior to the start of our AGM to be held in Manchester on 9th September 2014.

e) Illustration of the remuneration policy

Our remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of stretching short-term and long-term performance targets, aligned with the creation of sustainable Shareholder value. The Committee considers the level of remuneration that may be received under different performance outcomes to ensure that this is appropriate in the context of the performance delivered and the value added for Shareholders.

Remuneration report continued

The charts below provide illustrative values of the remuneration package for Executive Directors under three assumed performance scenarios.

	Scenario	Assumptions
Fixed pay	All performance scenarios	Consists of total fixed pay, including base salary, benefits and pension Base salary — salary effective as at 17th March 2014 Benefits — amount estimated to be received by each Executive Director in 2014/15 Pension — salary supplement effective as at 17th March 2014.
	Minimum performance	No payout under the annual bonus No vesting under the Performance Share Plan
	On-target performance	50% of the maximum payout under the annual bonus (i.e. 50% of salary) 16% vesting under the Performance Share Plan (i.e. 24% of salary)
	Maximum performance	100% of the maximum payout under the annual bonus (i.e. 100% of salary) 100% vesting under the Performance Share Plan (i.e. 150% of salary)
Variable pay		

Notes:

The Co-Investment Plan has not been included in the scenarios shown, as this plan is not intended to be an ongoing remuneration element under our policy. Under the PSP the normal maximum limit of 150% of salary has been shown, rather than the exceptional limit of 200% of salary. All-colleague share plans have been excluded. Any legacy awards which Executive Directors hold have been excluded. These charts are for illustrative purposes only and actual outcomes may differ from that shown.

“The remuneration package for all colleagues including the Executive Directors is reviewed on an annual basis and a consistent approach is applied at all levels”

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	Chief Executive	Chief Financial Officer
Base Salary	£425,000	£320,000
Benefits	£11,500	£11,500
Pension	£38,250	£28,800
Total Fixed Pay	£474,750	£360,300

f) Consideration of conditions elsewhere in the Company

As per the Committee's terms of reference, we also review the pay and conditions of colleagues at levels below the Executive Directors. This includes approving the design of, and determining targets for, any performance related pay schemes such as the bonus scheme operated by the Company and approving the total annual payments made under such schemes. The Committee is also consulted concerning any major changes in colleague benefit structures throughout the Group.

The remuneration package for all colleagues including the Executive Directors is reviewed on an annual basis and a consistent approach is applied at all levels. As part of the annual salary and benefits review, the Company takes into account industry standards, future legislative framework (including the national minimum wage) and the financial and economic environment of the Group both internally and externally. The annual salary and benefits review is presented to the Committee with recommendations on remuneration throughout the colleague base, including a proposed salary increase to be applied to all colleagues' wages, including Executive Directors. As such, the Committee has regard to this Group-wide annual review process when setting its remuneration policy for Executive Directors.

Whilst our colleagues are not directly consulted as part of the process of determining pay, the output from colleague surveys, including our internal 'We're All Ears' survey, is considered when carrying out the annual salary and benefits review.

A significant number of our colleagues are also Shareholders and so are able to express their views in the same way as other Shareholders as a result of the IPO process and the colleague offer referred to on page 82.

g) Consideration of Shareholder views

Although we have only recently become a public listed company, the Committee recognises the importance of building a good relationship with our new Shareholders. This reflects our commitment to follow the highest standards of practice in relation to remuneration and governance at Pets At Home.

In reviewing the remuneration arrangements which were put in place at IPO, the Committee evaluated current best practice in the listed environment. In particular, the Committee was keen to promote alignment, motivate our Executive team and retain key talent to drive our business strategy. Our aim was to adopt a remuneration framework which would drive achievement of our corporate goals, whilst providing Shareholders with comfort that it was appropriate, justified and did not encourage unacceptable risk management behaviour.

We will continue to monitor Shareholder views when evaluating and setting ongoing remuneration strategy, and we commit to consulting with Shareholders prior to any significant changes to our remuneration policy.

h) Minor amendments

The Committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining Shareholder approval for that amendment.

Remuneration report continued

Annual report on remuneration

a) Single total figure of remuneration for Executive Directors for the year ended 27th March 2014

The information presented from this section up until the relevant note on page 103 represents the audited section of this report.

The following table sets out the total remuneration for Executive Directors for the year ended 27th March 2014. The Company was incorporated on 10th February 2014; however, payments were received by the Executive Directors in respect of the period from 17th March to 27th March 2014. Since the Company is a newly incorporated and listed company there are no prior year comparator figures.

Director	Salary (£)	Benefits (£)	Pension (£)	Annual bonus (£)	Long-term incentives (£)	Total (£)
Nick Wood	11,918	348	1,073	6,122	n/a	19,460
Ian Kellett	8,556	348	770	7,207	n/a	16,880

Base salary — corresponds to the amount received during the financial year since IPO.

As explained in the Remuneration Committee Chairman's statement above, prior to IPO, the salaries of our Executive Directors were reviewed against other companies comparable to Pets At Home.

Nick Wood's base salary reflects his annual salary of £425,000 per annum paid by the Company since IPO to the year end.

Ian Kellett's base salary reflects his annual salary of £320,000 per annum paid by the Company since IPO to the year end.

Benefits — corresponds to the taxable value of benefits received during the financial year since IPO and principally includes company car (or cash equivalent), life assurance and permanent health insurance.

Pension — corresponds either to amount contributed to personal pension plans or the cash value of salary supplement received during the financial year since IPO. Executive Directors receive a Company pension contribution worth 9% of their salary or a cash allowance where the Annual Allowance has been reached.

Annual bonus — corresponds to the annual bonus earned in respect of performance in the year ended 27th March 2014, prorated over the period since IPO.

The payments were determined by the Remuneration Committee under the bonus plan approved by the pre-IPO remuneration committee with awards being linked to both pre-set targets for the Group's underlying EBITDA and achievement of non-financial personal objectives which were aligned to the key strategic priorities of the Group. The terms of the plan provided for a payment of up to 50% of salary for achievement of certain levels of financial targets and up to 25% of salary for achievement of the agreed personal objectives together with the discretion to make additional awards for exceptional performance. Shareholders will recognise that we have not disclosed specific financial performance targets for reasons of commercial sensitivity. The Remuneration Committee approved the bonus awards having taken account of:

Achievement of underlying Group EBITDA of £110.7m.

Individual contribution to the preparation and execution of the IPO.

Performance against individually set targets. For the CEO these included the implementation of SAP, successful delivery of smaller store format and achievement of a number of core KPIs such as achievement of new store opening pipeline. For the CFO, these included successful integration of the finance function of the Vets4Pets business and achievement of targeted synergies, achievement of the working capital plan and implementation of the SAP function into the finance team.

Long-term incentives — no relevant long-term incentives vested in respect of the year under consideration.

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b) Single total figure of remuneration for Non-Executive Directors for the year ended 27th March 2014

The following table sets out the total remuneration for Non-Executive Directors and the Chairman of the Board for the year ended 27th March 2014. The figures shown represent the remuneration received from the date of appointment until 27th March 2014 (with the exception of Tony DeNunzio which runs from the date of the IPO on 17th March to 27th March 2014). In addition, we have not been able to show prior year comparator figures.

Director	Date of appointment	Basic fees (£)	Additional fees (£)	Remuneration Committee Chairman (£)	Audit Committee Chair (£)	Nomination Committee Chairman (£)	Pets Before Profit/CSR Committee Chair (£)	Total (£)
Tony DeNunzio	18th February 2014	6,044	n/a	n/a	n/a	n/a	n/a	6,044
Dennis Millard	18th February 2014	5,220	2,088	1,044	n/a	n/a	n/a	8,352
Brian Carroll	18th February 2014	5,220	n/a	n/a	n/a	n/a	n/a	5,220
Paul Coby	18th February 2014	5,220	n/a	n/a	n/a	n/a	n/a	5,220
Tessa Green	18th February 2014	5,220	n/a	n/a	n/a	n/a	1,044	6,264
Amy Stirling	18th February 2014	5,220	n/a	n/a	1,044	n/a	n/a	6,264
Paul Moody	25th March 2014	412	n/a	n/a	n/a	n/a	n/a	412

Note: The additional fee paid to Dennis Millard is in respect to his position as Deputy Chairman of the Board. Michael Adams and Praxis Management Limited were appointed as Directors of the Company on 10th February 2014 and both resigned on 11th February 2014. They were Directors for administration purposes in connection with the incorporation of the Company and so did not receive any remuneration for their services.

c) Scheme interests awarded during the financial year

The tables below provide details on long-term incentive awards which were made to Executive Directors during the financial year. These awards were made under the Co-Investment Plan and took place at the time of the IPO in March 2014.

Individual	Type of award	Face value (£)	Face value (% of salary)	Threshold vesting	Maximum vesting	End of performance period
Nick Wood	Matching Award (nil-cost options)	£1,062,500	250%	For EPS element (75% of the award)	100% of face value	31st March 2017
				13.3% of face value		
Ian Kellett		£800,000	250%	For TSR element (25% of the award)		
				25% of face value		

To receive these awards, the two Executive Directors had to commit 250% of their base salary in shares (Invested Shares). The Matching Awards, which represent a Company match of 1:1 on the Invested Shares, will vest subject to the EPS and relative TSR performance conditions which are outlined in the policy table on page 87.

Remuneration report continued

For the purposes of the relative TSR performance condition, the comparator group is outlined below.

Relative TSR comparator group

Booker Group	Brown (N) Group	Carpetright
Debenhams	Dignity	Dixons Retail
Dunelm	Greggs	Halfords Group
Home Retail Group	Inchcape	Kingfisher
Marks & Spencer Group	Morrison (WM) Supermarkets	Next
Ocado Group	Sainsbury (J)	Sports Direct International
Tesco	UDG Healthcare Public	WH Smith

d) Payments for loss of office

No payments for loss of office were made during the financial year.

e) Payments to past Directors

No payments were made to past Directors during the year.

f) Statement of Directors' shareholding and share interests

The Committee believes that colleague share ownership is an important means to support long-term commitment to the Company and the alignment of colleague interests with those of Shareholders.

The interests of the Executive Directors are closely aligned with those of other Shareholders in this regard, through the operation of the Co-Investment Plan, which required participants to commit a significant amount of their IPO proceeds. This was a one-off award. From 2016 onwards, Executive Directors will participate in the PSP, which will further align their interests with those of Shareholders. Both of these remuneration elements constitute a significant proportion of the individual remuneration packages.

Executive Directors are subject to a shareholding requirement of 200% of base salary, which should be built up over a period of five years. This policy continues below the Board, with the next level of senior Executives also subject to a shareholding guideline. The Committee reviews share ownership levels annually.

Current shareholding levels for Directors are set out in the table below.

