



More than just
a pet shop...



...we're part of a growing family, where pets come first.

Pets at Home is the UK's leading specialist omni-channel retailer of pet food, pet products and pet-related services. We run the UK's largest small animal veterinary and grooming businesses, through our Vets4Pets, Companion Care and Groom Room brands. Our VIP club is the UK's largest pet loyalty retail programme, with 3.2 million members and is driving revenue and customer engagement across the Group.

Why we're more than just a pet shop...



1

We are a unique, standout leader in the pet care market

[Find out more](#)

p22



2

We are a people business; our expert colleagues and engaged customers are vital to our success

[Find out more](#)

p53



Strategic report

Overview

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Annual Report 2015:
petsathome.annualreport2015.com



Governance report

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We have high growth, high margin opportunities

Find out more

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We have world class vets and groomers

Find out more

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We have family values, putting pets before profit

Find out more

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Key highlights

Strong, consistent, financial and operational performance

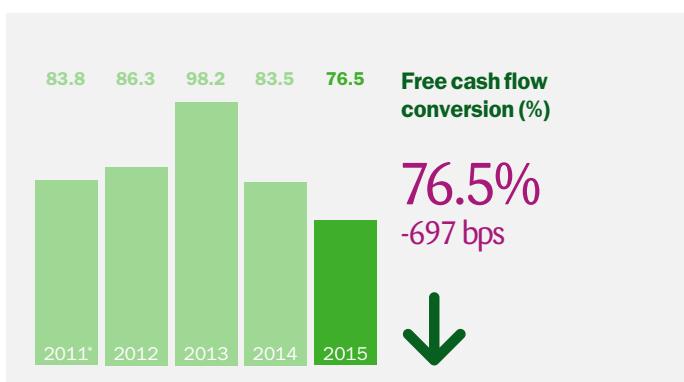
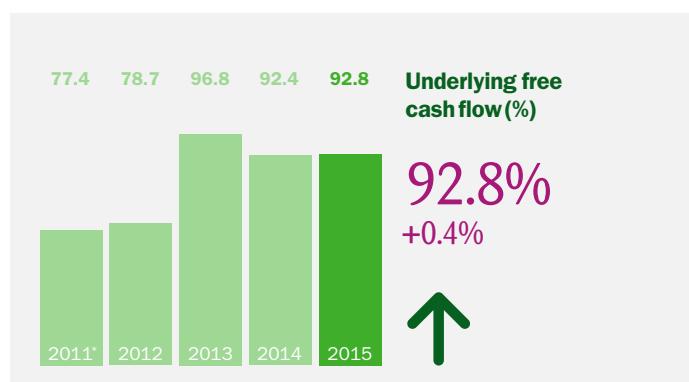
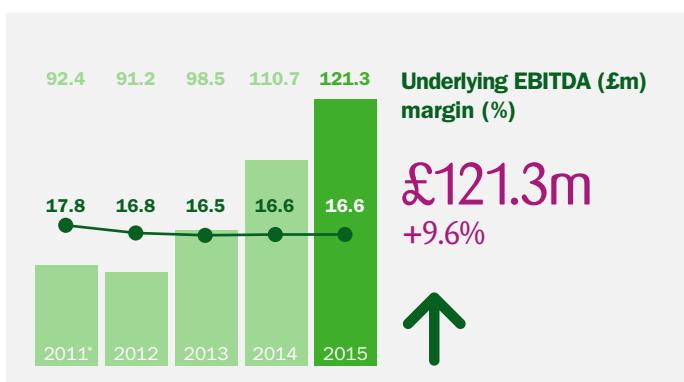
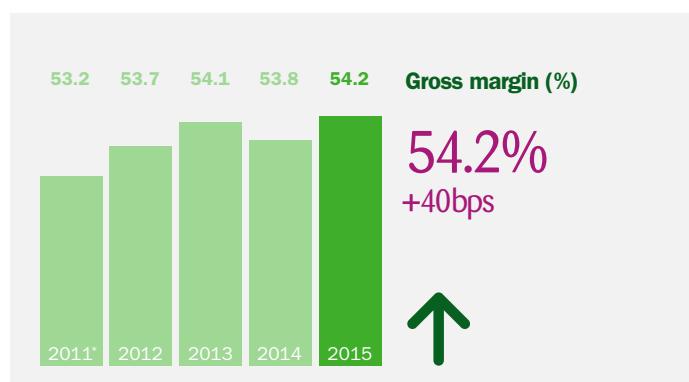
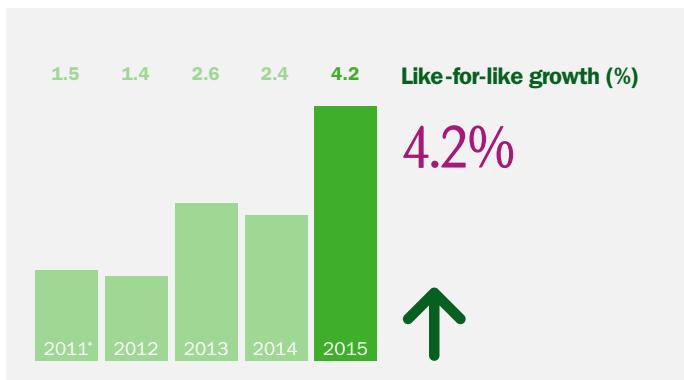
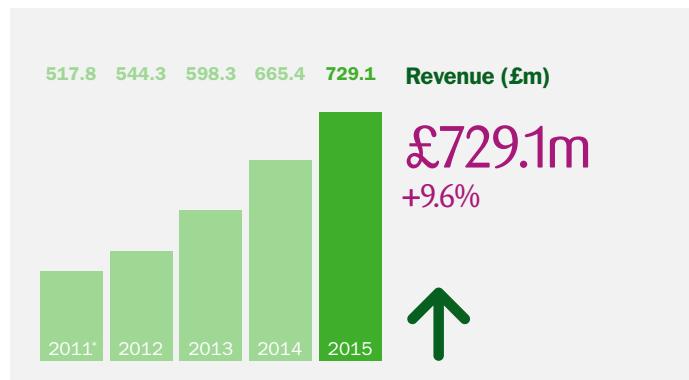
13.5 pence

2015 underlying earnings per share

5.4 pence

2015 total dividend per share

Financial highlights



Operational highlights

3.2m

VIP club reached 3.2m members, with 65% swipe rate at tills



£40.1m

+44.1%

Revenues from our flagship Advanced Nutrition brand, Wainwright's



94%

Colleague engagement, up from 93% in 2014



81%

Colleague retention, maintained at the prior year level



>40%

of website revenues are delivery into store, up from 22% in 2014



25

stores opened during the year, bringing the total portfolio to 400



61

vet practices opened, bringing the total portfolio to 211 in-store and 127 standalone practices

50

grooming salons opened, bringing the total portfolio to 179



At a glance

Extensive store and services portfolio with broad national coverage



Pets at Home

Pets at Home offers the ultimate pet shop experience, with a UK wide network of 400 stores; 53% of stores have a vet practice, whilst 44% have a Groom Room.



>7,000

products available
at an average store



Vets4Pets

Our veterinary brand operated with the majority of our joint venture vet partners, numbering 241 practices. This will become our primary vet brand going forward.



71%

of practices are branded
as Vets4Pets



Companion Care

Our original veterinary brand operated with our joint venture vet partners, numbering 97 practices. 24 practices rebranded during the year to Vets4Pets.



53%

of stores have
a vet practice



The Groom Room

Our dog and cat grooming service, with 177 locations in stores, plus two Groom Rooms located in Vets Plus format practices, where a Groom Room is located alongside a standalone veterinary practice.



44%

of stores have
a Groom Room



VIP case study on growing like-for-like strategy, page 22

Leveraging insight from the VIP club

Our VIP club is the UK's largest pet loyalty programme, with 3.2 million members and is driving revenue and customer engagement across the Group.



Ride-away

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



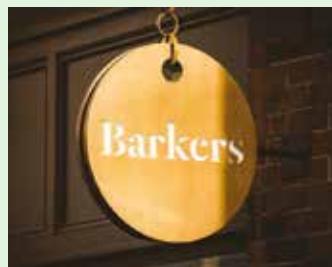
17,000

products available at rideaway.co.uk



Barkers

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



1

Barkers trial store in the UK

Extensive UK stores and services



400

stores with 179 groomers

338

vets practices

Market overview

The UK pet market is large, resilient and growing

The pet care market has outgrown the UK retail market over the past six years.

Nearly half of households in the UK own a pet, with more than one pet per person across the country as a whole. Within this population of pet owners, some are perceived to be more 'engaged' than others, based on whether they visit the vet regularly and whether they tell their pet that they love them twice a day. Engaged customers are our key focus and we believe they represent over 70% of the pet owning population¹. Our customer research shows that the most highly valued aspects for customers with a high engagement score are a wide product range, high quality products and colleague advice and availability.

Underlying market drivers

Pet population

- The market is supported by a stable pet population
- Around 9m dogs in the UK, broadly stable since 2008
- Around 9m cats in the UK, stable to slightly growing since 2008
- Shift in dog breeds towards specialist and cross-breeds, which often require grooming and are more likely to be fed on Advanced Nutrition

Humanisation of pets

- Treating pets as part of the family creates a market spend that is resilient
- Trends towards purchasing premium products
- A desire by owners for innovation, with continual product refreshment and change

Shift to Advanced Nutrition

- Advanced Nutrition is a premium, high quality pet food diet
- Switching to Advanced Nutrition is driven by the superior nutritional value and resultant health benefits to pets
- Advanced Nutrition market grew at a CAGR of 14.0% from 2012–14 compared with grocery food at 0.4%
- The UK lags the US market in regard to this trend, with 11% of the UK pet food market penetrated by Advanced Nutrition products, compared with 25% in the US

Use of services

- Vet and grooming services grew at a CAGR of 4.1% from 2012–14, ahead of the general pet market growth of 3.5%
- Vet service spend will be driven by increased availability of complex procedures, widening insurance coverage and a desire by owners to treat their pets' health as they would their own
- Grooming will be driven by both the pet humanisation trend, as well as the increasing popularity of specialist dog breeds that require grooming
- The UK market lags the US market in regard to grooming popularity. In the UK, 4% of dogs are groomed, versus 10% in the US



The UK pet care market was worth approximately £6.1 billion in 2014. Pet food and accessories accounted for approximately £3.3 billion, whilst services including small animal vet services, grooming and insurance totalled approximately £2.8 billion.

The pet care market has grown at a compound annual growth rate (CAGR) of 3.5% each year since 2012, ahead of the UK retail market which grew at approximately 1.5% during the same period.

The higher growth segments in the market are Advanced Nutrition food, treats, and pet services such as veterinary practices and grooming salons. The potential for sustained future growth in two of these segments can be referenced to trends in the US, which are often reflected in the UK market. Advanced Nutrition is one such segment, where participation of the total US pet food market is at 25%, compared with 11% in the UK. Pets at Home is the key driver of Advanced Nutrition growth in the UK market, as it is a product requiring advice and specialist knowledge to sell, which we can provide through highly trained nutrition consultants in our stores. Within grooming, around 4% of dogs in the UK are groomed, compared with 10% in the US. Part of the growth trend in the UK grooming market can be attributed to the growing popularity of mixed and specialist breed dogs, which often have more complicated coat care and grooming requirements.



Mission and strategy
page 18

£6.1bn

pet retail and services market

13m

pet-loving households across the UK

The pet market has been slower to migrate online than other retail categories and online sales represent 8.6% of the total UK pet market spend. Whilst the online channel is growing strongly, overall participation of the pet market has been increasing slowly but steadily, at less than 1% each year, and is expected to continue at this rate in the coming years². Within the overall growth of the online pet market, Click and Collect deliveries represent 6% of online sales, but have been growing significantly ahead of home delivery. With our UK wide network of 400 stores, Pets at Home is uniquely placed to capitalise upon the opportunity Click & Collect represents.

The product categories growing strongly online are those of higher value, such as Advanced Nutrition and large accessories, alongside Health & Hygiene products, which due to their small size can be delivered easily through a letterbox. Within these categories, we believe Pets at Home is well placed to capture market growth, through our exclusive own brands and private labels which are competitively priced, our promotional pricing on branded products and our significant range of more than 11,500 products.

¹ Based on a Pets at Home survey of over 5,000 pet owners in 2014.
² OC&C data for 2014.

Market size

UK pet care market value £6.1bn (2014)

Food

| | |
|------------------------------|----------------|
| 1. Advanced Nutrition | £0.27bn |
| 2. Treats | £0.40bn |
| 3. Other food | £1.77bn |

Accessories

| | |
|--------------------------------|----------------|
| 4. Health & Hygiene | £0.35bn |
| 5. Other accessories | £0.46bn |

Services

| | |
|------------------------|----------------|
| 6. Insurance | £0.84bn |
| 7. Grooming | £0.22bn |
| 8. Vet services | £1.74bn |



Market growth

Pet market 2012–2014 CAGR, 3.5%

Food

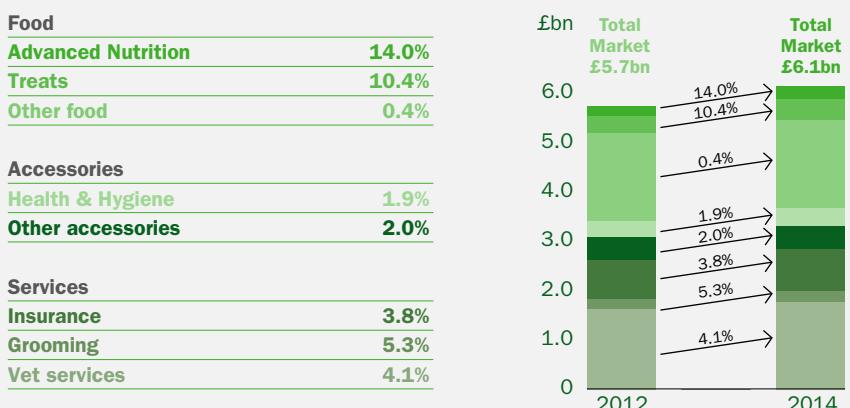
| | |
|---------------------------|--------------|
| Advanced Nutrition | 14.0% |
| Treats | 10.4% |
| Other food | 0.4% |

Accessories

| | |
|-----------------------------|-------------|
| Health & Hygiene | 1.9% |
| Other accessories | 2.0% |

Services

| | |
|---------------------|-------------|
| Insurance | 3.8% |
| Grooming | 5.3% |
| Vet services | 4.1% |



Online participation of pet products market 8.6%

| | |
|----------------------------|--------------|
| Click & Collect | £16m |
| Home delivery | £263m |

Online participation of pet market (%)



Market overview continued

Pets at Home is the leader in the UK pet care market

We are the only provider in the market to offer a full range of both pet products and services.

Pets at Home is the standout leader in the highly attractive UK pet care market, with a margin of over 60 stores ahead of the six closest specialist competitors combined. We are also the UK's leading small animal veterinary services provider, with 338 practices, more than 60 ahead of the closest competitor. Our vet practices are part of the only branded group of scale in the UK in what is still a fragmented market, with corporate ownership of practices only representing 20% of the market. Grooming is a highly fragmented market, with more than eight thousand grooming businesses listed in the UK. Our grooming salons are the only nationally branded UK chain, with 179 salons.

We have market leadership, with 53% share in Advanced Nutrition, 36% in pet accessories, 9% in vet services and 6% in grooming, and we have been gaining share

across all these segments since 2012. We have an opportunity to continue to take further market share, with the rollout of our stores, vet practices and grooming salons, increasing share of customer spend through our VIP loyalty club scheme, developing own brands and innovating our product mix.

Our website, petsathome.com, has the largest share of online pet retail traffic, which drives footfall to stores, allows booking of vet appointments and drives brand engagement, as well as enabling direct online sales of an extensive product range of over 11,500 products, over 4,400 more than the range in-stores. The fastest growing delivery options for our customers, representing over 40% of our online revenues in the final quarter, are those that allow a collection of product in-store, which is often more convenient than a delivery to home.



13%

our share of the overall UK pet care market (including food, non-food and services)

Number 1 specialist per care retailer

| | Number of stores |
|---------------|------------------|
| Pets at Home | 400 |
| Pet Corner | 96 |
| Pet Hut | 88 |
| Jolleyes | 59 |
| PamPurredPets | 49 |
| Kennelgate | 22 |
| Just4Pets | 20 |

Data as of April 2015

Number 1 small animal vet group

| | Number of vets |
|---------------------|----------------|
| Pets at Home | 338 |
| CVS | 276 |
| Independent Vetcare | 160 |
| Medivet | 108 |
| Vets Now | 53 |
| Goddard | 49 |

Data as of April 2015

Share of UK pet retail online traffic

| | (%) |
|------------------------|-----|
| Pets at Home | 45 |
| Pet Planet | 12 |
| Amazon UK Pet Supplies | 11 |
| Pet Supermarket | 10 |
| Zooplus | 10 |
| Fetch | 4 |
| Seapets | 3 |
| Muddy Paws | 1 |

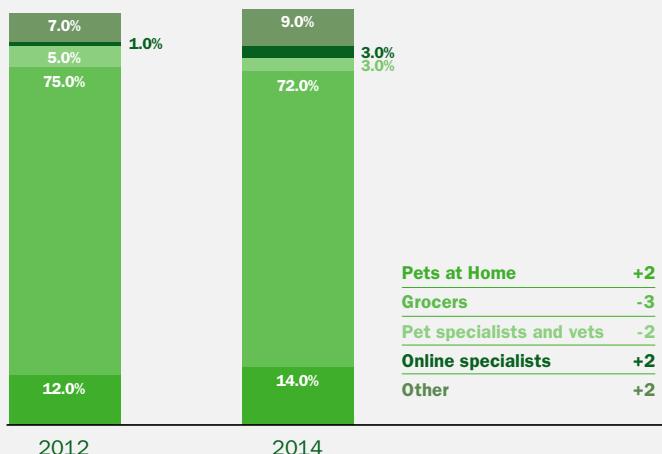
Source: Hitwise FY15 period



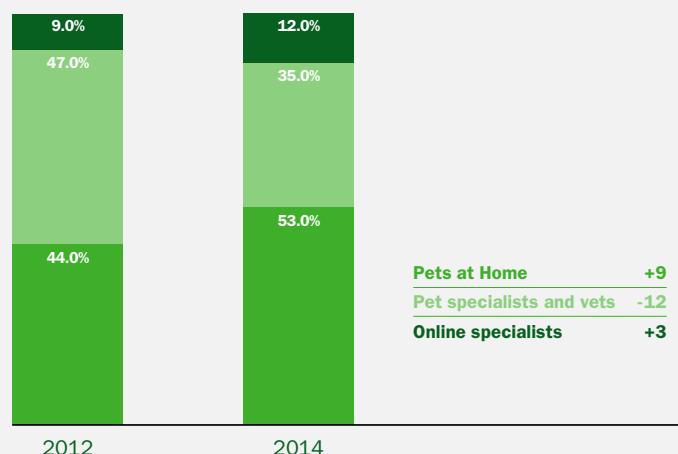
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UK pet care and vet market shares, 2012–14

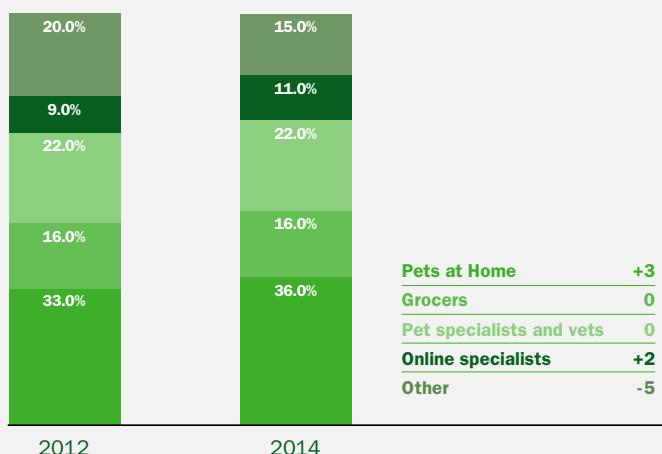
Food and treats



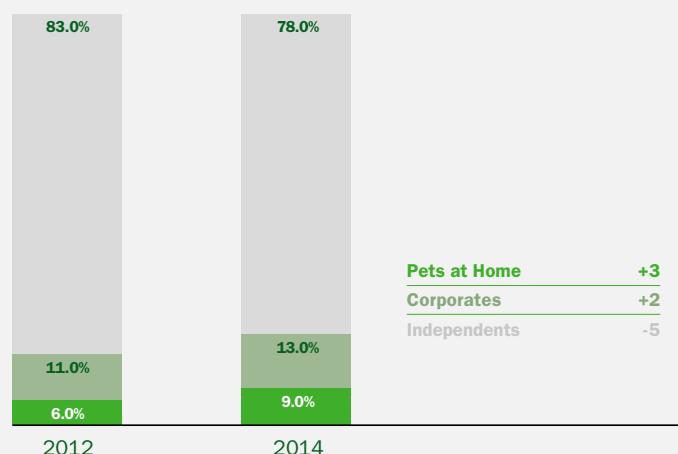
Advanced Nutrition



Accessories



Vet services



- Pets at Home
- Grocers
- Pet specialists and vets
- Online specialists
- Other
- Corporates
- Independents

Source: OC&C data. Vet corporates include CVS, Medivet and Independent Vetcare.

Business model

Delivering a unique, one stop shopping experience

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

Differentiated offering

More detail
Page 40



- Unique retail experience with in-store theatre provided by our small animal pet villages and pet events, fish aquariums and reptile vivaria
- Exclusive products and brands, regularly changed so there is always something new and different
- Pets at Home own brand products and exclusives
- Private label products including our flagship brand, Wainwright's
- In-store vet practices and grooming salons
- Services such as nutrition consultations, water testing, micro-chipping and Suitably Qualified Persons to offer Health & Hygiene products

53%

of stores have a vet practice

44%

of stores have a grooming salon

Passionate and expert colleagues

More detail
Page 52



- More than 6,000 highly trained store colleagues
- We have an industry leading colleague retention rate of 81%
- Colleague engagement, which represents commitment and enthusiasm for the business, at an industry high of 94%
- Over 94% of store colleagues own pets. We live with pets, work with pets and are passionate about pets

94%

of store colleagues own pets

81%

colleague retention rate

Highly engaged customers

More detail
Page 22



- Our customers love their pets, something they have in common with our colleagues
- Engaged owners take their pet to the vet more often and tell them they love them multiple times a day
- Engaged customers represent the majority of our customers
- VIP is our loyalty club for engaged pet owners. VIP members receive exclusive offers and discounts, and points collected convert into donations to animal charities

70%

proportion of pet owners classified as engaged¹

3.2m

engaged VIP club members



Responsible retailing

- Our Pets People
- Heart of the community
- Our pets environment
- Sourcing with integrity



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page 40

Corporate Social Responsibility
page 50

Drive revenue streams

Across a strong product
and services platform

Merchandise

| Food |
|--------------------|
| Advanced Nutrition |
| Grocery food |
| Treats |
| Other pet foods |

Accessories

| |
|--|
| Pet homes and habitats |
| Toys, collars, leads, clothing and other accessories |
| Health and Hygiene products |

Services

| Services & Other |
|------------------|
| Vet practices |
| Grooming salons |
| Insurance |
| Pets |



Merchandise
page 40



Services
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Future priorities

New store and services rollout

Working towards our target of more than 500 stores, 700 vet practices and 350 grooming salons across the UK.

Retrofitting services

Opening vet practices and grooming salons within existing stores in the estate, optimising our space with mezzanine floors where possible.

VIP club

Growing our loyalty scheme, VIP club membership, enabling us to increase our share of our customers' pet spend.

Product

Innovating across our product platform and widening our Advanced Nutrition offering.

Colleagues

Growing colleague numbers to support store growth, providing specialist training and ensuring continued engagement.

Investment

In our online platforms and capabilities, to deliver a seamless shopping experience to our customers.

Chairman's statement

We are proud to be delivering upon our goals in our first year as a public company and are confident in the outlook for the Group.



Tony DeNunzio
Non-Executive Chairman

It has been another successful year for Pets at Home. I am pleased to report a year of excellent progress across the Group, delivering upon our goals in our first year as a public company.

Market dynamics continue to be positive, supported by the themes of pet humanisation, the move towards premium Advanced Nutrition foods and the increasing use of pet services, such as veterinary treatment and pet grooming.

Whilst the market offers supportive dynamics, our Executive Team has also executed successfully upon our strategy, enabling us to outperform the pet market. All three pillars of the strategy have shown positive progression; we have grown like-for-like sales through a number of commercial levers, we have achieved gross margin expansion, and we have increased our portfolio, opening 25 new stores, 61 vet practices and 50 grooming salons.

During the year we have continued to take market share across the key growth segments; Advanced Nutrition, pet accessories, veterinary services and pet grooming. We also reached some important milestones; opening our 400th store, our 300th vet practice and our VIP loyalty scheme surpassed three million members.

In the financial year 2015, revenues grew by 9.6% to £729.1m, supported by our store and services rollout and like-for-like growth of 4.2%. This growth was underpinned by strength in a number of areas; Advanced Nutrition, Health and Hygiene products, VIP club, pet services and omni-channel. Gross margin expanded by 40bps to 54.2% and underlying EPS was 13.5 pence. We have continued to deleverage the business as a result of strong cash flow and underlying free cashflow generation at the end of the year was £92.8m.

Based on the successful financial performance of the business, the Board is recommending a total dividend for the year of 5.4 pence per share, at the top end of our commitment.

One of our most important values is to put pets before profit, which touches every area of our business, from strategy through to the daily activities of our colleagues in stores. Charitable initiatives therefore remain a key priority. Support Adoption For Pets, which we helped to establish and is widely supported across the business, is the largest animal rehoming charity in the UK and raised over £3m during the year. Our VIP loyalty club also generates charity lifelines every time a customer swipes their card, resulting in £1.4m raised for customer chosen animal charities in 2015.

Looking ahead, we believe growth in the UK pet market will be supportive to our business. We also have strong strategic levers that will enable us to deliver another year of expansion and profitable growth. We are confident in the outlook for the Group.

Finally, I would like to express my thanks and admiration for all our colleagues. We are at heart a people business; reliant on the expertise and passion of our colleagues, and the bond they have with our highly engaged customers and their pets. Without them, we would be unable to deliver the exceptional customer service and advice that is essential to our success.



Tony DeNunzio

Non-Executive Chairman
3 June 2015



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The leadership team

In our first year as a public company, with newly appointed Independent Non-Executive Directors, we have dedicated considerable time to discussing the Group's strategy, understanding progress against strategic priorities and confirmed those areas which require ongoing Board oversight.

Read more about the Board and our governance on page 64.



Tony DeNunzio CBE
Non-Executive Chairman



Dennis Millard
Deputy Chairman and Senior Independent Non-Executive Director



Nick Wood
Chief Executive Officer



Ian Kellett
Chief Financial Officer



Amy Stirling
Independent Non-Executive Director



Paul Coby
Independent Non-Executive Director



Tessa Green CBE
Independent Non-Executive Director



Paul Moody
Independent Non-Executive Director



Brian Carroll
Non-Executive Director



Louise Stonier
Group Company Secretary & Legal Director

Chief Executive's statement

We have successfully delivered across all strategic pillars in 2015 and we look forward to further expansion and profitable growth.



Nick Wood
Chief Executive Officer



I am delighted to report on another year of progress as we continue to deliver on our targets for growth, with strong cash flows allowing us to deliver a dividend payment at the top end of our commitment.

We have seen excellent progress in Advanced Nutrition, a product area that benefits significantly from the specialist knowledge of our highly-trained colleagues and where we have a strong market presence through our private brand, Wainwright's. We have also seen excellent growth in pet services as we rollout new vet practices and groom rooms and the existing estate continues to mature. I am particularly proud of our colleagues whose passion for pets mirrors that of our customers and helps to keep our focus firmly on customer engagement.

Strategic update

Expanding like-for-like growth

VIP club

Our loyalty scheme, VIP club, is a key underpin to like-for-like growth and customer engagement. Analysing our customers' spend, combined with our knowledge of their pet type, breed and age, allows us to send personalised marketing offers across both Merchandise products and Services to grow our share of spend with these customers.

VIP club reached 3.2 million members at year end, adding 1.2 million members during the year, and has over 10.5 million pets registered. VIP card swipe rate represented 65% of revenues captured on store tills in the final quarter of FY15, compared with 52% at the end of FY14. Although the scheme is still immature, we are seeing that VIP members spend more with us the longer they are a VIP member.

Encouraging VIP members' participation in vet and grooming services is a significant opportunity through which we can grow incremental sales. As part of this strategy, we successfully launched the VIP Groom Room Rewards programme during the year, where new VIPs receive a 25% discount on a full dog groom and further discount vouchers after any subsequent grooms.

Product and pricing

Our annual customer survey continues to demonstrate that innovative and unique products are highly valued by Pets at Home shoppers. To ensure our customers are seeing something new and different each time they visit, we have continued to refresh our product range, changing more than 3,100 SKUs (Stock Keeping Units) in the year, representing 44% of the total range. Of those products refreshed, over 40% were private or own labels.

Range expansion and refreshment within Advanced Nutrition is vital for attracting new customers, who are often very brand loyal, as well as offering innovation and choice to our existing customers. We added new brands during the year, such as Meowing Heads, as well as introducing new high protein products, including a private label, Evolution Naturally, and branded alternative, Aatu. We believe there is significant capacity for further growth in Advanced Nutrition, through stocking additional brands, widening our own brand and private label ranges and entering new Advanced Nutrition segments.

During the year we also invested in pricing, widening our ranges to create entry price products in wild bird food, small animal cages and large accessories. In the coming year, we will continue to increase product breadth with lower entry price products in a number of other categories.

Omni-channel

We are on a journey to create a seamless shopping experience, giving our customers access to a wide product range whether they wish to shop in-store, order online, receive their delivery at home or, as is becoming increasingly popular, collect at their convenience in our stores.

During the year, the development of our exclusive online-only product range increased nearly four-fold, taking our online product range to more than 11,500 SKUs, an uplift of more than 4,400 to those in-store. All of the extended range can be ordered for pickup in-store with no delivery charge. Our Click & Collect and Deliver To Store services have been key contributors to omni-channel sales, representing over 40% of online revenues in the final quarter. As part of developing a seamless shopping experience, we implemented the JDA supply chain system in both our distribution centres, which provides a unified view of product across the Group. We also recently launched a dedicated mobile version of our website.

In the year ahead, we will invest in the omni-channel shopping experience through a number of strategic initiatives. We will launch an App for VIP customers which, in its first phase, will give members an electronic copy of their loyalty card and enable promotions and offers to be scanned, removing the need to bring vouchers into store. We are rolling out WiFi across our estate so that ordering from our extended online range can be facilitated by colleagues on PetPads or by customers using their own devices. Ordering from the extended range whilst in-store will also become significantly easier, as we install 'order in store' kiosks and develop digital screens to showcase our extended range. We will also be investing in richer online content and imagery, and additional colleagues and systems to support the seamless shopping strategy.

We are actively evaluating opportunities to further develop and extend our online business organically and through bolt-on acquisitions. Our focus remains on building the UK's leading Pet focussed omni-channel business whilst securing appropriate returns for shareholders.

Chief Executive's statement

continued

Services

Retrofitting of veterinary practices and Groom Rooms to existing stores increases like-for-like Merchandise sales by enhancing our overall proposition, driving store footfall and enabling cross-selling of products. Retrofitting vet practices also offsets a portion of our store property costs through a service charge to the practice for the space occupied. During the year, just over half of both vet practice and Groom Room openings were retrofits into the existing store estate, converting the equivalent square footage of more than six stores into services.

We also commenced a number of strategic initiatives in the Vet Group, to increase like-for-like growth in our existing Joint Venture practice network. These included space extensions to our more mature practices, our first trials of 24/7 opening and extended hours, and the development of our pet care plans to increase customer loyalty and spend.

Engagement

Colleague expertise and engagement is central to our success, creating a great shopping experience for customers and their pets. Our specialist colleagues continue to learn and develop with us, allowing us to maintain our industry leading retention rate of 81% (FY14: 81%). Engagement levels, which we measure through an annual colleague survey, improved to 94% (FY14: 93%).

During the year, customer advocacy measured by a Net Promoter Score, improved again to 86% (FY14: 84%), having risen from 75% in FY11.

Marketing

We returned to TV advertising this year, through the launch of the 'My Pet Moments' campaign, which features crowd sourced clips of our customers' pets, as well as sponsoring 'For The Love Of Dogs', one of ITV's highest rating programmes. Our Vet Group also participated in TV advertising under the Vets4Pets brand. We will continue to invest in our brands and new customer acquisition in the coming year.

Space rollout and footprint development

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. We finished the year with 400 stores; opening 25 new stores, closing one end of lease store, and temporarily closing our Rugby store which will relocate in the first half of FY16. We are becoming increasingly space efficient with new stores, our FY15 openings had smaller ground floor footprints, with 60% receiving a mezzanine floor installation.

We opened 61 vet practices in FY15, bringing the total portfolio to 338. Over half of our store estate now has a vet practice and we remain committed to working towards our eventual target of 90% of stores with a vet practice. Since the financial year end, we have commenced our entry into the specialist referral veterinary care market, acquiring Northwest Surgeons based in Cheshire. The practice specialises in orthopaedic, soft tissue and spinal surgery and internal medicine. Northwest Surgeons will continue to operate as a stand-alone brand and business within our practice network and we will seek to develop a shared ownership model, similar to our joint venture model. We will look to build upon our entry into the specialist referral veterinary market with further standalone acquisitions.

Groom Room openings progressed strongly, with 50 new salons, taking the total number of Groom Rooms to 179.

The performance and returns of new stores, vet practices and Groom Rooms remain in line with our expectations.

Looking forward, we plan to open at least 20–25 Pets at Home stores, 50–55 vet practices and 55–60 Groom Rooms in the coming financial year. We will also open five Barkers stores, moving to a phase of trialling the concept in other locations across the UK. Barkers is our dog focused local high street format, currently based in one location in Wilmslow, Cheshire. Barkers offers premium and exclusive products, a high end grooming spa and has differentiated brands and merchandising to those available in Pets at Home. In its first year of opening, Barkers of Wilmslow has exceeded our expectations and we view the format as an important strategic asset that reaffirms our specialist credentials in the pet market, giving us access to a valuable customer segment.

Focus on margins

Advanced Nutrition growth and own brand participation are supportive to Merchandise gross margin, which expanded by 19bps to 56.3% in FY15 (FY14: 56.1%).

Own brand and private label products represented 42.6% of store revenues during FY15 (FY14: 42.4%).

Advanced Nutrition revenues grew by 17.2% to £145.4m (FY14: £124.0m), with our private label brand Wainwright's an important contributor, growing by 44.1% to £40.1m (FY14: £27.8m). Wainwright's growth has been boosted by new additions such as Grain Free for dogs and Wainwright's for cats, which were launched in H2 FY14, alongside Grain Free for cats which launched in FY15. Advanced Nutrition now represents 40% of total Food revenues (FY14: 38%).

Services gross margin, which was 32.6% in FY15 (FY14: 26.3%), has expanded through the growing maturity of our veterinary practices and incremental synergies from the integration of Vets4Pets, which was acquired in FY14. We also saw good gross margin expansion in our grooming business through its growing maturity and measures taken to improve profitability across the portfolio.



Looking forward, we will continue to drive Advanced Nutrition growth and participation in the Food business. Whilst we will broaden our own brand and private label ranges to ensure we offer great value to customers, we will not seek to increase their participation at the expense of the brands our customers are loyal to. Within our higher operating margin Services business, as our vet practices mature there is an opportunity for our revenue stream to increase without a significant rise in our cost base, delivering margin leverage. Whilst the Groom Room business is also maturing, the large number of new openings in the past and coming year will continue to moderate margin improvement within Services in the short term.

Investing in the organisation

Our business has grown significantly in recent years and we are continuing to rollout our stores and services at a fast pace. We see significant growth opportunities across the Group and have therefore decided to implement a new management structure to drive performance across the business. Ian Kellett will take up a new role as CEO of the Retail Division. Sally Hopson, previously Customer and People Director and CEO of our Vet Group, will take on an enhanced role as the CEO of the Services Division. Both will report to Nick Wood who, as Group CEO, will continue to focus on overall Group operations and strategy.

The search for a new Group CFO is starting with immediate effect. During this process, Ian Kellett will remain as CFO and commence the transition to his new role.

Nick Wood
Chief Executive Officer
3 June 2014

Specialist veterinary referrals

Making our entry into the referral market

Our Vet Group operates the largest small animal first opinion veterinary practice network in the UK.

Within the veterinary services market, there will be complex patient cases which require treatment that cannot be met within first opinion practice and need to be referred to a specialist practice.

We recently made our entry into the specialist referral market, acquiring Northwest Surgeons based in Cheshire. Northwest Surgeons specialises in orthopaedic, soft tissue and spinal surgery, and internal medicine. This is an important strategic move for us as it offers an opportunity to capture an additional segment of the market. It also means we can further support our Joint Venture Partners with additional expertise from within the Group, underlining our commitment to quality.

Northwest Surgeons will continue to operate as a stand-alone brand and business within our practice network and we will seek to develop a shared ownership model, similar to our joint venture model, in the future.

**northwest
surgeons**



Mission and strategy

Delivery of our strategy across the PawPrint supports growth in like-for-like, space and margins

Our mission and strategy

To be the best pet shop in the world!

The PawPrint is the articulation of our strategy. Key to the PawPrint is our number one value, putting Pets Before Profit, which is a fundamental welfare belief that drives our decision making processes.

Levers of growth

To expand upon our leading position in the UK pet care market.



→ Grow like-for-like

We have multiple levers through which we can grow like-for-like sales, creating diversified, sustained and resilient top line growth.

Product innovation and newness

VIP club

Marketing

Omni-channel

Services

Engagement

Pricing

Product innovation and newness

Continually refreshed product range, own brands and private labels, bringing something new and innovative to customers.

VIP club

Grow our loyalty club, which delivers targeted offers to customers and increases our share of their spend.

Marketing

Customer brand engagement through a focus on the emotional relationships we have with our pets.

Omni-channel

Enable a seamless shopping experience where products can be delivered to home or picked up in store, and services can be booked online. Create an online community for pet owners to engage with us.

Services

Vet practices and grooming salons make us a one stop shop for pet owners, increasing customer visit frequency and loyalty.



→ Read more on page 22

Engagement

Maintain leading levels of customer engagement with our highly trained colleagues, which is essential to our success.

Pricing

Deliver value for money, reflecting product range, exclusivity, convenience, quality, service and price.

→ Grow space and optimise footprint

Rollout of new stores, vets and groomers across the UK will enable us to grow market share.

Optimised store rollout

Services rollout of vet practices and grooming salons

Optimised store rollout

Open Pets at Home stores in optimal locations to access unmet market spend and consider smaller formats targeted at market subsegments.

Services rollout of vet practices and grooming salons

Opening services within all new stores, as well as retrofitting services into the existing estate, driving customer loyalty and visit frequency.



→ Read more on page 26

→ Grow margins

Focus on the areas that will enable long term gross margin and operating margin improvements.

Product mix and own brands

Sourcing and terms

Services

Product mix and own brands

Create an optimal balance of higher margin Advanced Nutrition, own brand and private label products.

Sourcing and terms

Build closer and improved relationships with suppliers to leverage our market reach.

Services

Growth and maturity of our higher margin vets and groomers.



→ Read more on page 30

Strategy in action

Grow like-for-like

We have varied, sustainable ways to achieve like-for-like sales growth.



Read more
over the page



Strategy explained: Grow like-for-like

We know how our customers feel about their pets because we feel the same way

We develop customer loyalty and brand engagement through our understanding of the emotional relationships owners have with their pets, whilst also delivering innovation, quality and exceptional service, coupled with enhanced store and services based offerings.

Strategy in action

VIP club: unique engagement with our customers

Our loyalty scheme, VIP club, is a key underpin to like-for-like growth and increasing our market share. Members of the club receive exclusive offers on everything from food, to grooming and health checks with our vets, as well as helpful advice to ensure they get the best for their pets.

Analysing our customers' spend, combined with our knowledge of their pet type, breed and age, allows us to send personalised marketing offers across both Merchandise products and Services. We send out offers via direct mail, addressed to the customer's pet, or through email. Members can also pickup a free copy of the quarterly VIP magazine in-store. VIP Lifelines are

another benefit, with donations made to customers' chosen animal charities each time their VIP card is swiped in our stores, Groom Rooms, vet practices or online. VIP club enabled £1.4m of donations to customer chosen animal charities in 2015.

How do we use VIP?

We recently sent a direct mail to over 190,000 of our VIPs who own dogs and cats of a senior age, but were not purchasing Senior Advanced Nutrition. The mailer highlighted the health benefits that a lifestage focused Advanced Nutrition diet can bring and how changes in age can lead to differing nutritional requirements. Of those VIPs who received the mail, 15% responded positively, with a subsequent purchase of Senior Advanced Nutrition linked to the offer. Within the group that responded, of those who had never purchased Advanced Nutrition of any kind before, 38% went on to make a repeat purchase.



3.2m

VIP club reached 3.2m members, adding 1.2m during the year





What we did in 2015

Product and innovation

- More than 3,000 new products launched
- Refreshed 44% of our total product range
- >40% of new products were own brand or private labels
- Increased space and range extensions in Advanced Nutrition

VIP club

- VIP reached 3.2m members, adding 1.2m during the year
- 10.5m registered pets on the database
- Swipe rate of the VIP card at our tills accounted for 65% of revenues
- Increased our share of VIP customers' pet spend

Marketing

- 'My Pet Moments' TV advertising campaign
- TV sponsorship for 'For The Love Of Dogs', one of ITV's highest rating programmes

Omni-channel

- Launch of Deliver-To-Store service, allowing all products in our extended online range to be collected in a store
- >11,500 products now available online, >4,400 additional to those in-store
- >40% of online revenues now derived from a collect in store delivery method
- Mobile and tablet website versions launched since year end

Services

- Retrofitted 32 vet practices and 26 grooming salons into our existing store estate
- Development of our vet practices; including 24/7, longer opening hours and practice extensions

Pricing

- Invested in competitive pricing across large accessories, particularly in our online extended product range
- Created more entry price range points in some product categories, such as wild bird

Engagement

- Colleague retention rate maintained at 81%
- Customer feedback Net Promoter Score improved to 86% from 84% in the prior year

Relevant KPIs

4.2%
Group
like-for-like
growth

3.7%
Merchandise
like-for-like
growth

10.7%
Services
like-for-like
growth

→
KPIs
page 32

Key risks associated

- Brand and reputation
- Competition
- Our people
- Business systems and information security
- Supply chain/sourcing
- Store and services expansion
- Regulatory and compliance
- Extreme weather

→
Risk management
page 44

Future plans

Continue to refresh our product mix, with new private label and own brand launches, as well as exclusive and innovative products that reflect the latest trends, in order to improve customer loyalty and visit frequency.

Grow loyalty and our share of VIP's pet spend by promoting our unique pet services and targeted product discounts, whilst communicating information relevant to customers' pets needs, such as lifestage milestones, based on our unique knowledge of our customers and their pets.

Focus on new customer acquisition and brand engagement through our understanding of the love and emotional bond that owners have with their pets.

Develop the link between our online and store based offerings to give customers a seamless shopping experience. Enabling ordering online or in-store, for delivery to home, or to store, as well as booking vet and grooming appointments online.

Refurbish and retrofit the existing estate to accommodate further vet practices and grooming salons.

Developing our JV vet practices to provide further avenues for growth.

Deliver value for money pricing, which is reflective of product range, exclusivity, convenience, service, price and quality.

Maintain our industry leading colleague retention and engagement rates, in order to deliver customers outstanding service and advice.

Strategy in action

Grow space and optimise footprint



Our business has an increasing UK growth opportunity. Everyone here is committed to making it even bigger, better and smarter.



Read more
over the page



Strategy explained:
Grow space and optimise footprint

Fantastic stores and services, giving a one stop shopping experience for the pet lover

A major part of our strategy is to open new stores in optimal locations and increase the number of in-store and standalone vet practices and in-store Groom Rooms.

Strategy in action

Services in our stores increase customer loyalty and frequency

Services are critical to our one-stop shop offer for engaged pet owners. By enhancing our stores with vet practices and grooming salons, we are widening our proposition to customers, which also increases footfall and lifts Merchandise sales. Grooming salons are an important part of the theatre and experience in stores, whilst vet practices drive cost efficiencies, paying a service charge for the space occupied.

Retrofitting services to our existing store estate increases like-for-like sales.

Our store in Corby was retrofitted with both a Vets4Pets and Groom Room salon in July 2014.

As one of our smaller stores, at 6,000 square feet, the Services offer was constructed on a mezzanine floor, adding a further 2,800 square feet for the vet practice and grooming salon.

Adding Services attracts additional customers, as well as increasing the frequency with which those customers visit. Since retrofitting the vet practice and grooming salon, we have created two additional income streams, as well as lifting the Merchandise sales on the ground floor by 8.5%.





What we did in 2015

Optimised store rollout

- Opened 25 new stores
- Total portfolio of 400 stores
- Average new store retail space 15% smaller than our average
- Of new store openings, 60% had mezzanines, optimising our space utilisation

Vet practice and Groom Room rollout

- Opened 61 new vet practices, 53 in-stores and 8 standalone
- 32 were retrofits to existing stores
- Total vet practice portfolio of 338 practices
- 53% of stores have a vet practice
- Opened 50 new Groom Rooms
- 26 were retrofits to existing stores
- Total portfolio of 179 Groom Rooms
- 44% of stores have a grooming salon

Future plans

Target UK portfolio is 500 Pets at Home stores. We will continue to open new stores in optimal locations that are not currently served by Pets at Home.

Trialling new formats, such as Barkers, our dog focused, premium High Street offering.

Target UK portfolio of 700 vet practices, comprised of 450 in-stores and 250 standalones.

We are assessing the opportunity for additional veterinary service segments, for example, our recent acquisition of Northwest Surgeons, a specialist referral clinic.

Target UK portfolio of 350 Groom Room salons.

We aim to open every new store with both a vet and grooming salon and retrofit services back into the existing estate.

Relevant KPIs

25

new stores

53

new in-store
vet practices

8

new standalone
vet practices

50

new grooming
salons



KPIs
page 34

Key risks associated

- Brand and reputation
- Competition
- Our people
- Store and services expansion
- Liquidity and credit risk



Risk management
page 44

Strategy in action

Grow margins

We are focused on long term, sustainable margin growth. We take great pride in what we do and the energy we put into it sustains our success.



Read more
over the page



Strategy explained: Grow margins

High quality private labels and own brands give us a unique product offering

We are improving margins by generating the right balance between product categories, own brands and private labels, and growing our relatively immature pet services business.

Strategy in action

Wainwright's Advanced Nutrition is our flagship private label brand

Higher margin Advanced Nutrition and private label products are an important contributor to gross margin

We launched Wainwright's, our private label Advanced Nutrition brand, in 2007. It has grown to become one of the largest Advanced Nutrition brands in the UK, now generating revenues of £40.1m, which represents 11% of our total pet food sales. Since launch, Wainwright's has grown at a CAGR of over 30% for the past three years and our wide range covers dog, cat and puppy; wet and dry complete food; and treats.

The success of the brand can be attributed to the attractive branding and high quality product, sold at a competitive price in the Advanced Nutrition segment. Continual innovation and range additions have allowed us to attract additional customers, and provide greater choice and add-ons for existing customers.

Recent additions to the range this year have included Wainwright's Grain Free for cats, which has been very popular with customers. We will continue to grow and expand the range in the coming year.





What we did in 2015

Product mix and own brands

- 43% of store revenues are own brand/private label, up from 42% last year
- Advanced Nutrition revenues grew by 17.2%
- Participation of Food revenues at 40% compared with 38% in the prior year
- Wainwright's revenues grew by 44.1% to £40.1m

Services

- Services gross margin expanded by 630 bps to reach 32.6%
- Synergies of £2.6m achieved from Vets4Pets acquisition
- Fee income from Joint Venture vet practices up 30.7% to £28.2m

Sourcing and terms

- Refreshed >1,300 own brands or private label products during the year, with many sourced via Pets at Home Asia
- Terms and working capital efficiencies progressing in-line with our expectations

Future plans

Generate the right balance between high margin and lower margin products by maintaining the participation of own brands and private labels, with a focus on Advanced Nutrition food. Our flagship brand, Wainwright's Advanced Nutrition, provides an opportunity to enhance both revenues and margins.

Continue to rollout new vet practices and grooming salons, which generate a higher operating margin than the Group. As these pet services mature, margin leverage translates into support to Group profitability.

Build closer relationships with suppliers and improve contractual terms, improve product quality and access innovative new products. Continue to leverage our dedicated sourcing office in Hong Kong, Pets at Home Asia, to develop relationships with existing and new suppliers overseas.

Improve buying terms by driving economies through increased quantities, providing financial support for TV and marketing campaigns and negotiating on working capital terms.

Relevant KPIs

54.2%
Group gross margin, +40bps

56.3%
Merchandise gross margin, +19bps

32.6%
Services margin, +630bps

16.6%
underlying EBITDA margin, +0bps



KPIs
page 35

Key risks associated

- Brand and reputation
- Competition
- Supply chain/sourcing
- Treasury and financial risk
- Store and services expansion
- Regulatory and compliance



Risk management
page 44

Key performance indicators

We measure our performance against a number of KPIs, each of which is linked to one of our three strategic growth pillars

① Grow like-for-like

4.2%

Group like-for-like growth

2.6%

2.4%

4.2%

2013

2014

2015

3.7%

Merchandise like-for-like growth

2.5%

2.4%

3.7%

2013

2014

2015

10.7%

Services like-for-like growth

5.6%

2.1%

10.7%

2013

2014

2015

Performance in 2015

Group like-for-like growth ahead of the prior year. Merchandise like-for-like contributors were strength in Advanced Nutrition, Health & Hygiene, VIP loyalty club and omni-channel. Services like-for-like was driven by the growing maturity of our vet practices and Groom Rooms, as well as the strong underlying growth of older practices and salons.

Priorities for 2016

To continue to drive like-for-like growth ahead of the market, through multiple levers.

Key risks associated

- Brand and reputation
- Competition
- Our people
- Business systems & information security
- Supply chain/sourcing
- Store and services expansion
- Regulatory and compliance
- Extreme weather

44%

Products refreshed and changed

42%

41%

44%

2013

2014

2015

Performance in 2015

We have continued to refresh our product range, changing more than 3,100 SKUs (Stock Keeping Units) in the year, representing 44% of the total range.

Priorities for 2016

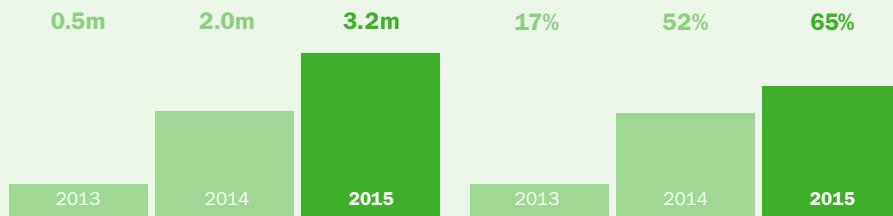
Maintain our rate of refreshment, to ensure our customers are seeing something new and different each time they visit.

Key risks associated

- Our people
- Supply chain/sourcing

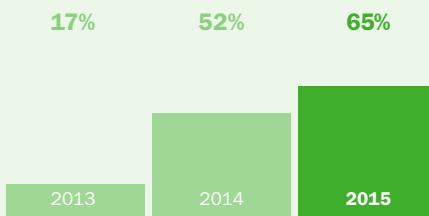
3.2m

VIP club members



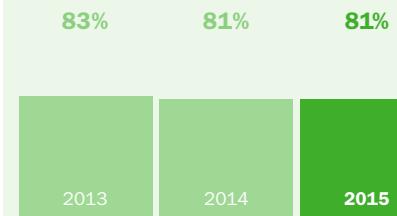
65%

VIP card swipe rate*



81%

Colleague retention



Performance in 2015

VIP club members grew by 1.2m during the year and our database now contains the details of over 10.5m pets. Swipe rate of the card at tills has also grown significantly and now represents 65% of our store revenues.

Priorities for 2016

We will continue growing the club and increasing the swipe rate at tills, which allows us to send highly targeted marketing offers to a greater proportion of our customer base.

Key risks associated

- Brand and reputation
- Our people
- Business systems and information security

Performance in 2015

We maintained our industry leading colleague retention rate, which is underpinned by the high levels of engagement colleagues have with the business. We measure engagement through our annual 'We're All Ears' survey, with engagement reaching 94% this year, compared with 93% in the prior year.

Priorities for 2016

Growing colleague numbers to support store growth, providing specialist training and ensuring continued engagement. All key to ensuring our colleagues can deliver friendly expertise to customers and their pets.

Key risks associated

- Brand and reputation
- Our people
- Competition
- Store and services expansion

* swipe rate represents the final quarter period in each year.

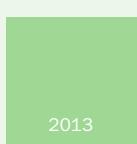
Key performance indicators continued

② Grow space and optimise footprint

400

Total stores

345 377 400



Performance in 2015

We opened 25 new stores during the year, bringing our total store portfolio to 400. We closed one store in Knutsford, as this trial high street format came to the end of its lease, and also temporarily closed our Rugby store, which will relocate in the coming year.

Priorities for 2016

We will open 20–25 new Pets at Home stores in the coming year, taking us closer to our target of 500 stores across the UK. We will also open five new Barkers stores.

Key risks associated

- Store and services expansion
- Competition
- Brand and reputation
- Our people
- Liquidity and credit risk

338

Total vet practices

208 277 338



Performance in 2015

We opened 61 new vet practices during the year, bringing our total vet practice portfolio to 338. We now have 211 in-store and 127 standalone practices, with 53% of our stores now containing a vet practice.

Priorities for 2016

We will open 50–55 new vet practices in the coming year, taking us closer to our target of 700 practices across the UK and 90% of stores with a vet practice.

Key risks associated

- Store and services expansion
- Competition
- Brand and reputation
- Our people
- Liquidity and credit risk

179

Total Groom Rooms

87 129 179



Performance in 2015

We opened 50 new salons during the year, bringing our total grooming salon portfolio to 179.

Priorities for 2016

We will open 55–60 new grooming salons in the coming year, taking us closer to our target of 350 Groom Rooms across the UK.

Key risks associated

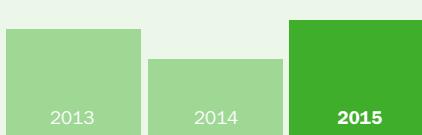
- Store and services expansion
- Competition
- Brand and reputation
- Our people
- Liquidity and credit risk

③ Grow margins

54.2%

Group gross margin

54.1% 53.8% 54.2%



32.6%

Services gross margin

22.5% 26.3% 32.6%



16.6%

Group underlying EBITDA margin

16.5% 16.6% 16.6%



56.3%

Merchandise gross margin

56.0% 56.1% 56.3%



Performance in 2015

Group gross margin benefitted from expansion in both the Merchandise and Services gross margin. Merchandise gross margin contributors included Advanced Nutrition participation, private label Wainwright's growth and improved terms, whilst Services margin benefitted from the growing maturity of our vet practices, along with synergy benefits from the Vets4Pets acquisition.

Priorities for 2016

To deliver margin expansion in all segments across Food, Accessories and Services.

Key risks associated

- Reputation
- Competition
- Supply chain/sourcing
- Treasury and financial risk
- Store and services expansion

Performance in 2015

Group underlying EBITDA margins were maintained at the same level as the prior year, assisted by the growing participation of our higher margin Services business. Margin expansion was diluted by the addition of £2.5m of Plc costs in our first year as a public company.

Priorities for 2016

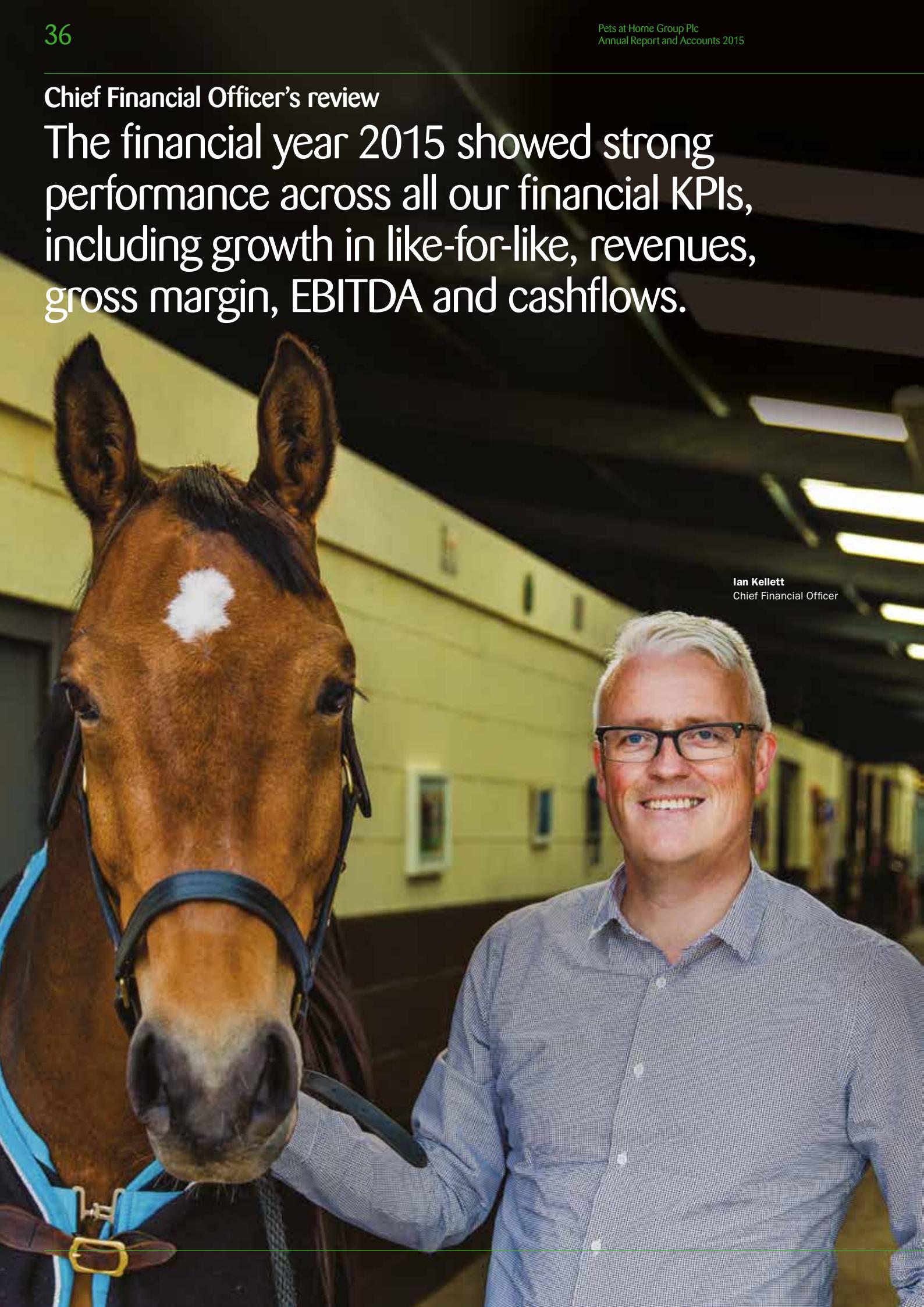
The growing margins in our Services business will underpin investment in the Group to ensure the business is fit for the future and maintains its record of growth.

Key risks associated

- Reputation
- Competition
- Supply chain/sourcing
- Treasury and financial risk
- Store and services expansion

Chief Financial Officer's review

The financial year 2015 showed strong performance across all our financial KPIs, including growth in like-for-like, revenues, gross margin, EBITDA and cashflows.

A photograph of a brown horse with a white blaze on its forehead standing next to a man in a stable aisle. The man is wearing a blue shirt and glasses, smiling. The background shows the wooden stalls of a stable.

Ian Kellett
Chief Financial Officer

“We are pleased to be making a total dividend payment of 5.4 pence per share, at the top end of our commitment.”

Group revenue

£729.1m

 **9.6%**

(2014: £665.4m)

Sales and revenue

Total revenues in FY15 grew by 9.6% to £729.1m (FY14: £665.4m), with good performance across all three business segments; Food, Accessories and Services. Like-for-like sales grew by 4.2%, driven by strength in Advanced Nutrition, Health & Hygiene, VIP club, Services and omni-channel.

Total Merchandise revenues, which includes Food and Accessories, grew by 8.3% to £666.1m (FY14: £615.1m).

Food revenues grew strongly by 9.8% to £359.3m (FY14: £327.3m), reflective of excellent performance in dog and cat Advanced Nutrition, dog treats and premium wet cat food. Advanced Nutrition revenues grew by 17.2% to £145.4m (FY14: £124.0m), with our flagship private label Wainwright's a key contributor, growing by 44.1% to £40.1m (FY14: £27.8m). This compares to the Advanced Nutrition market in the UK growing at around 14%. Grocery dog food performance was weaker following our Autumn space re-allocation to Advanced Nutrition, but sales densities improved post the space re-allocation.

Accessories revenues grew by 6.6% to £306.8m (FY14: £287.8m), driven by Health and Hygiene sales, a strong Christmas range, and dog collars and leads. We saw some weakness in Cat Litter as a result of new range changes, and in Aquatics, reflecting a weaker market and the re-allocation of this product space when Services are retrofitted to stores. We have also experienced weak trading and sales in our equestrian business, Ride-away, which declined year-on-year.

Services revenues grew 25.2% to £63.0m (FY14: £50.3m), reflecting both new openings and the growing maturity of our vet practices and Groom Rooms. Growth in our Joint Venture veterinary practices was ahead of the UK veterinary services market, generating fee income of £28.2m (FY14: £21.6m), growth of 30.7% on the prior year.

Gross margin

Group gross margin expanded by 40bps to 54.2% (FY14: 53.8%), attributable to significant expansion in our Services margin, as well as good progression in Merchandise margin.

Gross margins within Merchandise were 56.3%, an expansion of 19 bps on the prior year (FY14: 56.1%). This has been achieved primarily through the Food business; from the strength of our private labels such as Wainwright's, the decreased participation of lower margin grocery food, improved terms negotiations, and a lower level of discounting across the year as our marketing to VIP customers becomes more targeted. Accessories margins were at a similar level to the prior year as we continued our price investment in large accessories, increased promotions across Aquatics and saw a changing mix in cat litter. We have also experienced challenge to the Accessories margin from omni-channel promotional activities, as well as the weakness in the Ride-away business.

Gross margin within the Services business expanded by 630 bps to 32.6% (H1 FY14: 26.3%). Of the £7.3m growth in Services gross profit, the main contributors have been the maturation of our vet practices, incremental synergies of £2.6m from the Vets4Pets integration, and a benefit in grooming from both maturity and measures to increase profitability. Adverse movements within Services gross margin came from our continued investment in live pet care and welfare within stores.

In the coming year we expect to see a modest accretion in Group gross margin, reflecting the positive impacts of our maturing vet business and higher margin product categories, whilst allowing for further price investment in opening price point categories and the dilutive impact of a high proportion of new Groom Rooms. We do not expect any further synergy benefits from the Vets4Pets acquisition.

* Market data sourced from OC&C Strategy Consultants.

Chief Financial Officer's review

continued

Operating costs

Selling and distribution expenses of £257.9m were broadly constant as a percentage of Group revenue at 35.4% (FY14: 35.2%). Occupation costs (rent, services charges and other costs) declined as a percentage of sales as we continue to benefit from a benign rental market and the offset to our rental costs from the retrofitting of vet practices to stores. Income from vet practice retrofits and sublets contributed more than £8.1m to our gross property rental costs of £66.5m in FY15 (FY14: £61.9m). Colleague costs of £136.5m (FY14: £120.9m) increased as a result of our new store rollout and 'learn to earn' Steps training programme, coupled with our industry leading retention rate. Marketing costs also increased as we invested in our brand through TV advertising and sponsorship.

In the year ahead we will invest further in our brand and marketing, and in the hardware and software required to support the seamless shopping strategy. We expect colleague costs to grow ahead of the rate in FY15 as we provide additional holiday pay, maintain retention and ensure we maintain our reputation as one of the best companies to work for in the UK.

Administration expenses of £40.7m were 5.6% of revenue (FY14: 5.2%), reflecting an additional £2.5m of costs associated with being a publicly listed company and £1.7m of IFRS2 share based payment charges.

Underlying EBITDA

Underlying EBITDA of £121.3m, which excludes £1.7m of IFRS2 share based payment charges, represented a 9.6% increase on the previous year (FY14: £110.7m). Margin was equal to the prior year as we incorporated the first year of costs associated with being a public company, which totalled £2.5m.

Our underlying EBITDA margin was supported by the increased participation of the Services business, which represented 8.6% of Group revenues in FY15 (FY14: 7.6%). Despite the considerable immaturity of our vet practices and grooming salons, the Services business has a higher EBITDA margin to that of the Group and this support will enable us to invest in the future growth of the Group.

Going forward, IFRS2 shared based payment charges will be considered part of ongoing operating expenses, as we move to our second year of being a public company and we will no longer report an underlying EBITDA measure.

| £m | FY15 | FY14 |
|----------------------------------|--------------|--------------|
| Operating profit | 96.8 | 78.8 |
| Depreciation and amortisation | 22.8 | 20.0 |
| Reported EBITDA | 119.6 | 98.8 |
| Related party fees | – | 1.2 |
| IFRS share based payment charges | 1.7 | 0.1 |
| Exceptional items | – | 10.6 |
| Underlying EBITDA | 121.3 | 110.7 |

Underlying EBITDA is calculated as Group underlying operating profit under IFRS (which includes amortisation of landlord and developer contributions received), plus depreciation and amortisation. Excludes exceptional items, related party fees, and IFRS2 related share based payment credits and charges. FY14 exceptional expenses of £10.6m were attributable to costs associated with the Initial Public Offering (£9.4m), and costs associated with the integration of the Vets4Pets business (£2.3m) net of a significant VAT refund (£1.1m).

Finance expense

Net finance expense for FY15 was £9.8m. As a result of our declining leverage profile and following our recent refinancing at more favourable rates, we expect net finance expense for FY16 to be £5.5–6.0m. Capitalised fees associated with the previous facility will be reflected as an exceptional charge to the income statement of approximately £4.3m in FY16.

Taxation, trading profit & EPS

Underlying total tax expense for the period was £19.1m, a rate of 22% on pre tax profit. Whilst the UK corporate tax rate for the period was 21%, the principal reason for the difference relates to items of capital expenditure for which depreciation is non deductible.

An exceptional tax credit, and cash receipt of £4.3m, related to the release of a provision made in the prior financial year in respect of interest deductability on debt associated with the pre IPO capital structure.

Trading profit for the period, which includes IFRS2 share based payments, was £67.9m (FY14: £38.6m). Basic earnings per share were 13.5 pence (FY14: 0.5 pence).

Working capital

The underlying cash working capital improvement for FY15 was £5.8m (FY14: £9.6m).

An increase in inventory of £2.4m is mainly reflective of our investment in new food ranges and new store openings. Of the increase in trade receivables of £9.5m, the majority relates to temporary loans made to Joint Venture vet practices, whereby the Group funds initial setup costs until commercial funding is drawn down by the practice. The trade payables* increase of £17.7m reflects both growth across the Group and our efforts to drive a wide range of efficiencies and improvements.

We expect a moderate working capital outflow in the coming financial year due to the additional trading week in the period and resultant outflow of trade payables.

* Trade payables includes trade and other payables, with balances associated with fixed assets, tax and interest removed, and financial instruments. Excludes £25.2m of IPO related payables in the FY14 balance.

Borrowings and net debt

The Group's underlying net debt position at the end of year was £192.0m, representing a leverage ratio of 1.6x underlying EBITDA, a reduction from the FY14 position of 2.3x. Whilst the net debt position is ahead of expectations, our underlying deleveraging plan remains unchanged, at an average of 0.5x per annum from our prior year position of 2.3x reflective of the anticipated working capital outflow in FY16 and our dividend commitment.

Post year end, we announced the closing of a new financing agreement for a five year, £260m revolving credit facility, which is currently drawn to £235m. This replaced the Group's previous £325m of drawn facilities, with the differential balance between the two facilities being settled from the Group's existing cash resources. At current leverage, the facility carries a rate of LIBOR +1.5%.

| £m | Leverage |
|-------------------|--------------|
| Gross Debt | 325.0 |
| Cash | (133.0) |
| Net debt | 192.0 |
| Underlying EBITDA | 121.3 |
| Leverage | 1.6x |

Capital expenditure

Capital investment in the period totalled £33.2m (FY14: £30.0m), reflecting our increased Services retrofit programme, where we incur the capital outlays for grooming salons and store refurbishment, as well as investment in mezzanine floors across the estate which drive space and rental efficiencies in both new and existing stores.

On a cash basis, capital expenditure in the period was £30.4m (FY14: £26.3m).

We expect capital investment for FY16 to be approximately £40m, reflecting investment in our seamless shopping strategy, additional mezzanine floors as we optimise new store openings and retrofit services to the existing estate, and store refurbishment as part of the services retrofit programme.

Cash flows

Cash flow generation was once again strong. The Group generated £125.3m in underlying operating cash flow* during the period (FY14: £108.7m). Underlying free cashflow** before interest, tax and acquisitions was £92.8m (FY14: £92.4m), representing a cash conversion rate of 76.5% (FY14: 83.5%).

Cash returns on invested capital*** improved to 22.6% (FY14: 21.7%) as a result of our profit growth and working capital improvement.

* Excludes £25.2m of trade payables movement related to the IPO.

** Excludes £1.7m of IFRS2 share based payments and £25.2m of trade payables movement related to the IPO.

*** CROIC excludes goodwill on KKR acquisition, £1.7m of IFRS2 share based payments and £25.2m of trade payables movement related to the IPO.

Dividend

The Board has recommended a final dividend of 3.6 pence per share, leading to a total dividend of 5.4 pence per share, in respect of the 2015 financial year. The final dividend will be proposed by the Directors at the 2015 AGM and is in addition to the interim dividend of 1.8 pence per share, paid to shareholders on the 16 January 2015. The ex-dividend date will be 13 August 2015 and, if approved at the Company's forthcoming AGM, will be paid to shareholders on 14 September 2015 to those shareholders on the register at the close of business on 14 August 2015.

The Board is targeting a progressive dividend payment policy of 40% of earnings, reflective of the positive outlook for the business.