Director	Shareholding requirement as a % of salary (Target - % achieved)	Number of shares			Shares owned outright at 17th March 2014
		Shares owned outright at 27th March 2014	Interests in share incentive schemes, awarded without performance conditions at 27th March 2014	Interests in share incentive schemes, awarded subject to performance conditions at 27th March 2014	
Nick Wood	200% (3,044%)	5,505,571	—	433,673	7,340,760
Ian Kellett	200% (2,972%)	4,047,056	—	326,530	4,640,415
Tony DeNunzio	—	3,158,026	—	—	3,977,342
Dennis Millard	—	16,327	—	—	16,327
Brian Carroll	—	40,816	—	—	40,816
Paul Coby	—	4,082	—	—	4,082
Tessa Green	—	40,816	—	—	40,816
Amy Stirling	—	16,327	—	—	16,327
Paul Moody	—	—	—	—	—

Note:

For the purposes of determining Executive Directors' shareholdings, the individual's salary and the share price as at 17th March 2014 has been used (245 pence).

This represents the end of the audited section of the report.

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g) TSR performance chart

Given that the Company has only been a public listed company since 17th March 2014, there is limited share price information and CEO remuneration and so a chart has not been included. This disclosure will be expanded over later years.

Chief Executive	2009/10	2010/11	2011/12	2012/13	2013/14
CEO single figure of remuneration	n/a	n/a	n/a	n/a	19,460
Annual bonus payout (as % of maximum opportunity)	n/a	n/a	n/a	n/a	73%
Long-term incentive vesting (as % of maximum opportunity)	n/a	n/a	n/a	n/a	n/a

Note: the single figure of remuneration relates to the period 17th March 2014 to 27th March 2014.

h) Percentage change in remuneration of the Group Chief Executive

This section is not applicable as the Company was only incorporated in February 2014 and was listed in March 2014 and therefore has no prior year comparator which can be shown.

i) Relative importance of the spend on pay

This section is not applicable as the Company was only incorporated in February 2014 and was listed in March 2014 and therefore has no prior year comparator which can be shown.

j) Dilution limits

In accordance with the ABI guidelines, the Company can satisfy awards under its colleague share plans with new issue shares up to maximum of 10% of its issued share capital in a rolling ten year period and within this 10% limit, the Company can only issue 5% of its issued share capital to satisfy awards under discretionary plans.

k) External appointments

Executive Directors are entitled to accept one external appointment outside the Company with the consent of the Board. Any fees received may be retained by the Director.

As at the date of this report, neither of the Executive Directors held an external appointment for which they receive a fee.

l) Non-Executive Directors – Letters of Appointment

A summary of the Non-Executive Directors' letters of appointment is contained on page 95.

Statement of implementation for 2014/15

This section provides an overview of how the Committee is proposing to implement our remuneration policy in 2014.

Base salary

The table below shows base salaries for 2014/15. There are no proposed changes to base salaries in 2014/2015.

Nick Wood	£425,000
Ian Kellett	£320,000

Remuneration report continued

Benefits

The Committee sets benefits in line with the policy set out on page 85. There are no changes proposed to the benefit framework in 2014/15.

Pensions

There is no increase proposed to salary supplement levels for the Executive Directors in 2014/15. The table below shows salary supplements for 2014/15.

% of salary	
Nick Wood	9%
Ian Kellett	9%

Annual bonus

The maximum annual bonus opportunity for Executive Directors in respect of 2014/15 will be 100% of base salary.

The annual bonus framework will be in line with that presented in the policy table on page 86. At this stage, the Committee considers that the exact annual bonus targets remain commercially sensitive. However, in next year's annual report, we commit to providing shareholders with as much context as possible on performance against those targets and rationale for the resulting annual bonus out-turns, within commercial constraints.

Performance Share Plan

There is currently no intention for Executive Directors to participate in the PSP until 2016, given that they received awards under the CIP on IPO.

Non-Executive Director Remuneration

The table below shows the Non-Executive Director fee structure for 2014/15:

	2014/15
Chairman of the Board (all inclusive fee)	£200,000
Basic Non-Executive Director fee	£50,000
Board Committee Chairman fee	£10,000
Deputy Chairman	£20,000

There are no fees paid for membership of Board Committees.

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m) The Remuneration Committee

Shareholder context for the Committee's activities

During the year, the Committee received independent advice on Executive remuneration matters from Deloitte LLP (Deloitte).

Deloitte is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to Executive remuneration consulting in the UK. The Committee has reviewed the advice provided by Deloitte during the year and is comfortable that it has been objective and independent. Total fees received by Deloitte in relation to the remuneration advice provided to the Committee during 2013/14 amounted to £70,000 (excl. VAT), based on the required time commitment.

In addition, other practices of Deloitte separate from the executive remuneration practice have provided general tax advice to the Group during the year.

During FY14, the Committee also received support from Travers Smith LLP on the terms of the discretionary and all-colleague share plans.

The Committee met once during FY14 post Listing; the individuals listed in the table below, none of whom were Committee members, attended at least part of the meeting by invitation during the year.

Attendee	Position
Tony DeNunzio	Chairman of the Board
Brian Carroll	Non-Executive Director
Sally Hopson	Customer, People and Development Director
Nick Wood	CEO

None of the individuals attended part of any meeting in which their own compensation was discussed.

Governance

The Board and the Committee consider that, throughout 2013/14 and up to the date of this report, the Company has complied with the provisions of the UK Corporate Governance Code relating to Directors' remuneration.

Shareholder voting

The Company has yet to hold a Shareholder vote on its remuneration report.

Annual General Meeting

As set out in my statement on page 82, our policy report and annual report on remuneration will be subject to a binding and advisory vote respectively, at our AGM to be held on 9th September 2014.

On behalf of the Board

Dennis Millard

Chairman of the Remuneration Committee

11th June 2014

Financial Statements

See additional information online at
investors.petsathome.com/our-company/our-services

Independent Auditor's Report to the Members of Pets At Home Group Plc only

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Pets At Home Group Plc for the year ended 27th March 2014 set out on pages 108 to 156. In our opinion:

the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 27th March 2014 and of the Group's profit for the year then ended;

the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);

the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and

the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

IPO accounting and disclosures

Refer to page 78 (Audit Committee Report), pages 116-118 (accounting policy) and pages 140-141 (financial disclosures)

The risk: The public listing of the Group in March 2014 was preceded by changes to the Group's legal structure. The restructuring involved a number of legal steps which included the issue of a mix of debt and equity and resulted in significant transaction costs some of which were recorded as a deduction from debt and equity. Due to the complex nature of these transactions and the judgement involved in allocating the costs this has been an area of focus for our audit this year.

Our response: Our audit procedures included, among others, assessing the validity and accurate reflection of each of the steps to create the new corporate structure. We inspected external legal advice obtained by the Group to assess if the Group's capital structure has been correctly accounted for in line with Companies Act 2006 requirements. We used our own financial reporting specialists to assist us in challenging the accounting principles applied. We also challenged the appropriate classification of transaction costs as an expense or deduction from debt or equity and assessed whether the financial statement disclosures in relation to the IPO are sufficient and appropriate.

Carrying value of inventory (£46.1m)

Refer to page 79 (Audit Committee Report), page 122 (accounting policy) and page 136 (financial disclosures)

The risk: Inventory is carried at the lower of cost and net realisable value. The Group is exposed to inventory recoverability risk as a result of new product launches, changes in customer preferences and consumer spending patterns with respect to the Group's products. The Group carries a broad range of products, some with a limited shelf life, and may be unable to sell products in sufficient quantities during the relevant seasons. It may be difficult to accurately forecast demand when a new product is launched and the demand for products may also change between the time inventory is ordered from suppliers and the date of sale. As such there is a risk that the carrying value of inventory exceeds its net realisable value.

Our response: Our audit procedures included, among others, assessing the principles and appropriateness of the Group's inventory provisioning policies based on our understanding of the business and the accuracy of previous provisioning estimates. We obtained the inventory provision calculation and performed a recalculation of the amounts. We challenged whether inventory lines and sales prices had been appropriately included in the calculation through an analysis of data from both the inventory and sales system. We analysed specific attributes including historical sales trends, the ageing of individual inventory lines and sales prices. We also assessed the adequacy of the disclosures in respect of amounts recognised as provision against inventory during the period.

3 Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £2.0m. This has been determined with reference to a benchmark of Group profit before taxation, which we consider to be one of the principal considerations for members of the Company in assessing the financial performance of the Group. Materiality represents 3.8% of PBT adjusted for items disclosed separately on the face of the income statement.

We agreed with the audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.1m, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

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Audits were performed by the Group audit team at the key reporting entities in the UK. These Group procedures covered 96% of total group revenue; 80% of Group profit before taxation; and 97% of total Group assets.

The audits undertaken for Group reporting purposes at the key reporting components of the Group were all performed to materiality levels set individually for each component and ranged from £0.2m to £1.9m.

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;

5 We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group's performance, business model and strategy; or the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Under the Listing Rules we are required to review:

the Directors' statement, set out on page 64, in relation to going concern; and the part of the Corporate Governance Report on pages 69-75 relating to the Company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 65, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

David Bills (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St James Square
Manchester
M2 6DS
11th June 2014



Consolidated income statement

	Note	Period ended 27th March 2014			Period ended 28th March 2013		
		£000 Underlying Trading	£000 Exceptional Items (note 3)	£000 Total	£000 Underlying Trading	£000 Exceptional Items (note 3)	£000 Total
Revenue	1,2	665,395	–	665,395	598,337	–	598,337
Cost of sales		(307,271)	–	(307,271)	(274,362)	–	(274,362)
Gross profit		358,124	–	358,124	323,975	–	323,975
Selling and distribution expenses		(233,891)	–	(233,891)	(215,177)	–	(215,177)
Administrative expenses	3	(34,817)	(10,574)	(45,391)	(29,815)	(6,049)	(35,864)
Operating profit	2	89,416	(10,574)	78,842	78,983	(6,049)	72,934
Financial income		368	–	368	388	–	388
Financial expenses	7	(37,547)	(19,158)	(56,705)	(39,351)	(7,459)	(46,810)
Net financing expense		(37,179)	(19,158)	(56,337)	(38,963)	(7,459)	(46,422)
Profit before tax		52,237	(29,732)	22,505	40,020	(13,508)	26,512
Taxation	8	(13,672)	4,715	(8,957)	(9,189)	3,210	(5,979)
Profit for the period		38,565	(25,017)	13,548	30,831	(10,298)	20,533

All activities relate to continuing operations.

Basic and diluted earnings per share attributable to equity Shareholders of the Company:

Equity holders of the parent				
– underlying trading	6		£0.01	(£0.12)
Equity holders of the parent				
– after exceptional items	6		(£0.14)	(£0.20)

Consolidated statement of comprehensive income

	Period ended 27th March 2014 £000	Period ended 28th March 2013 £000
Profit for the period	13,548	20,533
Other comprehensive income		
<i>Items that are or may be recycled subsequently into profit or loss:</i>		
Foreign exchange translation differences	5	(1)
Cash flow hedges – reclassified to profit and loss	(811)	110
Effective portion of changes in fair value of cash flow hedges	1,442	2,978
Other comprehensive income for the period, before income tax	636	3,087
Income tax on other comprehensive income	(159)	(752)
Other comprehensive income for the period, net of income tax	477	2,335
Total comprehensive income for the period	14,025	22,868

Consolidated balance sheet

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	Note	At 27th March 2014 £000	At 28th March 2013 £000
Non-current assets			
Property, plant and equipment	9	93,628	84,622
Intangible assets	10	955,238	955,004
Other financial assets	14	6,619	3,727
		1,055,485	1,043,353
Current assets			
Inventories	12	46,116	42,056
Deferred tax assets	13	45	959
Other financial assets	14	-	811
Trade and other receivables	15	42,159	34,041
Cash and cash equivalents	16	90,823	31,593
		179,143	109,460
Total assets		1,234,628	1,152,813
Current liabilities			
Other interest-bearing loans and borrowings	17	-	(5,708)
Trade and other payables	18	(149,547)	(104,299)
Provisions	19	(461)	(380)
Other financial liabilities	14	(1,113)	(1,894)
		(151,121)	(112,281)
Non-current liabilities			
Other interest-bearing loans and borrowings	17	(319,855)	(413,927)
Other payables	18	(31,068)	(49,967)
Provisions	19	(1,835)	(1,914)
		(352,758)	(465,808)
Total liabilities		(503,879)	(578,089)
Net assets		730,749	574,724
Equity attributable to equity holders of the parent			
Ordinary share capital	20	5,000	1,659
Share premium	20	1,080,477	291,492
Additional paid in capital	20	-	612,680
Consolidation reserve		(372,026)	(372,026)
Merger reserve		113,321	113,321
Translation reserve		4	(1)
Cash flow hedging reserve		(362)	(834)
Retained earnings		(95,634)	(71,567)
Share based payment reserve		(31)	-
Total equity		730,749	574,724

On behalf of the Board:


Ian Kellett
Chief Financial Officer

11th June 2014

Consolidated statement of changes in equity at 27th March 2014

	Share capital £000	Share premium £000	Additional paid in capital £000	Consolidation reserve £000	Merger reserve £000	Cash flow hedging reserve £000	Translation reserve £000	Retained earnings £000	Share based payments reserve £000	Total equity £000
Balance at 28th March 2013	1,659	291,492	612,680	(372,026)	113,321	(834)	(1)	(71,567)	-	574,724
Total comprehensive income for the period										
Profit for the period	-	-	-	-	-	-	-	13,579	(31)	13,548
Other comprehensive income	-	-	-	-	-	472	5	-	-	477
Total comprehensive income for the period	-	-	-	-	-	472	5	13,579	(31)	14,025
Transactions with owners, recorded directly in equity										
Issue of shares ⁽ⁱ⁾	1,405	342,916	(344,321)	-	-	-	-	-	-	-
Issue of shares ⁽ⁱⁱ⁾	40	9,697	-	-	-	-	-	-	-	9,737
Issue of shares ⁽ⁱⁱⁱ⁾	1,896	462,574	-	-	-	-	-	-	-	464,470
Share issue costs	-	(26,202)	-	-	-	-	-	-	-	(26,202)
Dividends on additional paid in capital	-	-	37,646	-	-	-	-	(37,646)	-	-
Redemption of additional paid in capital	-	-	(306,005)	-	-	-	-	-	-	(306,005)
Total contributions by and distributions to owners	3,341	788,985	(612,680)	-	-	-	-	(37,646)	-	142,000
Balance at 27th March 2014	5,000	1,080,477	-	(372,026)	113,321	(362)	4	(95,634)	(31)	730,749

(i) On 17th March 2014, the Company issued 140,539,069 ordinary £0.01 shares at a premium of £2.44 per share in exchange for £344,321,000 additional paid in capital issued by PAH Lux S.a.r.l.

(ii) On 17th March 2014, the Company issued 3,974,537 ordinary £0.01 shares in exchange for debt issued by a subsidiary.

(iii) On 17th March 2014, the Company issued 189,579,314 ordinary £0.01 shares at a premium of £2.44 per share. Share issue costs of £26,202,000 were offset against the gross proceeds of £464,470,000.

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Consolidated statement of changes in equity at 28th March 2013

	Share capital £000	Share premium £000	Additional paid in capital £000	Consolidation reserve £000	Merger reserve £000	Cash flow hedging reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000	Attributable to parent £000	Attributable to non-controlling interest £000
Balance at 29th March 2012	1,277	284,050	565,331	(372,026)	113,321	(3,170)	-	(37,025)	551,758	552,265	(507)
Total comprehensive income for the period											
Profit for the period	-	-	-	-	-	-	-	20,533	20,533	20,533	-
Other comprehensive income	-	-	-	-	-	2,336	(1)	-	2,335	2,335	-
Total comprehensive income for the period	-	-	-	-	-	2,336	(1)	20,533	22,868	22,868	-
Transactions with owners, recorded directly in equity											
Issue of shares	382	7,442	1,339	-	-	-	-	-	9,163	9,163	-
Dividends on additional paid in capital	-	-	46,010	-	-	-	-	(46,010)	-	-	-
Total contributions by and distributions to owners	382	7,442	47,349	-	-	-	-	(46,010)	9,163	9,163	-
Changes in ownership interests											
Acquisition of non-controlling interest without a change in control	-	-	-	-	-	-	-	(9,065)	(9,065)	(9,572)	507
Total transactions with owners	-	-	-	-	-	-	-	(9,065)	(9,065)	(9,572)	507
Balance at 28th March 2013	1,659	291,492	612,680	(372,026)	113,321	(834)	(1)	(71,567)	574,724	574,724	-

Consolidated statement of cash flows

	Period ended 27th March 2014 £000		Period ended 28th March 2013 £000
Cash flows from operating activities			
Profit for the period	13,548		20,533
<i>Adjustments for:</i>			
Depreciation and amortisation	19,990		18,207
Financial income	(368)		(388)
Financial expense	56,705		46,810
Loss on sale of PPE	77		90
Taxation	8,957		5,979
	98,909		91,231
Increase in trade and other receivables	(7,969)		(6,002)
Increase in inventories	(4,060)		(1,678)
Increase in trade and other payables	21,771	27,001	
Increase in IPO related trade and other payables (i)	25,184	-	
Total increase in trade and other payables	46,955		27,001
Increase/(decrease) in provisions	2		(64)
	133,837		110,488
Tax (paid)/received	(9,192)		4,527
Net cash from operating activities	124,645		115,015
Cash flows from investing activities			
Proceeds from sale of PPE	-		663
Interest received	368		388
Investment in other financial assets	(1,753)		(1,201)
Acquisition of subsidiary, net of cash acquired	(2,000)		(47,900)
Acquisition of PPE and other intangible assets	(26,278)		(20,446)
Net cash used in investing activities	(29,663)		(68,496)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital	464,470		7,824
Share issue costs	(26,202)		-
Debt issue costs	(10,494)		(6,562)
Repayment of paid in capital	(306,005)		-
Proceeds from new loan	460,000		130,000
Repayment of borrowings	(585,260)		(173,987)
Interest paid	(32,261)		(32,679)
Acquisition of non-controlling interest	-		(9,075)
Net cash used in financing activities	(35,752)		(84,479)
Net increase/(decrease) in cash and cash equivalents	59,230		(37,960)
Cash and cash equivalents at beginning of period	31,593		69,553
Cash and cash equivalents at end of period	90,823		31,593

(i) The increase in IPO related trade and other payables of £25,184,000 relates to costs incurred as part of the IPO on 17th March 2014, which were included in accruals and other creditors at the period end date.

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	Note	At 27th March 2014 £000
Non-current assets		
Investments in subsidiaries	11	936,179
Current assets		
Trade and other receivables	15	565,441
Cash and cash equivalents	16	22,829
		588,270
Total assets		1,524,449
Current liabilities		
Trade and other payables	18	(14,797)
Non-current liabilities		
Other interest-bearing loans and borrowings	17	(319,855)
Total liabilities		(334,652)
Net assets		1,189,797
Equity attributable to equity holders of the parent		
Ordinary share capital	20	5,000
Share premium	20	1,080,477
Merger reserve		113,321
Retained earnings		(8,970)
Share based payment reserve		(31)
Total equity		1,189,797

On behalf of the Board:


Ian Kellett
Chief Financial Officer

11th June 2014

Company number: 08885072

Company statement of changes in equity at 27th March 2014

	Share capital £000	Share premium £000	Merger reserve £000	Retained earnings £000	Share based payment reserve £000	Total equity £000
Total comprehensive income for the period						
Result for the period	-	-	-	(8,970)	(31)	(9,001)
Other comprehensive income (note 20)	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	(8,970)	(31)	(9,001)
Transactions with owners, recorded directly in equity						
Issue of shares (note 20)	5,000	1,080,477	113,321	-	-	1,198,798
Balance at 27th March 2014	5,000	1,080,477	113,321	(8,970)	(31)	1,189,797

Company Income Statement

As permitted by section 408 of the Companies Act 2006, the Company's Income Statement has not been included in these financial statements. The Company's loss for the year was £9.0m.

Company statement of cash flows

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	Period ended 27th March 2014 £000
Cash flows from operating activities	
Loss for the period	(9,001)
	(9,001)
Increase in trade and other receivables	(565,441)
Increase in trade and other payables	14,797
Net cash from operating activities	(559,645)
Cash flows from investing activities	
Acquisition of subsidiary, net of cash acquired	(175,648)
Net cash used in investing activities	(175,648)
Cash flows from financing activities	
Proceeds from the issue of ordinary share capital	464,469
Share issue costs	(26,202)
Proceeds from new loan	325,000
Issue costs	(5,145)
Net cash obtained from financing activities	758,122
Net increase in cash and cash equivalents	22,829
Cash and cash equivalents on incorporation	-
Cash and cash equivalents at end of period	22,829

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.

Summary of impact of Group restructure and Initial Public Offering

On 17th March 2014, the Group listed its shares on the London Stock Exchange. In preparation for the Initial Public Offering ("IPO") the Group was restructured. The restructure has impacted a number of the current year and comparative primary financial statements and notes.

For the consolidated financial statements of the Group, prepared under IFRS, the principles of reverse acquisition accounting under IFRS 3 "Business Combinations" have been applied. The steps to restructure the Group had the effect of Pets At Home Group Plc ("Pic") being inserted above Pets At Home Lux S.a.r.l ("PAH Lux") as the holders of PAH Lux share capital and Preferred Equity Certificates ("PECs") exchanged their PAH Lux shares and a portion of their PECs, for shares in Pic.