Ian Kellett

Chief Financial Officer

3 June 2015

Operating review

Merchandise

Our Merchandise segment is comprised of Food and Accessories across both our store and online businesses.

Food

Advanced Nutrition
Grocery food
Treats
Other food

Accessories

Pet homes and habitats
Toys, collars, leads, clothing and other accessories
Health & Hygiene products

Our Merchandise brands**Merchandise revenue**

£666.1m
+8.3%



| Revenue split | Growth |
|---------------|---------------|
| Food | £359.3m +9.8% |
| Accessories | £306.8m +6.6% |

Food

Pet food is a fundamental part of our business, generating revenues of £359.3m in 2015, representing 54% of Merchandise revenues. We stock food products for dogs, cats, small mammals, fish, reptiles, birds and horses.

Within the food business, the fastest growing segment is Advanced Nutrition, a premium tier of food offering significant health benefits to dogs and cats. Advanced Nutrition represents 41% of our food revenues at £145.4m and grew by 44.1% during the year. As a premium price point product, a level of advice is required to drive sales and our highly trained colleagues are essential to increasing growth in this category. The distribution channels for Advanced Nutrition are selective and it is only sold by pet specialists, with Pets at Home holding 53% market share of this product segment in 2014.

Other important segments within food include grocery food, which can be found in both pet specialists and supermarkets, and treats. Treats are a fast growing market segment and we are adding new brands and innovation in this category which reflect humanisation and wellness trends, to further enhance our growth.

“Within the food business, the fastest growing segment is Advanced Nutrition, a premium tier of food offering significant health benefits to pets.”

Within our food business, 33% of store revenues are generated from own brand and private labels. Our own brand Pets at Home foods span both grocery and Advanced Nutrition. Private labels include Wainwright's, our flagship cat and dog food, as well as Purely for cats. We launched a new private label Advanced Nutrition brand during the year, Evolution Naturally, which brings the high protein dog and cat food trend, seen in the US market, to the UK.

Looking forward, we are aiming to increase our branded Advanced Nutrition ranges, continue re-allocating space away from grocery and into Advanced Nutrition, extend our Wainwright's offering and add further private label ranges to complement the branded ranges.

Accessories

Accessories revenues grew by 6.6% to £306.8m in 2015 and represent 46% of Merchandise revenues.

Dog and cat accessories include bedding, collars and leads, feeding bowls, clothing, toys, grooming products, training and behavioural products and travel accessories. Other accessories include small animal homes and bedding, equestrian accessories, and Health and Hygiene products.

We believe the pet accessories market follows many of the same trends as the human market, reflecting the increasing humanisation of pets by their engaged owners. This includes design trends and technological developments.

Own brands and private labels represent 51% of store revenues within the Accessories business. Our flagship private label, Wainwright's, includes collars, leads and toys. Other private label accessories brands include Ruffer & Tuffer toys, 3 Peaks dog beds and clothing, and Willows and Woodlands small animal accessories.

Innovation and exclusivity

Innovation in our food and accessories business is a key strategic priority. Our highly engaged pet customers value product breadth, refreshment and being able to choose something new and different each time they are in-store. Our ability to develop such a large number of private label and own brand products is assisted by our in-house innovation and design teams, and our dedicated sourcing office in Asia.

Exclusivity is also crucial to attracting and retaining customers and we seek to source new and innovative products to the UK market on an exclusive basis, ahead of our competitors.

Strategy in action

Own brands and private labels

43%

of store Merchandise revenues

Private labels



Own brands



Operating review continued

Services

Our Services segment is comprised of our vet practice, grooming salon and insurance businesses, as well as our pet sales.

Services & Other

Vet practices
Grooming salons
Insurance
Pets

Our Services brands



Services revenue

£63.0m
+25.2%



| Revenue split | Growth |
|----------------------------|---------------|
| Vet practice fee income | £28.2m +30.7% |
| Other services | £34.8m +21.1% |

Pet services provide customers with a further reason to visit our stores, as well as creating theatre for our customers and their children. Adding vet practices and grooming salons to stores increases the frequency with which customers visit, lifting merchandise product spend and enhancing brand loyalty.

Veterinary practices

Pets at Home operates the only large scale joint venture veterinary services business in the UK market, under our two brands – Vets4Pets and Companion Care. Practices are operated within stores, as well as in standalone locations.

“Pets at Home operates the only large scale joint venture veterinary services business in the UK market.”

The JV model allows each vet practice to operate as an independent business, owned by a veterinary JV partner and Pets at Home, 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 percentage of their revenue in the form of fee income to Pets at Home, for which we provide all the administrative and back office support, allowing the vet partner and their colleagues to focus on clinical excellence and customer service. If the practice is located in one of our stores, a service charge is also payable to Pets at Home, reflecting the cost of the space occupied. The JV Partner has access to all profits in the business when the loans are repaid and is entitled to the increase in value of the business if they wish to sell the practice to a new JV partner.

We also operate nine practices wholly owned by Pets at Home. These enable us to trial new initiatives before rolling out across the JV practice network, as well as offering vets the opportunity to trial working in one of our practices before committing to the JV partnership.

All new vet practices are opened under the Vets4Pets brand and this has become our primary brand, held by 71% of practices in the Group.

Looking forward, we will continue to develop a number of strategic initiatives across the Vet Group, including the addition of specialist referral hospitals, the development of existing practices into 24/7 or extended hours surgeries, extending our pet care plans into chronic care and other segments, and continuing with Vets4Pets brand investment and advertisement.

Grooming salons

We operate the largest branded chain of pet grooming salons in the UK. Groom Room salons are wholly owned and operated by Pets at Home and are primarily located within our stores, alongside two trials of grooming salons co-located with a standalone vet practice.

Groom Rooms offer both dog and cat grooming services, including bathing, clipping, coat cutting and nail trimming. The salons are operated by colleagues who have participated in extensive training and education programmes to become highly skilled grooming stylists.

In the fragmented UK grooming market, where service and quality levels can vary considerably, our aim is to create a national brand with consistent, outstanding service.

Pet insurance

We offer Pets at Home branded insurance in our stores and online, which provides cover for dogs, cats or rabbits. We operate on an introducer basis, with the insurance product issued and underwritten by a third party.

Strategy in action

VIP club is growing pet services

The VIP loyalty club is allowing us to increase customer use of our grooming and vet services.

The VIP card can be swiped and charity lifelines accumulated across our stores, grooming salons and vet practices, allowing us to track integrated customer spend behaviour. As part of the VIP signup process, customers share with us the details of their pets; name, type, breed and age.

How do we encourage VIPs to use pet services?

- New VIP members receive 25% off a full dog groom
- After any subsequent dog grooms, VIPs receive a follow up discount voucher
- New VIP members can receive a health check with one of our vets for only £10
- Vet and grooming services are marketed to VIP members who have pets suitable for such services, and are not currently using the Groom Room or vet practices.

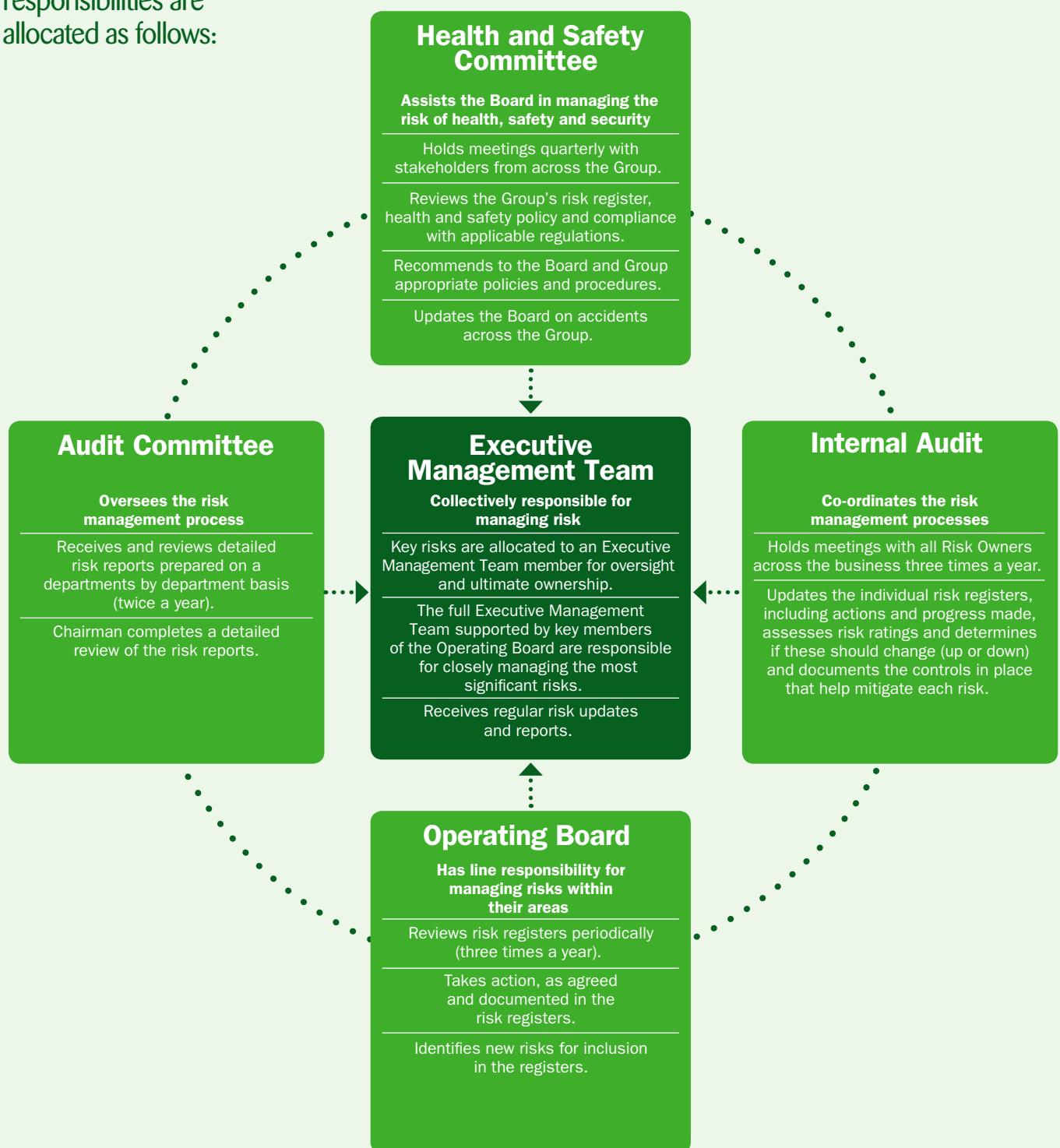


Risk management

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



Risk management responsibilities are allocated as follows:



Risks and uncertainties

| Key risk | Description and impact | Mitigation |
|--------------------------------------|---|---|
| Brand and reputation | <p>The Group recognises the need to protect its brand and reputation. Failure to do so could result in a loss of trust and confidence by both customers and colleagues.</p> | <p>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.</p> <p>The Group also deals with customers' pets on a daily basis through its veterinary practices, 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.</p> <p>We operate a confidential 'Pet Promise Line' where colleagues are able to raise concerns about pet care directly with our Head of Pets.</p> <p>Pet welfare across the Group is overseen by the 'Pets Before Profit' Board committee. This meets regularly to review pet welfare and check that appropriate processes are in place to ensure we maintain our high welfare standards.</p> |
| Competition | <p>The Group competes with a wide variety of retailers and vet practices, including other pet specialists, supermarkets and discounters.</p> <p>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.</p> <p>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.</p> | <p>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 that our technology platform is capable of supporting our online strategy. Further upgrades have taken place since then and the site has recently been optimised for mobile usage.</p> <p>The VIP (Very Important Pet) club was launched in November 2012 and has been very successful – attracting 3.2m members at Financial year end. This customer and pet 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.</p> <p>We track and respond to competitor pricing movements where appropriate. 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.</p> |
| Stores and services expansion | <p>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.</p> <p>If we are unable to deliver the number of sites necessary to fulfil the stores and services expansion laid out in our strategy and maintain our existing numbers of sites, our expected financial performance could be adversely impacted.</p> | <p>To successfully open a new store, we have to, in the first instance, identify an appropriate location with a store size appropriate to the local market and with lease terms that are acceptable. We have the ability, with smaller footprint stores, to utilise mezzanine space to deploy Vet and Groom Room offerings, maximising the opportunity to open the majority of stores with a full service proposition. 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.</p> <p>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. Certain geographical areas (for example, within the M25) represent a particular risk as suitable space for new stores, Groom Rooms and vet practices is limited and existing sites may be redeveloped. Where existing sites are at risk of redevelopment or where leases may not be renewed, specific measures are taken to maximise the opportunity for the Group including considering purchasing the freehold if appropriate.</p> |
| Our people | <p>As a specialist retailer, retaining highly trained and engaged colleagues is fundamental to our continued success and the delivery of our future growth.</p> <p>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.</p> <p>Our growth plans and future success are at risk if we do not recruit and retain high calibre, talented senior management.</p> | <p>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 and we are participating in the 'Great Place to Work' programme.</p> <p>Our remuneration policy, as set out on pages 86 to 103, is designed to ensure executives of the necessary calibre are attracted and retained and that through our Long-Term Incentive 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. Succession plans are in place for key roles and these are regularly reviewed by the board and senior management.</p> |

| Outlook | Strategic priorities | Change |
|---|--|---|
| <p>As we continue to increase our size and scale we must work to ensure pet welfare standards continue to be maintained at a high level across the Group. We will continue to monitor welfare standards closely and take appropriate steps where required to maintain them.</p> | <p>1 Grow like-for-like</p> <p>2 Grow space and optimise footprint</p> <p>3 Grow margins</p> |  |
| <p>Recent competition for physical retail store space has been limited and we do not expect this to change in the near term. There is some increase in the number of pure-play online competitors but this is not expected to have a significant impact on our business. Competitor pricing strategies could become more competitive.</p> | <p>1 Grow like-for-like</p> <p>2 Grow space and optimise footprint</p> <p>3 Grow margins</p> |  |
| <p>An increased proportion of our new stores will be located on newly developed retail parks and park extensions. Whilst this can create greater timing uncertainties, we do not expect any challenges in relation to the volume of new space available.</p> | <p>1 Grow like-for-like</p> <p>2 Grow space and optimise footprint</p> <p>3 Grow margins</p> |  |
| <p>We need to ensure that the Group continues to be an attractive place to work particularly if employment levels continue to increase nationally and there is more competition in the job market.</p> | <p>1 Grow like-for-like</p> <p>2 Grow space and optimise footprint</p> |  |

Risks and uncertainties continued

| Key risk | Description and impact | Mitigation |
|--|---|---|
| Business Systems and Information Security | <p>We are aware of the need to keep core business systems up to date, with the capability to support the Group's growth plans.</p> <p>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. Also, the scale of system and infrastructure change is currently significant and this may impact on our ability to deliver IT services to the business.</p> <p>We hold a significant amount of customer data and recognise the need to keep this secure. Any information security breach could adversely affect our reputation and the take up of our customer loyalty scheme.</p> | <p>We are in the process of upgrading our business critical systems to industry leading packages. SAP was implemented in the prior financial year and the HANA and BPC modules have recently been added. Our warehouse management system has been replaced with JDA during this year and core enterprise applications such as IBM Websphere have been upgraded. We continue to monitor the level of activity within the Business Systems function and will respond appropriately should IT project or service delivery be at risk.</p> <p>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.</p> <p>Our customer loyalty scheme data is held by a specialist third party who has industry standard information security accreditations and is regularly audited. Encryption is used to protect the transmission of customer data. Internal audits of IT security and data protection have recently taken place within Pets at Home, to ensure we have both a focus and improvement plan in respect of processes and control in this area.</p> |
| Supply Chain/Sourcing | <p>During the financial year, approximately 17% of the Group's Merchandise cost of goods were globally sourced, 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.</p> <p>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.</p> <p>We have two national distribution centres covering the north and south of the UK respectively. A disaster at one of the DCs may result in a significant interruption to the supply of stock for a large number of stores and in the fulfilment of internet orders.</p> | <p>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. A review of our sourcing activities in the Far East was carried out by our Internal Audit department during the year and no significant issues were noted.</p> <p>Exposure to foreign currency movements is mitigated through our hedging strategy. More detail on this can be found on page 138.</p> <p>Business continuity plans are in place for the distribution centres and plans are in place to mitigate the impact of any disaster by servicing all stores from a single distribution centre.</p> |
| Liquidity and Credit Risk | <p>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.</p> <p>Without adequate cash resources the Group may be unable to deliver its growth plans, with a consequent impact on future financial performance.</p> | <p>The Group's finances are continually monitored 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 ten banks.</p> <p>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 and two non-revolving facilities in place with major high street lenders which give us confidence that our medium-term growth plans are financed adequately.</p> <p>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.</p> <p>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.</p> |
| Treasury and Financial Risk | <p>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. The Group also faces risks from changes to interest rates and compliance with taxation legislation.</p> <p>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.</p> | <p>This exposure to FX fluctuation is managed via forward foreign currency contracts which are designated as cash flow hedges.</p> <p>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 134.</p> <p>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.</p> <p>Dedicated tax resource is in place and specialist tax advisors are retained to assist in this area.</p> |
| Regulatory and Compliance | Many of the Group's activities are regulated by legislation and standards including, but not limited to, trading, advertising, product quality, health and safety, pet shop licensing, carbon emission reporting, bribery act and data protection. Failure to comply with these may result in financial or reputational damage. | We actively monitor compliance with our existing obligations and we have internal policies and standards to ensure compliance where appropriate. We also provide training for colleagues where required and operate a confidential hotline for colleagues to raise concerns in confidence. |
| Extreme Weather | Prolonged extreme or unseasonal weather conditions may reduce footfall in our stores, resulting in weak sales, leading to adverse impacts on profit and inventory. | We actively monitor and forecast demand and, should this risk occur, we would review planned and tactical promotional activity to determine whether strengthening this would drive sales. |

| Outlook | Strategic priorities | Change |
|---|---|---|
| <p>Our systems stability and reliability will continue to improve as upgrades and enhancements take place and new systems are adopted.</p> <p>Information security risks are likely to continue to increase. We monitor this risk and will strengthen our controls as required.</p> | <p>1 Grow like-for-like</p> |  |
| <p>Further audit diligence in regard to the supply chain will take place over the next financial year. Our strong supplier relationships will help to ensure that risks in this area are well managed.</p> | <p>1 Grow like-for-like</p> <p>3 Grow margins</p> |  |
| <p>We will continue to monitor our finances and build relationships with our finance providers. We do not anticipate significant macroeconomic changes in the short to medium term that may impact on this risk area.</p> | <p>2 Grow space and optimise footprint</p> |  |
| <p>Ongoing currency movements between the US dollar and GBP may result in further foreign exchange risk. We will continue to monitor this and adjust our approach to hedging where necessary.</p> | <p>3 Grow margins</p> |  |
| <p>We continue to monitor potential future developments such as the new European Data Protection Regulation and plan accordingly.</p> | <p>1 Grow like-for-like</p> | <p>New risk</p> |
| <p>Planned improvements in our omni-channel offering, including the ability to use mobile devices, will improve our resilience to reduced store footfall during periods of extreme weather.</p> | <p>1 Grow like-for-like</p> | <p>New risk</p> |

Corporate Social Responsibility

Responsible retailing is at the heart of our business



Tessa Green CBE
Independent Non-Executive Director

Introduction

I am proud to introduce our 2015 Corporate Social Responsibility (CSR) report. Behaving responsibly is integral to how our business operates and fundamental to delivering across our PawPrint.

Our customers expect us to live our values, our investors see the strength of our practices as a key driver of our business model and our pets certainly rely on us to deliver on our principles. Setting the highest standards and the clearest expectations about the way we engage with our colleagues, communities, suppliers and environment is therefore critical to our ongoing success and makes us the unique business that we are today.

At Pets at Home, we have a long history of successfully driving our CSR values throughout our business and we are committed to living the values which are important to our colleagues, customers and broader stakeholders.

At the start of the year we formally established our CSR Board Committee. The role of the Committee is to advise the Board on the development and direction of the Group's CSR objectives and strategy and to ensure that it is aligned with and supports our values whilst simultaneously innovating and helping to drive our business forward. To ensure that we live our number one value, Pets Before Profit, we have also established a second Board

Committee, specifically to help ensure that we maintain the highest possible welfare standards for all pets in our care.

We have been developing our CSR strategy for some time and CSR is reflected in our colleagues' roles and responsibilities, in our strategy development processes and in our reporting structures. To drive the implementation of our CSR strategy throughout the Group we have recently formed a CSR Operations Board made up of the key members of our team, reporting directly into the CSR Board Committee.

2015 has been a year of considerable progress. Some of the developments that we are most proud of include:

Our Pets People

- Entered Great Places to Work survey and gained 15th place;
- Increased colleague engagement to 94%;

Heart of the community

- Over 20,000 pet workshops carried out with school children in our stores;
- £1.4m worth of lifelines donated by VIP members to customer's chosen charities;

Sourcing with integrity

- The RSPCA inspected all of our primary pet suppliers;
- 100% of Pets at Home branded and Pets at Home registered branded suppliers managed by PAH Asia have now received and passed an independent ethical audit;

Our Pets Environment

- Increased the amount of waste diverted from landfill to 90%;
- Reduced the amount of electricity we use in our stores by 4% (kWh/sqft).

If you would like to see more examples of our CSR strategy in action then please visit our website: investors.petsathome.com

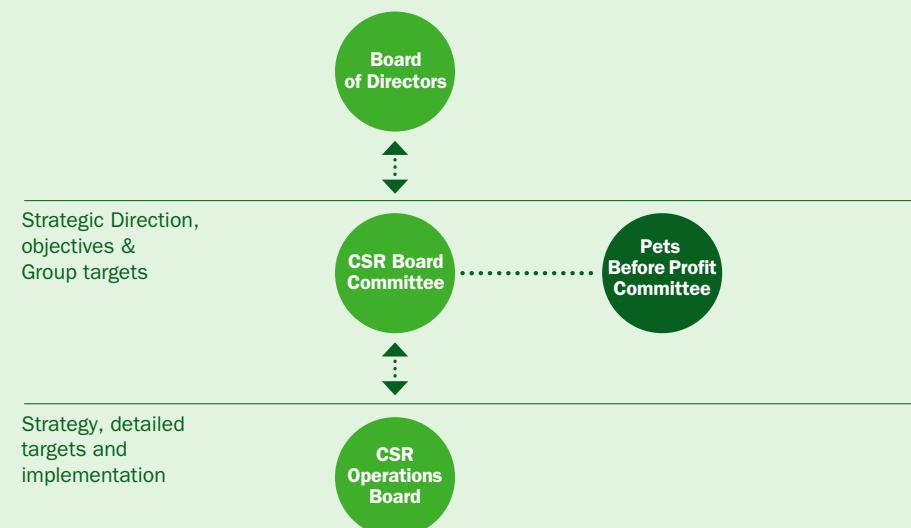
Looking forward, we will continue to focus on the four pillars of our CSR strategy and which you can read about in the following pages. This coming year we will also undertake a detailed strategy review across each area, setting ourselves challenging longer-term targets that will guide our journey year on year.

I hope that you will enjoy reading our report and be as excited as we are about our plans for next year and beyond.

Yours sincerely,

Tessa Green

Chairman
Corporate Social Responsibility Committee
Pets Before Profit Committee
3 June 2015



Green Paws

Responsible Retailing people • pet • planet



Our vision

Our vision is “to be the best pet shop in the world” and we use our “Green Paws” PawPrint to highlight the four pillars of our strategy which will help us to achieve this.



Visualising our CSR strategy:

Our CSR strategy has been developed over time, with its key objectives driven by the feedback we have received from a wide range of stakeholders, as well as aligning with our broader business objectives.

| Our pillars | 1 Our Pets People | 2 Heart of the Community | 3 Sourcing with Integrity | 4 Our Pets Environment |
|----------------|--|--|--|---|
| Our vision | Be a great place to work | At the heart of every community | Pets Before Profit | Efficiently using and respecting all resources |
| Our objectives | <ul style="list-style-type: none"> Exceptional Colleague Engagement World-class training Keeping Our Pets People healthy and safe | <ul style="list-style-type: none"> Leading the way in responsible pet ownership Rehoming pets in need of new families Providing lifelines to local and national charitable causes | <ul style="list-style-type: none"> All suppliers meet our stringent standards Promoting the highest possible animal welfare standards Identifying new and more sustainable products for our customers | <ul style="list-style-type: none"> Eliminating waste sent to landfill Using less energy Rethinking our packaging Becoming more fuel efficient |

Corporate Social Responsibility

continued

1 Our Pets People

Our commitment

At Pets at Home, the role that highly trained and engaged colleagues play is fundamental to becoming 'the best pet shop in the world'.

| What we have achieved this year | | Target FY16 |
|---|--|--|
| Exceptional colleague engagement | Increased colleague engagement to 94% from 93% |  Maintain Colleague Engagement at 94% and increase "strongly agree" measure to 80% from 77% |
| | Achieved 15th place in the "UK Great Place to Work" survey |  Maintain top 20 place in the "UK Great Place to Work" survey |
| World class training | Increased highly trained store colleagues to 5,546 from 4,732 last year |  Steps 1 and 2 to achieve external accreditation |
| | Groom Room Salon Manager Training embedding the practical skills, knowledge and understanding of the City and Guild Level 3 Professional Diploma for Grooming Stylists |  Every Groom Room to have a Level 3 City and Guilds Certified Colleague |
| Keeping our pets people healthy and safe | 30% reduction in Colleague Accident Rate |  Reduce Colleague Accident Rate by a further 5% |
| | Gained a merit for the British Safety Council's International Safety Awards |  Achieve a Distinction in the British Safety Council's International Safety Awards |

Exceptional colleague engagement

94%
colleague engagement

Listening to our colleagues is a key part of the Pets at Home culture and we do this in several ways. 'We're all Ears' is our own internal engagement survey. In 2015, 96% of colleagues, 6,643, took part and we received some great feedback. However, the survey is only the start and the real work comes once we have the results and move into 'We're all Action' mode, proactively responding to the feedback we have received.

In addition to our own internal survey, this year we have also taken part in the independent external Great Place to Work survey, giving colleagues further opportunities to tell us what they like about working for Pets at Home and how we can become even better. We achieved 15th position.

Throughout the business we hold regular focus groups/listening groups and feedback sessions at all colleague levels.

We also believe it's important that we say 'thank you' to all of our colleagues who have really gone above and beyond for us in the year. Last Christmas we re-launched our 'Values Challenge' and encouraged colleagues to recognise each other for living our values. In December 2014, more than 12,000 'thank yous' were received by colleagues.

World-class training

5,546
colleagues completed Steps 1 and 2

At the heart of the training we provide for our store colleagues is our earn as you learn steps programme. Steps 1 and 2 provide the knowledge we believe is essential for our colleagues to deliver a consistently high level of customer service and are compulsory. At the end of the year, we had 5,546 (89%) colleagues who have completed both Step 1 and 2. Step 3 provides more specialised knowledge in nutrition, aquatics, reptile, small animals, dog and cat. Following feedback from colleagues who told us they really wanted an opportunity to develop their knowledge and skills further, we have opened up opportunities for colleagues to gain Step 3 qualification in up to three specialisms and actively encourage colleagues to take that next step. As a result of that feedback, the numbers studying for Step 3 have risen to 421 at the end of this year from 366 at the end of the previous year.

Two years ago we also launched Step 4. This Step is specifically targeted at colleagues who want to develop a career with pets rather than into management and enables them to complete a year-long programme on their area of speciality. Once qualified, they are given a pay increase equivalent to that of an Assistant Manager's salary.

We also have a detailed three steps training programme in our Groom Rooms called "Prep It", "Snip It" and "Clip It". Each part of the steps is supported by a grooming portfolio of evidence which includes text and supporting photographs which cover all aspects of grooming that the colleagues complete in the salon. The steps take nine months to complete following nine practical assessments, three underpinning knowledge work books, three pet pawtal tests, three CPD courses and over 1,400 hours of training.

In addition, our Groom Room salon manager training now embeds the practical skills, knowledge and understanding of the City and Guild Level 3 Professional Diploma for Grooming Stylists. With over 60 Groom Room managers already enrolled to this level, we plan for every salon to have a colleague qualified to this level. These will be trained through our three training academies which will provide this qualification.

For colleagues wishing to develop their management careers, we also have programmes to support them as they move through the business. Our Rising Star programme supports our store colleagues as they rise to Assistant Manager level, our Moving on Up programme supports them through to Deputy Manager level and our Fast Track programme supports them through to becoming Store Manager. We are proud that more than 50% of our Store Managers have come through the Fast Track system.



Training with Pets at Home



"I joined Pets at Home in August 2004 and immediately started my training with Step 1. It was great to feel that the business was investing in me as a person and I was really excited to complete the first Step because it then meant that I was able to start selling pets. This is something you can't do until the Field Pet Manager has signed off the training and is happy that you have all of the skills necessary to be able to advise customers on the best pets for them and, more importantly, how they should look after them once they have got them home.

I then started Step 2, which focused in more detail on areas such as expertise in cats, dogs, fish and reptiles plus specialist areas such as nutrition, parasites and other pests. Because of the extra skills I had learnt I also received a pay increase when I had finished.

Although Step 3 is voluntary, I wanted to do it to gain more pet care expertise and so I decided on a course in Aquatics. The work was quite intense and it takes about a year to complete it. Pets at Home also gave me another pay increase to say well done and to recognise my expertise.

Last year, Step 4 was launched and I decided to go for that one too. Again, I specialised in Aquatics. It has taken me another year to complete it but I was really pleased to hear that I passed it on 8 May 2014.

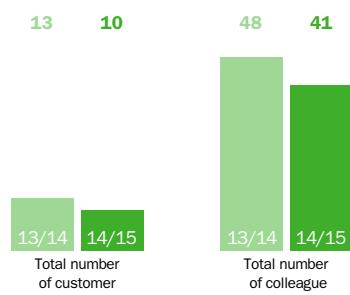
For me, the training that Pets at Home provides to its colleagues is really amazing. It's given me the chance to learn, improve my skills and build my expertise in the areas that I am interested in. It means that when a customer comes into my store and needs to know about Aquatics, I'm the man who can really help."

Joel Collict
Pets at Home
Leicester Fosse Park

Corporate Social Responsibility

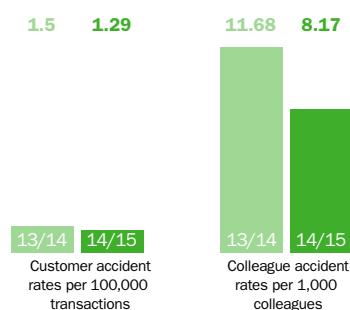
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Total RIDDOR* accidents – Stores/Practices

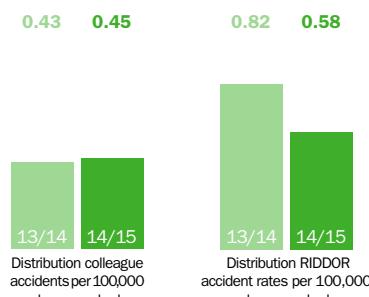


*Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013

Accident rates – Stores/Practices



Distribution accident rates



FY 14/15 Accident Causation

| | |
|--|-----|
| 1. Animal scratches/stings | 7% |
| 2. Contact with electricity or an electrical discharge | 1% |
| 3. Cut or scratch due to sharp object | 14% |
| 4. Exposed to or in contact with a harmful substance | 2% |
| 5. Fell from a height | 1% |
| 6. Hit by a moving, flying or falling object | 11% |
| 7. Hit something fixed or stationary | 7% |
| 8. Injured due to handling, lifting or carrying | 4% |
| 9. Injured while using knives/ hand operated equipment | 2% |
| 10. Minor animal bites | 36% |
| 11. Slipped, tripped or fell on the same level | 15% |

Keeping Our Pets People healthy and safe

30%
Reduction in colleague accident rate

We are committed to providing a safe and healthy environment for all of our colleagues, customers and third party contractors and we have robust control measures in place to minimise the risk of incidents. We actively encourage a positive health and safety culture throughout our stores, veterinary practices, groomers, distribution centres and support offices.

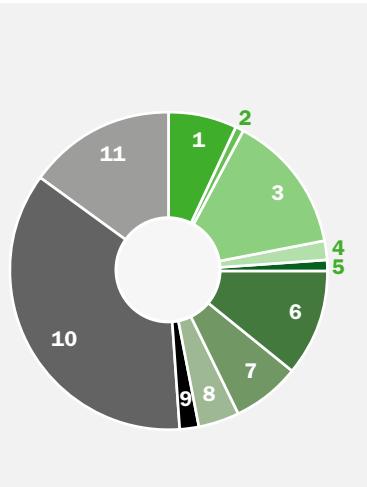
We continue to benchmark the Group Accident Incident Rate which also includes the accidents which have taken place in our joint venture veterinary surgeries. During the financial year, total accidents across the Group increased by 0.5%, due to the expansion of the Group across all areas. However, there has been a significant reduction in the Colleague Accident Rate from 11.68 to 8.17 accidents per 1,000 colleagues, and a reduction in the Customer Accident Rate from 1.50 to 1.29 per 100,000 transactions. The number of RIDDOR accidents decreased by 15% in our Stores/Practices during the year. In Distribution, there was a slight increase of 0.02 accidents per 100,000 hours worked but a 0.24 decrease in RIDDOR accidents for the year.

Our health and safety handbook has been revised and re-launched to bring together the Group's standards on health and safety. It includes the fundamental safety systems in all parts of the business that colleagues and visitors are expected to follow.

This year for the first time, our two distribution centres applied for the British Safety Council's International Safety Awards. Both sites received Merits. The award is marked out of 60 points and to gain a merit a score of between 48 and 59 must be achieved. Our distribution centre, in Stoke, achieved 58 and our distribution centre, in Northampton, achieved 57. In addition, we also won the "Best in Sector Award for Wholesale and Retail services" being one out of only 11 organisations that won a best in sector award.



We continue to promote health and safety through the Group to all of our colleagues and promote a "Stay Safe" culture.



2 Heart of the Community

Our commitment

Being at the ‘Heart of Every Community’ is one of the core values we live by. With 400 stores and 338 vet practices serving neighbourhoods the length and breadth of the UK we believe that we have a responsibility to contribute positively towards the wellbeing of our local communities.

| What we have achieved this year | Target FY16 |
|--|---|
| Leading the way on responsible pet ownership | Average 117 Pond League* points against target of 35 Pond League Points* per store |
| | Rollout the pet workshop online booking tool for every pet event |
| | Held more than 20,000 pet workshops in store |
| | Support our local communities through providing at least 1,000 Work Inspiration Days |
| Rehoming pets in need of new families | Rehomed over 68,000 pets through the adoption centres in our stores |
| | Rehome 70,000 pets through the adoption centres in our stores |
| Providing lifelines to local and national charities | Raised over £4.5m for charitable causes |
| | Donate over £1.4m worth of VIP lifelines to charities chosen by our customers |
| | Raise £1,900,000 in stores for Support Adoption for Pets with an overall fundraising target of £3,148,950 |
| | Provide further £600,000 worth of Wainwright's dog food to the Dogs Trust |
| Provided over 7,400 charity leave days for every colleague | Continue to provide a charity leave day for every colleague |



Leading the way on responsible pet ownership

763

Beaver, Cubs and Brownie workshops held in stores

Young people are the pet owners of tomorrow. Their knowledge about pet care and commitment to their pets flows through to their parents today. Educating children about responsible pet ownership is therefore an incredibly important job and one that we take very seriously.