By applying the principles of reverse acquisition accounting, the Group is presented as if Pic has always owned the PAH Lux Group. The comparative Income Statement and Balance Sheet are presented in line with the previously presented PAH Lux position. The comparative and current year consolidated reserves of the Group are adjusted to reflect the statutory share capital, share premium and merger reserve of Pic as if it had always existed, adjusted for movements in the underlying PAH Lux share capital and reserves until the share for share exchange.

The steps taken to restructure the Group are explained in more detail in section 1.2. The impact on the primary consolidated financial statements is as follows:

Equity reflects the capital structure of Pic. As part of the restructuring of the Group, a number of shares in Pic were issued in exchange for various instruments or for cash. The premium arising on the issue of shares is allocated between the share premium and merger reserve.

A consolidation reserve is created. This reflects the difference between the Pic reserves at the balance sheet date as reflected in the opening reserves at the start of the comparative period (29th March 2012) and the consolidated equity of PAH Lux at the same date.

Prior to their cancellation as part of the IPO restructure, the PECs, issued by PAH Lux and shown as additional paid in capital in the consolidated financial statements, are shown as equity and the coupon charged on them is charged through reserves as a dividend.

As part of the restructure, the PECs were ultimately exchanged for a combination of cash and shares in Pic.

Fees associated with the IPO are allocated to share premium, secured bank debt and the Consolidated Income Statement depending on the nature of the costs. Costs allocated against the secured bank debt will be amortised over the period of the financing. Fees charged to the Consolidated Income Statement have been presented as Exceptional Items.

Due to the timing of the IPO not all fees had been paid at year end and hence there were significant balances in trade and other creditors for outstanding fees.

The Group refinanced its external bank debt, using proceeds from the IPO to reduce the net debt position of the Group. Unamortised fees associated with the previous financing have been written off in the period. This non-cash cost has been presented as an Exceptional Item in the Consolidated Income Statement.

1.1 Basis of preparation

The consolidated financial statements presented in this document have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Company's financial statements have been prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes.

These are the first set of consolidated financial statements of Pets At Home Group Plc, which is the new ultimate holding company of the PAH Lux S (formerly KKR MY Best Friend Lux S.a.r.l) Group following the reorganisation of the Group to facilitate the Initial Public Offering.

The financial statements have been presented as a continuation of the PAH Lux S business. To do so, the principles of reverse acquisition accounting in IFRS 3 "Business Combinations" have been applied. The result of the application is to present the financial statements as if Pets At Home Group Plc has always owned the Group, comparatives have also been prepared on this basis accordingly.

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1. Significant accounting policies continued

The Pets At Home Group has not previously prepared consolidated financial statements in accordance with EU endorsed IFRS. As such, these financial statements represent its first EU IFRS financial statements and IFRS 1 'First time adoption of International Financial Reporting Standards' has been applied. However, as the main trading group, PAH Retail Ltd, adopted IFRSs in the prospectus, these consolidated financial statements reflect the amounts previously reported together with the additional assets, liabilities, income and expenses of entities that did not form part of that group. As Pets At Home Group has not previously presented consolidated financial statements, no reconciliations from previous GAAP have been presented. To aid users, the Group has set out a summary of the key differences between UK GAAP (the Group's subsidiaries' previous GAAP) and IFRS in note 1.4.

The financial statements are prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments to fair value, and in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS as adopted by the European Union. New standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) becoming effective during the year have not had a material impact on the Group's financial statements.

The financial statements have been prepared on a going concern basis. In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Group can continue in operational existence for the foreseeable future. The Directors are of the opinion that the Group and the Company have adequate resources to continue in operational existence for the foreseeable future, and feel it appropriate to adopt the going concern basis in preparing this Annual Report and Financial Statements.

1.2 Group Reorganisation

Prior to the Initial Public Offering ("IPO") the Group undertook a reorganisation in preparation for the transaction.

The effect of this reorganisation was to insert two new companies into the Group, a new ultimate parent company, Pets At Home Group Plc, and its wholly owned subsidiary Pets At Home No. 1 Limited, which is summarised below, acquired the entire issued share capital PAH Retail Ltd.

Pets At Home Group Plc became the ultimate parent company of the Group by acquiring, directly and indirectly, interests in PAH Lux S.a.r.l in exchange for the issue of new shares. As part of this process, Preferred Equity Certificates issued by PAH Lux S.a.r.l were ultimately capitalised prior to that company's transfer out of the Group and subsequent placing into liquidation.

Key steps in this process included:

On 10th February 2014, a new company, Pets At Home Group Plc, was incorporated with one ordinary share of £1. On 14th February 2014, one redeemable preference share of £50,000 was issued.

On 11th February 2014, a new intermediate holding company, Pets At Home No. 1 Ltd, was incorporated as a direct wholly owned subsidiary of Pets At Home Group Plc.

On 17th March 2014, Pets At Home Group Plc, directly and indirectly, acquired the entire share capital of PAH Lux S.a.r.l and £343m of Preferred Equity Certificates issued by PAH Lux S.a.r.l in exchange for the issue of 306 million new ordinary shares of £0.01 per share, creating a share premium of £634m and a merger reserve of £113m.

Notes (forming part of the financial statements) continued

1. Significant accounting policies continued

On 17th March 2014, Pets At Home No. 1 Ltd acquired the entire issued share capital of PAH Lux S.a.r.l and certain Preferred Equity Certificates issued by PAH Lux S.a.r.l and held by Pets At Home Group Plc in exchange for 100 new ordinary shares.

On 17th March 2014, Pets At Home No. 1 Ltd purchased the remaining £175.6m of Preferred Equity Certificates issued by PAH Lux S.a.r.l and outstanding interest in exchange for the issue of a subordinated loan note instrument.

On 17th March 2014, PAH UK Midco Limited (formerly KKR My Best Friend UK Midco Ltd), a subsidiary of the Group, capitalised £9.7m of its issued loan notes, by issuing new ordinary shares. On the same date, Pets At Home Group Plc acquired these ordinary shares issued by PAH UK Midco Ltd by way of share for share exchange, issuing 4,000,000 ordinary £0.01 shares, creating a share premium of £2.44 per share.

On 17th March 2014, Pets At Home No. 1 Ltd acquired the entire issued share capital of PAH Retail Ltd, the consideration for which was left outstanding at an intercompany balance.

On 17th March 2014, Pets At Home Group Plc issued 189,460,946 ordinary £0.01 share capital at an initial offer price of £2.45 per share, generating proceeds of £464.2m. On the same date, Pets At Home Group Plc drew down £325m of senior debt facility.

Subsequent to the IPO, and prior to the year end PAH Lux S.a.r.l, PAH International Limited and PAH UK Finco Limited were transferred out of the Group, PAH Lux S.a.r.l. and PAH UK Finco were placed into liquidation.

The Group used the proceeds of the IPO and new senior term debt to settle the Group's previous senior debt. The Preferred Equity Certificates issued by PAH Lux S.a.r.l were ultimately exchanged for cash, further utilising proceeds from the transaction, and/or shares in Pets At Home Group Plc. This has been treated as a distribution from the consolidated reserves of the Group.

On 8 April 2013, PAH Luxco S.a.r.l redeemed £130,400,000 of Preferred Equity Certificates plus outstanding yield.

1.3 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.

1.4 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 for financial information previously presented under UK GAAP are as follows:

Recognition of lease incentives over the full lease term.

Acquisition costs relating to business combinations effected on or after 26th March 2010, the Group's IFRS transition date are expensed in accordance with IFRS 3 (Revised) "Business Combinations".

Goodwill is not amortised.

Recognition of derivative financial instruments on the Statement of Financial Position through Other Comprehensive Income.

1.5 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 3 to 51. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Chief Financial Officer's review on pages 42 to 47. In addition, notes 20–21 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Company has considerable financial resources and financing facilities and prepares detailed business plans that model headroom on financial covenants.

The Directors believe the Group is well placed to manage its business risks successfully and therefore have a reasonable expectation that the Group has 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.

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1. Significant accounting policies continued

1.6 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.

1.7 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 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.

1.8 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.

Notes (forming part of the financial statements) continued

1. Significant accounting policies continued

1.9 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.

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, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

1.10 Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement 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.

1.11 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.

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1. Significant accounting policies continued

1.12 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.

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.

1.13 Business combinations

Subject to the relief in IFRS 1, all business combinations, with the exception of those accounted for as reverse acquisitions, 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 26th March 2010

For acquisitions on or after 26th 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 remeasured 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 26th 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 26th March 2010, goodwill is included on the basis of its deemed cost.

1.14 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.

Notes (forming part of the financial statements) continued

1. Significant accounting policies continued

1.15 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.

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
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1.16 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.

1.17 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"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units ("CGUs"). 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.

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1. Significant accounting policies 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.

1.18 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.

Share based payments

A number of employees of the Company's subsidiaries (including Directors) receive an element of remuneration in the form of share based payments, whereby employees render services in exchange for shares or rights over shares.

Share based payments are measured at fair value at the date of grant. The fair value of transactions involving the granting of shares is determined by the share price at the date of grant. The fair value of transactions involving the granting of share options is calculated by an external valuer based on a binomial model. In valuing share based payments, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Pets At Home Group Plc ("market conditions").

The cost of share based payments is recognised, together with a corresponding increase in equity, on a straight-line basis over the vesting period based on the Company's estimate of how many of the awards will eventually vest. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of a share based payment award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of the modification.

Where a share based payment award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification to the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

1.19 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.

Notes (forming part of the financial statements) continued

1. Significant accounting policies continued

1.20 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.

Cost of sales

Cost of sales includes costs of goods sold and other directly attributable costs and promotional income received from suppliers, including costs to deliver business services to joint venture veterinary practices and costs to deliver grooming services.

Exceptional items

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 items. These are included and separately identified within their relevant income statement category.

1.21 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 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.

1.22 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.

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1. Significant accounting policies continued

1.22 Taxation continued

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.

1.23 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 1st 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 ended March 2015 in relation to the joint venture arrangements in place with veterinary practices.

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 1st January 2014 which are not expected to have any significant impact on the Group.

1.24 Accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS 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.

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.

Notes (forming part of the financial statements) continued

1. Significant accounting policies 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 CGUs as well as further information about the assumptions made are disclosed in note 10.

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.

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 19. 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.

2 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 Board 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 and does not identify individual segments. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segments.