To maintain the momentum in this initiative, we run “My Pond League”, our internal programme that awards points to each of our stores for the number of events that they hold for their local community. The number of Pond League points awarded to stores continues to increase year on year.

As part of “My Pond League”, we have been running our children education programme for a number of years. In the last year, 714 schools have visited our stores, an increase from 417 last year. In addition, over 19,000 events have been held during weekends and school holidays where we have held dedicated workshops to teach children about responsible pet ownership.

We also continue to work closely with the Scout Association and sponsor their Animal Care badge. This year we have also started sponsorship of a similar badge for the Girl Guides Association. To gain this badge, we offer free workshops through “My Pond League” and this year we held 910 events (an increase from 622 last year).

To make it easier for children to participate in our events, we have put in place an online booking system for each of our stores. We rolled this out during Easter week this year and we received over 10,500 bookings for a seven day period.

Corporate Social Responsibility

continued

Providing work inspiration

1,000
work inspiration placements

We have offered work experience for many years to a wide variety of people within our communities, however, next year, we want to elevate our work experience into work inspiration. We aim to offer a programme that will not only provide those on placement with the skills and knowledge about the world of work but also inspiration to be the best that they can be. We will be working with the Shaw Trust, who support disabled people, the Retail Trust, in their Retail Right programme which support 18–22 year old NEETs (not in education, employment or training) and local schools and colleagues for year 10 pupils and Animal Management (year 1) students. The programme we offer is designed to give them key skills, from the importance of timekeeping and appearance to softer skills of team work and customer service, and will provide all those on placement with a record of the skills learned, their self-review and a reference to help to support them gain future employment. We aim to have up to 1,000 of these placements each year.

Rehoming pets in need of new families

68,000
pets rehomed through adoption centres in our stores

We take great care when we sell a pet to make sure that they all go to loving forever homes. But that's not where we see our responsibility ending. Sometimes, due to circumstances beyond their control, owners can find that they are no longer able to look after their pet. Through our dedicated in-store adoption centres, we are committed to rehoming any pet that we have sold and that subsequently needs a new family. We will also rehome pets that did not come from us originally, if they are a type that we sell and our colleagues are trained to care for. This year we rehomed over 68,000 pets through the adoption centres in our stores.

Providing Lifelines to local and national charities

600
animal charities supported as chosen by our customers

Our VIP Lifelines

In addition to the loyalty rewards offered by our VIP club, we also award our customers points for every purchase they make with us. These points can be converted into 'VIP Lifelines' which our customers can donate to local animal charities. This year, our VIP club members across the country have helped us raise over £1.4m worth of Lifelines donations, supporting more than 600 animal charities throughout the UK.

Support Adoption for Pets

Support Adoption for Pets is a charity with a single passionate aim. It exists to help give abandoned and homeless pets a second chance of happiness. Most Animal Rescue Centres are completely reliant on donations and public support to help provide sanctuary for the pets in their care and Support Adoption for Pets provides much needed funding and grants to these organisations. Every year, Support Adoption for Pets hosts a number of events in our stores to raise much needed funds to enable it to support these Centres. This year, our stores raised £1.9m against a target of £1m. In total, £3.1m was raised for Support Adoption for Pets, beating the target of £2.8m.



Feeding the Dogs Trust

In August 2013, we made a commitment that, for the next three years, we would fund and provide Wainwright's dog food for all of the dogs at the Dogs Trust. With more than 1,400 dogs in their care at any one time, they need a lot of food! Plus, each dog that is re-homed from the Dogs Trust takes home a 2kg bag of Wainwright's dog food to help start the next chapter of their lives in the best way possible. This means that this year alone we have provided £635,493 worth of Wainwright's dog food to the Dogs Trust.

Charity days

We provide every colleague the opportunity to help out at a charity of their choice for one day in the year, which amounted to 7,400 charity leave days this year.

3 Sourcing with Integrity

Our commitment

Pets are both our business and our passion and 'Pets before Profits' has always been our number one core value. Advocating the ethical and responsible treatment of pets is incredibly important to us and we believe the best way to do this is to lead by example, so we keep every aspect of our pet operations under regular scrutiny.

| What we have achieved this year | | Target FY16 |
|---|--|--|
| Driving the standards in the pet industry | 100% of primary pet suppliers independently inspected by both the RSPCA and SAI Global | ✓ Continue to audit primary pet suppliers with at least 8 audits per annum per supplier |
| | 100% of PAH branded and PAH registered branded suppliers managed by PAH Asia have received and passed an ethical audit in line with our requirements | ✓ Deliver the re-audit programme we have put in place across all our Asian PAH registered branded and PAH branded suppliers |
| | 100% of PAH branded and PAH registered branded suppliers that have UK/EU head offices and Asian factories submitted evidence of audit compliance to PAH requirements | ✓ 100% of UK/EU PAH branded and PAH registered branded food suppliers to be either BSC (or equivalent quality management system) accredited or to have been visited and audited by a member of the food technical team |
| | 100% of food and non-food suppliers confirmed acceptance and compliance to the PAH Animal Testing Policy | ✓ Re-visit and revise our testing protocols across all categories to ensure relevant and up to date with the latest developments/industry practices |
| Promoting the highest possible animal welfare standards | Reviewed store pet audit and implemented changes | ✓ Incorporate a gold standard into the store pet audit |
| | Launched microchipping of all rabbits sold and adopted in stores | ✓ Roll out new aquatics water test |
| | Launched free rabbit vaccination vouchers | ✓ Review Code of Practice for pet suppliers |
| | Completed co-branding of main Pet Care leaflets with the RSPCA | |

Driving the standards in the pet industry

100%

of our primary pet suppliers visited by the RSPCA

We continue to challenge and revise our own internal standards and codes of practice, as well as our methodologies for auditing our suppliers.

Our internal store pet audit is reviewed annually to ensure that we are incorporating best practice in pet welfare. We revamped our store audit this year so that hay racks were installed in all of our rabbit villages so that the hay stays fresh for the rabbits for longer. Our stores continue to receive a strict annual external audit from SAI Global under the Excellence Assured Petcare Scheme as we believe that external verification is vital to maintaining standards. 374 stores were audited this year.

We only work with pet suppliers who fulfil the five freedoms laid down in the Animal Welfare Act 2006 and the high standards set down in our own code of practice.

Quarterly inspections of all primary pet suppliers are carried out by our Pet Supply Manager and an annual welfare audit is conducted by our consultant vet. Twice a year, we also commission independent annual audits of all of our primary suppliers by SAI Global to make sure that they continue to meet our high standards.

This year, in addition to our internal audits, all of our primary pet suppliers have been inspected by the RSPCA and we have introduced an additional annual health audit by an RCVS Lab Specialist Vet.

We don't just stop at our primary pet suppliers; all suppliers are required to follow our Ethical Trading Policy, which is complemented by a detailed quality manual. Last year we ensured that all of our Asian suppliers of Pets at Home registered brands and Pets at Home branded products submitted evidence of compliance to our requirements with corrective action plans in place for any minor non-conformances.

This year, we have focused on our remaining Pets at Home registered brands and Pets at Home branded suppliers who supply either directly to the UK or through agents/UK managed offices. 100% of these have submitted evidence of compliance to our Ethical Trading Policy through audit documentation that has been conducted independently by third party regulated bodies. This is in addition to the regular direct interaction we have with our Asian suppliers.

We are the only UK pet retailer to have a dedicated Hong Kong sourcing office which was established in 2012. The office has facilitated the implementation of a programme where Pets at Home Asia and UK colleagues regularly visit and meet with their Asian partners to educate them, resolve any challenges faced, share the PAH factory/product standards and monitor performance.

Our ethical audit covers detailed levels of standards required in relation to:

- Hours of work
- Labour practices
- Working conditions
- Onsite accommodation
- Health & safety
- Environment
- Supply chain management
- Wages
- Home workers & sub-contractors

Corporate Social Responsibility

continued

Looking after our rabbits

Every year 300,000 animals go astray in the UK alone and rabbits can be very good escape artists, especially from gardens. It's fairly common for them to be handed into a veterinary practice or a pet charity that will have no idea where they have come from. Microchipping rabbits helps to reunite upset and worried owners with their beloved pet and so this year we have invested £171,217 in microchipping all rabbits sold in our stores or adopted from our in-store adoption centres.

The microchipping of our rabbits is a clear demonstration of the steps we take to promote responsible pet ownership. This year, we have re-homed over 19,000 rabbits through our in-store adoption centres. The number rehomed nationally every year is currently unknown and much of the time there is no way to track where these rabbits originated. By microchipping our rabbits, working with rehoming charities we will be able to monitor the numbers being offered for adoption. This is something that hasn't been possible before and we are very excited to be pioneering this innovation in pet welfare and retailing.

From 13 June 2014, we have also offered to every customer who bought or adopted a rabbit from our stores a voucher for a free combined vaccination to protect their rabbit against myxomatosis and Rabbit Haemorrhagic Disease. These are two diseases that can often be fatal but are easily prevented through vaccination.



Promoting the highest possible animal welfare standards

100%

of all rabbits sold or adopted in stores to be microchipped

Our focus on the welfare and responsible ownership of pets means that we frequently interact with, and seek to work alongside, a wide range of animal welfare groups including the RSPCA, RWAF and Animal Kind. This year we have also completed a detailed review of our main pet care leaflets in store in conjunction with the RSPCA to ensure that we are always providing the best advice care possible to our customers.

We continue to employ a strong in-house team of pet experts to oversee our animal welfare practices and ensure that our pets are always put first. This includes:

- Our Head of Pets; a vet with over 20 years' experience;
- Our Head of Pets Operations; over 17 years' retail experience at Pets at Home;
- Our Aquatics Operations Manager – over 20 years' experience in Freshwater and Marine Biology;
- Our Pet and Reptile Operation Manager – over 15 years' experience in pet & reptile welfare;
- Our Veterinary Nurse Assistant – a qualified veterinary nurse with over 12 years' experience in exotic vet nursing; and
- Our Veterinary Care Advisor – a highly experienced head veterinary nurse.

Highest quality and safety standards

19

tests carried out on our leads and harnesses

We are committed to ensuring that our products meet the highest quality and safety standards in the UK pet market. There are no formal regulations specific to pet products in the UK, therefore we have developed our own testing protocols for each of our product categories. These have been developed in conjunction with approved third party testing laboratories and detail any general legal requirements (SVHC/REACH), and specific performance and safety related testing requirements for all our products. We review our protocols on a regular basis to ensure that all products we develop are safe, legal and fit for purpose.

One such example is our testing protocol on collars, leads and harnesses. On top of any legal requirements, we choose to carry out 19 tests across our registered brands and PAH branded collars, leads and harnesses. Additionally, we are receiving requests from some of our branded suppliers to share our testing protocols enabling them to deliver products to the same high standards we adhere to on safety and performance of our own brand and registered branded product.

4 Our Pets Environment

Our commitment

We aim to minimise the impact of our operations on the environment. We proactively seek to minimise our consumption of core resources and maximise efficiency and we are always on the lookout for new and better ways to do things. With a rapidly growing business this is an ongoing challenge for us and we recognise that we still have a long way to go. Despite that, we are proud of the progress we are making.

In the past year we prioritised those areas of our environmental performance that are most material to our business and where we believe we can make the biggest impact. These were our waste management, energy consumption and transportation activities. In the coming year we will continue to drive these areas forward and will broaden our focus to include strategies to reduce packaging and water consumption.

As a result of our commitment to improving our environmental performance, we have now recruited a dedicated Energy Manager into our team. This new specialist role will work alongside our current team to provide expert assistance and guidance in developing our ongoing targets, and the strategies, systems and processes that will help us to deliver them.

| What we have achieved this year | | Target FY16 |
|---|--|-------------|
| Eliminating waste sent to landfill | Diverted 90% of the waste produced in the business from landfill | |
| | Diverted 3,131 tonnes of soiled animal bedding from landfill | |
| Using less electricity | Reduced the amount of kWh we use in stores per sq. ft. by 4% when compared with end of FY12 | |
| | Upgraded over 80 of our external signs to energy efficient LEDs, saving over 750 tonnes of CO ² e | |
| Becoming more fuel efficient | Reduced fuel usage by 18% per KM travelled since 2009 | |
| | Achieved 128.85 KMs travelled per 1,000 cases shipped | |
| Rethinking our packaging | Achieved 84% compliance on recent WRAP monitoring survey | |

Eliminating waste sent to landfill

90%

of waste diverted from landfill

We are committed to minimising our waste consumption with the aspiration ultimately to divert 100% waste from landfill whilst maximising our recycling rates.

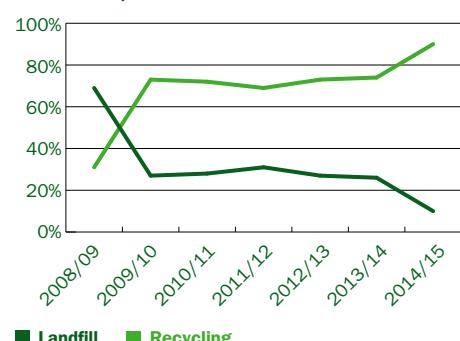
This year we diverted 90% of our waste from landfill.

We are always seeking new innovative solutions to help us manage our waste more effectively. In recent years one of our most successful innovations has seen the soiled bedding removed in our daily pet cleaning routines collected, compacted and then sent for treatment via a mixture of in-vessel composting and Bio-Mass. In the last year we diverted over 3,131 tonnes of used animal bedding from landfill, an increase of 9% on the previous year.

Once we have delivered products to store, we utilise the empty space in our delivery vehicles to send cardboard, plastic and used animal bedding back to our distribution centres. Through doing this we were able to recycle over 3,000 tonnes of cardboard and 480 tonnes of plastic.

This year we have also piloted food waste collections from Northampton DC to dispose of the small volumes of damaged dog and cat food generated and deployed a Dry Mixed Recycling bin at all of our stores that have a vets and groomers.

Waste divergence from landfill from 2008/09 to current



Corporate Social Responsibility

continued

Using less electricity

4%

reduction in electricity consumption in our stores (kWh per square foot)

Our expanding footprint of stores and vet practices makes reducing electricity use in our buildings a priority for our CSR strategy, whilst rising energy prices and increasing climate change legislation make it commercially important. Last year, our electricity use generated over 35,000 tonnes of CO²e. This year we have accelerated the implementation of measures that reduce our electricity consumption. Our key successes were:

- Following on from our successful programme last year to install LED lights in all our aquariums and bunny villages, this is now our standard specification for pet housing in all new and refurbished stores;
- We have upgraded more than 80 of our external signs to energy efficient LEDs, saving over £130,000 and 750 tonnes of CO²e;
- We have initiated a pilot to assess the feasibility of LED lights for general sales floor lighting in two stores (Sheffield Drake House and Lincoln North); and
- We have upgraded over 500 emergency lights to LED, with further upgrades planned for 2015–2016.

Rethinking our packaging

84%

compliance score across packs checked

Last year we maintained our commitment to the implementation WRAP's OPRL recycling information on all own and private brand consumer packaging. In our most recent monitoring survey, we achieved a compliance score of 84% across the packs checked, with minor discrepancies in the interpretation of the guidelines reducing our score rather than non-application of information. We are committed to reducing, recycling and reusing packaging materials as a matter of course and will continue to engage with WRAP over the development of future policies and opportunities to achieve more.

Becoming more fuel efficient

18%

decrease in fuel usage compared to FY09

Through operating a fleet of over 40 Heavy Good Vehicles from our distribution centres plus additional smaller vehicles for pet delivery, we consume a significant amount of diesel.

We only purchase the new fuel efficient and low emission Euro 6 vehicles for our heavy fleet. To date we have replaced over 50% of our heavy fleet with Euro 6 vehicles.

We have started a driver behaviour change programme at our distribution centres to encourage all our drivers to drive more defensively and eco-efficiently. We have also installed a vehicle telemetry system, Microlise, across all of our heavy fleet and plan to use this improved information to further improve driver efficiency.

Monitoring our water consumption

Water is one area where we have yet to develop a formal reduction and efficiency strategy and to set ourselves clear targets. In the coming year, we will review our water consumption and will develop a strategy to ensure we make the most efficient use of water and resources.

Calculating greenhouse gases

The Strategic Report and Directors' Report Regulations 2013 require all UK quoted companies to disclose their annual greenhouse gas emissions for scope 1 and 2. We have gone beyond this requirement by including scope 3 emissions for the first year and through improved data management. Consequently,

through publishing a more complete and robust CO₂e footprint we have seen an increase of over 48,000 tonnes of CO₂e.

Last year, we consumed over 65,000 MWh of electricity, over 13,000 MWh of gas, and we used over two million litres of diesel.

Fuel source (Tonnes of CO₂ emissions)

| | 2013-14 | 2013-14 restated | 2014-15 |
|--|---------|---------------------|---------|
| Diesel (core fleet) | 4,638 | 4,638 | 5,272 |
| Gas | 2,084 | 2,084 | 2,400 |
| Red diesel | | | 286 |
| Electricity | 32,921 | 26,898 | 32,424 |
| Diesel (3rd party) | | 2,706 | 2,806 |
| Fuel Used company cars (fuel cards) | 1,025 | 1,025 | 1,012 |
| Personal business travel (rail) | | | 19 |
| Personal business travel (air) | | | 197 |
| Personal business travel (car) | | | 769 |
| Electricity transmission & distribution losses | 2,300 | 2,835 | |

Notes:

- Pets at Home CO₂e footprint has been calculated using the 2015 DEFRA emissions factor and based on a Financial Control approach.
- In FY14, the CRC emission factors were used for electricity as opposed to 2013 DEFRA emissions and so the figures for FY14 have been restated as above.
- In line with DEFRA recommendations, electricity emissions have been split out into scope 2 indirect consumption and scope 3 for transmission and distribution losses. This has been restated for FY14.
- FY15 saw the inclusion of limited scope 3 emissions including: outsourced transportation and business travel (car, rail and air).
- FY15 saw the inclusion of red diesel for the first time. Data is not available for FY14.
- Data for third party logistics was included in FY15 for the first time, data for FY14 was retrospectively added.
- The contractors who maintain Pets at Home air-conditioning units do not have the systems in place to provide the volume of F-Gas used each year. Due to the small volumes involved, this is considered to be de minimis.

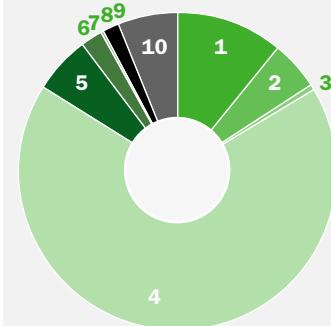
Engaging with stakeholders

We believe that it is essential that we maintain a dialogue with each of our core stakeholder groups to find out what is important to them and reflect their concerns in the development of our CSR strategy and priorities. The following table shows how we engage with each group.

In the coming year, as we continue to develop our CSR strategy, and in particular as we look to set our longer term targets, we have committed to undertake a rigorous and more targeted stakeholder engagement process, ensuring that these key groups continue to drive our strategic objectives over the long term.

| Customers | Colleagues | Shareholders | Suppliers | Animal welfare organisations |
|--|--|--|--|---|
| <ul style="list-style-type: none"> We actively engage with our 3m VIP members through regular surveys. £1.4m Lifelines have been donated by VIP members to support charities chosen by them. | <ul style="list-style-type: none"> We listen to our colleagues through our internal We're All Ears survey. We run numerous colleague events throughout the year to interact and engage with our colleagues and to gather their views and opinions on different issues. | <ul style="list-style-type: none"> We regularly engage with our majority shareholder KKR through their Green Portfolio Programme which we have been an active member of since 2010. We also engage with other shareholders such as Schroders. | <ul style="list-style-type: none"> We hold annual conferences with our UK and Asian suppliers in which we actively engage with them to obtain their views on a range of subjects. | <ul style="list-style-type: none"> We take a collaborative approach with animal welfare charities and regularly engage with a wide range of organisations such as the RSPCA, Battersea Dogs and Cats Home and the Rabbit Welfare Association on issues that are important to them. |

Fuel source (Tonnes of CO₂ emissions)



| | |
|---------------------------------------|--------|
| 1. Diesel (core fleet) | 5,272 |
| 2. Gas | 2,400 |
| 3. Red diesel | 286 |
| 4. Electricity | 32,424 |
| 5. Diesel (3rd party) | 2,806 |
| 6. Fuel used company car (fuel cards) | 1,012 |
| 7. Personal business travel (air) | 197 |
| 8. Personal business travel (car) | 769 |
| 9. Personal business travel (rail) | 19 |
| 10. Electricity T&D losses | 2,835 |
| Total | 48,092 |

Governance report

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



| | |
|---|----|
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Governance overview



"We continue to review our governance framework and processes to enhance the way we operate as a Board and deepen our strategic debate."

Tony DeNunzio
Non-Executive Chairman

Chairman's introduction

We are committed to managing the Group with business integrity and high ethical standards to ensure that our vision and values are in place and adhered to. We aim to identify and control commercial and operational risks without inhibiting the efficient running of the Company.

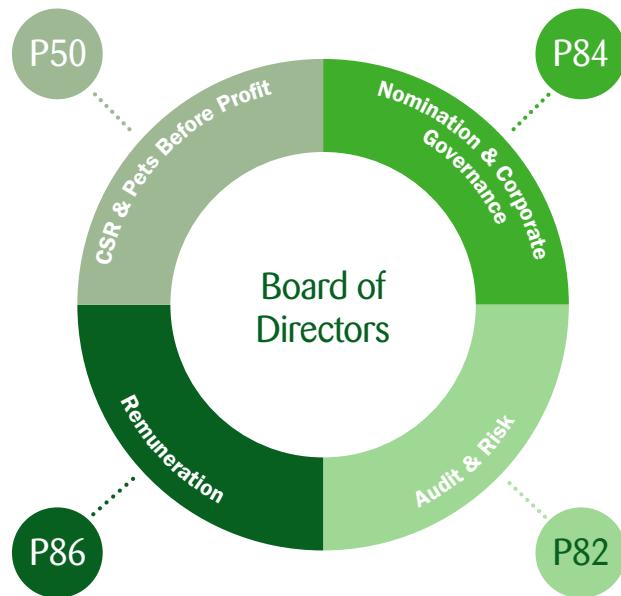
The Board is accountable for the long term success of the Group, as well as for setting the strategic priorities and objectives of the Group and its risk appetite. During our first full financial year as a listed company with newly appointed Independent Non-Executive Directors, we have dedicated considerable time to discussing the Group's strategy, not least as part of our two day annual strategy meeting which enabled the Board to look in depth at the long term strategic direction of the Group, understand progress against key strategic priorities and objectives, and confirm those areas which require ongoing Board oversight. There have also been opportunities throughout the year to visit stores with the Executive Team and Operating Board as well as the Group's distribution centres and joint venture veterinary surgeries. Further information on how the Board spent its time during this financial year can be found on page 76.

We continue to review our governance framework and processes to enhance the way we operate as a Board and deepen our strategic debates. We introduced a number of improvements to this effect in this financial year. This included a review of the financial materials received by the Board, with further enhancements to be made during FY16, which will be informed by an external evaluation of Board effectiveness which was carried out by an external facilitator during the year.

As ever, the Board is committed to the highest standards of corporate governance. Save as set out in the Corporate Governance Report, the Board has complied with the requirements of the UK Corporate Governance Code published in September 2012 by the Financial Reporting Council (the "Code") in respect of the year ended 26 March 2015 and since then has complied and intends to comply with the requirements of the updated version of the Code which applies to financial periods beginning on or after 1 October 2014.

Tony DeNunzio
Non-Executive Chairman, Pets at Home Group Plc
3 June 2015

Governance structure overview



Nomination and Corporate Governance key areas

- 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.

Audit and Risk key areas

- 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.

Remuneration key areas

- 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.

CSR and Pets Before Profit key areas

- Advising the Board on the Group's corporate responsibility objectives and strategy;
- 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.

■ Nomination & Corporate Governance Committee

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

■ Audit & Risk Committee

Amy Stirling (Chairman)
 Dennis Millard
 Paul Coby
 Paul Moody

■ Remuneration Committee

Dennis Millard (Chairman)
 Amy Stirling
 Paul Moody
 Tessa Green

■ Corporate Social Responsibility Committee

Tessa Green (Chairman)
 Dennis Millard
 Paul Coby
 Tony DeNunzio

■ Pets Before Profit Committee

Tessa Green (Chairman)
 Dennis Millard
 Paul Coby
 Tony DeNunzio

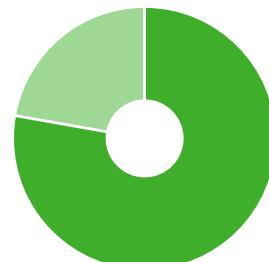
Membership of the Board



| | |
|-------------------------------------|---|
| Non-Executive Chairman | 1 |
| Executive Directors | 2 |
| Non-Executive Directors | 1 |
| Independent Non-Executive Directors | 5 |

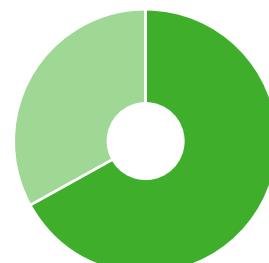
Gender breakdown

Board of Directors



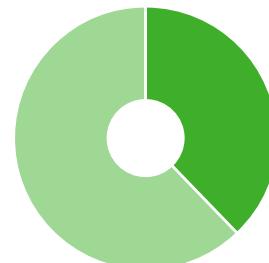
| | |
|--------|-----|
| Male | 78% |
| Female | 22% |

Executive Management



| | |
|--------|-----|
| Male | 67% |
| Female | 33% |

Group



| | |
|--------|-----|
| Male | 38% |
| Female | 62% |

Board of Directors



| Name | Tony DeNunzio CBE | Dennis Millard | Nick Wood | Ian Kellett | Amy Stirling |
|-----------------------------|---|--|---|--|---|
| Role | Non-Executive Chairman | Deputy Chairman and Senior Independent Non-Executive Director | Chief Executive Officer | Chief Financial Officer and Chief Executive Officer of Retail | Independent Non-Executive Director |
| Appointment to Board | 2014 | 2014 | 2014 | 2014 | 2014 |
| Committees | <ul style="list-style-type: none"> • Nomination & Corporate Governance Committee • CSR Committee • Pets Before Profit Committee | <ul style="list-style-type: none"> • Nomination & Corporate Governance Committee • Audit & Risk Committee • Remuneration Committee • CSR Committee • Pets Before Profit Committee | | | <ul style="list-style-type: none"> • Nomination & Corporate Governance Committee • Audit & Risk Committee • Remuneration Committee |
| Meetings attended | 9/9 | 9/9 | 9/9 | 9/9 | 9/9 |
| Current roles | <ul style="list-style-type: none"> • Non Executive Director of PrimaPrix SL. • Non Executive Director of DeNunzio Associates Ltd • Senior Advisor to Kohlberg, Kravis, Roberts & Co. L.P. | <ul style="list-style-type: none"> • Chairman of Halfords Group Plc • Senior Independent Director at Debenhams Plc • Chairman of Trustees of the charity The Holy Cross Children's Trust | <ul style="list-style-type: none"> • Chief Executive Officer of Pets at Home Group since 2012 | <ul style="list-style-type: none"> • Chief Financial Officer of Pets at Home Group since 2006 • Also responsible for the Group's property division | <ul style="list-style-type: none"> • Non-Executive member of the Cabinet Office Board and Chair of Audit and Risk Committee • Non-Executive Director at RIT Capital Partners Plc • Trustee of the Prince's Trust |
| Past roles | <ul style="list-style-type: none"> • Non-Executive Chairman of Maxeda • Non-Executive Director of Alliance Boots • President and Chief Executive Officer of Asda from 2002–2005 • Deputy Chairman of Galiform Plc (now Howdens Plc) • Chairman of the advisory board of Manchester Business School | <ul style="list-style-type: none"> • Chairman of Connect Group Plc • Non-Executive Director at Premier Farnell Plc • Non-Executive Director of Xchanging Plc from 2005–2012 | <ul style="list-style-type: none"> • Chief Executive Officer of American Golf from 2008–2012 • Over ten years at DSG International in executive and senior management roles, including as Managing Director of The Link | <ul style="list-style-type: none"> • Finance Director of Staples retail business from 2004–2006 • Deputy Finance Director of JD Wetherspoon from 1999–2004 | <ul style="list-style-type: none"> • Chief Financial Officer of the Prince's Trust • Chief Financial Officer of TalkTalk Telecom Group Plc from 2010–2013 • Chief Financial Officer Telecoms Division – Carphone Warehouse Group Plc from 2007 to 2010 |
| Brings to Board | Vast retail and financial experience. Tony was also awarded a CBE for services to retail in 2005 | Wide ranging public company experience and retail and financial expertise. Dennis is also a Chartered Accountant | Considerable retail and senior management experience | Significant financial expertise and accounting background | Financial, accounting and public company experience. Amy is also a Chartered Accountant |
| Pets | |  |  |  |  |



Governance Report
pages 76 to 81



| Paul Coby | Tessa Green CBE | Paul Moody | Brian Carroll | Louise Stonier |
|--|---|---|---|---|
| Independent Non-Executive Director | Independent Non-Executive Director | Independent Non-Executive Director | Non-Executive Director | Group Company Secretary & Legal Director |
| 2014 | 2014 | 2014 | 2014 | 2014 |
| <ul style="list-style-type: none"> • Nomination & Corporate Governance Committee • Audit & Risk Committee • CSR Committee • Pets Before Profit Committee | <ul style="list-style-type: none"> • Nomination & Corporate Governance Committee • CSR Committee • Pets Before Profit Committee • Remuneration Committee | <ul style="list-style-type: none"> • Audit & Risk Committee • Remuneration Committee • Nomination & Corporate Governance Committee | <ul style="list-style-type: none"> • Nomination & Corporate Governance Committee | |
| 8/9 | 9/9 | 8/9 | 8/9 | 9/9 |
| <ul style="list-style-type: none"> • IT Director at John Lewis • Board Member of SITA (Societe Internationale de Telecommunications Aeronautique) • Board member of P&O • IT Director of Randalls Cottages Ltd | <ul style="list-style-type: none"> • Trustee of the Royal Foundation of the Duke and Duchess of Cambridge | <ul style="list-style-type: none"> • Non-Executive Chairman of Johnson Service Group | <ul style="list-style-type: none"> • Non-Executive Director of Pets at Home since 2011 • Member of Kohlberg Kravis Roberts & Co. Partners LLP and joined the firm in 1995. Heads their consumer and retail teams in Europe and a member of the European investment committee • Board Director at Laureate Education International, Cognita Holdings Limited, SMCP SAS, Northgate Information Solutions Limited and Afriflora | <ul style="list-style-type: none"> • Company Secretary and Legal Director of Pets at Home Group since 2004 • Trustee of the charity Support Adoption For Pets |
| <ul style="list-style-type: none"> • CIO at British Airways from 2001 – 2011 • Civil Servant in the Departments of Transport and Environment | <ul style="list-style-type: none"> • Non-Executive Director of Barts Health NHS Trust • Chairman of The Royal Marsden NHS Foundation Trust from 1998–2010 • Chairman of The Royal Marsden Cancer Campaign • Head of Corporate Affairs at Carlton Communications Plc • Trustee of the Royal Botanical Gardens Kew | <ul style="list-style-type: none"> • Chief Executive Officer of Food Freshness Technology • Over 17 years at Britvic Plc, with the last 8 years as Chief Executive Officer until 2013 | <ul style="list-style-type: none"> • Corporate finance and merchant banking team member at Donaldson, Lufkin & Jenrette | <ul style="list-style-type: none"> • Associate in the corporate team at DLA Piper LLP from 2000–2004 • Solicitor at CMS Cameron McKenna from 1997–2000 |
| Significant e-commerce, international and systems technology experience | Considerable background in the not-for-profit and charitable sectors | Deep consumer goods and public company experience | Strategic business, financial and corporate finance expertise | Legal knowledge and expertise |
| | | | | |

Executive Management Team



| Name | Nick Wood | Ian Kellett | Sally Hopson MBE |
|---------------------|---|---|---|
| Role | Chief Executive Officer | Chief Financial Officer and Chief Executive Officer of Retail | Chief Executive Officer of Services |
| Joined Pets at Home | 2012 | 2006 | 2008 |
| Biography | <p>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.</p> | <p>Ian joined Pets at Home as Chief Financial Officer in April 2006 and following recent changes to a divisional management structure, on 4 June 2015, became Chief Executive Officer of the Pets at Home Retail Division. Whilst the search for a new CFO is underway, Ian will remain as CFO and commence the transition to his new CEO role. Ian also supports the Group's veterinary business as a member of their operational board. Previous to his time at Pets at Home, Ian was finance director of Staples' retail business in the United Kingdom between 2004–2006 and deputy finance director of JD Wetherspoon plc between 1999 and 2004.</p> | <p>Sally joined Pets at Home in 2008 as the Customer, People and Development Director and became Chief Executive Officer of the Pets at Home Vet Group in 2013. Following recent changes to a divisional management structure on 4 June 2015, Sally became the Chief Executive Officer of the Services Division and Group Development and Property Director with overall responsibility for the Group's store and format development, Group property division and the Group's pet services offer, notably vets, grooming and insurance.</p> <p>Sally joined Pets at Home in December 2008 from Asda where she held a number of senior roles over 14 years. After graduating from the School of Oriental and African Studies at the University of London with a degree in Middle Eastern History, Sally joined the graduate scheme at Habitat and began a long and enjoyable career in retailing.</p> <p>Sally is also a Non-Executive Director for the Retail Trust and for Jardiland, a French garden centre chain. A particular interest in diversity led to a four year period as a commissioner on The Women in Work Commission and the Learning and Skills Council which was recognised in an MBE awarded in 2006.</p> |
| Pets | | | |





Governance Report
pages 76 to 81



| Peter Pritchard | Phil Hackney | Louise Stonier |
|---|---|---|
| Commercial Director | Logistics and Business Systems Director | Group Company Secretary & Legal Director |
| 2011 | 2007 | 2004 |
| <p>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.</p> | <p>Phil joined Pets at Home in February 2007 and has primary responsibility for the Group's logistics, supply and business systems. Phil graduated from Nottingham Trent University before starting his career with Boots where he spent 12 years in logistics operations. Phil then spent 6 years working for Tech Data, a global IT distributor, initially as the UK Logistics Director on e-commerce fulfillment operations before taking on responsibility for logistics operations in Northern Europe and latterly was part of a business team integrating mobile phone distribution from the US to the European business.</p> | <p>Louise joined Pets at Home in 2004 as Head of Legal and Company Secretary and was promoted to Group Legal Director and Company Secretary in 2008. 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.</p> |



Directors' Report

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 2012 (the "Code" or the "UK Corporate Governance Code"), The Disclosure and Transparency Rules ("DTRs") and the Listing Rules ("LRs") of the Financial Conduct Authority ("FCA").