The performance of the operating segment is primarily based on a measure of EBITDA before exceptional items share based payment charges, and management charges. This can be reconciled to statutory operating profit as follows:

	Period ended 27th March 2014 £000	Period ended 28th March 2013 £000
Operating profit	78,842	72,934
Exceptional items	10,574	6,049
Management charges	1,221	1,298
Share based payment charges	31	–
Underlying operating profit	90,668	80,281
Depreciation and amortisation	19,990	18,207
Underlying Earnings Before Interest, Tax, Depreciation, and Amortisation (EBITDA) (before exceptional items)	110,658	98,488

	Period ended 27th March 2014 £000	Period ended 28th March 2013 £000
Revenue		
Food	327,101	297,887
Accessories	288,017	268,501
Services and other	50,277	31,949
	665,395	598,337

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3 Expenses and Auditors' remuneration

Included in profit/loss are the following:

	Period ended 27th March 2014 £000	Period ended 28th March 2013 £000
Exceptional operating expenses	10,574	6,049
Depreciation of tangible fixed assets	18,053	16,972
Amortisation of intangible assets	1,937	1,235
Rentals under operating leases:		
Hire of plant and machinery	2,843	1,598
Property	61,903	58,422
Rental income from sublets	(5,952)	(4,852)
Loss on disposal of fixed assets	77	90

Exceptional costs in the period ended 27th March 2014 relate to costs associated with the Initial Public Offering of Pets At Home Group Plc shares on the London Stock Exchange on 17th March 2014 (£9,383,000), and costs associated with the integration of the Vets4Pets business into the Group (£2,308,000), offset by a credit relating to exceptional input VAT recovered (£1,117,000).

Exceptional costs in the period ended 28th March 2013 related to professional fees arising on the share restructure completed in March 2013 (£1,468,000), costs relating to the acquisition of 100% of the share capital of Farm Away Ltd in December 2012 (£417,000), and costs relating to the acquisition of 100% of the share capital of Vets4Pets Limited, Vets4Pets I.P Ltd and Brand Developments Limited in March 2013 (£4,164,000).

	Period ended 27th March 2014 £000	Period ended 28th March 2013 £000
Audit of these financial statements	10	-
Amounts receivable by the company's Auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	147	111
Other services pursuant to such legislation	3	3
Taxation compliance services	100	114
Other tax advisory services	-	83
Services relating to corporate finance transactions entered into by the Company or the Group	1,238	66
All other services	417	51
	1,915	428

Included within all other services are Auditors' fees associated with the acquisition of Vets4Pets.

Notes (forming part of the financial statements) continued

4 Colleague 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:

	Number of colleagues	
	Period ended 27th March 2014 Number	Period ended 28th March 2013 Number
Sales and distribution	4,414	3,833
Administration	345	311
	4,759	4,144

The aggregate payroll costs of these persons were as follows:

	Period ended 27th March 2014 £000	Period ended 28th March 2013 £000
	Wages and salaries	109,549
Social security costs	8,512	7,137
Contributions to defined contribution plans	2,866	2,074
	120,927	101,581

5 Acquisitions of subsidiaries

Acquisitions in the period ended 28th March 2013

Vets4Pets

The entire share capital of Vets4Pets Limited, Vets4Pets I.P. Limited and Brand Developments Limited were acquired by Pets At Home Holdings Limited, a subsidiary undertaking, for a cash consideration of £47,400,000 on 27th March 2013. The transaction has been accounted for as a business combination. In the period of acquisition, the subsidiary contributed a net result on 29th March 2012, Group revenue would have been £606,695,000 and net profit would have been £23,393,000. 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 29th March 2012.

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5 Acquisitions of subsidiaries continued

Acquisitions in the period ended 28th March 2013 continued

Vets4Pets 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.

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 the period ended on 28th March 2013 in relation to professional fees and transition costs arising upon acquisition, and £2,308,000 relating to costs associated with the integration of the Vets4Pets business into the Group in the period ended on 27th March 2014. All such costs have been expensed to the income statement in the relevant period.

Farm Away Ltd

On 12th 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 28th 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 29th March 2012 Group revenue would have been £602,804,000 and net profit would have been £21,177,000. 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 29th March 2012.

Notes (forming part of the financial statements) continued

5 Acquisitions of subsidiaries continued

Acquisitions in the period ended 28th March 2013 continued

Farm Away Ltd 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
<i>Deferred consideration at fair value</i>	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.

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 relating 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 28th 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 (formerly KKR My Best Friend UK Midco Limited)

During the period ended 28th March 2013 the Group acquired the non-controlling interest in the PAH UK Midco Limited (formerly KKR My Best Friend 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.

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6 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.

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.

	Period ended 27th March 2014	Period ended 27th March 2014	Period ended 27th March 2014 After Exceptionals	Period ended 28th March 2013	Period ended 28th March 2013	Period ended 28th March 2013 After Exceptionals
	Underlying	Exceptionals	Exceptionals	Underlying	Exceptionals	Exceptionals
Profit attributable to equity shareholders of the parent (£000s)	38,565	(25,017)	13,548	30,831	(10,298)	20,533
Less PEC dividend transferred from retained earnings	(37,646)	-	(37,646)	(46,010)	-	(46,010)
	919	(25,017)	(24,098)	(15,179)	(10,298)	(25,477)
Basic weighted average number of shares	175,053,425	175,053,425	175,053,425	129,804,683	129,804,683	129,804,683
Dilutive potential ordinary shares	71,360	71,360	71,360	-	-	-
Diluted weighted average number of shares	175,124,785	175,124,785	175,124,785	129,804,683	129,804,683	129,804,683
Basic earnings per share	£0.01	(£0.14)	(£0.14)	(£0.12)	(£0.08)	(£0.20)
Diluted earnings per share	£0.01	(£0.14)	(£0.14)	(£0.12)	(£0.08)	(£0.20)

7 Finance expense

Recognised in the income statement

	Period ended 27th March 2014 £000	Period ended 28th March 2013 £000
Bank loans	30,890	31,917
Amortisation of loan issue costs	5,286	5,787
Related party loan notes	1,349	1,612
Other interest expense	22	35
<i>Total underlying finance expense</i>	37,547	39,351
Exceptional amortisation costs	19,158	7,459
<i>Total exceptional finance expense</i>	19,158	7,459
Total finance expense	56,705	46,810

Exceptional finance expenses in the period ended 27th March 2014 related to £19,158,000 of accelerated amortisation following the repayment of the senior bank facility of £567,926,000 in that period.

Exceptional finance expenses in the period ended 28th 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.

Notes (forming part of the financial statements) continued

8 Taxation

Recognised in the income statement

	Period ended 27th March 2014 £000	Period ended 28th March 2013 £000
Current tax expense		
Current period	7,840	7,048
Adjustments in respect of prior periods	362	38
Current tax expense	8,202	7,086
Deferred tax expense/(credit)		
Origination and reversal of temporary differences	234	(575)
Reduction in tax rate	28	5
Adjustments in respect of prior periods	493	(537)
Deferred tax expense/(credit)	755	(1,107)
Total tax expense	8,957	5,979

The corporation tax rate applicable to the Group was 23% in the period to 27th March 2014. The March 2013 Budget announced that the UK corporation tax rate will further reduce to 20% (effective from 1st April 2015) in addition to the planned reduction to 21% (effective from 1st April 2014) previously announced in the December 2012 Autumn Statement. These reductions were substantively enacted on 2nd 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

	Period ended 27th March 2014 £000	Period ended 28th March 2013 £000
Effective portion of changes in fair value of cash flow hedges	159	752

Reconciliation of effective tax rate

	Period ended 27th March 2014 £000	Period ended 28th March 2013 £000
Profit for the period	13,548	20,533
Total tax expense	8,957	5,979
Profit excluding taxation	22,505	26,512
Tax using the UK corporation tax rate for the relevant period (2014: 23%; 2013: 24%)	5,177	6,362
Impact of reduction in tax rate on deferred tax balances	28	5
Depreciation on expenditure not eligible for tax relief	1,094	1,132
Non-deductible IPO costs – exceptional item	2,055	–
Other	(251)	(1,022)
Adjustments in respect of prior periods	854	(498)
Total tax expense	8,957	5,979

The UK corporation tax standard rate for the period was 23% (2013: 24%). The effective tax rate for the period of 26% on underlying profits of £52.2m pre non-recurring exceptional items differs from the UK corporation tax rate. The principal reason for this difference relates to the non-deductibility of depreciation charged on capital expenditure. Included within the non-recurring exceptional items are non-deductible transaction costs in relation to the IPO process which result in a total effective tax rate for the period of 40%.

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9 Property, plant and equipment

	Freehold property £000	Short leasehold property £000	Fixtures, fittings, tools and equipment £000	Motor vehicles £000	Total £000
Cost					
Balance at 28th March 2013	1,444	28,598	99,860	9	129,911
Additions	1,064	5,484	21,262	-	27,810
Disposals	-	(1,252)	(19,264)	(9)	(20,525)
Balance at 27th March 2014	2,508	32,830	101,858	-	137,196
Depreciation and impairment					
Balance at 28th March 2013	49	6,144	39,096	-	45,289
Depreciation charge for the period	30	2,454	15,569	-	18,053
Disposals	-	(618)	(19,156)	-	(19,774)
Balance at 27th March 2014	79	7,980	35,509	-	43,568
Net book value					
At 28th March 2013	1,395	22,454	60,764	9	84,622
At 27th March 2014	2,429	24,850	66,349	-	93,628

During the period to 27th March 2014, the Group implemented a new accounting system; on implementation the Group took the opportunity to cleanse the fixed asset register of £19.6m of fully depreciated assets.

10 Intangible assets

	Goodwill £000	Software £000	Total £000
Cost			
Balance at 28th March 2013	952,032	6,174	958,206
Additions	-	2,171	2,171
Balance at 27th March 2014	952,032	8,345	960,377
Amortisation			
Balance at 28th March 2013	-	3,202	3,202
Amortisation for the period	-	1,937	1,937
Balance at 27th March 2014	-	5,139	5,139
Net book value			
At 28th March 2013	952,032	2,972	955,004
At 27th March 2014	952,032	3,206	955,238

Amortisation and impairment charge

The amortisation charge is recognised in total in operating expenses within the income statement.

Notes (forming part of the financial statements) continued

10 Intangible assets continued

Impairment testing

Cash-Generating Units ("CGUs") within the Group are considered to be the body of stores and website as disclosed in note 2. The Group is deemed to have one overall group of CGUs as follows:

	Goodwill	
	At 27th March 2014 £000	At 28th March 2013 £000
Pets At Home Group	952,032	952,032

The recoverable amount of the CGU group has been calculated with reference to its value in use. The key assumptions of this calculation are shown below:

	Period ended 27th March 2014	Period ended 28th March 2013
Period on which management approved forecasts are based (years)	3	3
Growth rate applied beyond approved forecast period	3%	3%
Discount rate (pre-tax)	8%	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 three 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.

The discount rate was estimated based on past experience and industry average weighted average cost of capital. Management has assumed a growth rate projection beyond the three year period based on inflationary increases.

The total recoverable amount in respect of goodwill for the CGU group as assessed by the managers using the above assumptions is greater than 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.