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 2 to 61
- The Corporate Governance Report on pages 76 to 81
- The Audit & Risk Committee Report on pages 82 to 84
- The Nomination & Corporate Governance Committee Report on pages 84 and 85
- The Directors' Remuneration Report on pages 86 to 103
- Compliance with the terms of the Relationship Agreement (including the independence provisions) on page 73

Disclosures required under Listing Rule 9.8.4R

Additional information required to be disclosed by LR 9.8.4R, where applicable to the Group, can be found in the following sections of the Annual Report:

| | |
|--|-------------------------------|
| Details of long term incentive schemes | pages 95 to 98 and 148 to 151 |
| Significant contracts | page 73 |
| Dividend waivers | page 129 |
| Relationship Agreement | page 73 |

Incorporation, listing and structure

The Company was incorporated and registered in England and Wales on 10 February 2014 under the Companies Act as a public limited company with registration number 8885072 and with the name Pets at Home Group Plc.

The liability of the members of the Company is limited. The Company is domiciled in the United Kingdom and its registered office is at Epsom Avenue, Stanley Green Trading Estate, Handforth, Cheshire SK9 3RN. The telephone number of the Company's registered office is +44 161 486 6688.

The entire issued share capital of the Company was admitted to the premium listing segment of the Official List maintained by the FCA, in its capacity as the United Kingdom Listing Authority, and to trading on the London Stock Exchange plc's main market for listed securities on 17 March 2014 ("Listing").

Principal activities and future developments

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 omni-channel equestrian retailer, Ride-away. The Group has also opened a new format, dog focused high street store called Barkers which offers premium products and services targeted at highly engaged dog owners.

Further information on the Group's principal activities is set out in the front of this report and in the CEO's report on pages 14 to 17. The CEO's report 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 22 to 31.

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 44. 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 Chief Financial Officer's review on pages 36 to 39.

Research and development

The Strategic Report sets out on pages 15, 23 and 31 the innovation carried out by the Group in relation to product development.

In addition, the Group also funds a number of research projects and this year we have co-funded a Doctor of Philosophy ("PhD") at Exeter University which is looking at how to reduce the stress suffered by fish when they are transported. The PhD is being co-funded with an executive agency called CEFAS (Centre for Environment Fisheries and Aquaculture Science) which is sponsored by DEFRA (Department for Environment, Food & Rural Affairs) and advises DEFRA, as well as other public and private sector customers, on issues connected to the aquatic environment.

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 50 to 61 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 54 and also in the Corporate Governance Report on page 79.

Colleague engagement and equal opportunities

Details of the Group's activities relating to colleague engagement are set out in the section headed "Engagement" on page 16 and also in the CSR report on under the heading "Our Pets People" on pages 52 to 54.

Details of the Executive Share Schemes are set out in the Directors' Remuneration Report on pages 95 to 99 and details of colleague share ownership and plans are contained in the statement from the Remuneration Committee Chairman on page 87.

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 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
- 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.

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 | 18 February 2014 | N/A |
| Nick Wood | 11 February 2014 | N/A |
| Ian Kellett | 11 February 2014 | N/A |
| Dennis Millard | 18 February 2014 | N/A |
| Brian Carroll | 18 February 2014 | N/A |
| Tessa Green | 18 February 2014 | N/A |
| Paul Coby | 18 February 2014 | N/A |
| Amy Stirling | 18 February 2014 | N/A |
| Paul Moody | 25 March 2014 | N/A |

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 66 and 67.

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 & Corporate Governance Committee in accordance with its terms of reference for approval by the Board.

Pursuant to the terms of Relationship Agreement, the Company has agreed with the Principal Shareholder, KKR My Best Friend Limited, an affiliate of Kohlberg Kravis Roberts & Co. L.P., 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 ordinary shares and one Non-Executive Director to the Board for so long as it (and/or any of its associates, when taken together) holds 10% or more but less than 20% over the voting rights in respect of the Company's ordinary shares.

At each Annual General Meeting of the Company ("AGM") each Director then in office shall retire from office with effect from the conclusion of the meeting. When a Director retires at an AGM in accordance with the articles of association of the Company ("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 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 at the 2014 AGM, held on 9 September 2014, will expire on the date of the 2015 AGM.

Since the date of the 2014 AGM, the Directors have not exercised any of their powers to issue, or purchase, ordinary shares in the share capital of the Company.

Directors' interests

The Directors' interests in shares and options over ordinary shares in the Company as at 26 March 2015 are shown in the Directors' Remuneration Report on page 90.

Since the end of the financial year and the date of this report, there have been no changes to such interests.

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 Articles and the provisions of the Companies Act and each Director was 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 is reviewed by the Board on an ongoing basis.

Directors' Report continued

Directors' indemnities

Each Director of the Company has the benefit of a qualifying indemnity, as defined by section 236 of the Companies Act, and as permitted by the Articles, 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 Company's prospectus dated 28 February 2014 in relation to the Listing. In addition, all directors and officers of Group companies are covered by Directors & Officers liability insurance.

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 26 March 2015 and 3 June 2015, being the latest practicable date prior to the date of this Annual Report comprises 500,000,000 ordinary shares of 1 pence each. Further information regarding the Company's issued share capital can be found in note 20 on page 136 of the financial statements.

There have been no movements in the Company's issued share capital in the 2015 reporting period.

During the year the Company completed a reduction of capital whereby £1,080,477,000 standing to the credit of the Company's share premium account was cancelled, creating distributable reserves of an equivalent amount. The cancellation was formally approved by the High Court and the court order was registered by the Registrar of Companies and became effective on 30 July 2014. The cancellation had no effect on the overall net asset position of the Company and/or the Group.

Shareholder's voting rights

All members who hold ordinary shares are entitled to attend and vote at the AGM. 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. All issued share capital of the Company at the date of this Annual Report is fully paid. Certain restrictions are also imposed by laws and regulations (such as insider trading and market abuse provisions relating to prohibited periods). The LRs and the Company's share dealing code provide that whereby Directors PDMRS and certain Group employees together with their connected persons require prior Board approval to deal in the Company's securities.

For a period of one year following the date of the Company's Listing, each of the Executive Directors, the Chairman and the Senior Executives (excluding the Group Company Secretary) (each, a "Restricted Shareholder") agreed, on the terms and subject to the conditions of the Underwriting Agreement, not to dispose of any of the ordinary shares they hold in the Company (the "Initial Lock-Up Period"). Although the Initial Lock-Up Period has now expired, each Restricted Shareholder also entered into a lock-up deed dated 12 March 2014 with the Company. On the terms of each lock-up deed, each Restricted Shareholder undertook, for an additional period of 365 days (commencing on the termination of the Initial Lock-Up Period), not to dispose of more than a specified number of ordinary shares in the Company (in each case, approximately 50% of the relevant Restricted Shareholder's holding of ordinary shares). The additional lock-up periods each expire on 16 March 2016.

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

Major interests in shares

As at 26 March 2015 and 3 June 2015, being the latest practicable date prior to the date of this Annual Report, 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:

| Name of Shareholder | Number of Ordinary Shares as at 26.03.15 | % of Issued Share Capital | Number of Ordinary Shares as at 03.06.15 | % 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 |
| MBF Co-Invest L.P.* | 44,396,548 | 8.9% | 44,396,548 | 8.9% | Direct |
| Schroders Investment Management | 29,224,785 | 5.8% | 29,224,785 | 5.8% | Direct |
| GIC Private Ltd | 25,112,894 | 5.0% | 25,112,894 | 5.0% | Direct |

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

Transactions with related parties

The only subsisting material transactions which the Company has entered into with related parties are:

- **Relationship Agreement:** The Relationship Agreement was entered into on 28 February 2014 and regulates the relationship between KKR My Best Friend Limited (the “Principal Shareholder”), its associates 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 & Corporate Governance Committee; to appoint observers to the Remuneration, Audit & Risk, the Pets Before Profit Committee and the 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 ordinary shares by the Principal Shareholder at any time.

The Relationship Agreement complies with the requirements of the LRs, including LR 9.2.2AR(2)(a), which came into effect on 16 May 2014, and LR 6.1.4DR.

In accordance with the requirements of LR 9.8.4(14), the Board confirms that the Company has complied with its obligations under the Relationship Agreement, including in respect of the independence provisions set out therein, at all times since it was entered into, including throughout the period under review, and, so far as the Company is aware, the Principal Shareholder and its associates have complied with the provisions of the Relationship Agreement (including the independence provisions set out therein), at all times since it was entered into, including throughout the period under review.

- **Senior Facilities Agreement:** KKR Capital Markets Limited (“KCM”), an affiliate of the Principal Shareholder, was entitled to receive a syndication agent fee equal to 0.50% of the total commitments under the terms of a senior facilities agreement dated 18 February 2014 (“Senior Facilities Agreement”) entered into in connection with the Listing. Further details of the Group’s banking facilities are shown in note 17 on page 134 of the financial statements. Certain payments under the Senior Facilities Agreement were made during FY15.
- **Amendment to the Senior Facilities Agreement:** On 14 April 2015, the Company and certain of its subsidiaries entered into an amendment agreement (the “Amendment Agreement”) to the Senior Facilities Agreement. Further detail on the Amendment Agreement is provided below under the heading “Events post year end” on page 74.

Amendment of the Articles

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

Profits and dividend

The consolidated profit for the year after taxation was £67,876,000 (FY14: £38,565,000). The results are discussed in greater detail in the CFO’s review on pages 36 to 39.

A final dividend of 3.6 pence per share (FY14: Nil) will be recommended to the Company’s shareholders in respect of the 2015 financial year. The final dividend will be proposed by the Directors at the AGM on 9 September 2015 in respect of the year ended 26 March 2015 to add to an interim dividend of 1.8 pence per share paid on 16 January 2015 (FY14: Nil).

The Directors’ proposed final dividend of 3.6 pence per share takes the total dividend payable in respect of the 2015 financial year to 5.4 pence per share. The ex-dividend date will be 13 August 2015 and, subject to shareholder approval at the 2015 AGM, the final dividend of 3.6 pence per share will be paid to shareholders on the register at the close of business on 14 August 2015.

Change of control

There are no agreements between the Company and its Directors or colleagues 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 ordinary 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 listed.
- The SFA and the Amendment Agreement contain 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 FY15 were 42 days (FY14: 38 days).

Directors' Report continued

Events post year end

On 14 April 2015, the Company and certain of its subsidiaries entered into the Amendment Agreement (referred to above under "Transactions with Related Parties on page 73). The Amendment Agreement became effective on 15 April 2015 (the "Effective Date"), after the date of the Company's financial year end on 26 March 2015.

The Amendment Agreement provided that a new revolving facility of £260 million (the "Revolving Facility 2") was incorporated into the Senior Facilities Agreement. The existing term and revolving facilities were repaid on the Effective Date with the proceeds of a drawing under Revolving Facility 2 and cash on balance sheet and upon the prepayment such facilities were cancelled. Revolving Facility 2 is available for drawing to finance and/or refinance (as applicable) the general corporate purposes and/or working capital requirements of the Group. The interest rate applicable to Revolving Facility 2 is LIBOR (or, for loans in Euro, EURIBOR) plus a margin ranging between 2.00% and 0.75% per annum depending on the ratio of consolidated EBITDA to total net debt. The margin currently applicable to utilisations under Revolving Facility 2 is 1.50% per annum. KKR Capital Markets Limited ("KCM"), an affiliate of the Principal Shareholder, received a fee of £500,000 for arranging Revolving Facility 2.

On 15 April 2015, NWS (Holdings) Limited, a subsidiary of Pets at Home Group Plc, acquired 100% of the issued share capital of Northwest Surgeons Limited, in exchange for an initial cash consideration of £2.6m. Northwest Surgeons Limited is a company registered in England and Wales, engaged in the provision of specialist veterinary services to veterinary practices in the north west of England. The acquisition represents the first specialist veterinary referral practice within the Group.

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 the UK

The Company has no branches outside the UK.

Auditor

So far as each Director is aware, there is no relevant audit information of which the Company's Auditor is unaware. Each Director has taken all the steps which they ought to have taken as Directors to make themselves aware of any relevant audit information (being information that is needed by the Company's Auditor in connection with preparing its report) and to establish that the Company's Auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act.

At the AGM on 9 September 2014, KPMG LLP was appointed as the Company's Auditor. During the 2015 financial year, a competitive tender process of audit services was completed in accordance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, made by the Competition & Markets Authority. Following its success in the tender process, a resolution is to be proposed at the 2015 AGM for the reappointment of KPMG LLP as the Auditor of the Group.

Approval of Annual Report

The Strategic Report, Corporate Governance Statement and the Corporate Governance Report were approved by the Board on 3 June 2015.

Approved by the Board and signed on its behalf by



Louise Stonier

Group Company Secretary
3 June 2015

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 the parent company 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 comply 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 Company 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
3 June 2015

Ian Kellett
Chief Financial Officer and
Chief Executive Officer of Retail
3 June 2015

Governance Report

Corporate governance

Introduction

The Board is committed to the highest standards of corporate governance. Save as set out in the paragraphs below, the Board has complied with and intends to continue to comply with the requirements of the Code.

In September 2014, the Financial Reporting Council published a revised 2014 UK Corporate Governance Code (the "2014 Code"), which will apply to the Company's next financial year (FY16). Accordingly, the Board will seek to comply with the 2014 Code in relation to the Company's next financial year (save as set out below), and will report on such compliance in the Company's 2016 Annual Report.

The Company will also report to its shareholders on its compliance with the Code in accordance with the Listing Rules made by the United Kingdom Financial Conduct Authority under Part VI of the Financial Services and Markets Act 2000 (as amended from time to time) ("LRs").

Board balance and independence

The 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 the Principal Shareholder and two Executive Directors. The Directors' biographies are contained on pages 66 and 67. Both individually and collectively the Directors have the range of skills, knowledge, expertise and dedication necessary to lead the Group together with the requisite strategic and commercial experience.

Chairman

The 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 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 did not consider at the time of listing and continue to believe that Tony DeNunzio does not meet the independence criteria set out in the Code, the Board believes that in order to continue 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 also believes Tony brings vast retail experience and knowledge to the Pets at Home team.

Senior Independent Director

The Code recommends that the board of directors of a company with a premium listing should appoint one of the Independent 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 role of Senior Independent Director includes being available to shareholders if they have concerns, which contact through the

normal channels of the Chief Executive Officer has failed to resolve, or for which such contact is inappropriate. Dennis Millard has 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.

Appointment of Directors by the Principal Shareholder

Pursuant to the Relationship Agreement, the Company has agreed with the Principal Shareholder that it may appoint two Non-Executive Directors to the Board for so long as the Principal Shareholder (and/or any of its associates, when taken together) holds 20% or more of the voting rights over the Company's Shares and one Non-Executive Director to the Board for so long as it (and/or any of its associates, when taken together) holds 10% or more but less than 20% over the voting rights in respect of the Company's Shares. The Principal Shareholder has appointed Brian Carroll as a Non-Executive Director of the Board. The Chairman, Tony DeNunzio, is a senior advisor 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 will not exercise its right to appoint a second Director to the Board. For further details of the Relationship Agreement and confirmation of compliance with the provisions set out in the Relationship Agreement, see page 73 of the Directors' Report.

Board observers

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

Appointment terms and elections of Directors

All Directors have service agreements or letters of appointment and the details of their terms are set out in the Remuneration Policy on pages 100 and 101. The service agreements and letters of appointment are available for inspection at the Company's registered office during normal business hours.

At each AGM of the Company, all Directors will stand for re-election in accordance with the 2014 Code.

How the Board operates

Pets at Home 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; and
- 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 Team and other members of the Group's Operating Board and advisors. The induction includes visits to the Group's stores, veterinary surgeries and other operational locations.

In this financial year, the Board met formally nine times, plus the annual strategy meeting. Ad hoc meetings were arranged to deal with matters between scheduled Board meetings as appropriate. Board meetings were preceded by Committee meetings with the meetings lasting the majority of the day in most cases.

Number of meetings attended

Attendance for all scheduled Board and Board Committee meetings is given in the table below.

| | Board | Remuneration Committee | Audit & Risk Committee | Nomination & Corporate Governance Committee | Corporate Social Responsibility Committee | Pets Before Profit Committee |
|---------------------------------------|-------|------------------------|------------------------|---|---|------------------------------|
| Number of meetings¹ | 9 | 3 | 4 | 1 | 2 | 2 |
| Director² | | | | | | |
| Tony DeNunzio (Chairman) | 9 | – | – | 1 | 2 | 2 |
| Dennis Millard (Deputy Chairman) | 9 | 3 | 4 | 1 | 2 | 2 |
| Nick Wood | 9 | 3 | – | – | – | – |
| Ian Kellett | 9 | – | – | – | – | – |
| Amy Stirling | 9 | 3 | 4 | 1 | – | – |
| Tessa Green | 9 | 3 | – | 1 | 2 | 2 |
| Paul Coby | 8 | – | 4 | 1 | 1 | 1 |
| Paul Moody | 8 | 3 | 4 | 1 | – | – |
| Brian Carroll | 8 | – | – | 1 | – | – |

¹ Excludes the strategy day which all Directors attended.

² Only attendance of formal members of the meetings is included. Attendance as an observer is not included.

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

During the year the Board spent its time considering a wide range of matters. These included:

- Strategy;
- Performance overall and of individual businesses and functions in the Group;
- Budgets and long-term plans for the Group;
- Financial statements and announcements;
- Reviewing reports from its committees, notably on audit strategy, remuneration and CSR objectives;
- Pensions;
- Reputational risks;
- Shareholder feedback and reports from brokers and analysis;
- Risk management and controls in the Group including reputational risks; and
- Delegated authorities.

All Directors receive papers in advance of Board meetings. These include a monthly Board report with updates from each of the Executive 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.

The Chairman meets regularly with the Non-Executive Directors, without the Executive Directors present and this practice will continue in the future. The Senior Independent Director also attended these sessions.

It is important to the Group that all Directors understand external views of the Group. Throughout the year, regular reporting was 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.

Governance Report continued

Considering diversity

The Board understands the importance of having a diverse membership and recognises that diversity encompasses not only gender but also background and experience. Whilst the Board believes that appointments should be made solely on merit, we seek to ensure that the Board maintains an appropriate balance through a diverse mix of experience, backgrounds, skills, knowledge and insight, to further strengthen the diversity of gender and experience already on the Board. Notably, two of the five Independent Non-Executive Directors, Tessa Green and Amy Stirling are female together with the Group Company Secretary, Louise Stonier and a Senior Executive, Sally Hopson. These appointments were made on merit, and not on the basis of 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.

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 are female, Sally Hopson and Amanda Radford. The Group also has four female colleagues on the Operating Board.

Board Committees

The Board has established three Board Committees: an Audit & Risk Committee, a Nomination & Corporate Governance Committee, and a Remuneration Committee. In addition, the Board has also established the Pets Before Profit Committee and the Corporate Social Responsibility ("CSR") Committee which comprise both Non-Executive Directors and colleagues and the Investment Committee which comprises Executive Directors and colleagues (including a Senior Executive). If the need should arise, the Board may set up additional committees as appropriate.

Each Committee has written terms of reference which are approved by the Board and subject to review each year. These are available on request from the Group Company Secretary and are published on the Group's website (<http://investors.petsathome.com>).

Audit & Risk Committee

The Audit & Risk Committee gives due consideration to laws and regulations, the provisions of the Code and the requirements of the LRs. Further details are contained in the Audit & Risk Committee Report on pages 82 to 84. The 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 & Risk Committee is chaired by Amy Stirling, and its other members are Dennis Millard, Paul Coby and Paul Moody, all of whom are Independent Non-Executive Directors. As a former chief financial officer of TalkTalk Telecom Group Plc, the Directors consider that Amy Stirling has recent and relevant financial experience in accordance with the requirements of the Code. The Audit & 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 & Risk 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.

The Audit & Risk Committee chair will be available at the 2015 AGM to respond to questions from shareholders on the activities of the Audit & Risk Committee.

The Audit & 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 & 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 & Risk Committee if it believes it necessary to do so.

Remuneration Committee

The Remuneration Committee assists the Board in determining its responsibilities in relation to Directors' remuneration. Further details are contained in the Remuneration Committee Report on pages 86 to 103.

The 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 meets 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 in respect of 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.

Nomination & Corporate Governance Committee

The Nomination & Corporate Governance Committee assists the Board in considering the structure, size and composition of the Board whilst advising on succession planning. Further details are contained in the Nomination & Corporate Governance Committee report on pages 84 and 85.

The Code recommends that a majority of the members of a nomination committee should be Independent Non-Executive Directors. The Nomination & Corporate Governance Committee is chaired by Tony DeNunzio, and its other members are Dennis Millard, Paul Coby, Tessa Green, Amy Stirling (each of whom is an Independent Non-Executive Director), and Brian Carroll. The Nomination & Corporate Governance Committee meets not less than once a year.

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

Other Pets at Home Committees

Pets Before Profit Committee and CSR Committee

The Pets Before Profit and the CSR Committee advise the Board on the Group's corporate responsibility objectives and strategy. Further details are contained in the CSR Committee Report on pages 50 to 61.

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

The Pets Before Profit Committee and the CSR Committee meet 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 Profits and CSR Committees 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.

Management committees

Details of our management committees are set out below:

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 Director of Property. 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 stand-alone surgery acquisitions by a Group company, approving all material variations to proposed new stores and stand-alone 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 approving or rejecting 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 of 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.

Senior Executive and Operating Board

In addition to the Board, the Group has both the Executive Management Team ("Executive Team") as detailed in the Corporate Governance Report on pages 68 and 69 and the 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; and
- Execution of strategic programmes.

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 going forward, will be chaired by the Group Legal Director with the agenda led by the Head of Health and Safety. The committee is attended by key individuals in the business that are responsible for certain areas of health and safety, including the veterinary business and Ride-away, and the committee is tasked with reviewing the Group's overall health and safety performance. A health and safety policy is in place for the Group which is reviewed on a regular basis.

The distribution centres have their own dedicated health and safety manager and a separate health and safety sub-committee which also meets on a regular basis. The newly integrated veterinary business also has a designated health and safety manager and two health and safety assessors.

Further details of the work of the Health And Safety Committee are contained on page 54 of our CSR Report.

Governance Report continued

Internal control and risk management

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness. The Board delegates to the Executive Team 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 on pages 40 and 41 and page 83 of the Audit & Risk Committee Report.

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. A number of internal controls operate across the business; the key controls the business relied upon during the year are set out below:

- The annual Group wide strategic review of the business took place in October and November 2014 culminating in the preparation of a detailed three year strategic plan which was reviewed and approved by the Board. Following this approval, the business carried out its annual budget cycle, again culminating in formal review and approval by the Board.
- Management accounts have been reviewed at Board meetings by the Board. These reviews covered the comparison of actual performance against budget in the period end management accounts and consideration of outturn for the year. The period end accounts are prepared by the management accounts team and reviewed by the Chief Financial Officer and the Finance Director.
- All capital investments during the year have been approved by the Chief Financial Officer; an authority framework is in place which details the approvals required for specific levels of capital spend including those capital projects requiring full Board approval. In line with delegation by the Board, the Investment Committee, chaired by the CEO, has reviewed and approved investments in respect of the acquisition and fit-out of new stores and new standalone veterinary practices, see page 79 for further details.
- There is an Internal Audit department in place that has its scope agreed with the Audit & Risk Committee and has reported at each Audit & Risk Committee throughout the year. All Internal Audit reports are presented to the Audit & Risk 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 that reflect the agreed authority framework and clear segregation of duties between relevant functions and departments. An Internal Audit review of the accounts payable process during the year covered the operation of delegated authority and segregation of duties with regard to purchases and found no significant issues.
- A schedule of matters reserved for the Board is in place for approving significant transactions and strategic and organisational change.
- Board discussion of the key risks and uncertainties facing the Group and the risk management system.

Share dealing code

The Company has adopted a share dealing code in relation to its shares which is based on, and is at least as rigorous as, the Model Code as published in the LRs. The share dealing code applies to the Company's Directors, its other PDMRs and certain employees of Group companies and they are responsible for procuring the compliance of their respective connected persons with the Company's share dealing code.

Board evaluation and effectiveness Process

In accordance with the provisions of the Code, during the year, the Board engaged Lintstock Limited to undertake an independent evaluation of Board and Board committee performance and to identify areas where performance and procedures might be further improved. Lintstock Limited is a specialist corporate governance consultancy and has no commercial dealings or other connection with the Group.

The first stage of the evaluation involved Lintstock engaging with the Chairman and the Company Secretary to discuss and agree the scope of the proposed evaluation and to develop a series of comprehensive questionnaires tailored to the specific circumstances of the Company.

All respondents were then requested to complete online questionnaires addressing the composition and performance of the Board and its Committees, and the performance of the Chairman. This included the completion of a confidential questionnaire to gain an understanding of our Board's performance and consider its effectiveness. The anonymity of all respondents was ensured throughout the process in order to promote the open and frank exchange of views.

Lintstock subsequently produced a report which addressed the following areas:

- Board composition and expertise including areas where the Non-Executive Directors require further understanding of the business of the Group;
- the involvement of the Non-Executive Directors in the affairs of the Company outside of Board and Committee meetings, the dynamics between the Board members and between the Board and the Executive Management Team;
- the Board's time management, together with the Board's annual cycle of work and the information provided to the Board;
- the Board's oversight of strategy and operations, and the Board members' views over the principal strategic challenges and opportunities facing the Company;
- risk management and internal controls including the risk appetite of the Board and the Board's management of the principal risks and uncertainties to the Group;
- the succession planning for Executive Directors and the Executive Management Team and the Board's visibility of potential successors for key positions from within the business;
- the composition and performance of the Board and its Committees and the performance of the Chairman; and
- top priorities for change as identified by the Board.

At a dedicated Board session, a report of the findings of the evaluation and its recommendations were discussed and specific actions agreed.

Outputs of the evaluation

The Board recognises the benefits of a thorough Board and Committee evaluation process. Overall, the evaluation demonstrated that the composition and performance of the Board and its Committees and the performance of the Chairman were rated highly as very effective.

As a result of the review, amongst other things, the Board agreed:

- to ensure clarity on the strategic agenda to enable the Board to focus on the appropriate strategic topics;
- to continue to develop the Non-Executive's understanding of the business by incorporating into the Board schedule periodic store visits and time with the Executive Team whilst also ensuring that the Board is exposed to the Operating Board and Rising Stars as part of an annual cycle of presentations and dinners;
- to develop an efficient and effective management information pack as a foundation for improved debate;
- that further Board time should be devoted to discussions concerning talent management and Executive and Non-Executive succession planning; and
- that there was a need to further enhance the Board's understanding of the Group's risk appetite with further time being spent debating the most significant risks to the business.

In accordance with the provisions of the Code, it is anticipated that externally facilitated Board evaluations will be carried out every three years. In years when an external evaluation is not carried out, the Board will continue to complete internal performance-based questionnaires, with the process managed by the Company Secretary. The scope for each subsequent evaluation will be designed to build upon learning gained in the previous year to ensure that the recommendations agreed in the evaluations are implemented and that year-on-year progress is measured and reported upon.

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.

During the year, 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 ensures 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.

Pets at Home's investor website is also regularly updated with news and information, including this Annual Report and Accounts which sets out our strategy and performance together with our plans for future growth (<http://investors.petsathome.com>).

Annual General Meeting

The Company's AGM will be held on Wednesday, 9 September 2015 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 Annual Report and Accounts. 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 Annual Report and Accounts 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 (<http://investors.petsathome.com>).

Audit & Risk Committee Report



“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
Chairman of the Audit & Risk Committee

Who is on the Audit & Risk Committee?

| Member | No. of meetings |
|-------------------------|-----------------|
| Amy Stirling (Chairman) | 4/4 |
| Dennis Millard | 4/4 |
| Paul Coby | 4/4 |
| Paul Moody | 4/4 |

The Chief Financial Officer, the Chief Executive, the Head of Internal Audit and an observer appointed by the Principal Shareholder attend meetings by invitation along with representatives from KPMG. The Company Secretary acts as secretary to the Audit & Risk Committee (“Committee”).

The Committee meets separately with the Head of Internal Audit and the Group’s external auditors from time to time without management present to review their reports and discuss issues in detail.

Introduction

I am pleased to present the Audit & Risk Committee’s report for the year. During the year, the Committee met three times with our focus being on financial reporting, internal and external audit and internal controls.

Our primary function 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. To achieve this, the Committee:

- Agrees the scope of internal audit work for the year and monitors the same;
- Monitors, makes judgements and recommendations on the financial reporting process and the integrity and clarity of the financial statements;
- Considers the appointment of the external auditor 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;
- Reviews and monitors the adequacy and effectiveness of the internal control and risk management policies and systems currently in place; and
- Reports to the Board on how it has discharged its responsibilities.

In addition to our regular agenda, we considered in detail, policies in place on tax and treasury, the quality and sourcing function in the UK and Hong Kong, accounting for supplier rebates, the loss prevention strategy and conducted a tender process for the external audit.

Financial reporting

As part of our work to ensure the integrity of financial reporting, we focused on the following during the year:

- Reviewed the appropriateness of the Annual Report for the year ended 26 March 2015, and also the interim financial statements for the 28 week period ended 9 October 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, KPMG, and the clarity of disclosures and compliance with financial reporting standards.
- Reviewed and discussed with management the accounting treatment and level of judgement required in relation to promotional income from suppliers. We are satisfied that this income is only recognised when there is reasonable certainty that the conditions for recognition have been met by the Group and the value of the income can be reliably measured.
- Considered and approved the Group’s tax policy that outlines the Group’s attitude to tax and risk, our relationship with HMRC, relationships with external tax advisors, a summary of processes for assessing and providing for tax exposure. We also received and reviewed a report that provided an update on each of corporate tax, VAT and employment taxes.
- Considered the Group’s treasury policy that covers those transactions involving interaction with banks, other financial institutions and the wider capital markets and recommended to the Board for approval.
- Discussed the impact of the replacement of UK GAAP and noted the impact on the subsidiary accounts for the Group.

Since year-end, based on reviews from internal and external audit, and discussions with management, we reported to the Board that the Committee considers the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for shareholders to assess our strategy, business model and performance.

Going concern

We have reviewed the going concern basis on which the Annual Report is prepared.

The Group has considerable financial resourcing and financing facilities. Since the year-end, on 14 April 2015, the Company and certain of its subsidiaries entered into the amendment agreement to its senior finance facility ("Amendment Agreement"). The Amendment Agreement became effective on 15 April 2015 (the "Effective Date").

The Amendment Agreement provided that a new revolving facility of £260 million was incorporated into the senior facilities agreement replacing the £325m of drawn facilities.

Following a consideration of the Amendment Agreement and the detailed business plans prepared by the Group together with sensitivity analyses which stress test key assumptions, the Committee is satisfied that it is appropriate for the Group to continue to adopt the going concern basis in preparing the Annual Report and Accounts of the Group.

Risk management and internal control

The Board has overall responsibility for risk management and the system of internal control and for reviewing their effectiveness. The Committee oversees the risk management process and provides oversight of internal controls on the Board's behalf as detailed on pages 40 and 41 and also on page 80 of the Governance Report.

During the year, the risk management process has been developed to provide further insight into specific risks including improvements to the scoring mechanism and the use of heat maps to illustrate gross and net risk and progress made in addressing each risk. The Board and the Executive Team have also independently assessed their respective risk appetites for the key risk areas of the business then compared and discussed the outcome of this assessment.

Following this process review, the Group's significant risks and associated mitigating actions have been considered in detail by the Executive Board and an ensuing report has been presented to the Board.

In addition, with regard to internal controls, the Committee has reviewed and considered the reports of the Head of Internal Audit on audits completed and follow-up action plans to address areas of control weakness. Further details of specific areas covered are set out on pages 42 to 45.

KPMG also reported on the Group's internal control environment as part of their external audit work programme and the Committee noted that no significant weaknesses on internal controls were identified.

Internal audit

Internal audit is a key function within the business focused on ensuring the effectiveness of governance, risk management and internal controls. During the year, we recruited a new Head of Internal Audit & Risk to lead this function and have reviewed the resources, reporting and processes managed within this area. Internal audit have also led the development of the risk management process and worked with the Executive Team and the Board to ensure that there is appropriate alignment and understanding of the key risks and risk appetite.

The Head of Internal Audit & Risk has attended each Committee meeting, updating on progress against the audit plan throughout the year, key action points to address control weaknesses identified and the process of risk management across the Group. I have met regularly with the Head of Internal Audit & Risk during the year and he has had separate meetings with KPMG and with the Committee without management present.

Specific work performed during the year included reviews of the financial processes for treasury, cash and banking, payroll, accounts payable and overrider (supplier rebate) payments. Within business systems, a technical post-implementation review of SAP has been carried out along with audits covering IT project management, IT governance and information security. The quality and sourcing function in the UK and Hong Kong was also audited during the year.

Recommendations from Internal Audit are prioritised based on risk. The audit reports issued for FY15 included a number of priority findings for management attention and actions have been developed to address these. For example, following the quality and sourcing review, improved documentation and sampling controls have been introduced and a new workflow management tool is being implemented. The reports and related findings and actions have been discussed by the Committee and priority actions will be tracked to completion.

External audit

Key audit risks

In order to discharge its responsibility to consider accounting integrity, the Committee carefully considers key judgements applied in the preparation of the consolidated financial statements that are set out on pages 104 to 154. At the start of the year, KPMG presented their audit plan to the Committee, identifying what they considered to be the key audit risks for the year ahead and the planned scope of work to be performed through the year. These risks were considered to be the carrying value of goodwill and the carrying value of inventory.

Carrying value of goodwill

We have reviewed the work performed by management in testing for goodwill impairment. We have considered the cashflow models, discount rates and a number of sensitivities and we are satisfied with the carrying value of goodwill in the consolidated financial statements on page 130.

Audit & Risk Committee Report continued

Carrying value of inventory

The inventory value of £48.5m reflects an increase of £2.4m on the previous year, largely reflecting the growth in new stores in the year. During the year the Audit & Risk Committee reviewed the loss prevention strategy to ensure that controls against stock loss across the business are robust. The Committee also reviewed the period end financial information which includes analysis on stock holding and any specific areas of concern. Following a review of the level of provision held at the year end against slow moving or out of date stock, we have concluded that we are satisfied with the accounting treatment of the carrying value of inventory in the consolidated financial statements on page 131.

A report was also presented to the Committee by KPMG at both the half year and full year that covered both of the above risks in detail. They considered them to be appropriately addressed and raised no significant concerns in these or any other areas of their review.

Non-audit services and auditor objectivity and independence
Audit and non-audit fees paid to KPMG total £276,000 for the year and an analysis is presented in note 3 to the consolidated financial statements on page 125. Audit fees across the Group were £156,000, with KPMG also receiving £35,000 for the review of the interim financial statements. Other fees paid to KPMG, principally in relation to tax compliance and advisory services, amounted to £85,000.

We have satisfied ourselves as to KPMG's independence and their internal processes are also rigorous in ensuring their independence before commencing any piece of work. Ernst & Young LLP have been appointed as tax advisors to the Group for FY16.

Audit tender

As set out in the Committee report last year, we considered the FRC proposals concerning audit tenders and decided to tender the audit during this year as KPMG had been in place since 2000 and the audit partner was required to rotate in the following year. Four firms were formally invited to tender and were given access to management across the Group to assist them in understanding our business, our culture and our accounting policies. Following submission of tender documents, the final shortlist of bidding firms all presented to the Committee. After a consideration of the alignment of each bid with the Committee's requirements including experience in the sector, cultural fit and technical capability, a resolution proposing the reappointment of KPMG as external auditors will be put to the shareholders at the Company's Annual General Meeting which will take place on 9 September 2015 in Manchester.