11 Investments in subsidiaries

Company

	Investment in subsidiaries £000
At 28th March 2013	–
Additions	936,179
At 27th March 2014	936,179

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11 Investments in subsidiaries continued

Group

Details of the principal subsidiary undertakings are as follows:

	Holding	Country of Incorporation	Principal activity	Class of shares held	At 27th March 2014 %	At 28th March 2013 %
Pets At Home No.1 Limited	Direct	United Kingdom	Investment holding company	Ordinary	100	-
PAH Lux S.a.r.l (formerly KKR My Best Friend Lux S.a.r.l)	Indirect	Luxembourg	Investment holding company	Ordinary	-	100
PAH International Limited (formerly KKR My Best Friend Cayman Limited)	Indirect	Cayman Islands	Investment holding company	Ordinary	-	100
PAH UK Finco Limited (formerly KKR My Best Friend UK Finco Limited)	Indirect	United Kingdom	Investment holding company	Ordinary	-	100
PAH Retail Limited (formerly KKR My Best Friend UK Interco Limited)	Indirect	United Kingdom	Investment holding company	Ordinary	100	100
PAH UK Midco Limited (formerly KKR My Best Friend UK Midco Limited)	Indirect	United Kingdom	Investment holding company	Ordinary	100	100
PAH UK Holdco Limited (formerly KKR My Best Friend UK Holdco Limited)	Indirect	United Kingdom	Investment holding company	Ordinary	100	100
PAH UK Bidco Limited (formerly KKR My Best Friend UK Bidco Limited)	Indirect	United Kingdom	Investment holding company	Ordinary	100	100
Pets At Home Interco Limited (formerly Pets At Home Group Limited)	Indirect	United Kingdom	Investment holding company	Ordinary	100	100
Pets At Home Midco Limited	Indirect	United Kingdom	Investment holding company	Ordinary	100	100
Pets At Home Retail Limited	Indirect	United Kingdom	Investment holding company	Ordinary	100	100
PAH Intermediate Holdings Limited	Indirect	United Kingdom	Investment holding company	Ordinary	100	100
PAH Investments Limited	Indirect	United Kingdom	Investment holding company	Ordinary	100	100
Pets At Home Holdings Limited	Indirect	United Kingdom	Investment holding company	Ordinary	100	100
Pets At Home Superstores Limited	Indirect	United Kingdom	Investment holding company	Ordinary	100	100
Pets At Home Limited	Indirect	United Kingdom	Pet product retailing	Ordinary	100	100
Pets At Home Financial Services Limited	Indirect	United Kingdom	Asset leasing company	Ordinary	100	100
Pets At Home (Asia) Limited	Indirect	Hong Kong	Group global sourcing company	Ordinary	100	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	100	100
Vets4Pets I.P Limited	Indirect	Guernsey	Support office services	Ordinary	100	100
Companion Care (Services) Limited	Indirect	United Kingdom	Veterinary services	Ordinary	100	100
Vets4Pets Limited	Indirect	Guernsey	Veterinary services	Ordinary	100	100
Brand Development Limited	Indirect	Guernsey	Support office services	Ordinary	100	100
Pet Investments Ltd	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
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 eight dormant entities in which Pets At Home Group Plc has a 100% indirect shareholding.

Notes (forming part of the financial statements) continued

12 Inventories

	At 27th March 2014 £000	At 28th March 2013 £000
Finished goods	46,116	42,056

The cost of inventories recognised as an expense and included in 'Cost of sales' is £313,141,000 (period to 28th March 2013: £268,451,000).

At 27th March 2014 the inventory provision amounted to £2,029,000 (as at 28th March 2013: £1,671,000).

In the period ended 27th March 2014, the value of inventory written off to the income statement amounted to £6,140,000 (period to 28th March 2013: £5,696,000).

13 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	At 27th March 2014 Assets £000	At 27th March 2014 Liabilities £000	At 27th March 2014 Total £000	At 28th March 2013 Assets £000	At 28th March 2013 Liabilities £000	At 28th March 2013 Total £000
Property, plant and equipment	-	(1,592)	(1,592)	-	(1,993)	(1,993)
Inventories	-	(13)	(13)	-	(103)	(103)
Financial assets	223	-	223	435	-	435
Financial liabilities	-	(133)	(133)	-	(186)	(186)
Other	3,439	(1,879)	1,560	3,119	(313)	2,806
Net tax assets/liabilities	3,662	(3,617)	45	3,554	(2,595)	959

Movement in deferred tax during the period

	28th March 2013 £000	Recognised in Income £000	Recognised in equity £000	27th March 2014 £000
Property, plant and equipment	(1,993)	401	-	(1,592)
Inventories	(103)	90	-	(13)
Net financial assets	249	-	(159)	90
Other	2,806	(1,246)	-	1,560
	959	(755)	(159)	45

Movement in deferred tax during the period

	29th March 2012 £000	Recognised in income £000	Recognised in equity £000	28th March 2013 £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

The rate used to calculate deferred tax assets and liabilities has been disclosed in note 8.

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14 Other financial assets and liabilities

	At 27th March 2014 £000	At 28th March 2013 £000
Non-current assets		
Investments	5,957	3,727
Interest rate swaps	662	-
	6,619	3,727

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, a subsidiary of the Group, 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 and carry the same shareholder voting rights as 'A' ordinary/preference shareholders. Any operational decisions require the agreement of the joint venture partner.

Under the terms of the agreements between the veterinary practices and Vets4Pets Limited, a subsidiary of the Group, 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.

	At 27th March 2014 £000	At 28th March 2013 £000
Current assets		
Financial assets held for trading:		
Forward exchange contracts	-	811
	At 27th March 2014 £000	At 28th March 2013 £000
Current liabilities		
Financial liabilities held for trading:		
Interest rate swaps	-	(1,894)
Forward exchange contracts	(1,113)	-
	(1,113)	(1,894)

15 Trade and other receivables

	Group		Company
	At 27th March 2014 £000	At 28th March 2013 £000	At 27th March 2014 £000
Trade receivables	5,761	3,298	-
Other receivables (note 26)	16,479	7,628	-
Amounts owed by Group undertakings	-	-	565,441
Employee loans	-	902	-
Prepayments and accrued income	19,919	19,940	-
Related party loan (note 26)	-	2,273	-
Total	42,159	34,041	565,441

All balances are included within current assets.

Notes (forming part of the financial statements) continued

16 Cash and cash equivalents

	Group		Company
	At 27th March 2014 £000	At 28th March 2013 £000	At 27th March 2014 £000
Cash and cash equivalents	90,823	31,593	22,829

17 Other interest-bearing loans and borrowings

	Group	
	At 27th March 2014 £000	At 28th March 2013 £000
Non-current liabilities		
Secured bank loans	319,855	413,927
Current liabilities		
Current portion of secured bank loans	-	3,708
Deferred consideration on acquisition	-	2,000
	-	5,708
Total liabilities		
Secured bank loans	319,855	417,635
Deferred consideration on acquisition	-	2,000
	319,855	419,635

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 27th March 2014 £000	Carrying amount 27th March 2014 £000	Face value 28th March 2013 £000	Carrying amount 28th March 2013 £000
Senior Bank Loans	GBP	LIBOR +3-5%	2018	-	-	436,635	417,635
Senior Finance Bank Loans	GBP	LIBOR +2-2.25%	2019-2020	325,000	319,855	-	-
Deferred consideration on acquisition	GBP	3.5%	2013	-	-	2,000	2,000
				325,000	319,855	438,635	419,635

Included in deferred consideration on acquisition at 28th March 2013 is £2,000,000 due to the vendors of Farm Away Limited. The amount was settled in full in the period to 27th March 2014.

Included within the carrying value of senior and subordinated bank loans are issue costs of £5.1m (period to 28th March 2013: £19.0m). The Group has an undrawn revolving credit facility of £29.6m (period to 28th March 2013 £27.0m) which expires on 17th March 2019.

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 also via a floating charge over the other assets of the Group. The senior bank loans bear interest at LIBOR plus a margin, currently varying between 2.00% and 2.25%, with the margin decreasing as the Group's leverage (defined as total net debt to consolidated EBITDA) decreases. The senior bank loans are due for repayment at various dates up to 17th March 2020.

In July 2012 the business repaid the subordinated loan replacing it with a further tranche of the senior loan facility, which significantly reduced the interest charge of the Group. The business subsequently received approval from existing senior lenders to draw down a further £135m tranche of the senior loan facility. This refinancing was completed in March 2013, with the loan being drawn down on 8th April 2013.

In March 2014 the business repaid the senior bank loans replacing them with a new senior finance facility, which has significantly reduced the interest charge of the Group. The new senior bank facility was drawn down on 17th March 2014. The new senior bank facility is held by the Company.

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17 Other interest-bearing loans and borrowings continued

The Pets At Home Group has entered into fixed rate interest rate swap agreements over a total of £291.8m of the senior facility borrowings at a fixed rate of 0.74% and a further fixed rate interest rate swap over a total of £25.1m at a fixed rate of 0.655% (period ended 28th March 2013: £317.3m of the senior facility borrowings at a fixed rate of 0.74% and £83.0m at a fixed rate of 0.655%). Both swaps expire on 30th 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 27th March 2014 £000	At 28th March 2013 £000
Within one year or repayable on demand	–	5,708
Between one and two years	5,000	12,409
Between two and five years	85,000	291,591
After five years	235,000	128,927
	325,000	438,635
Issue costs	(5,145)	(19,000)
	319,855	419,635

The combined loans at 27th March 2014 are held by the Company.

18 Trade and other payables

	Group		Company
	At 27th March 2014 £000	At 28th March 2013 £000	At 27th March 2014 £000
Current			
Trade payables	79,005	52,199	–
Accruals and deferred income	49,898	35,094	14,797
Other payables including tax & social security	17,245	10,990	–
Corporation tax	3,399	4,549	–
Amounts owed to related party	–	1,467	–
	149,547	104,299	14,797
Non-current			
Related party loan notes	–	21,799	–
Deferred income	31,068	28,168	–
	31,068	49,967	–

The Group held related party loan notes of £nil (period to 28th March 2013: £21.8m), due to colleagues and former colleagues of Pets At Home Limited who are part of the management team. The loans incurred interest at 8% per annum and the interest was capitalised until the loans were repaid on flotation of the Group, and interest of £nil (period to 28th March 2013: £4.5m), was included in the balance.

19 Provisions

	Dilapidation provision £000	Closed stores provision £000	Total £000
Balance at 28th March 2013	219	2,075	2,294
Provisions used during the period	(99)	(962)	(1,061)
Provisions made during the period	810	253	1,063
Balance at 27th March 2014	930	1,366	2,296

Notes (forming part of the financial statements) continued

19 Provisions continued

	At 27th March 2014 £000	At 28th March 2013 £000
Current	461	380
Non-current	1,835	1,914
	2,296	2,294

The closed stores provision relates to the rent and rates payable on sublet or vacant stores. A provision is made where the rent receivable on the properties is less than the rent payable, or where management considers 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.

The Company did not hold any provisions at 27th March 2014.