Amy Stirling

Chairman, Audit & Risk Committee
3 June 2015

Nomination & Corporate Governance Committee Report



Who is on the Nomination & Corporate Governance Committee?

| Member | No. of meetings |
|--------------------------|-----------------|
| Tony DeNunzio (Chairman) | 1/1 |
| Dennis Millard | 1/1 |
| Tessa Green | 1/1 |
| Amy Stirling | 1/1 |
| Paul Coby | 1/1 |
| Brian Carroll | 1/1 |
| Paul Moody | 1/1 |

Introduction

As Chairman of the Nomination & Corporate Governance Committee (the "Committee"), I am pleased to present the report of the Committee for the year ended 26 March 2015.

The Committee is a key committee of the Board whose role is to keep the composition and structure of the Board and its committees under review. The Committee's role also includes enhancing the quality of nominees to the Board and ensuring that the recruitment and appointment process is conducted with rigour and integrity.

The Committee is also tasked with ensuring that succession plans are in place for the Directors, the Executive Team and other key members of the Group's Operating Board, taking into consideration the current Board structure, the leadership requirements of the Group and the wider commercial and market environment within which the Group operates.

How the Committee discharged its responsibilities in FY15

| | |
|---------------------------------|---|
| Existing Board structure | Reviewed the size, structure and composition of the Board and the Committees |
| Succession planning | Considered succession planning for Executive Directors and the Executive Team |

“Ensuring that the Board and its Committees have the appropriate balance of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties effectively.”

Tony DeNunzio

Chairman of the Nomination & Corporate Governance Committee

Board evaluation and effectiveness

The UK Corporate Governance Code published in September 2012 by the Financial Reporting Council (the “Code”) requires that the Board undertakes an annual evaluation of its own performance and that of its committees and individual Directors and does so externally at least every three years. The performance evaluation for FY15 involved the use of an external independent facilitator, Lintstock Limited (“Lintstock”).

The review process involved completion of online questionnaires which focused on Board composition, expertise and dynamics, Board support and process, structure, behaviours and other key issues such as strategy and succession.

The review also addressed delivery of the Board’s objectives and any issues identified during the previous review or which became relevant during the year. A report on the performance of the Board and each of the principal committees was compiled by Lintstock and presented to the Board and each relevant committee as a basis for discussing and agreeing appropriate actions for the forthcoming year. The Chairman and each committee Chairman held discussions with each Director or committee member based on the responses. The Senior Independent Director is responsible for appraising the Chairman’s performance in discussions with the Non-Executive Directors in the absence of the Chairman. The Chairman and the Non-Executive Directors also meet in the absence of the Executive Directors.

The Board and individual committees considered the output from the review in April 2015 and concluded that the performance of the Board, its committees and individual Directors was effective. Any areas for improvement are agreed by the Board and are detailed on page 81 of the Corporate Governance Report.

Diversity

The Committee takes into account a variety of factors before recommending any new appointment to the Board, including relevant skills to perform the role, experience, knowledge, ethnicity and gender. The most important priority of the Committee, however, is ensuring that the best candidate is selected to join the Board.

Succession planning

The Committee reviewed the succession plans for both executive appointments to the Board and the Executive Team, taking into account the strategic objectives of the Group. The process included consideration of the anticipated demands of the business and the skills required to successfully deliver against these.

As a result of the review, it was recognised that Pets at Home has undergone significant expansion in recent years and with significant growth opportunities ahead, it is now appropriate to implement a divisional management structure to drive performance across the business.

In order to support the changes, the Committee recommended to the Board that Ian Kellett be appointed as Chief Executive Officer of the newly formed Retail Division and Sally Hopson, previously Customer and People Director and Chief Executive Officer of the Vet Group, be appointed as Chief Executive Officer of the Services Division with effect from 4 June 2015.

The Board approved such recommendations and the search for a new Group Chief Financial Officer is starting with immediate effect. During this process, Ian Kellett will remain as Chief Financial Officer and commence the transition to his new Chief Executive Officer of Retail role.

Conflicts of interest

The Board has delegated authority to the Committee to consider, and where necessary authorise, any actual or potential conflicts of interest arising in respect of the Directors. The Committee considered potential conflicts of interest as they arose during the course of the year and in respect of the appointments of new Directors.

The Committee also supports the Board in its annual consideration of the Conflicts of Interest Register, which is carried out prior to the publication of the Annual Report, and considers the independence of the Non-Executive Directors, in the context of the criteria set out in the Code.



Tony DeNunzio

Chairman, Nomination & Corporate Governance Committee
3 June 2015

Remuneration Report

“We have always recognised the importance of widespread share ownership and it remains an integral part of our culture.”

Dennis Millard

Chairman of the Remuneration Committee



Who is on the Remuneration Committee?

| Member | No. of meetings |
|---------------------------|-----------------|
| Dennis Millard (Chairman) | 3/3 |
| Paul Moody | 3/3 |
| Tessa Green | 3/3 |
| Amy Stirling | 3/3 |

Introduction

As Chairman of the Remuneration Committee (“Committee”), and on behalf of the Board, I am pleased to present the Directors’ Remuneration Report for the year ended 26 March 2015. This report is split into two parts.

- Our Annual Report on Remuneration, outlining how our Remuneration Policy was implemented in FY15 and how we intend to apply it for FY16. This will be subject to an advisory vote at our 2015 AGM.
- A recap of our Remuneration Policy, as approved by shareholders at the 2014 AGM. No changes have been made to our Remuneration Policy this year and as such there will be no resolution on our Remuneration Policy at the 2015 AGM.

FY15 business performance and remuneration outcomes

This has been another successful year for Pets at Home, as we have continued to drive like-for-like growth through multiple levers. A summary of some of our financial and operational highlights during the year is presented below:

- Like-for-like revenue growth of 4.2% driven by strength in Advanced Nutrition, Health & Hygiene, VIP club, Services and omni-channel;
- Total revenue growth of 9.6% to £729.1m;
- Our VIP club loyalty scheme continued to perform strongly and gained over 270,000 new members during the quarter to reach a total of 3.2 million. VIP card swipe rate at store tills represented 62% of revenues in the year, compared with 52% in FY14;
- £40.1m revenues from our flagship Advanced Nutrition brand, Wainwright’s; and
- 25 stores opened during the year along with 61 vet practices and 50 grooming salons.

For FY15, our annual bonus framework was primarily based on achievement of financial EBITDA targets (75%), with the remainder based on performance against key strategic objectives (25%). These measures reflect the continued transition of the business into the listed environment, placing a strong emphasis on financial performance, whilst also ensuring focus on delivery of the key strategic growth levers that were articulated to shareholders during our IPO process.

Our strong financial performance during FY15 resulted in delivery of underlying EBITDA of £121.3m. As a result, this portion of the annual bonus paid out at 75% of maximum (i.e. 56% of salary).

The Executive Directors’ delivery against the key strategic objectives is reflected in the personal objectives element of the annual bonus, which paid out between 76–88% of maximum (i.e. 19–22% of salary).

As a result, overall bonus out-turns for our Executive Directors were 75–78% of maximum/salary. The Committee considers that this fairly reflects the results for the year.

As we highlighted in last year's report, for this year we have strived to be transparent regarding bonus outcomes. Further information can be found on pages 88 and 89, where full disclosure of the EBITDA performance range is provided. We have also provided additional context on the measures under the key strategic objectives element, within the bounds of appropriate commercial sensitivity.

Remuneration proposals for FY16

Nick Wood received a 3% salary increase, with effect from April 2015. This is in line with the colleague increase for FY15.

As we announced on 4 June 2015, to capitalise on the significant growth opportunities which are available across the business, we have moved to a new divisional management structure. Accordingly, Ian Kellett assumed the role of Chief Executive Officer of Retail, a critical position heading up our Pets at Home Retail business. Ian also retains his CFO duties until a suitable replacement can be found. Taking into account the key role which Ian will play in driving and growing our operations under this new structure, Ian's salary in the CEO of Retail role has been set at £400,000, effective from 4 June 2015.

There will be no change in the pension provision for Executive Directors.

During the year, the Committee reviewed the annual bonus framework for FY16, with a view to ensuring that it remains appropriate for the business at this time. Last year, in the period following our IPO, the Committee considered that it was important to link the bonus to our key strategic growth levers and we have made excellent progress against these objectives. Looking to the year ahead, the Committee considers that now is an appropriate time to fully focus the bonus framework on delivery of financial performance, this being our fundamental driver of shareholder value. As a result, for FY16 the annual bonus will be based on reported EBITDA (75%) and free cash flow (25%).

As highlighted last year, our intention is that Executive Directors will not participate in the PSP until the start of FY17, given that they received awards under the Co-Investment Plan on IPO.

Malus and clawback

We always seek to adhere to UK corporate governance best practice. The Committee reviewed the recent update to the UK Corporate Governance Code, particularly the clause relating to malus and clawback provisions being present on all forms of variable remuneration. In response, we have introduced clawback provisions into both the Executive Directors' annual bonus plan for the FY16 performance year and PSP awards from this year onwards.

Along with the malus provisions already contained on the PSP, these provisions now provide the Committee with the ability to reduce unvested share awards or take back bonus amounts or share awards which had already been paid or vested under certain circumstances, including misconduct and misstatement of results.

Our colleagues

We have always recognised the importance of widespread share ownership and it remains an integral part of our culture. This reflects the principle that our colleagues are central to the achievement of our strategy and share ownership enhances loyalty and engagement.

As such, as well as the grants that were made in connection with the Company's IPO in March 2014 under the Company's discretionary share plans, we also successfully launched our first Sharesave plan this year, with 30% of eligible colleagues choosing to participate. In addition, as part of the celebration of the IPO and in recognition of the contribution made by all colleagues to the ongoing success of the Group, each colleague with 12 months' service and who had not been eligible to participate in the Group's pre-IPO equity scheme received a one-off bonus in the year.

We consider that our commitment to our colleagues and the impact that this has on our customers is reflected across a number of areas:

- Colleague engagement was 94%;
- Pets at Home won 15th place in the UK "Great Place to Work" survey; and
- We achieved a Net Promoter Score of 86%.

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 you find this report helpful and informative and we hope to receive your support for our Annual Report on Remuneration at our AGM on 9 September 2015.

I would also like to highlight that I was appointed as chair of the Committee during the IPO process with the intention that the responsibility would be handed to Paul Moody at the Company's second AGM following its IPO. As such, I will be resigning from the position with effect from that date and Paul will take on the role going forwards. From a personal perspective, I would like to wish him all the best for the future.

Yours sincerely



Dennis Millard

Chairman, Remuneration Committee
3 June 2015

Remuneration Report continued

Annual Report on Remuneration

a) Directors' remuneration – report on implementation for the year ended 26 March 2015

This section of the report sets out how the Directors' Remuneration Policy ("Policy"), approved by shareholders at the Company's Annual General Meeting ("AGM") on 9 September 2014 and set out in the Appendix, has been applied in the financial year being reported on, and how it will be applied in the coming year. The information presented from this section up until the relevant note on page 90 represents the audited section of this report.

b) Single total figure of remuneration for Executive Directors for the year ended 26 March 2015

The following table sets out the total remuneration for Executive Directors for the year ended 26 March 2015. All payments are in line with the Policy set out in the Appendix.

| Director | Base salary (£) | | Benefits (£) | | Pension (£) | | Annual Bonus (£) | | Long Term Incentives (£) | | Total (£) | |
|--------------------|-----------------|-------------------|--------------|-------------------|-------------|-------------------|------------------|-------------------|--------------------------|-------------------|-----------|-------------------|
| | FY15 | FY14 ¹ | FY15 | FY14 ¹ | FY15 | FY14 ¹ | FY15 | FY14 ¹ | FY15 | FY14 ¹ | FY15 | FY14 ¹ |
| Nick Wood | 425,000 | 11,918 | 11,500 | 348 | 38,250 | 1,073 | 315,711 | 6,122 | n/a | n/a | 790,461 | 19,460 |
| Ian Kellett | 320,000 | 8,556 | 11,500 | 348 | 28,800 | 770 | 250,512 | 7,207 | n/a | n/a | 610,812 | 16,880 |

1 In FY14, the payments relate to the period from the IPO on 17 March 2014 to the year end on 27 March 2014.

Base salary – corresponds to the amount received during the relevant financial year. In FY14 Nick Wood's base salary reflected his annual salary of £425,000 per annum and Ian Kellett's base salary reflected his annual salary of £320,000 per annum.

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

Pension – corresponds to either the amount contributed to personal pension plans or the cash value of the salary supplement received during the relevant financial year. 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 amount earned in respect of the relevant financial year. Details of how this was calculated are set out below.

Performance outcomes

The maximum annual bonus opportunity for Executive Directors in respect of FY15 was 100% of base salary.

The financial targets for the Annual Bonus for the financial year ended 26 March 2015, and the extent to which they were achieved, are as set out below. For FY15, financial targets comprised 75% of the bonus framework and the achievement of targets is calculated on a straight line basis between Minimum and Maximum EBITDA. The Committee considered that the targets were very stretching and required Executive Directors to deliver performance which significantly exceeded business expectations to achieve full pay-out.

| Financial Measures | Minimum/ % base salary | Maximum/ % base salary | Achieved/ % of Base Salary |
|---------------------|---------------------------|---------------------------|-------------------------------|
| EBITDA ¹ | £120m/50% | £125m/75% | £121.3m/56% |

1 Underlying EBITDA after Plc costs but before IFRS2 share incentive costs (set at 2015 budget rates).

FY15 key personal objectives comprised 25% of the bonus framework. An EBITDA gateway of £114m applied to the non-financial element of the bonus. EBITDA performance below this level would result in no bonus being paid.

For the CEO, these included the achievement of a number of key KPIs such as new store opening pipeline and vet practices, the management of effective succession planning and the engagement of the investor base.

For the CFO/CEO of Retail, these included the refinancing of the Vet Group to support the long term growth plans, the future strategy of payroll services and targets around working capital.

The resultant percentages against each of the bonus measures achieved by each Executive Director are shown below:

| Measure | Nick Wood | Ian Kellett |
|---------------------|----------------------------------|----------------------------------|
| | % of performance target achieved | % of performance target achieved |
| EBITDA | 56%/75% | 56%/75% |
| Personal objectives | 19%/25% | 22%/25% |
| Total | 75%/100% | 78%/100% |

1 Performance against individually set targets: For the CEO, these included the achievement of a number of key KPIs such as new store opening pipeline and vet practices, the management of effective succession planning and the engagement of the investor base. For the CFO, these included the refinancing of the Vet Group to support the long term growth plans, the future strategy of payroll services and targets around working capital.

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

c) Single total figure of remuneration for Non-Executive Directors for the year ended 26 March 2015

The following table sets out the total remuneration for Non-Executive Directors and the Chairman of the Board for the year ended 26 March 2015.

| Director | Basic fees (£) | Additional fees (£) | Remuneration Committee Chairman (£) | Audit & Risk Committee Chair (£) | Nomination & Corporate Governance Committee Chairman (£) | Pets Before Profit/CSR Committee Chair (£) | Total Single Figure 2015 (£) | Total Single Figure 2014 ¹ (£) |
|-----------------------|----------------|---------------------|-------------------------------------|----------------------------------|--|--|------------------------------|---|
| Tony DeNunzio | 200,000 | n/a | n/a | n/a | n/a | n/a | 200,000 | 6,044 |
| Dennis Millard | 50,000 | 20,000 | 10,000 | n/a | n/a | n/a | 80,000 | 8,352 |
| Brian Carroll | 50,000 | n/a | n/a | n/a | n/a | n/a | 50,000 | 5,220 |
| Paul Coby | 50,000 | n/a | n/a | n/a | n/a | n/a | 50,000 | 5,220 |
| Tessa Green | 50,000 | n/a | n/a | n/a | n/a | 10,000 | 60,000 | 6,264 |
| Amy Stirling | 50,000 | n/a | n/a | 10,000 | n/a | n/a | 60,000 | 6,264 |
| Paul Moody | 50,000 | n/a | n/a | n/a | n/a | n/a | 50,000 | 412 |

Notes: The additional fee paid to Dennis Millard is in respect to his position as Deputy Chairman of the Board.

1 In FY14, the payments relate to the period from IPO on 17 March 2014 to the year ended 27 March 2014.

d) Scheme interests awarded during the financial year

No long-term incentive awards were made to the Executive Directors during the financial year.

During the year, the Company launched its Sharesave plan, providing eligible colleagues with an opportunity to receive share options at a 20% discount to the market price. The maximum monthly saving was £250 per month. The Executive Directors elected to participate in the Sharesave, along with 30% of eligible colleagues.

The Options are, in normal circumstances, not exercisable until completion of a three year savings period, beginning on 1 December 2014 and will then be exercisable for a period of six months. The exercise period will, therefore, in normal circumstances, be from 1 December 2017 to 31 May 2018.

The Options were granted in the following amounts:

| Executive Director | Number of Shares over which Sharesave Option was Granted | Face Value of Shares over which Sharesave Option was Granted (£) |
|--------------------|--|--|
| Ian Kellett | 6,428 | 9,000 |
| Nick Wood | 6,428 | 9,000 |

e) Payments for loss of office

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

f) Payments to past Directors

No payments were made to past Directors during the year.

g) 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.

Remuneration Report continued

Annual Report on Remuneration continued

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.

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 also applies to the Executive Management Team who are 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 ¹) | Shares owned outright at 26 March 2015 | Number of shares | | Shares owned outright at 17 March 2014 |
|-----------------------|---|--|---|--|--|
| | | | Interests in share incentive schemes, awarded without performance conditions at 26 March 2015 | Interests in share incentive schemes, awarded subject to performance conditions at 26 March 2015 | |
| Nick Wood | 200% (3,219%) | 5,505,571 | 6,428 | 433,673 | 7,340,760 |
| Ian Kellett | 200% (3,143%) | 4,047,056 | 6,428 | 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 | – | 27,470 | – | – | – |

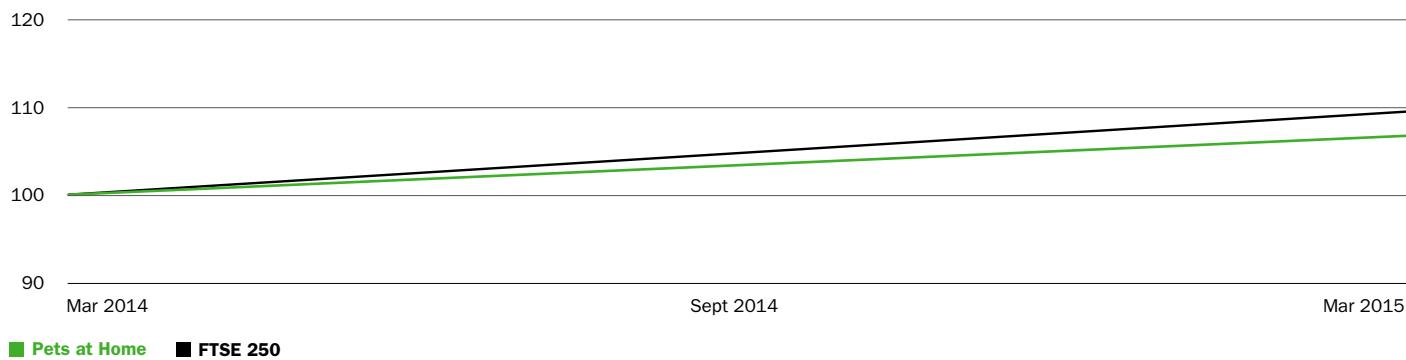
¹ For the purposes of determining the target shareholding achieved, we have used the individual's salary, the closing share price as at 26 March 2015 (248.5 pence) and the shares owned outright at the same date.

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

h) TSR performance chart

The Company's shares were admitted to the premium listing segment of the Official List maintained by the UK Financial Conduct Authority and to trading on the London Stock Exchange plc's main market for listed securities on 17 March 2014 and the chart below shows performance from that date until our FY15 year end. This disclosure will be expanded in subsequent years in line with the regulations.

TSR performance of Pets at Home and the FTSE 250 Index over the period shown



The FTSE 250 index has been selected as it is a recognised equity market index of which Pets at Home Group Plc is a member.

| CEO | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 ¹ | 2014/2015 |
|---|---------|---------|---------|---------|----------------------|-----------|
| CEO single figure of remuneration | n/a | n/a | n/a | n/a | 19,460 | 790,461 |
| Annual bonus payout (as % of maximum opportunity) | n/a | n/a | n/a | n/a | 73% | 75% |
| Long-term incentive vesting (as % of maximum opportunity) | n/a | n/a | n/a | n/a | n/a | n/a |

¹ In FY14, the single figure of remuneration relates to the period 17 March 2014 to 27 March 2014.

i) Percentage change in remuneration of the Group CEO

The table below sets out the increase in total remuneration of the CEO and that of all colleagues:

| | % change in base salary FY14 to FY15 | % change in bonus earned FY14 to FY15 | % change in benefits FY14 to FY15 |
|------------------------------|--------------------------------------|---------------------------------------|-----------------------------------|
| Chief Executive ¹ | 0 | 55 | 0 |
| All colleagues ² | 3 | 2 | 3 |

1 The Chief Executive's figures for FY14 reflect his salary, bonus and benefits earned/accrued as a Director post and pre-IPO remuneration levels annualised for comparison with FY15.

2 All colleague information is presented by comparing the mean average colleague information in FY14 to the mean average colleague information in FY15.

j) Relative importance of the spend on pay

The following table shows the relationship between the Group's EBITDA, distributions to shareholders and the total remuneration paid to all colleagues.

| | FY15 |
|---------------------------------|--------|
| EBITDA | 121.3m |
| Returned to Shareholders | |
| Dividend | 8.9m |
| Payments to colleagues | |
| Wages & salaries | 122.5m |

In connection with the Company's IPO on 17 March 2014, Pets at Home Group Plc was inserted as the new parent company of the Pets at Home Group. No dividends were paid by the Company between 17 March 2014 and the year end, 27 March 2014. No financial information has been presented above for the period from IPO to 27 March 2014 as EBITDA does not accrue evenly over an accounting period and cannot be accurately pro-rated. This disclosure will be expanded in subsequent years in line with the regulations.

k) Dilution limits

In accordance with the ABI Guidelines, the Company can satisfy awards under its colleague share plans with new issue shares up to a 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.

l) 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.

m) Non-Executive Directors – letters of appointment

A summary of the Non-Executive Directors' letters of appointment is contained on page 101 of the Policy contained in the Appendix.

Each of the Non-Executive's letters of appointment expires on 17 February 2017 apart from Paul Moody whose letter of appointment expires on 24 March 2017.

Statement of implementation for 2015/16

This section provides an overview of how the Committee is proposing to implement our Policy in FY16.

Base salary

The table below shows base salaries for 2015/16.

| Executive Director | Base salary (£) |
|--------------------|-----------------|
| Nick Wood | £437,750 |
| Ian Kellett | £400,000 |

Nick Wood received a 3% salary increase, with effect from April 2015. This is in line with the colleague increase for FY15.

As we announced on 4 June 2015, to capitalise on the significant growth opportunities available across the business, we have moved to a new divisional management structure. Accordingly, Ian Kellett assumed the role of Chief Executive Officer of Retail, a critical position heading up our Pets at Home Retail business. Ian also retains his CFO duties until a suitable replacement can be found. Taking into account the key role which Ian will play in driving and growing our operations under this new structure, Ian's salary in the CEO of Retail role has been set at £400,000 effective from 4 June 2015.

Remuneration Report continued

Annual Report on Remuneration continued

Benefits

The Committee sets benefits in line with the policy set out on page 94 of the Appendix. There are no changes proposed to the benefit framework in 2015/16.

Pensions

There is no increase proposed to salary supplement levels for the Executive Directors in 2015/16. The table below shows salary supplements for 2015/16.

| Executive Director | Percentage of salary |
|--------------------|----------------------|
| Nick Wood | 9% |
| Ian Kellett | 9% |

Annual bonus

The maximum annual bonus opportunity for Executive Directors in respect of 2015/16 will remain at 100% of base salary.

The annual bonus framework will be in line with that presented in the policy table on page 95. As highlighted in the Chairman's letter, during the year the Committee reviewed the annual bonus framework for FY16, with a view to ensuring that it remains appropriate for the business.

The Committee considers that it is appropriate at this time to refocus the bonus framework on delivery of financial performance, this being a fundamental driver of shareholder value. As such, we have determined that the annual bonus for FY16 will be based on reported EBITDA (75%) and free cash flow (25%).

Although the targets remain commercially sensitive at this time, we will provide shareholders with full disclosure of the EBITDA and free cash flow targets in next year's report.

For the FY16 performance year onwards, the annual bonus will be subject to clawback provisions. This provides the Committee with the ability to take back amounts previously paid out for a period of up to two years under certain circumstances, including misstatement and misconduct.

Performance Share Plan

Given that they received awards under the CIP on IPO, there is currently no intention for Executive Directors to participate in the PSP until FY17.

Notwithstanding that Executive Directors will not participate in the PSP in FY16, the Committee has implemented clawback provisions on PSP awards made to other senior employees this year.

Sharesave

The Company intends to operate the Sharesave scheme again for FY16. The maximum monthly savings will be raised to £500 per month from £250 per month, in line with the statutory increase. Executive Directors are eligible to participate.

Non-Executive Director remuneration

The table below shows the Non-Executive Director fee structure for 2015/16:

| | 2015/16 |
|--|----------|
| 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.

The Remuneration Committee

Shareholder context for the Committee's activities

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 FY15 amounted to £37,450 (excluding VAT) based on the required time commitment.

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

During FY15, the Committee also received support from Travers Smith LLP on the terms of the discretionary and all colleague share plans.

Committee membership and meetings

The Directors listed below in the table served on the Committee during the year. The Committee met three times during FY15 and the Committee members' attendance is also shown in the table below:

| Member | Period from | To | Meetings attended |
|----------------------------------|------------------|---------|-------------------|
| Dennis Millard (Chairman) | 28 March 2014 | To date | 3 |
| Paul Moody | 28 March 2014 | To date | 3 |
| Tessa Green | 28 February 2014 | To date | 3 |
| Amy Stirling | 28 February 2014 | To date | 3 |

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 | CEO of Services |
| Nick Wood | CEO |
| Ian Kellett | CFO/CEO of Retail |
| Nicolas Gheysens | Board Observer |
| Ryan Cheyne | People Director |

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 FY15 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

At the Annual General Meeting on 9 September 2014, the total number of shares in issue with voting rights was 500,000,000.

The resolution to approve the Remuneration Policy and the Remuneration Report received the following votes from shareholders:

| Resolution | Votes for ¹ | % ² | Votes against | % | Votes total | % of ISC ³ | Votes withheld ⁴ |
|--|------------------------|----------------|---------------|------|-------------|-----------------------|-----------------------------|
| To approve the Directors' Remuneration Report for the year ended 27 March 2014 | 333,803,588 | 99.99 | 18,640 | 0.01 | 333,822,228 | 66.76% | 29,824,388 |
| To approve the Directors' Remuneration Policy | 353,975,782 | 99.15 | 3,036,929 | 0.85 | 357,012,711 | 71.40% | 6,633,905 |

Notes

1 Votes "for" include discretionary votes.

2 Percentages above are rounded to two decimal places.

3 Issued share capital at meeting date: 500,000,000.

4 A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes "for" and "against" a resolution.

Annual General Meeting

As set out in my statement on page 86, our Annual Report on Remuneration will be subject to an advisory vote at our AGM to be held on 9 September 2015.

On behalf of the Board



Dennis Millard

Chairman of the Remuneration Committee

3 June 2015

Remuneration Report continued

Remuneration Policy

a) Policy Report

The following section pages 94 to 103 sets out our Directors' Remuneration Policy, in accordance with section 439A of the Companies Act 2006. This Policy was approved by shareholders at our AGM on 9 September 2014 and applies 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' 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 |
|--|--|---|
| Fixed elements – base salary | | |
| Core element of remuneration, recognising the role and responsibilities of the role. | <ul style="list-style-type: none"> Paid in cash and are pensionable. The Committee takes into consideration a number of factors when setting salaries, including (but not limited to): <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. In FY15, basic salaries will be reviewed at the June Remuneration Committee meeting. Subsequent reviews will take place at the March Remuneration Committee annually thereafter. Any change will usually be effective from the first period of the following financial year. | <ul style="list-style-type: none"> 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. Higher increases may be made under certain circumstances, at the Committee's discretion. For example, this may include: <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. Annual base salaries for the Executive Directors are set out in Part 3(a) of this report. |
| Fixed elements – benefits | | |
| To provide colleagues with market competitive benefits. | <ul style="list-style-type: none"> The Company provides a range of benefits, which may include : <ul style="list-style-type: none"> 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. | <ul style="list-style-type: none"> 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. |
| Fixed elements – pensions | | |
| To provide colleagues with an allowance for retirement planning. | <ul style="list-style-type: none"> Pension contributions are made to either the Group Pension Plan, to personal pension schemes or cash allowances in lieu of contributions are paid. | <ul style="list-style-type: none"> 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. |

| Purpose and link to strategy | Operation and performance measurement | Maximum opportunity |
|--|---|--|
| Short-term elements – annual bonus To incentivise the delivery of our business plan on an annual basis. To reward performance against key performance indicators which are critical to the delivery of our business strategy. | <ul style="list-style-type: none"> Delivery will normally be in cash and is not pensionable. Performance measures are set annually and pay-out levels are determined by the Committee after the year end, based on performance against those targets during the relevant financial year. Each year, the Committee determines the measures and weightings within the following parameters: <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. 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. The Company may amend the performance measures or targets in exceptional circumstances, where it considers that they are no longer appropriate. There is no provision for recovery. | <ul style="list-style-type: none"> The maximum bonus opportunity is 100% of base salary. 20% is payable for threshold performance. |

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.

Remuneration Report continued

Remuneration Policy continued

In addition, the Committee intend 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 |
|---|--|---|
| Long-term elements – Co-Investment Plan (CIP) | | |
| 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. | <ul style="list-style-type: none"> Matching Awards vest after three, four and five years, subject to achievement of performance conditions. 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. The performance measures under the CIP are: <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 vesting 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. 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 creation 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 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 pages 100 to 101 for further details. | <ul style="list-style-type: none"> Executive Directors invested 250% of base salary in the CIP at IPO (Invested Shares). Subject to performance, Invested Shares may be eligible for up to a 1:1 Company match on this amount (Matching Award). |

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.

| Purpose and link to strategy | Operation and performance measurement | Maximum opportunity |
|--|--|---|
| Long-term elements – Performance Share Plan (PSP)¹ | <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> <ul style="list-style-type: none"> Awards vest after three years, subject to achievement of performance conditions. 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. 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. 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: <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 represent stretching performance. The Committee sets targets each year, achievement of which it considers would represent stretching performance in the context of the business plan. Normally the weighting would be split equally across these two measures, although the Committee may vary this as appropriate to reflect strategic priorities. 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. | <ul style="list-style-type: none"> 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). |

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

Remuneration Policy continued

| Purpose and link to strategy | Operation and performance measurement | Maximum opportunity |
|---|--|---|
| 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. | <ul style="list-style-type: none"> SAYE is a 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. | <ul style="list-style-type: none"> 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. |

b) Chairman and Non-Executive Director remuneration policy

| Purpose and link to strategy | Operation and performance measurement | Maximum opportunity |
|---|--|---|
| Overall remuneration | | |
| To attract and retain high calibre individuals by offering market competitive fee arrangements. | <ul style="list-style-type: none"> Non-Executive Directors receive a basic fee in respect of their Board duties. Further fees are paid to Non-Executive Directors in respect of Deputy Chairman of the Board and/or chairmanship of Board committees. The Non-Executive Chairman receives an all-inclusive fee for the role. 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. Fees are typically reviewed annually. 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. | <ul style="list-style-type: none"> Current fee levels can be found on page 92. Fees are set at a level which is considered appropriate to attract and retain the calibre of individual required by the Company. 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. |

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 in our IPO and over 2,700 colleagues took up this opportunity.

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 | <ul style="list-style-type: none"> • 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. • 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. |
| Fixed elements (Base salary, benefits and other benefits) | <ul style="list-style-type: none"> • We recognise 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. • 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. • 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. |
| Short-term incentives | <ul style="list-style-type: none"> • 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. • The maximum level of opportunity will be no greater than that set out in the Policy Table above (i.e. 100% of base salary). |
| Long-term incentives | <ul style="list-style-type: none"> • 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). • 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. |
| Buy-out awards | <ul style="list-style-type: none"> • 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. • 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. • 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. • 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 this plan if necessary and as permitted under the Listing Rules. • 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. • 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. |

Remuneration Report continued

Remuneration Policy continued

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 | <ul style="list-style-type: none"> 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 6 months for Ian Kellett. 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. 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. |
| Contractual payments | <ul style="list-style-type: none"> 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. Neither notice nor PILON will be given in the event of gross misconduct. Payment in lieu of notice will be limited to base salary and contractual benefits for the relevant notice period. There is no contractual entitlement to a payment under the annual bonus in respect of the notice period. Service contracts allow for mitigation if the individual finds alternative employment. |
| Short-term incentives | <ul style="list-style-type: none"> The Committee's policy is not to award an annual incentive for any portion of the notice period not served. 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. 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. No bonus will be paid in the event of gross misconduct. |
| Long-term incentives | The treatment of unvested long term incentive awards is governed by the rules of the relevant incentive plan. |
| CIP | <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> <ul style="list-style-type: none"> 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>b) Between 24 months and 36 months following admission</p> <ul style="list-style-type: none"> 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>c) On or after 36 months following admission</p> <ul style="list-style-type: none"> 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>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> <ul style="list-style-type: none"> Under the PSP, the default position is for unvested awards to lapse upon a loss of office event. 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. 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. |

| Area | Policy |
|--------------------------|--|
| Change in control | <ul style="list-style-type: none"> The Committee's policy is that service contracts should not provide for additional compensation on severance as a result of a change in control. 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. 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. |

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 | <ul style="list-style-type: none"> Initially appointed for a period of three years, subject to annual review and notice. In line with the UK Code, all Directors will seek annual re-appointment by shareholders at the AGM. |
| Loss of office | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> As set out on page 92. |
| Expiry of current term | <ul style="list-style-type: none"> See page 91 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 9 September 2015.

Remuneration Report continued

Remuneration Policy continued

d) 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.