20 Capital and reserves

Group

Share capital

	Share capital Number	Share capital £000	Share premium £000	Additional paid in capital £000
At 29th March 2012	127,660,225	1,277	284,050	565,331
Issue of 38,246,740 Ordinary shares of £0.01 each	38,246,740	382	7,442	-
Issue of additional paid in capital	-	-	-	1,339
Interest accrued on additional paid in capital	-	-	-	46,010
At 28th March 2013	165,906,965	1,659	291,492	612,680
Interest accrued on additional paid in capital	-	-	-	37,646
Issue of 334,093,035 Ordinary shares of £0.01 each	334,093,035	3,341	815,187	(344,321)
Share issue costs	-	-	(26,202)	-
Redemption of additional paid in capital	-	-	-	(306,005)
On issue at period end	500,000,000	5,000	1,080,477	-

Company

	Share Capital 27th March 2014 £000	Share Premium 27th March 2014 £000
At beginning of period	-	-
Issue of 500,000,000 ordinary shares of £0.01 each	5,000	1,106,679
Share issue costs	-	(26,202)
On issue at period end	5,000	1,080,477

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.

Additional paid in capital

The additional paid in capital represents Preferred Equity Certificates ("PECs") issued by PAH Lux S.a.r.l and is equal to the nominal value plus accrued return.

As part of the Initial Public Offering, the PECs were either exchanged for shares in Pets At Home Group Plc or ultimately exchanged for cash.

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20 Capital and reserves continued

Additional paid in capital continued

The PECs had a nominal value of £1.00 each. In accordance with IAS 32 'Financial Instruments: Presentation' the PECs were classified as equity instruments for the following reasons: (i) The terms of the PECs state that the PEC coupon shall be made, at PAH Lux S.a.r.l's sole option, either in cash, in new PECs or in shares issued by PAH Lux S.a.r.l with a nominal value equal to the PEC coupon; and (ii) the terms provide a mandatory redemption clause which required PAH Lux S.a.r.l to redeem the outstanding PECs on the redemption date, this mandatory redemption was subject to the provision of a 'conversion option' clause, which provided an option for PAH Lux S.a.r.l to pay the PECs in shares of the company.

The PECs accrue a coupon of 8% per annum payable provided that (i) PAH Lux S.a.r.l could make the payment without becoming insolvent or bankrupt, (ii) PAH Lux S.a.r.l would not have, or increase, a deficit balance in its retained earnings after making such payments and (iii) the payment could be made by PAH Lux S.a.r.l out of funds net of tax resulting from specific income.

In the period prior to the Initial Public Offering, the outstanding PEC certificates attracted accumulated return of £37.6m (2013: £46.0m), representing a return per certificate of £0.09 (2013: £0.10).

On 13th April 2013, £130.4m of PEC notes and associated coupon were ultimately exchanged for cash. As part of the Initial Public Offering transaction on 17th March 2014, £344.3m of PEC certificates and associated outstanding coupon were exchanged for 140,539,184 shares in the Company at a fair value of £2.45 per share. The remaining £175.6m of PEC certificates issued together with the associated outstanding coupon were redeemed for cash.

Translation reserve

The translation reserve comprises all foreign exchange differences arising since 21st November 2011, the date of incorporation of Pets At Home Asia Limited 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

27th March 2014

	Translation reserve £000	Cash flow hedging reserve £000	Total other comprehensive income £000
Other comprehensive income	5	–	5
Cash flow hedges – reclassified to profit and loss	–	(811)	(811)
Effective portion of changes in fair value of cash flow hedges	–	1,442	1,442
Deferred tax on changes in fair value of cash flow hedges	–	(159)	(159)
Total other comprehensive income	5	472	477

28th March 2013

	Translation reserve £000	Cash flow hedging reserve £000	Total other comprehensive income £000
Other comprehensive income	(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

Notes (forming part of the financial statements) continued

21 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. The Board has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board provides written principles 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 27th March 2014, the Pets At Home Group's policy is to hedge between 75% and 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 for derivatives which are based on notional amounts.

The Company does not have exposure to foreign currency risk.

27th March 2014

	Euro £000	US Dollar £000	HKD £000	Total £000
Cash and cash equivalents	18	3,012	2	3,032
Trade payables	(186)	(3,271)	-	(3,457)
Forward exchange contracts	(22)	(1,091)	-	(1,113)
Balance sheet exposure	(190)	(1,350)	2	(1,538)

28th 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

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21 Financial instruments continued

Market risk continued

i) Foreign currency risk continued

Sensitivity analysis

A 5% weakening of the following currencies against the pound sterling at the period end date in both years would have increased/(decreased) profit or loss or equity 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.

	Equity		Profit or loss	
	27th March 2014 £000	28th March 2013 £000	27th March 2014 £000	28th March 2013 £000
\$	55	(38)	13	(78)
€	1	(2)	8	9

A 5% strengthening of the above currencies against the pound 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.

i) Interest rate risk

Cash flow and fair value interest rate risk

The Pets At Home Group's interest rate risk arises from long-term borrowings. As at 27th March 2014 the Group has a drawn down senior facility with a face value totalling £325.0m and an undrawn revolving credit facility of £29.6m, which expires on 17th March 2019. The Pets At Home Group's borrowings as at 27th March 2014 incur interest at varying rates between 2.00% and 2.25% plus LIBOR, which exposes the Group to cash flow interest rate risk. The analysis of loan repayments is detailed in note 17.

The Pets At Home Group's policy, with regard to interest rate risk, is to hedge the appropriate level of borrowings by entering into fixed rate agreements. The Pets At Home Group has entered into fixed rate interest rate swap agreements over a total of £291.8m of the senior facility borrowings at the balance sheet date at a fixed rate of 0.74%, and a further fixed rate interest rate swap was taken out over a total of £25.1m at the balance sheet date at a fixed rate of 0.655%. Both swaps expire on 30th 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:

	Group		Company
	Book value At 27th March 2014 £000	Book value At 28th March 2013 £000	Book value At 27th March 2014 £000
Fixed rate instruments			
Financial liabilities	316,900	317,200	316,900
Variable rate instruments			
Financial liabilities	2,955	121,435	2,955
Total financial liabilities	319,855	438,635	319,855

All loans bear a variable rate of interest based on LIBOR. Pets At Home Group 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 unhedged portion is designated as variable rate.

Notes (forming part of the financial statements) continued

21 Financial instruments continued

Market risk continued

ii) Interest rate risk continued

Sensitivity analysis

A change of 50 basis points in interest rates at the period end 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.

	Period ended 27th March 2014 £000	Period ended 28th March 2013 £000
Equity		
Increase	1,584	1,586
Decrease	(1,584)	(1,586)
Profit or loss		
Increase	1	597
Decrease	(1)	(597)

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 hold an acceptable risk rating by independent 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 26. The performance of the veterinary practice companies is reviewed on an ongoing basis.

Exposure to credit risk

The Group's 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 as required to the syndicate agent.

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21 Financial instruments continued

Liquidity risk continued

The following are the contractual maturities of financial liabilities, including estimated interest payments:

At 27th March 2014

	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 17)	-	-	-	-	-	-
Secured bank loans (note 17)	319,855	372,310	8,653	13,595	108,643	241,419
Deferred consideration on acquisition (note 17)	-	-	-	-	-	-
Trade payables (note 18)	79,005	79,005	79,005	-	-	-
Derivative financial liabilities						
Forward exchange contracts used for hedging:						
Outflow (note 14)	1,113	1,113	1,113	-	-	-
Inflow (note 14)	-	-	-	-	-	-
Interest rate swaps used for hedging:						
Outflow (note 14)	-	-	-	-	-	-
Inflow (note 14)	-	-	-	-	-	-
	399,973	452,428	88,771	13,595	108,643	241,419

28th March 2013

	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 17)	417,635	528,819	25,852	34,113	468,854	-
Secured bank loans (note 17)	-	-	-	-	-	-
Deferred consideration on acquisition (note 17)	2,000	2,000	2,000	-	-	-
Trade payables (note 18)	52,199	52,199	52,199	-	-	-
Derivative financial liabilities						
Forward exchange contracts used for hedging:						
Outflow (note 14)	-	-	-	-	-	-
Inflow (note 14)	-	-	-	-	-	-
Interest rate swaps used for hedging:						
Outflow (note 14)	1,894	2,141	816	790	535	-
Inflow (note 14)	-	-	-	-	-	-
	473,728	585,159	80,867	34,903	469,389	-

Company

27th March 2014

	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 17)	319,855	372,310	8,653	13,595	108,643	241,419

Notes (forming part of the financial statements) continued

21 Financial instruments continued

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:

At 27th March 2014

	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
Interest rate swaps:						
Assets (note 14)	662	890	(354)	1,244	-	-
Liabilities (note 14)	-	-	-	-	-	-
Forward exchange contracts:						
Assets (note 14)	-	-	-	-	-	-
Liabilities (note 14)	(1,113)	(1,113)	(1,113)	-	-	-
	(451)	(223)	(1,467)	1,244	-	-

28th March 2013

	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
Interest rate swaps:						
Assets (note 14)	-	-	-	-	-	-
Liabilities (note 14)	(1,894)	(2,141)	(816)	(790)	(535)	-
Forward exchange contracts:						
Assets (note 14)	811	811	811	-	-	-
Liabilities (note 14)	-	-	-	-	-	-
	(1,083)	(1,330)	(5)	(790)	(535)	-

Company

27th March 2014

	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
Interest rate swaps:						
Assets (note 14)	662	890	(354)	1,244	-	-
Liabilities (note 14)	-	-	-	-	-	-
	662	890	(354)	1,244	-	-

Fair values of financial instruments

Investments in equity securities

The fair value of investments is 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 is 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 (such as term deposits), 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.

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21 Financial instruments continued

Fair values of financial instruments continued

Long-term and short-term borrowings

The fair value of bank loans and other loans approximates its carrying value as it has an interest rate based on LIBOR.

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 is calculated by management based on external valuations received from the Group's bankers and is based on forward exchange rates and anticipated future interest yield 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 27th March 2014 £000	Fair value 27th March 2014 £000	Carrying amount 28th March 2013 £000	Fair value 28th March 2013 £000
Financial assets held for trading (including all derivatives)				
Forward exchange contracts (note 14)	-	-	811	811
Interest rate swaps (note 14)	662	662	-	-
Available for sale financial assets (note 14)				
Investment in non-equity share capital and loans	5,957	5,957	3,727	3,727
Total financial assets at fair value through profit or loss	6,619	6,619	4,538	4,538
Loans and receivables				
Cash and cash equivalents (note 16)	90,823	90,823	31,593	31,593
Trade and other receivables (note 15)	42,159	42,159	34,041	34,041
Total loans and receivables	132,982	132,982	65,634	65,634
Total financial assets	139,601	139,601	70,172	70,172
Financial liabilities held for trading (including all derivatives)				
Forward exchange contracts (note 14)	(1,113)	(1,113)	-	-
Interest rate swaps (note 14)	-	-	(1,894)	(1,894)
Total financial liabilities at fair value through profit or loss	(1,113)	(1,113)	(1,894)	(1,894)
Financial liabilities measured at amortised cost				
Other interest-bearing loans and borrowings (note 17)	(319,855)	(319,855)	(419,635)	(419,635)
Trade and other payables (note 18)	(180,615)	(180,615)	(154,266)	(163,943)
Total financial liabilities measured at amortised cost	(500,470)	(500,470)	(573,901)	(583,578)
Total financial liabilities	(501,583)	(501,583)	(575,795)	(585,472)
Total financial instruments	(361,982)	(361,982)	(505,623)	(515,300)

Notes (forming part of the financial statements) continued

21 Financial instruments continued

Fair values of financial instruments continued

Company

	Carrying amount 27th March 2014 £000	Fair value 27th March 2014 £000
Financial assets held for trading (including all derivatives)		
Forward exchange contracts (note 14)	-	-
Interest rate swaps (note 14)	662	662
Total financial assets at fair value through profit or loss	662	662
Loans and receivables		
Cash and cash equivalents (note 16)	22,829	22,829
Trade and other receivables (note 15)	565,441	565,441
Total loans and receivables	588,270	588,270
Total financial assets	588,932	588,932
Financial liabilities measured at amortised cost		
Other interest-bearing loans and borrowings (note 17)	(319,855)	(319,855)
Trade and other payables (note 18)	(14,797)	(14,797)
Total financial liabilities	(334,652)	(334,652)
Total financial instruments	254,280	254,280

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).

Group

27th March 2014

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Available for sale financial assets				
Investment in equity securities	-	-	5,957	5,957
Derivative financial assets				
Forward rate contracts	-	(1,113)	-	(1,113)
Derivative financial liabilities				
Interest rate swaps	-	662	-	662

28th 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)

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21 Financial instruments continued

Fair values of financial instruments continued

Fair value hierarchy continued

Company

27th March 2014

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial liabilities				
Interest rate swaps	–	662	–	662

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.

During the period the Group de-levered as part of the Initial Public Offering process, which brought the Group's leverage into a position commensurate with the public market.

The funding requirements of the Group are met by the utilisation of external borrowings together with available cash, as detailed in note 21.

A key objective of the Group's capital management is to maintain compliance with the covenants set out in the senior loan agreement and to maintain comfortable headroom over and above these requirements.

Management has continued to measure and monitor covenant compliance throughout the period and the Group has complied with the requirements set.

22 Share based payments

At 27th March 2014, the Group has four share award plans, all of which are equity settled schemes.

1 The Co-Invest Plan (CIP)

On 25th February 2014 the Company adopted the Co-Invest Plan (CIP). Matching awards under the CIP (as described in section 1(b) below) were made on 17th March 2014 to Executive Directors and the Senior Executives by reference to corresponding investment pledges by those colleagues.

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. These awards were granted at nil cost.

(a) Eligibility

Only the Executive Directors, the Senior Executives and certain other senior colleagues have been selected to participate in the CIP.

(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").

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.

Notes (forming part of the financial statements) continued

22 Share based payments continued

1 The Co-Invest Plan (CIP) continued

(c) Individual Limits

The Executive Directors and the Senior Executives will pledge Co-Invest Shares with a market value equal to 2.5 times their annual salary. 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.

(d) Performance, Vesting and Performance Adjustment

The Matching Awards granted on 17th March 2014 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 the Matching Award will be subject to the CAGR in the Company's earnings per share ("EPS") over three financial years, namely FY15, FY16 and FY17 (together the "Performance Period") (which, for the avoidance of doubt, ends on 31st 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.

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 17th March 2014, but subject to continued employment with the Group.

2 CSOP

On 25th February 2014 the Company adopted the CSOP. 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.

The tax approved options under Part I of the CSOP were granted on 9th April 2014. These options will be exercisable between the third and tenth anniversary of the date of grant, subject to continued employment with the Group. These awards will be granted with an exercise price equal to the market value of the Shares at the grant date (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

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

Colleagues who receive options under the CSOP and under the PSP in connection with Admission will be subject to the same performance conditions described in Section 1 (d) above in respect of both grants. Colleagues who only receive options under the CSOP 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.

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22 Share based payments continued

2 CSOP continued

(e) 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/her 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 a colleague under the CSOP and the PSP in any financial year shall not exceed 150% of his/her annual salary for that year.

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.

(f) 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).

3 PSP

On 25th February 2014 the Company adopted the PSP Awards under the PSP were made on 17th March 2014 and will be exercisable between the third and tenth anniversary of this date, subject to continued employment with the Group and the satisfaction of performance conditions. These awards were granted at nil cost.

(a) Eligibility

Only the Executive Directors, the Senior Executives and certain other senior colleagues have been selected to participate in the PSP.

(b) Grant of Awards

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.

Notes (forming part of the financial statements) continued

22 Share based payments continued

3 PSP continued

(e) Individual Limits

The aggregate market value of Shares comprised in awards granted to a colleague under the PSP and the CSOP in any financial year shall not exceed 150% of their annual salary for that year.

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

For awards granted on, or in connection with, Admission, the performance conditions will be the same as for the CIP outlined in Section 1(d) above.

4 SAYE

On 25th February 2014 the Company adopted the SAYE (which is expected to be registered with and self-certified with HMRC by 6th July 2014). 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.

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22 Share based payments continued

4 SAYE continued

(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 6th 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, reconstruction or voluntary winding-up of the Company.

Fair value of share awards

The expected volatility is based on historical volatility of a peer group of companies over a relevant period prior to award on 17th March 2014. The expected life is the average expected period to exercise, which has been taken as three years. The risk free rate of return is the yield on zero-coupon UK government bonds with a life equal to this expected life.

Options were valued using a Black-Scholes option-pricing model for the non-market based (EPS element) performance conditions and a Monte Carlo simulation for the market-based (TSR element) performance conditions.

Special provisions allow early exercise in the case of death, injury, disability, redundancy, retirement or because the Company which employs the option holder ceases to be part of the Group, or in the event of a change in control, reconstruction or winding-up of the Company.

The key assumptions used in the fair value of the awards were as follows:

At grant date	CIP	PSP
Share price	£2.45	£2.45
Exercise price	£0.00	£0.00
Expected volatility	30%	30%
Option life (years)	3	10
Expected dividend yield	2.00%	2.00%
Risk free interest rate	1.07%	1.07%
Weighted average fair value of options granted	£2.06	£2.06

As both the CIP and PSP awards have a nil exercise price the risk free rate of return does not have any effect on the estimated fair value and therefore is excluded from the above table.

Notes (forming part of the financial statements) continued

22 Share based payments continued

Fair value of share awards continued

Movements in awards under share based payment schemes:

	CIP 000	PSP 000
Outstanding at start of year	-	-
Granted	2,454	304
Forfeited	-	-
Exercised	-	-
Lapsed	-	-
Outstanding at end of year	2,454	304

The Group Income Statement charge recognised in respect of share based payments for the current period is £31,368.

23 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land and Buildings		Other	
	At 27th March 2014 £000	At 28th March 2013 £000	At 27th March 2014 £000	At 28th March 2013 £000
Less than one year	65,320	60,539	2,634	1,131
Between one and five years	252,770	234,583	3,922	1,335
More than five years	271,260	288,763	65	27
	589,350	583,885	6,621	2,493

Land and buildings relate to the hire of stores under operating leases. No lease is considered individually significant.

During the period £65,300,000 was recognised as an expense in the income statement in respect of operating leases (period to 28th March 2013: £60,045,000).

The Company does not have any operating leases.

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.

	Sublets 27th March 2014 £000	Sublets 28th March 2013 £000
Less than one year	868	437
Between one and five years	2,920	1,597
More than five years	2,335	1,768
	6,123	3,802

24 Commitments

Capital commitments

At 27th March 2014, the Group is committed to incur capital expenditure of £2,883,000 (at 28th March 2013: £1,095,000). Capital commitments predominately relate to the costs to fit out new Pets At Home stores and investment in new IT systems.

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25 Contingencies

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 £5,750,000 (period to 28th March 2013: £2,500,000).

A further £1,500,000 (period to 28th March 2013: £1,500,000) is guaranteed by the Group in respect of BACs payments made by the veterinary practice companies.

26 Related parties

Goods and services

One Non-Executive Director was paid a consultation fee in the period of £156,000 (period to 28th March 2013: £156,000).

Kohlberg Kravis Roberts & Co. L.P received a management fee in the period of £1,220,000 (period to 28th March 2013: £1,196,000), which includes the provision of Non-Executive Director services and expenses recharged.

Kohlberg Kravis Roberts & Co. L.P also received fees of £8,685,105 and expenses of £113,735 (period to 28th March 2013: £nil), relating to a termination payment and transaction fees following the termination of the advisory services agreement dated 19th March 2010 upon admission of the Pets At Home Group to the London Stock Exchange on 17th March 2014.

KKR Capital Markets LLC received fees of £600,000 (period to 28th March 2013: £1,694,000), relating to professional services associated with debt financing following the refinancing of the Pets At Home Group in April 2013, £1,775,000 (period to 28th March 2013: £nil) relating to professional services associated with the debt refinancing of the Pets At Home Group in March 2014, £1,757,307 (period to 28th March 2013: £nil) relating to fees in relation to the Pets At Home Group Plc IPO, and £200,000 (period to 28th March 2013: £nil) relating to professional services associated with the arrangement of loan agreements which Companion Care Management Services Limited became party to in March 2014.

KKR Capstone* received a management fee in the period of £nil (period to 28th March 2013: £102,000).

*KKR Capstone uses the name "KKR" under licence but, for the avoidance of doubt, neither KKR & Co L.P nor its affiliates owns or controls KKR Capstone or KKR capstone's affiliates.

Transactions with key management personnel

The compensation of key management personnel is as follows:

	27th March 2014 £000	28th March 2013 £000
Key management emoluments including social security costs	3,272	1,749
Company contributions to money purchase pension plans	98	85
	3,370	1,834

Included within trade and other receivables are related party loans comprising unsecured loans advanced to colleagues of £nil (period to 28th March 2013: £1,573,000) who held unallocated shares in Manco 2 Limited relating to the employee investment Scheme.

Also included within the related party loans is a balance with PAH International Limited of £nil (period to 28th March 2013: £700,000) which was ultimately due from a director of the company. This loan was unsecured and incurred interest at a rate of 8% per annum.

The additional paid in capital of PAH Lux S.a.r.l represented a related party transaction with investors in the Group prior to the reorganisation as described in note 1. See note 20 for details of transactions relating to the additional paid in capital during the year.

Notes (forming part of the financial statements) continued

26 Related parties continued

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 1.6.

The transactions entered into during the period, and the balances outstanding at the end of the period are as follows:

	Period ended 27th March 2014 £000	Period ended 28th March 2013 £000
<i>Transactions</i>		
— Fees for services provided to veterinary practices	21,610	9,304
— Rental charges to veterinary practices	5,039	3,791
<i>Balances</i>		
— Due from veterinary practice companies at end of period included within other receivables	12,673	4,648

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