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

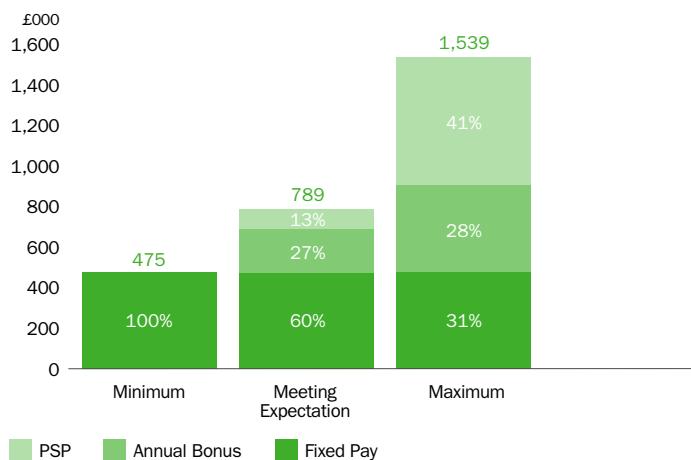
| Scenario | Assumptions |
|---------------------------|--|
| Fixed pay | |
| All performance scenarios | <ul style="list-style-type: none"> • Consists of total fixed pay, including base salary, benefits and pension • Base salary – salary effective as at 17 March 2014 • Benefits – amount estimated to be received by each Executive Director in 2014/15 • Pension – salary supplement effective as at 17 March 2014. |
| Variable pay | |
| Minimum performance | <ul style="list-style-type: none"> • No payout under the annual bonus • No vesting under the Performance Share Plan |
| On-target performance | <ul style="list-style-type: none"> • 50% of the maximum pay-out under the annual bonus (i.e. 50% of salary) • 16% vesting under the Performance Share Plan (i.e. 24% of salary) |
| Maximum performance | <ul style="list-style-type: none"> • 100% of the maximum pay-out under the annual bonus (i.e. 100% of salary) • 100% vesting under the Performance Share Plan (i.e. 150% of salary) |

Notes

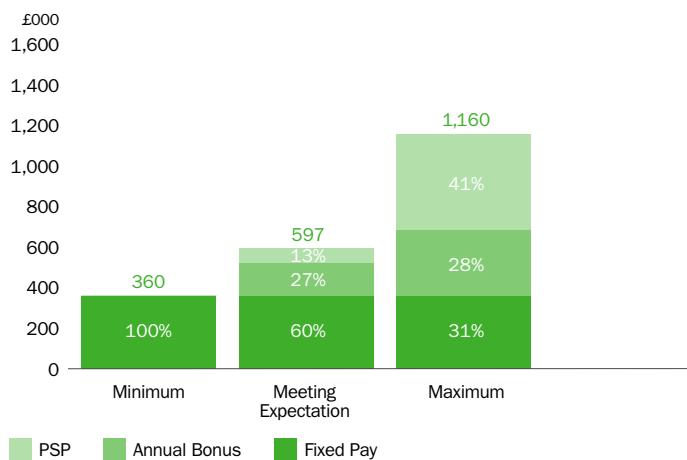
- The Co-Investment Plan has not been included in the scenarios shown, as this plan is not intended to be an ongoing remuneration element under our policy.
- Under the PSP, the normal maximum limit of 150% of salary has been shown, rather than the exceptional limit of 200% of salary.
- All-colleague 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 those shown.

Chief Executive – Nick Wood



Chief Financial Officer – Ian Kellett



| | 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 |

e) 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 the 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.

f) 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 the time of our 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.

g) 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.

Financial statements

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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 26 March 2015 set out on pages 108 to 154. 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 26 March 2015 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:

Carrying value of goodwill (£952.0m)

Refer to page 83 (Audit & Risk Committee Report), page 119 (accounting policy) and page 130 (financial disclosures).

- The risk:** Goodwill is a significant item within the Group's balance sheet. Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, goodwill is one of the key judgemental areas within our audit. Market capitalisation is considered to be a key indicator of potential impairment. The year ended 27 March 2014 came shortly after the Company's IPO, at which point there was significant headroom between market capitalisation and net assets including goodwill. During the year ended 26 March 2015 there has been some share volatility and although market capitalisation at the time of our audit has recovered, this volatility has increased our focus on the carrying amount of goodwill in the current year audit.
- Our response:** Our audit procedures included testing of the Group's budgeting procedures upon which the forecasts are based and the principles and integrity of the Group's discounted cash flow model. We used our own valuation specialist to assist us in evaluating the assumptions and methodologies used by the Group and compared the Group's assumptions to externally derived data as well as our own assessments of key inputs such as projected economic growth, cost inflation and discount rates. We performed break-even analysis to understand the sensitivity of the conclusions reached to changes in assumptions and compared the sum of projected discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cash flows. We also assessed whether the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.

Carrying value of inventory (£48.5m)

Refer to page 84 (Audit & Risk Committee Report), page 119 (accounting policy) and page 131 (financial disclosures).

- The risk:** The Group has significant levels of inventory and a number of estimates are involved in arriving at valuation in respect of slow moving and obsolete inventories, some of which have a limited shelf life. Furthermore there is uncertainty over changes in consumer preferences and spending patterns, which are primarily driven by wider trends in the pet product industry as well as seasonality. There is a recoverability risk associated with new product launches and the judgement required in forecasting demand, including the possible change in demand between the time the inventory order is placed with the supplier and the date of sale. These factors all contribute to the risk that the carrying value of inventory exceeds its net realisable value. Given the level of judgement and estimation involved this is considered to be a key audit risk.

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

- **Our response:** Our audit procedures included 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. In assessing provisions against inventories our audit procedures included testing the Group's controls designed to identify slow moving and obsolete inventories and comparison, by product, of inventory levels to sales data to assess whether slow moving and obsolete inventories had been appropriately identified by the Group, and provided for based on expected recoveries. We considered realisations of slow moving inventories during the year and post year end and compared these to the Group's expected recoveries for slow moving inventories at the year-end date. In assessing the accuracy of historic provisioning estimates our audit procedures included the review of amounts subsequently written off inventory during the year in comparison to the provided amounts at the prior year end. 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 £3.0m, determined with reference to a benchmark of Group profit before taxation of £87.0m, of which it represents 3.4%.

We report to the Audit & Risk Committee any corrected or uncorrected identified misstatements exceeding £0.15m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 5 reporting components, we subjected 4 to audit for Group reporting purposes and 1 to specified risk-focused audit procedures. The latter were not individually financially significant enough to require an audit for Group reporting purposes, but did present specific individual risks that needed to be addressed.

The components within the scope of our work accounted for the following percentages of the Group's results:

| | Number of components | Group revenue (%) | Group profit before tax (%) | Group total assets (%) |
|---|----------------------|-------------------|-----------------------------|------------------------|
| Audits for Group reporting purposes | 4 | 95.3 | 79.1 | 94.9 |
| Specified risk-focused audit procedures | 1 | 4.7 | 20.9 | 5.1 |
| Total | 5 | 100 | 100 | 100 |

For the remaining components, we performed analysis at an aggregated Group level to re-examine our assessment that there were no significant risks of material misstatement within these.

The audits undertaken for Group purposes were all performed to materiality levels set individually for each component and ranged from £2.4m to £0.1m, having regard to the mix of size and risk profile of the Group across the components. The work on all components was performed by the Group audit team.

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;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- information given in the Corporate Governance Report set out on pages 76 to 81 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures 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 & Risk Committee Report does not appropriately address matters communicated by us to the Audit & Risk 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
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 74, in relation to going concern; and
- the part of the Corporate Governance Report on pages 76 to 81 relating to the Company's compliance with the ten provisions of the 2012 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 75, 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/auditscopeukco2014a, 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
1 St Peter's Square
Manchester
M2 3AE
3 June 2015

Consolidated income statement

| Note | 52 week period ended 26 March 2015 | | | 52 week period ended 27 March 2014 | | |
|-----------------------------------|------------------------------------|----------------------------------|-----------------------|------------------------------------|-------------------------------------|-----------------------|
| | 2015 £000 | 2015 £000 | 2015 £000 Total | 2014 £000 | 2014 £000 | 2014 £000 Total |
| | Underlying Trading | Exceptional Items (note 7) | | Underlying Trading | Exceptional Items (notes 3,6) | |
| Revenue | 1,2 | 729,086 | — | 729,086 | 665,395 | — |
| Cost of sales | | (333,776) | — | (333,776) | (307,271) | — |
| Gross profit | | 395,310 | — | 395,310 | 358,124 | — |
| Selling and distribution expenses | | (257,853) | — | (257,853) | (233,891) | — |
| Administrative expenses | 3 | (40,695) | — | (40,695) | (34,817) | (10,574) |
| Operating profit | 2,3 | 96,762 | — | 96,762 | 89,416 | (10,574) |
| Financial income | | 572 | — | 572 | 368 | — |
| Financial expense | 6 | (10,369) | — | (10,369) | (37,547) | (19,158) |
| Net financing expense | | (9,797) | — | (9,797) | (37,179) | (19,158) |
| Profit before tax | | 86,965 | — | 86,965 | 52,237 | (29,732) |
| Taxation | 7 | (19,089) | 4,295 | (14,794) | (13,672) | 4,715 |
| Profit for the period | | 67,876 | 4,295 | 72,171 | 38,565 | (25,017) |
| | | | | | | 13,548 |

All activities relate to continuing operations.

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

| Note | 52 week period ended 26 March 2015 | | 52 week period ended 27 March 2014 | |
|--|------------------------------------|--------------|------------------------------------|--|
| | | | | |
| Equity holders of the parent – underlying trading – basic | 5 | 13.5p | 0.5p | |
| Equity holders of the parent – after exceptional items – basic | 5 | 14.4p | (13.8p) | |
| Equity holders of the parent – underlying trading – diluted | 5 | 13.5p | 0.5p | |
| Equity holders of the parent – after exceptional items – diluted | 5 | 14.4p | (13.8p) | |

Dividends paid and proposed are disclosed in note 8.

The notes on pages 116 to 154 form an integral part of these financial statements.

Consolidated statement of comprehensive income

| Note | 52 week period ended 26 March 2015 | | 52 week period ended 27 March 2014 | |
|---|------------------------------------|--------------|------------------------------------|--------|
| | | £000 | | £000 |
| Profit for the period | | | 72,171 | 13,548 |
| Other comprehensive income | | | | |
| Items that are or may be recycled subsequently into profit or loss: | | | | |
| Foreign exchange translation differences | 20 | (4) | 5 | |
| Cash flow hedges – reclassified to profit and loss | 20 | 1,113 | (811) | |
| Effective portion of changes in fair value of cash flow hedges | 20 | 403 | 1,442 | |
| Other comprehensive income for the period, before income tax | | | 1,512 | 636 |
| Income tax on other comprehensive income | 7, 20 | (303) | (159) | |
| Other comprehensive income for the period, net of income tax | | | 1,209 | 477 |
| Total comprehensive income for the period | | | 73,380 | 14,025 |

The notes on pages 116 to 154 form an integral part of these financial statements.

Consolidated balance sheet

| | Note | At 26 March 2015 £'000 | At 27 March 2014 £'000 |
|--|------|------------------------------|------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | 9 | 102,890 | 93,628 |
| Intangible assets | 10 | 955,512 | 955,238 |
| Other non-current assets | 14 | 8,133 | 6,619 |
| | | 1,066,535 | 1,055,485 |
| Current assets | | | |
| Inventories | 12 | 48,474 | 46,116 |
| Deferred tax assets | 13 | – | 45 |
| Other financial assets | 14 | 1,697 | – |
| Trade and other receivables | 15 | 51,627 | 42,159 |
| Cash and cash equivalents | 16 | 132,966 | 90,823 |
| | | 234,764 | 179,143 |
| Total assets | | 1,301,299 | 1,234,628 |
| Current liabilities | | | |
| Other interest-bearing loans and borrowings | 17 | (5,000) | – |
| Trade and other payables | 18 | (144,754) | (149,547) |
| Provisions | 19 | (365) | (461) |
| Other financial liabilities | 14 | (632) | (1,113) |
| | | (150,751) | (151,121) |
| Non-current liabilities | | | |
| Other interest-bearing loans and borrowings | 17 | (315,674) | (319,855) |
| Other payables | 18 | (31,483) | (31,068) |
| Provisions | 19 | (1,706) | (1,835) |
| Deferred tax liabilities | 13 | (4,810) | – |
| | | (353,673) | (352,758) |
| Total liabilities | | (504,424) | (503,879) |
| Net assets | | 796,875 | 730,749 |
| Equity attributable to equity holders of the parent | | | |
| Ordinary share capital | 20 | 5,000 | 5,000 |
| Share premium | 20 | – | 1,080,477 |
| Consolidation reserve | | (372,026) | (372,026) |
| Merger reserve | | 113,321 | 113,321 |
| Translation reserve | | – | 4 |
| Cash flow hedging reserve | | 851 | (362) |
| Retained earnings | | 1,049,729 | (95,665) |
| Total equity | | 796,875 | 730,749 |

On behalf of the Board:

Ian Kellett

Chief Financial Officer

Company number: 08885072

The notes on pages 116 to 154 form an integral part of these financial statements.

Consolidated statement of changes in equity as at 26 March 2015

| | Share capital £000 | Share premium £000 | Consolidation reserve £000 | Merger reserve £000 | Cash flow hedging reserve £000 | Translation reserve £000 | Retained earnings £000 | Total equity £000 |
|--|-----------------------|-----------------------|-------------------------------|------------------------|-----------------------------------|-----------------------------|---------------------------|----------------------|
| Balance at 27 March 2014 | 5,000 | 1,080,477 | (372,026) | 113,321 | (362) | 4 | (95,665) | 730,749 |
| Total comprehensive income for the period | | | | | | | | |
| Profit for the period | – | – | – | – | – | – | 72,171 | 72,171 |
| Other comprehensive income (note 20) | – | – | – | – | 1,213 | (4) | – | 1,209 |
| Total comprehensive income for the period | – | – | – | – | 1,213 | (4) | 72,171 | 73,380 |
| Transactions with owners, recorded directly in equity | | | | | | | | |
| Cancellation of share premium (i) | – | (1,080,477) | – | – | – | – | 1,080,477 | – |
| Equity dividend paid | – | – | – | – | – | – | (8,942) | (8,942) |
| Share based payment transactions | – | – | – | – | – | – | 1,688 | 1,688 |
| Total contributions by and distributions to owners | – | (1,080,477) | – | – | – | – | 1,073,223 | (7,254) |
| Balance at 26 March 2015 | 5,000 | – | (372,026) | 113,321 | 851 | – | 1,049,729 | 796,875 |

(i) As contemplated in the Pets at Home Group Plc IPO Prospectus dated 28 February 2014 and pursuant to a shareholder resolution passed on 27 February 2014, Pets at Home Group Plc completed a reduction of capital, whereby £1,080,477,000 standing to the credit of the Company's share premium account was cancelled, creating distributable reserves of an equivalent amount. The cancellation was formally approved by the High Court, and the court order was registered by the Registrar of Companies and became effective on 30 July 2014. The cancellation has no effect on the overall net asset position of the Company and/or its Group.

Consolidated statement of changes in equity as at 27 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 | Total equity £'000 |
|--|---------------------|---------------------|----------------------------------|-----------------------------|----------------------|---------------------------------|---------------------------|-------------------------|--------------------|
| Balance at 28 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 | – | – | – | – | – | – | – | 13,548 | 13,548 |
| Other comprehensive income (note 20) | – | – | – | – | – | 472 | 5 | – | 477 |
| Total comprehensive income for the period | – | – | – | – | – | 472 | 5 | 13,548 | 14,025 |
| Transactions with owners, recorded directly in equity | | | | | | | | | |
| Issue of shares (note 20) (i) | 1,405 | 342,916 | (344,321) | – | – | – | – | – | – |
| Issue of shares (note 20) (ii) | 40 | 9,697 | – | – | – | – | – | – | 9,737 |
| Issue of shares (note 20) (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 27 March 2014 | 5,000 | 1,080,477 | – | (372,026) | 113,321 | (362) | 4 | (95,665) | 730,749 |

- (i) On 17 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 17 March 2014, the Company issued 3,974,537 ordinary £0.01 shares at a premium of £2.44 per share in exchange for shares issued by a subsidiary.
- (iii) On 17 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.

Consolidated statement of cash flows

| | 52 week period ended 26 March 2015 £'000 | 52 week period ended 27 March 2014 £'000 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit for the period | 72,171 | 13,548 |
| <i>Adjustments for:</i> | | |
| Depreciation and amortisation | 22,838 | 19,990 |
| Financial income | (572) | (368) |
| Financial expense | 10,369 | 56,705 |
| Loss on sale of property, plant and equipment | – | 77 |
| Share based payment charges | 1,657 | – |
| Taxation | 14,794 | 8,957 |
| | 121,257 | 98,909 |
| Increase in trade and other receivables | (9,468) | (7,969) |
| Increase in inventories | (2,358) | (4,060) |
| Increase in trade and other payables | 16,132 | 21,771 |
| (Decrease)/increase in IPO related trade and other payables (i) | (25,184) | 25,184 |
| Total (decrease)/increase in trade and other payables | (9,052) | 46,955 |
| (Decrease)/increase in provisions | (225) | 2 |
| | 100,154 | 133,837 |
| Tax paid – underlying | (12,874) | (9,192) |
| Tax received – exceptional | 4,295 | – |
| Net cash from operating activities | 91,575 | 124,645 |
| Cash flows from investing activities | | |
| Proceeds from sale of property, plant and equipment | 874 | – |
| Interest received | 364 | 368 |
| Investment in other financial assets | (2,176) | (1,753) |
| Acquisition of subsidiary, net of cash acquired | – | (2,000) |
| Acquisition of property, plant and equipment, and other intangible assets | (30,361) | (26,278) |
| Net cash used in investing activities | (31,299) | (29,663) |
| Cash flows from financing activities | | |
| Proceeds from the issue of ordinary share capital | – | 464,470 |
| Share issue costs | – | (26,202) |
| Debt issue costs | – | (10,494) |
| Repayment of paid in capital | – | (306,005) |
| Equity dividends paid | (8,942) | – |
| Proceeds from new loan | – | 460,000 |
| Repayment of borrowings | – | (585,260) |
| Interest paid | (9,191) | (32,261) |
| Net cash used in financing activities | (18,133) | (35,752) |
| Net increase in cash and cash equivalents | 42,143 | 59,230 |
| Cash and cash equivalents at beginning of period | 90,823 | 31,593 |
| Cash and cash equivalents at end of period | 132,966 | 90,823 |

(i) The Initial Public Offering related payables of £25,184,000 at 27 March 2014 related to costs incurred as part of the IPO on 17 March 2014, which were included in accruals and other creditors at the period end date, and which were settled in full in the period to 26 March 2015.

Company balance sheet

| | Note | At 26 March 2015 £000 | At 27 March 2014 £000 |
|--|------|-----------------------------|-----------------------------|
| Non-current assets | | | |
| Investments in subsidiaries | 11 | 936,179 | 936,179 |
| Current assets | | | |
| Trade and other receivables | 15 | 562,653 | 565,441 |
| Cash and cash equivalents | 16 | 1 | 22,829 |
| Deferred tax asset | 13 | 90 | – |
| | | 562,744 | 588,270 |
| Total assets | | 1,498,923 | 1,524,449 |
| Current liabilities | | | |
| Trade and other payables | 18 | (1,343) | (14,797) |
| Other financial liabilities | 14 | (453) | – |
| Other interest-bearing loans and borrowings | 17 | (5,000) | – |
| | | (6,796) | (14,797) |
| Non-current liabilities | | | |
| Other interest-bearing loans and borrowings | 17 | (315,674) | (319,855) |
| Total liabilities | | (322,470) | (334,652) |
| Net assets | | 1,176,453 | 1,189,797 |
| Equity attributable to equity holders of the parent | | | |
| Ordinary share capital | 20 | 5,000 | 5,000 |
| Share premium | 20 | – | 1,080,477 |
| Merger reserve | | 113,321 | 113,321 |
| Retained earnings | | 1,058,494 | (9,001) |
| Cash flow hedging reserve | | (362) | – |
| Total equity | | 1,176,453 | 1,189,797 |

On behalf of the Board:

Ian Kellett
Chief Financial Officer
 Company number: 08885072

Company statement of changes in equity as at 26 March 2015

| | Share capital £000 | Share premium £000 | Merger reserve £000 | Cash flow hedging reserve £000 | Retained earnings £000 | Total equity £000 |
|--|--------------------|--------------------|---------------------|--------------------------------|------------------------|-------------------|
| Balance at 27 March 2014 | 5,000 | 1,080,477 | 113,321 | – | (9,001) | 1,189,797 |
| Total comprehensive income for the period | | | | | | |
| Loss for the period | – | – | – | – | (5,728) | (5,728) |
| Other comprehensive income | – | – | – | (362) | – | (362) |
| Total comprehensive income for the period | – | – | – | (362) | (5,728) | (6,090) |
| Transactions with owners, recorded directly in equity | | | | | | |
| Reduction of share premium | – | (1,080,477) | – | – | 1,080,477 | – |
| Equity dividend paid | – | – | – | – | (8,942) | (8,942) |
| Share based payment transactions | – | – | – | – | 1,688 | 1,688 |
| Balance at 26 March 2015 | 5,000 | – | 113,321 | (362) | 1,058,494 | 1,176,453 |

Company statement of changes in equity as at 27 March 2014

| | Share capital £000 | Share premium £000 | Merger reserve £000 | Retained earnings £000 | Total equity £000 |
|--|--------------------|--------------------|---------------------|------------------------|-------------------|
| Total comprehensive income for the period | | | | | |
| Loss for the period | – | – | – | (9,001) | (9,001) |
| Total comprehensive income for the period | – | – | – | (9,001) | (9,001) |
| Transactions with owners, recorded directly in equity | | | | | |
| Issue of shares (note 20) | 5,000 | 1,080,477 | 113,321 | – | 1,198,798 |
| Total transactions with owners, recorded directly in equity | 5,000 | 1,080,477 | 113,321 | – | 1,198,798 |
| Balance at 27 March 2014 | 5,000 | 1,080,477 | 113,321 | (9,001) | 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 52 week period to 26 March 2015 was £5.7m (loss for the 52 week period to 27 March 2014: £9.0m).

Company statement of cash flows

| | 52 week period ended 26 March 2015 £'000 | 52 week period ended 27 March 2014 £'000 |
|---|--|--|
| Cash flows from operating activities | | |
| Loss for the period | (5,697) | (9,001) |
| Share based payment charges | 1,657 | – |
| | (4,040) | (9,001) |
| Decrease/(increase) in trade and other receivables | 2,698 | (565,441) |
| (Decrease)/increase in trade and other payables | (12,544) | 14,797 |
| Net cash from operating activities | (13,886) | (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) |
| Debt issue costs | – | (5,145) |
| Equity dividends paid | (8,942) | – |
| Proceeds from new loan | – | 325,000 |
| Net cash (used in)/obtained from financing activities | (8,942) | 758,122 |
| Net (decrease)/increase in cash and cash equivalents | (22,828) | 22,829 |
| Cash and cash equivalents at beginning of period | 22,829 | – |
| Cash and cash equivalents at end of period | 1 | 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 restructuring and Initial Public Offering

On 17 March 2014, the entire issued share capital of the Company was admitted to the premium listing segment of the Official List maintained by the United Kingdom Financial Conduct Authority and to trading on the London Stock Exchange plc's main market for listed securities ("Listing" or "IPO"). In preparation for the Company's IPO the Group was restructured.

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 for the comparative period ended 27 March 2014. The steps to restructure the Group had the effect of Pets at Home Group Plc being inserted as the new holding company of the Group above Pets at Home Lux S.a.r.l ("PAH Lux"). Holders of shares and Preferred Equity Certificates (PECs) in PAH Lux exchanged their PAH Lux shares and a portion of their PECs, for shares in Plc. PAH Lux was transferred out of the Group following Listing.

By applying the principles of reverse acquisition accounting, the Group is presented as if the Company has always owned PAH Lux and the Group's subsidiaries. The comparative consolidated reserves of the Group are adjusted to reflect the statutory share capital, share premium and merger reserve of Plc as if it had always existed, adjusted for movements in the underlying PAH Lux share capital and reserves until the exchange of PAH Lux share capital and PECs for Plc shares.

Full details of the reverse acquisition accounting applied were described in the financial statements for the 52 week period ended 27 March 2014.

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.

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.

1.2 Measurement convention

The consolidated financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through the profit or loss or as available-for-sale. Non-current assets held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

1.3 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. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Chief Financial Officer's review. In addition, note 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 have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

1.4 Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. 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.

Investment in veterinary practices

The Group has a number of non-participatory shareholdings in veterinary practice companies, which are accounted for as joint venture arrangements. The veterinary practices were established under terms that require mutual agreement between the Group and the joint venture partner, and that do not give the Group power over decision making to affect its exposure to, or the extent of, the returns from its involvement with the practices and therefore are not consolidated in these financial statements. Further, the Group is not entitled to profit, losses, or any surplus on winding up or disposal of the veterinary practices, and as such no participatory interest is recognised.

1.5 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.

1.6 Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital exclude amounts in relation to those shares.

1.7 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.

Notes (forming part of the financial statements) continued

1. Significant accounting policies continued

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value, 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.

1.8 Derivative financial instruments and hedging

Derivative financial instruments

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when interest income or expense is recognised.

For cash flow hedges, other than those covered by the preceding two policy statements, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

1.9 Intra-Group financial instruments

Financial guarantee contracts to guarantee the indebtedness of companies within the Group are considered to be insurance arrangements and accounted for as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that a payment will be required under the guarantee.

1.10 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 | 3–10 years |
| Leasehold improvements | the term of the lease |

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.11 Business combinations

Business combinations are accounted for by applying the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Acquisitions on or after 26 March 2010

For acquisitions on or after 26 March 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

Acquisitions prior to 26 March 2010 (date of adoption of IFRSs)

IFRS 1 grants certain exemptions from the full requirements of Adopted IFRSs for first time adopters. In respect of acquisitions prior to 26 March 2010, goodwill is included on the basis of its deemed cost.

1.12 Acquisitions and disposals of non-controlling interests

Acquisitions and disposals of non-controlling interests that do not result in a change of control are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. Any difference between the price paid or received and the amount by which non-controlling interests are adjusted is recognised directly in equity and attributed to the owners of the parent.

1.13 Intangible assets and goodwill

1.10 in 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 3–7 years

1.14 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.

Notes (forming part of the financial statements)

continued

1. Significant accounting policies continued

1.15 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, or ("CGU"). 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.

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.

1.16 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.

1.17 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

1.18 Revenue and cost of sales

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.

Sale of goods in store and online

Retail revenue from the sale of goods is recorded net of value added tax, colleague discounts, coupons and vouchers. Sale of goods represents food and accessories sold in store and online, with revenue recognised at the point of sale.

Provision of services

Revenue from the provision of services is recorded net of value added tax, colleague discounts, coupons and vouchers. Provision of services represents veterinary group income, grooming revenue, and insurance commissions, with revenue recognised upon provision of the service.

(i) Veterinary group income

Veterinary group income represents revenue from the provision of veterinary services, and income from the provision of veterinary administrative support services. Revenue received for the provision of veterinary services is recognised at the point of provision of the service and is recognised net of value added tax, colleague discounts, coupons and vouchers. Fee income received from the joint venture veterinary practice companies for administrative support services is recognised in the period the services relate to and recorded net of value added tax.

(ii) VIP loyalty scheme

Under the VIP loyalty scheme, points are earned by customers upon the purchase of goods and services. These points can be converted by nominated charities into gift cards for redemption against goods and services in store and online. 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.

(iii) Grooming revenue

Grooming revenue is recognised net of value added tax, colleague discounts, coupons and vouchers, at the point of provision of the service.

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.

Notes (forming part of the financial statements)

continued

1. Significant accounting policies continued

Supplier income

A number of different types of supplier income are negotiated with suppliers via the joint business planning process, in connection with the purchase of goods for resale. The supplier income arrangements typically are not co-terminus with the Group's financial period, instead running alongside the calendar year. Such income is only recognised when there is reasonable certainty that the conditions for recognition have been met by the Group, and the income can be measured reliably based on the terms of the contract. This income is recognised as a credit within gross margin and, to the extent that the rebate relates to unsold stock purchases, as a reduction in the cost of inventory. Supplier income comprises three main elements:

1. Fixed percentage based income: These relate largely to volumetric rebates based on the joint business plan agreements with suppliers. The income accrued is based on the Group's latest forecast volumes and the latest contract agreed with the supplier. Income is not recognised until the Group has reasonable certainty that the joint business agreement will be fulfilled, with the amount of income accrued regularly re-assessed and re-measured throughout the contractual period, based on actual performance against the joint business plan.
2. Fixed lump sum income: These are typically guaranteed lump sum payments made by the supplier and are not based on volume. Fixed lump sum income is usually predicated on confirmation of a supplier contract and typically includes performance conditions upon the Group, such as marketing and promotional campaigns. These amounts are recognised periodically based on the most recent assessment of contractual performance.
3. Growth income: These are tiered volumetric rebates relating to growth targets agreed with the supplier in the joint business planning process. These are retrospective rebates based on sales volumes or purchased volumes. Income is recognised to the extent that it is reasonably certain that the conditions will be achieved, with such certainty increasing in the latter part of the calendar year.

Supplier income is recognised on an accruals basis, based on the expected entitlement that has been earned up to the balance sheet date for each relevant supplier contract. The accrued incentives, rebates and discounts receivable at year end are included within trade and other receivables.

1.19 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 under the effective interest rate method, incorporating amortisation of loan arrangement fees, 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.

Other payables

Lease incentives are received in the form of cash contributions and rent free periods.

Cash contributions from landlords for store fit-outs are initially recognised as a liability in the balance sheet at the point the recognition criteria in the lease is met, and credited to selling and distribution expenses in the consolidated income statement on a straight-line basis over the term of the lease commencing from access date. Cash contributions are not discounted.

Rent free periods received from landlords are initially recognised as a liability on the balance sheet, which is then credited to the selling and distribution expenses in the consolidated income statement over the life of the lease. The effect is to recognise a reduction in selling and distribution expenses on a straight-line basis from property access date to the end of the lease. Rent-free periods are not discounted.

1.20 Taxation

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

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

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

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

1.21 Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 Financial Instruments (European Union effective date 1 January 2018).
- IFRS 14 Regulatory Deferral Accounts (European Union effective date 1 January 2016).
- IFRS 15 Revenue from Contract with Customers (European Union effective date 1 January 2017).
- Defined Benefit Plans: Employee Contributions – Amendments to IAS 19 (European Union effective date 1 January 2016).
- Accounting for Acquisitions of Interests in Joint Operations – Amendments to IFRS 11 (European Union effective date 1 January 2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (European Union effective date 1 January 2016).
- Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41 (European Union effective date 1 January 2016).
- Equity Method in Separate Financial Statements – Amendments to IAS 27 (European Union effective date 1 January 2016).
- Sale or Contribution of Assets between and Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (European Union effective date 1 January 2016).

1.22 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.

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.

Notes (forming part of the financial statements) continued

1. Significant accounting policies continued

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.

1.23 Dividends

Final dividends are recognised in the Group's financial statements as a liability in the period in which the dividends are approved by shareholders such that the Company is obliged to pay the dividend. Interim equity dividends are recognised in the period in which they are paid.

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 websites.

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 segment.

| Revenue | 52 week period ended 26 March 2015 £000 | 52 week period ended 27 March 2014 £000 |
|--------------------|---|---|
| Food | 359,377 | 327,101 |
| Accessories | 306,754 | 288,017 |
| Services and other | 62,955 | 50,277 |
| | 729,086 | 665,395 |

The 'services and other' category includes veterinary group income, grooming revenue, insurance commissions, and the sale of pets.

The performance of the operating segment is primarily based on a measure of Earnings Before Interest, Tax, Depreciation, and Amortisation (EBITDA) before exceptional items, share based payment charges, and management charges. This can be reconciled to statutory operating profit as follows:

| | 52 week period ended 26 March 2015 £000 | 52 week period ended 27 March 2014 £000 |
|---|---|---|
| Operating profit | 96,762 | 78,842 |
| Exceptional items | – | 10,574 |
| Underlying operating profit before share based payment and management charges | 96,762 | 89,416 |
| Share based payment charges | 1,657 | 31 |
| Management charges | – | 1,221 |
| Underlying operating profit after share based payment and management charges | 98,419 | 90,668 |
| Depreciation and amortisation | 22,838 | 19,990 |
| Underlying Earnings Before Interest, Tax, Depreciation, and Amortisation (EBITDA) (before exceptional items) | 121,257 | 110,658 |

3. Expenses and auditor's remuneration

Included in operating profit are the following:

| | 52 week period ended 26 March 2015 £000 | 52 week period ended 27 March 2014 £000 |
|--|---|---|
| Exceptional operating expenses | – | 10,574 |
| Depreciation of tangible fixed assets | 19,659 | 18,053 |
| Amortisation of intangible assets | 3,179 | 1,937 |
| <i>Rentals under operating leases:</i> | | |
| Hire of plant and machinery | 3,648 | 2,843 |
| Property | 66,474 | 61,903 |
| Rental income from sublets | (8,054) | (5,952) |
| Loss on disposal of fixed assets | – | 77 |

There are no exceptional items included in operating profit in the 52 week period ended 26 March 2015. Exceptional items of £10,574,000 in the 52 week period ended 27 March 2014 relate to costs associated with the Initial Public Offering of Pets at Home Group Plc shares on the London Stock Exchange on 17 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).

| | 52 week period ended 26 March 2015 £000 | 52 week period ended 27 March 2014 £000 |
|--|---|---|
| Audit of the parent company financial statements | 10 | 10 |
| <i>Amounts receivable by the Company's auditor and its associates in respect of:</i> | | |
| Audit of financial statements of subsidiaries pursuant to legislation | 146 | 147 |
| Review of interim financial statements | 35 | – |
| Other services pursuant to such legislation | – | 3 |
| Taxation compliance services | 20 | 100 |
| Other tax advisory services | 56 | – |
| Services relating to corporate finance transactions entered into by the Company or the Group | – | 1,238 |
| All other services | 9 | 417 |
| | 276 | 1,915 |

Included within "all other services" for the 52 week period ended 27 March 2014 are auditor's fees associated with the acquisition of Vets4Pets.

Included within services relating to corporate finance transactions entered into by the Company or the Group for the 52 week period ended 27 March 2014 are the fees associated with the Initial Public Offering.

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 Directors) during the period, analysed by category, was as follows:

| | 52 week period ended 26 March 2015 Number | 52 week period ended 27 March 2014 Number |
|------------------------|---|---|
| Sales and distribution | 4,863 | 4,414 |
| Administration | 397 | 345 |
| | 5,260 | 4,759 |

The aggregate payroll costs of these persons were as follows:

| | 52 week period ended 26 March 2015 £000 | 52 week period ended 27 March 2014 £000 |
|---|---|---|
| Wages and salaries | 122,510 | 109,549 |
| Social security costs | 10,051 | 8,512 |
| Contributions to defined contribution plans | 3,984 | 2,866 |
| | 136,545 | 120,927 |

| | 52 week period ended 26 March 2015 £000 | 10 day period from 17 March 2014 to 27 March 2014 ⁽ⁱ⁾ £000 |
|---|---|--|
| Remuneration of Directors: | | |
| Executive Directors' emoluments including social security costs | 1,489 | 39 |
| Non-Executive Directors' emoluments including social security costs | 550 | 38 |
| Contributions to defined contribution plans | 67 | 2 |
| | 2,106 | 79 |

(i) The comparative disclosure is presented for the period from Initial Public Offering on 17 March 2014 to 27 March 2014, consistently with the Remuneration Report.

In the opinion of the Board, the key management as defined under revised IAS 24 'Related Party Disclosures' are the Executive Directors and Non-Executive Directors.

Full disclosure of the Directors' remuneration is given in the Remuneration Report on pages 86 to 103.

5. 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.

| | 52 week period ended 26 March 2015 | | | 52 week period ended 27 March 2014 | | |
|--|------------------------------------|--------------------|--------------------|------------------------------------|--------------|--------------------|
| | Underlying Trading | Exceptionals | After Exceptionals | Underlying Trading | Exceptionals | After Exceptionals |
| Profit attributable to equity shareholders of the parent (£000s) | 67,876 | 4,295 | 72,171 | 38,565 | (25,017) | 13,548 |
| Less PEC dividend transferred from retained earnings | – | – | – | (37,646) | – | (37,646) |
| | 67,876 | 4,295 | 72,171 | 919 | (25,017) | (24,098) |
| Basic weighted average number of shares | 500,000,000 | 500,000,000 | 500,000,000 | 175,053,425 | 175,053,425 | 175,053,425 |
| Dilutive potential ordinary shares | 1,109,716 | 1,109,716 | 1,109,716 | 71,360 | 71,360 | 71,360 |
| Diluted weighted average number of shares | 501,109,716 | 501,109,716 | 501,109,716 | 175,124,785 | 175,124,785 | 175,124,785 |
| Basic earnings per share | 13.5p | 0.9p | 14.4p | 0.5p | (14.3p) | (13.8p) |
| Diluted earnings per share | 13.5p | 0.9p | 14.4p | 0.5p | (14.3p) | (13.8p) |

6. Finance expense

Recognised in the income statement

| | 52 week period ended 26 March 2015 £000 | 52 week period ended 27 March 2014 £000 |
|--|---|---|
| Bank loans at effective interest rate | 10,367 | 36,176 |
| Related party loan notes | – | 1,349 |
| Other interest expense | 2 | 22 |
| <i>Total underlying finance expense</i> | 10,369 | 37,547 |
| Exceptional amortisation costs | – | 19,158 |
| <i>Total exceptional finance expense</i> | – | 19,158 |
| Total finance expense | 10,369 | 56,705 |

Exceptional finance expenses in the 52 week period ended 27 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.

Notes (forming part of the financial statements) continued

7. Taxation

Recognised in the income statement

| | 52 week period ended 26 March 2015 £000 | 52 week period ended 27 March 2014 £000 |
|---|---|---|
| Current tax expense | | |
| Current period | 15,307 | 7,840 |
| Adjustments in respect of prior periods | (5,065) | 362 |
| Current tax expense | 10,242 | 8,202 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | 4,319 | 234 |
| Reduction in tax rate | – | 28 |
| Adjustments in respect of prior periods | 233 | 493 |
| Deferred tax expense | 4,552 | 755 |
| Total tax expense | 14,794 | 8,957 |

The UK corporation tax standard rate for the period was 21% (2014: 23%). The March 2013 budget announced that the UK corporation tax rate will further reduce to 20% (effective from 1 April 2015). This reduction was substantively enacted on 2 July 2013. The deferred tax liability has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Deferred tax recognised in other comprehensive income

| | 52 week period ended 26 March 2015 £000 | 52 week period ended 27 March 2014 £000 |
|--|---|---|
| Effective portion of changes in fair value of cash flow hedges | 303 | 159 |

Reconciliation of effective tax rate

| | 52 week period ended 26 March 2015 Underlying £000 | 52 week period ended 26 March 2015 Exceptional £000 | 52 week period ended 26 March 2015 Total £000 | 52 week period ended 27 March 2014 Total £000 |
|--|---|--|--|--|
| Profit for the period | 67,876 | 4,295 | 72,171 | 13,548 |
| Total tax expense | 19,089 | (4,295) | 14,794 | 8,957 |
| Profit excluding taxation | 86,965 | – | 86,965 | 22,505 |
| Tax using the UK corporation tax rate for the period of 21% (52 week period ended 27 March 2014: 23%) | 18,263 | – | 18,263 | 5,177 |
| Impact of reduction in tax rate on deferred tax balances | (45) | – | (45) | 28 |
| Expenditure not eligible for tax relief | 1,424 | – | 1,424 | 1,094 |
| Non-deductible IPO costs – exceptional item | – | – | – | 2,055 |
| Other | 217 | – | 217 | (251) |
| Adjustments in respect of prior periods | (770) | (4,295) | (5,065) | 854 |
| Total tax expense | 19,089 | (4,295) | 14,794 | 8,957 |

The UK corporation tax standard rate for the 52 week period ended 26 March 2015 was 21% (52 week period ended 27 March 2014: 23%). The effective tax rate before exceptional items for the 52 weeks to 26 March 2015 was 22%. The principal reason for the difference in rate relates to the non-deductibility of depreciation charged on some capital expenditure.

The exceptional tax credit of £4.3m included within the non-recurring exceptional items represents the release of a provision following agreement with HMRC in respect of interest on debt associated with the pre IPO structure. As part of the IPO process this debt was repaid. Overall this results in a total effective tax rate for the period of 17%.

8. Dividends paid and proposed

| | Group and Company | |
|---|--|--|
| | 52 week period ended 26 March 2015 £'000 | 52 week period ended 27 March 2014 £'000 |
| <i>Declared and paid during the period</i> | | |
| Interim dividend of 1.8p per share | 8,942 | — |
| <i>Proposed for approval by shareholders at the AGM</i> | | |
| Final dividend of 3.6p per share | 17,932 | — |

The trustees of the following holdings of Pets at Home Group Plc shares under the Pets at Home Group Employee Benefit Trusts have waived or otherwise foregone any and all dividends paid in FY15 and to be paid at any time in the future (subject to the exceptions in the relevant trust deed) on its respective shares for the time being comprised in the Trust Funds as follows: Computershare Nominees (Channel Islands) Limited (holding at 26 March 2015: 1,466,861 shares, holding at 27 March 2014: 1,472,148 shares), has waived its rights to all dividends; and Wealth Nominees Limited (holding at 26 March 2015: 434,056 shares, holding at 27 March 2014: 1,743,430 shares), has waived its rights to all dividends.

9. Property, plant and equipment

| | Freehold property £'000 | Short leasehold property £'000 | Fixtures, fittings, tools and equipment £'000 | Total £'000 |
|------------------------------------|----------------------------|-----------------------------------|--|----------------|
| Cost | | | | |
| Balance at 27 March 2014 | 2,508 | 32,830 | 101,858 | 137,196 |
| Additions | — | 2,804 | 26,991 | 29,795 |
| Disposals | — | (409) | (1,270) | (1,679) |
| Balance at 26 March 2015 | 2,508 | 35,225 | 127,579 | 165,312 |
| Depreciation and impairment | | | | |
| Balance at 27 March 2014 | 79 | 7,980 | 35,509 | 43,568 |
| Depreciation charge for the period | 39 | 2,276 | 17,344 | 19,659 |
| Disposals | — | (278) | (527) | (805) |
| Balance at 26 March 2015 | 118 | 9,978 | 52,326 | 62,422 |
| Net book value | | | | |
| At 27 March 2014 | 2,429 | 24,850 | 66,349 | 93,628 |
| At 26 March 2015 | 2,390 | 25,247 | 75,253 | 102,890 |

Notes (forming part of the financial statements) continued

10. Intangible assets

| | Goodwill £000 | Software £000 | Total £000 |
|---------------------------------|------------------|------------------|----------------|
| Cost | | | |
| Balance at 27 March 2014 | 952,032 | 8,345 | 960,377 |
| Additions | – | 3,453 | 3,453 |
| Balance at 26 March 2015 | 952,032 | 11,798 | 963,830 |
| Amortisation | | | |
| Balance at 27 March 2014 | – | 5,139 | 5,139 |
| Amortisation for the period | – | 3,179 | 3,179 |
| Balance at 26 March 2015 | – | 8,318 | 8,318 |
| Net book value | | | |
| At 27 March 2014 | 952,032 | 3,206 | 955,238 |
| At 26 March 2015 | 952,032 | 3,480 | 955,512 |

Amortisation and impairment charge

The amortisation charge is recognised in total in operating expenses within the income statement.

Impairment testing

Cash Generating Units ('CGU') within the Group are considered to be the body of stores including vet practices, and the Group's websites as disclosed in note 2. The Group is deemed to have one overall group of CGUs as follows:

| | Goodwill | |
|--------------------|-----------------------------|-----------------------------|
| | At 26 March 2015 £000 | At 27 March 2014 £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:

| | At 26 March 2015 | At 27 March 2014 |
|---|---------------------|---------------------|
| Period on which management approved forecasts are based (years) | 3 | 3 |
| Growth rate applied beyond approved forecast period | 3% | 3% |
| Discount rate (pre-tax) | 9% | 8% |

The goodwill is considered to have an indefinite useful economic life and the recoverable amount is determined based on "value-in-use" calculations. These calculations use a pre-tax cash flow projection based on a 3 year plan approved by the Board.

The key assumptions in this business plan are like for like sales growth, gross and operating profit margins. The forecast assumptions reflect continual innovation, our deep understanding of our customers and a detailed analysis of geographic opportunities that allow us to continue to grow. The projections are based on all available information and growth rates do not exceed growth rates achieved in prior periods. A different set of assumptions may be more appropriate in future years depending on changes in the macro-economic environment.

The discount rate was estimated based on past experience and industry average weighted average cost of capital. The Directors have assumed a growth rate projection beyond the 3 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 Directors 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 27 March 2014 and 26 March 2015 | | 936,179 |

Group

Details of the principal subsidiary undertakings are as follows:

| | Holding | Country of incorporation | Principal activity | Class of shares held | At 26 March 2015 % | At 27 March 2014 % |
|--|----------|--------------------------|-------------------------------|----------------------|--------------------|--------------------|
| Pets at Home No.1 Limited | Direct | 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 |
| PAH Pty Limited | 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 (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 | 100 |
| Companion Care Management Services Limited | Indirect | United Kingdom | Support office services | Ordinary | 100 | — |
| NWS (Holdings) limited | Indirect | United Kingdom | Investment holding company | Ordinary | 100 | — |

Not included in the above list are 8 dormant entities in which Pets at Home Group Plc has a 100% indirect shareholding.

12. Inventories

| | At 26 March 2015 £'000 | At 27 March 2014 £'000 |
|----------------|---------------------------|---------------------------|
| Finished goods | 48,474 | 46,116 |

The cost of inventories recognised as an expense and included in 'cost of sales' is £340,968,000 (period to 27 March 2014: £313,141,000).

At 26 March 2015 the inventory provision amounted to £2,017,000 (at 27 March 2014: £2,029,000).

In the 52 week period ended 26 March 2015, the value of inventory written off to the income statement amounted to £7,629,000 (52 week period ended 27 March 2014: £6,140,000).

Notes (forming part of the financial statements) continued

13. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

| | At 26 March 2015 | | | At 27 March 2014 | | |
|-------------------------------|------------------|---------------------|---------------|------------------|---------------------|---------------|
| | Assets £000 | Liabilities £000 | Total £000 | Assets £000 | Liabilities £000 | Total £000 |
| Property, plant and equipment | – | (1,545) | (1,545) | – | (1,592) | (1,592) |
| Inventories | – | – | – | – | (13) | (13) |
| Financial assets | – | (339) | (339) | – | (133) | (133) |
| Financial liabilities | 126 | – | 126 | 223 | – | 223 |
| Other | 874 | (3,926) | (3,052) | 3,439 | (1,879) | 1,560 |
| Net tax (liabilities)/assets | 1,000 | (5,810) | (4,810) | 3,662 | (3,617) | 45 |

Movement in deferred tax during the period

| | 27 March 2014 £000 | Recognised in income £000 | Recognised in equity £000 | 26 March 2015 £000 |
|-------------------------------|-----------------------|---------------------------------|---------------------------------|-----------------------|
| Property, plant and equipment | (1,592) | 47 | – | (1,545) |
| Inventories | (13) | 13 | – | – |
| Net financial assets | 90 | – | (303) | (213) |
| Other | 1,560 | (4,612) | – | (3,052) |
| | 45 | (4,552) | (303) | (4,810) |

Movement in deferred tax during the period

| | 28 March 2013 £000 | Recognised in income £000 | Recognised in equity £000 | 27 March 2014 £000 |
|-------------------------------|-----------------------|---------------------------------|---------------------------------|-----------------------|
| Property, plant and equipment | (1,993) | 401 | – | (1,592) |
| Inventories | (103) | 90 | – | (13) |
| Financial assets | 249 | – | (159) | 90 |
| Other | 2,806 | (1,246) | – | 1,560 |
| | 959 | (755) | (159) | 45 |

Company

| | 27 March 2014 £000 | Recognised in income £000 | Recognised in equity £000 | 26 March 2015 £000 |
|------------------|-----------------------|---------------------------------|---------------------------------|-----------------------|
| Financial assets | – | – | 90 | 90 |

The rate used to calculate deferred tax assets and liabilities has been disclosed in note 7.

14. Other financial assets and liabilities

| | Group | |
|-------------------------------|-----------------------------|-----------------------------|
| | At 26 March 2015 £000 | At 27 March 2014 £000 |
| Non-current assets | | |
| Investments in joint ventures | 8,133 | 5,957 |
| Interest rate swaps | – | 662 |
| | 8,133 | 6,619 |

Investments are available for sale financial assets which represent the fair value of loans provided to, and non-equity share capital in, joint venture 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.

Under the terms of the loans provided to veterinary practice companies trading under the Companion Care and Vets4Pets brands, no interest is charged and there is no set date for repayment of the loans due to the Group.

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. Any operational decisions require the agreement of the joint venture partner. 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, losses 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.

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, losses 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.

| | Group | | Company | |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | At 26 March 2015 £000 | At 27 March 2014 £000 | At 26 March 2015 £000 | At 27 March 2014 £000 |
| Current assets | | | | |
| <i>Financial assets held for trading:</i> | | | | |

| | | | | |
|----------------------------|--------------|---|---|---|
| Forward exchange contracts | 1,697 | – | – | – |
|----------------------------|--------------|---|---|---|

| | Group | | Company | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | At 26 March 2015 £000 | At 27 March 2014 £000 | At 26 March 2015 £000 | At 27 March 2014 £000 |
| Current liabilities | | | | |
| <i>Financial liabilities held for trading:</i> | | | | |
| Fuel forward contracts | (179) | – | – | – |
| Currency forward exchange contracts | – | (1,113) | – | – |
| Interest rate swaps | (453) | – | (453) | – |
| | (632) | (1,113) | (453) | – |

Notes (forming part of the financial statements) continued

15. Trade and other receivables

| | Group | | Company | |
|------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | At 26 March 2015 £000 | At 27 March 2014 £000 | At 26 March 2015 £000 | At 27 March 2014 £000 |
| Trade receivables | 10,036 | 5,761 | – | – |
| Other receivables | 23,655 | 16,479 | – | – |
| Amounts owed by Group undertakings | – | – | 562,653 | 565,441 |
| Prepayments and accrued income | 17,936 | 19,919 | – | – |
| Total | 51,627 | 42,159 | 562,653 | 565,441 |

All balances are included within current assets.

16. Cash and cash equivalents

| | Group | | Company | |
|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | At 26 March 2015 £000 | At 27 March 2014 £000 | At 26 March 2015 £000 | At 27 March 2014 £000 |
| Cash and cash equivalents | 132,966 | 90,823 | 1 | 22,829 |

The cash and cash equivalents held by the Company at 27 March 2014 were utilised in the 52 week period ended 26 March 2015, as part of the settlement of IPO related creditors which were held on the balance sheet at 27 March 2014, as disclosed within the consolidated statement of cash flows.

17. Other interest-bearing loans and borrowings

| | Group | | Company | |
|---------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | At 26 March 2015 £000 | At 27 March 2014 £000 | At 26 March 2015 £000 | At 27 March 2014 £000 |
| Non-current liabilities | | | | |
| Secured bank loans | 315,674 | 319,855 | 315,674 | 319,855 |
| Current liabilities | | | | |
| Current portion of secured bank loans | 5,000 | – | 5,000 | – |
| Total liabilities | | | | |
| Secured bank loans | 320,674 | 319,855 | 320,674 | 319,855 |

Terms and debt repayment schedule

| | Currency | Nominal interest rate | Year of maturity | Face value | Carrying amount | Face value | Carrying amount |
|---------------------------|----------|--------------------------|---------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | | | | At 26 March 2015 £000 | At 26 March 2015 £000 | At 27 March 2014 £000 | At 27 March 2014 £000 |
| Senior Finance Bank Loans | GBP | LIBOR +2–2.25% | 2019–2020 | 325,000 | 320,674 | 325,000 | 319,855 |

Face value represents the principal value of the Senior Finance Bank Loans.

Interest-bearing borrowings are recognised initially at fair value, being the principal value of the loan, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at a carrying value, which represents the amortised cost of the loans using the effective interest method, less any impairment losses.

At 26 March 2015, the Group had an undrawn revolving credit facility of £29.6m (period to 27 March 2014: £27.0m) which was due to expire on 17 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, which during the period varied 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 were due for repayment at various dates up to 17 March 2020.

Subsequent to the period end, on 15 April 2015, the Group undertook a refinancing transaction. The details of this transaction are included in note 27.

The Pets at Home Group has entered into fixed rate interest rate swap agreements over a total of £239.8m of the senior facility borrowings at a fixed rate of 0.74% and a further fixed rate interest rate swap over a total of £77.1m at a fixed rate of 0.655% (at 27 March 2014: £291.8m of the senior facility borrowings at a fixed rate of 0.74% and £25.1m at a fixed rate of 0.655%). Both swaps expire on 30 March 2016. The hedges are structured to hedge at least 70% of the outstanding debt.

The analysis of repayments on the combined loans is as follows:

| | At 26 March 2015 £000 | At 27 March 2014 £000 |
|--|-----------------------------|-----------------------------|
| Within one year or repayable on demand | 5,000 | — |
| Between one and two years | 12,500 | 5,000 |
| Between two and five years | 307,500 | 85,000 |
| After five years | — | 235,000 |
| | 325,000 | 325,000 |

The combined loans at 26 March 2015 and 27 March 2014 are held by the Company.

Analysis of changes in net debt

| | At 27 March 2014 £000 | Cash flow £000 | Non-cash movement £000 | At 26 March 2015 £000 |
|--|-----------------------------|-------------------|------------------------------|-----------------------------|
| Cash and cash equivalents | 90,823 | 42,143 | — | 132,966 |
| Debt due within one year at face value | — | — | (5,000) | (5,000) |
| Debt due after one year at face value | (325,000) | — | 5,000 | (320,000) |
| Net debt | (234,177) | 42,143 | — | (192,034) |

18. Trade and other payables

| | Group | | Company | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | At 26 March 2015 £000 | At 27 March 2014 £000 | At 26 March 2015 £000 | At 27 March 2014 £000 |
| Current | | | | |
| Trade payables | 77,737 | 79,005 | — | — |
| Accruals and deferred income | 45,054 | 49,898 | 1,343 | 14,797 |
| Other payables including tax & social security | 16,897 | 17,245 | — | — |
| Corporation tax | 5,066 | 3,399 | — | — |
| | 144,754 | 149,547 | 1,343 | 14,797 |
| Non-current | | | | |
| Other payables | 31,483 | 31,068 | — | — |

Included within accruals and deferred income of the Company at 27 March 2014 were £14,797,000 of payables in relation to the IPO. A further £10,387,000 of IPO related payables were held within trade payables of the Group. The IPO related payables were settled in full within the 52 week period ended 26 March 2015, as disclosed within the consolidated statement of cash flows.

Notes (forming part of the financial statements) continued

19. Provisions

| | Dilapidation provision £000 | Closed stores provision £000 | Total £000 |
|-----------------------------------|--------------------------------|---------------------------------|---------------|
| Balance at 27 March 2014 | 930 | 1,366 | 2,296 |
| Provisions made during the period | 119 | 117 | 236 |
| Provisions used during the period | (141) | (320) | (461) |
| Balance at 26 March 2015 | 908 | 1,163 | 2,071 |

| | At 26 March 2015 £000 | At 27 March 2014 £000 |
|-------------|--------------------------|--------------------------|
| Current | 365 | 461 |
| Non-current | 1,706 | 1,835 |
| | 2,071 | 2,296 |

The closed stores provision relates to the rent and rates payable on sub-let or vacant stores. A provision is made where the rent receivable on the properties is less than the rent payable, or where management consider there to be a risk on the sublet. The timing of the utilisation of the above provisions is variable dependent upon the lease expiry dates of the properties concerned, which vary between 10 to 15 years. Market conditions have a significant impact and hence the assumptions on future cash flows are reviewed regularly and revisions to the provision made where necessary.

The Company did not hold any provisions at 26 March 2015 or 27 March 2014.

20. Capital and reserves

Group Share capital

| | Share capital Number | Share capital £000 | Share premium £000 | Additional paid in capital £000 |
|--|-------------------------|-----------------------|-----------------------|---------------------------------------|
| At 29 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) |
| At 27 March 2014 | 500,000,000 | 5,000 | 1,080,477 | – |
| Reduction of share premium | – | – | (1,080,477) | – |
| At 26 March 2015 | 500,000,000 | 5,000 | – | – |

Company

| | Share Capital 26 March 2015 | Share Premium 26 March 2015 |
|--|-----------------------------------|-----------------------------------|
| <i>At beginning of period</i> | 5,000 | 1,080,477 |
| Reduction of share premium | – | (1,080,477) |
| On issue at period end | 5,000 | – |
| <hr/> | | |
| | Share Capital 27 March 2014 | Share Premium 27 March 2014 |
| <i>At beginning of period</i> | – | – |
| 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 | – |

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, which was fully redeemed in the 52 week period ended 27 March 2014, represented Preferred Equity Certificates ("PECs") issued by PAH Lux S.a.r.l. and was 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.

As part of the Initial Public Offering transaction on 17 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 21 November 2011, the date of incorporation of Pets at Home Asia Ltd where the functional currency differs from that of the rest of the Group.

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Notes (forming part of the financial statements) continued

20. Capital and reserves continued

Other comprehensive income

26 March 2015

| | Translation reserve £000 | Cash flow hedging reserve £000 | Total other comprehensive income £000 |
|--|--------------------------------|--------------------------------------|--|
| Other comprehensive income | (4) | – | (4) |
| Cash flow hedges – reclassified to profit and loss | – | 1,113 | 1,113 |
| Effective portion of changes in fair value of cash flow hedges | – | 403 | 403 |
| Deferred tax on changes in fair value of cash flow hedges | – | (303) | (303) |
| Total other comprehensive income | (4) | 1,213 | 1,209 |

27 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 |

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 in respect of financial risk is carried out by the Pets at Home Group Treasury department under policies approved by the Board of Directors. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board provides written principals, through its Group Treasury Policy, 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 foreign currency, in excess of \$50 million US dollars each financial year, 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 26 March 2015, 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.

26 March 2015

| | Euro £000 | US Dollar £000 | HKD £000 | Total £000 |
|-------------------------------|--------------|-------------------|-------------|----------------|
| Cash and cash equivalents | 293 | 2,523 | 2 | 2,818 |
| Trade payables | (446) | (5,178) | – | (5,624) |
| Forward exchange contracts | (120) | 1,817 | – | 1,697 |
| Balance sheet exposure | (273) | (838) | 2 | (1,109) |

27 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) |

Sensitivity analysis

A 5% percent 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 | |
|----|-----------------------|-----------------------|-----------------------|-----------------------|
| | 26 March 2015 £000 | 27 March 2014 £000 | 26 March 2015 £000 | 27 March 2014 £000 |
| \$ | (91) | 55 | 133 | 13 |
| € | 6 | 1 | (8) | 8 |

A 5% percent 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.

(ii) 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 26 March 2015 the Group had a drawn down senior facility with a face value totalling £325.0m and an undrawn revolving credit facility of £29.6m, which expires on 17 March 2019. The Pets at Home Group's borrowings as at 26 March 2015 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 £239.8m 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 £77.1m at the balance sheet date at a fixed rate of 0.655%. Both swaps expire on 30 March 2016. The hedges are structured to hedge at least 70% of the outstanding debt.

Notes (forming part of the financial statements) continued

21. Financial instruments continued

Profile

At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was:

| | Group | | Company | |
|------------------------------------|---|---|---|---|
| | Book value At 26 March 2015 £000 | Book value At 27 March 2014 £000 | Book value At 26 March 2015 £000 | Book value At 27 March 2014 £000 |
| Fixed rate instruments | | | | |
| Financial liabilities | 316,875 | 316,900 | 316,875 | 316,900 |
| Variable rate instruments | | | | |
| Financial liabilities | 3,799 | 2,955 | 3,799 | 2,955 |
| Total financial liabilities | 320,674 | 319,855 | 320,674 | 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 un-hedged portion is designated as variable rate.

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.

| | At 26 March 2015 £000 | At 27 March 2014 £000 |
|-----------------------|-----------------------------|-----------------------------|
| Equity | | |
| Increase | 1,584 | 1,584 |
| Decrease | (1,584) | (1,584) |
| Profit or loss | | |
| Increase | 19 | 1 |
| Decrease | (19) | (1) |

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 ensures that the banks used for the financing of the loan facilities and interest rate swap agreements held 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 25. 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.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

Group
26 March 2015

| | 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) | 320,674 | 350,763 | 12,844 | 19,313 | 318,606 | — |
| Trade payables (note 18) | 77,737 | 77,737 | 77,737 | — | — | — |
| Derivative financial liabilities | | | | | | |
| <i>Forward exchange contracts used for hedging:</i> | | | | | | |
| Outflow (note 14) | — | — | — | — | — | — |
| <i>Interest rate swaps used for hedging:</i> | | | | | | |
| Outflow (note 14) | 453 | 453 | 453 | — | — | — |
| <i>Fuel forward contracts:</i> | | | | | | |
| Outflow (note 14) | 179 | 179 | 179 | — | — | — |
| | 399,043 | 429,132 | 91,213 | 19,313 | 318,606 | — |

27 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) | 319,855 | 372,310 | 8,653 | 13,595 | 108,643 | 241,419 |
| Trade payables (note 18) | 79,005 | 79,005 | 79,005 | — | — | — |
| Derivative financial liabilities | | | | | | |
| <i>Forward exchange contracts used for hedging:</i> | | | | | | |
| Outflow (note 14) | 1,113 | 1,113 | 1,113 | — | — | — |
| <i>Interest rate swaps used for hedging:</i> | | | | | | |
| Outflow (note 14) | — | — | — | — | — | — |
| <i>Fuel forward contracts:</i> | | | | | | |
| Outflow (note 14) | — | — | — | — | — | — |
| | 399,973 | 452,428 | 88,771 | 13,595 | 108,643 | 241,419 |

Subsequent to the period end, on 15 April 2015 the Group has undertaken a refinancing transaction. The details of this transaction are included in note 27.

Notes (forming part of the financial statements) continued

21. Financial instruments continued

The following are the contractual maturities of financial liabilities, including estimated interest payments:

Company
26 March 2015

| | 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) | 320,674 | 350,763 | 12,844 | 19,313 | 318,606 | — |
| Derivative financial liabilities | | | | | | |
| Interest rate swaps (note 14) | 453 | 453 | 453 | — | — | — |
| | 321,127 | 351,216 | 13,297 | 19,313 | 318,606 | — |

27 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) | 319,855 | 372,310 | 8,653 | 13,595 | 108,643 | 241,419 |
| Derivative financial liabilities | | | | | | |
| Interest rate swaps (note 14) | — | — | — | — | — | — |
| | 319,855 | 372,310 | 8,653 | 13,595 | 108,643 | 241,419 |

Subsequent to the period end, on 15 April 2015 the Company has undertaken a refinancing transaction. The details of this transaction are included in note 27.

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:

Group
26 March 2015

| | Carrying amount £000 | Expected cash flows £000 | 1 year or less £000 | 1 to <2years £000 | 2 to <5years £000 | 5 years and over £000 |
|------------------------------------|----------------------|--------------------------|---------------------|-------------------|-------------------|-----------------------|
| <i>Interest rate swaps:</i> | | | | | | |
| Assets (note 14) | – | – | – | – | – | – |
| Liabilities (note 14) | (453) | (453) | (453) | – | – | – |
| <i>Forward exchange contracts:</i> | | | | | | |
| Assets (note 14) | 1,817 | 1,817 | 1,817 | – | – | – |
| Liabilities (note 14) | (120) | (120) | (120) | – | – | – |
| <i>Fuel forward contracts:</i> | | | | | | |
| Liabilities (note 14) | (179) | (179) | (179) | – | – | – |
| | 1,065 | 1,065 | 1,065 | – | – | – |

27 March 2014

| | Carrying amount £000 | Expected cash flows £000 | 1 year or less £000 | 1 to <2years £000 | 2 to <5years £000 | 5 years and over £000 |
|------------------------------------|----------------------|--------------------------|---------------------|-------------------|-------------------|-----------------------|
| <i>Interest rate swaps:</i> | | | | | | |
| Assets (note 14) | 662 | 890 | (354) | 1,244 | – | – |
| Liabilities (note 14) | – | – | – | – | – | – |
| <i>Forward exchange contracts:</i> | | | | | | |
| Assets (note 14) | – | – | – | – | – | – |
| Liabilities (note 14) | (1,113) | (1,113) | (1,113) | – | – | – |
| <i>Fuel forward contracts:</i> | | | | | | |
| Liabilities (note 14) | – | – | – | – | – | – |
| | (451) | (223) | (1,467) | 1,244 | – | – |

Notes (forming part of the financial statements) continued

21. Financial instruments continued

Company
26 March 2015

| | Carrying amount £000 | Expected cash flows £000 | 1 year or less £000 | 1 to <2years £000 | 2 to <5years £000 | 5 years and over £000 |
|-----------------------------|----------------------|--------------------------|---------------------|-------------------|-------------------|-----------------------|
| <i>Interest rate swaps:</i> | | | | | | |
| Assets (note 14) | – | – | – | – | – | – |
| Liabilities (note 14) | (453) | (453) | (453) | – | – | – |
| | (453) | (453) | (453) | – | – | – |

27 March 2014

| | Carrying amount £000 | Expected cash flows £000 | 1 year or less £000 | 1 to <2years £000 | 2 to <5years £000 | 5 years and over £000 |
|-----------------------------|----------------------|--------------------------|---------------------|-------------------|-------------------|-----------------------|
| <i>Interest rate swaps:</i> | | | | | | |
| Assets (note 14) | 662 | 890 | (354) | 1,244 | – | – |
| Liabilities (note 14) | – | – | – | – | – | – |
| | – | – | – | – | – | – |

Fair values of financial instruments

Investments

The fair value of investments are considered to be their carrying value as the impact of discounting future cash flows has been assessed as not material and the investment is non-participatory.

Trade and other payables and receivables

The fair value of these items are considered to be their carrying value as the impact of discounting future cash flows has been assessed as not material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand (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.

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 are calculated by management based on external valuations received from the Group's bankers and is based on forward exchange rates and anticipated future interest 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:

| | 26 March 2015 | | 27 March 2014 | |
|---|----------------------|------------------|----------------------|-----------------|
| | Carrying amount £000 | Fair value £000 | Carrying amount £000 | Fair value £000 |
| Financial assets held for trading (including all derivatives) | | | | |
| Forward exchange contracts (note 14) | 1,697 | 1,697 | – | – |
| Interest rate swaps (note 14) | – | – | 662 | 662 |
| Available for sale financial assets | | | | |
| Investment in non-equity share capital and loans (note 14) | 8,133 | 8,133 | 5,957 | 5,957 |
| Total financial assets at fair value through profit or loss | 9,830 | 9,830 | 6,619 | 6,619 |
| Loans and receivables | | | | |
| Cash and cash equivalents (note 16) | 132,966 | 132,966 | 90,823 | 90,823 |
| Trade and other receivables (note 15) | 51,627 | 51,627 | 42,159 | 42,159 |
| Total loans and receivables | 184,593 | 184,593 | 132,982 | 132,982 |
| Total financial assets | 194,423 | 194,423 | 139,601 | 139,601 |
| Financial liabilities held for trading (including all derivatives) | | | | |
| Forward exchange contracts (note 14) | – | – | (1,113) | (1,113) |
| Interest rate swaps (note 14) | (453) | (453) | – | – |
| Fuel forward contracts (note 14) | (179) | (179) | – | – |
| Total financial liabilities at fair value through profit or loss | (632) | (632) | (1,113) | (1,113) |
| Financial liabilities measured at amortised cost | | | | |
| Other interest-bearing loans and borrowings (note 17) | (320,674) | (320,674) | (319,855) | (319,855) |
| Trade and other payables (note 18) | (176,237) | (176,237) | (180,615) | (180,615) |
| Total financial liabilities measured at amortised cost | (496,911) | (496,911) | (500,470) | (500,470) |
| Total financial liabilities | (497,543) | (497,543) | (501,583) | (501,583) |
| Total financial instruments | (303,120) | (303,120) | (361,982) | (361,982) |

Notes (forming part of the financial statements) continued

21. Financial instruments continued

Company

| | 26 March 2015 | | 27 March 2014 | |
|--|----------------------|------------------|----------------------|------------------|
| | Carrying amount £000 | Fair value £000 | Carrying amount £000 | Fair value £000 |
| Financial assets held for trading (including all derivatives) | | | | |
| 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) | 1 | 1 | 22,829 | 22,829 |
| Trade and other receivables (note 15) | 562,653 | 562,653 | 565,441 | 565,441 |
| Total loans and receivables | 562,654 | 562,654 | 588,270 | 588,270 |
| Total financial assets | 562,654 | 562,654 | 588,932 | 588,932 |
| Financial assets held for trading (including all derivatives) | | | | |
| Interest rate swaps (note 14) | (453) | (453) | – | – |
| Total financial assets at fair value through profit or loss | (453) | (453) | – | – |
| Financial liabilities measured at amortised cost | | | | |
| Other interest-bearing loans and borrowings (note 17) | (320,674) | (320,674) | (319,855) | (319,855) |
| Trade and other payables (note 18) | (1,343) | (1,343) | (14,797) | (14,797) |
| Total financial liabilities | (322,017) | (322,017) | (334,652) | (334,652) |
| Total financial instruments | 240,637 | 240,637 | 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
26 March 2015

| | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|--|-----------------|-----------------|-----------------|---------------|
| Available for sale financial assets | | | | |
| Investments | – | – | 8,133 | 8,133 |
| Derivative financial assets | | | | |
| Forward rate contracts | – | 1,697 | – | 1,697 |
| Derivative financial liabilities | | | | |
| Interest rate swaps | – | (453) | – | (453) |
| Fuel forward contracts | – | (179) | – | (179) |

27 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 liabilities | | | | |
| Forward rate contracts | – | (1,113) | – | (1,113) |
| Derivative financial assets | | | | |
| Interest rate swaps | – | 662 | – | 662 |

Company
26 March 2015

| | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|---|-----------------|-----------------|-----------------|---------------|
| Derivative financial liabilities | | | | |
| Interest rate swaps | – | (453) | – | (453) |

27 March 2014

| | Level 1 £000 | Level 2 £000 | Level 3 £000 | Total £000 |
|------------------------------------|-----------------|-----------------|-----------------|---------------|
| Derivative financial assets | | | | |
| Interest rate swaps | – | 662 | – | 662 |

Notes (forming part of the financial statements) continued

21. Financial instruments continued

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 17.

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 have continued to measure and monitor covenant compliance throughout the period and the Group has complied with the requirements set.

22. Share based payments

At 26 March 2015, the Group has four share award plans, all of which are equity settled schemes.

1. The Co-Invest Plan (CIP)

On 25 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 17 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.

(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 one times their annual salary.

(d) Performance, vesting and performance adjustment

The Matching Awards granted on 17 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 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 31 March 2017). If the CAGR in the Company's EPS is 10%, then 10% of the total Matching Award will vest. If the CAGR in the Company's EPS is 17.5% or more, then 75% of the total Matching Award will vest. Vesting will be on a straight line basis between these two points. For the avoidance of doubt, if the CAGR in EPS is less than 10% over the Performance Period then the amount of the Matching Award which will vest under this EPS performance condition will be nil.
- 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 17 March 2014, but subject to continued employment with the Group.

2. CSOP

On 25 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 9 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.

(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.

(i) 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).

Notes (forming part of the financial statements) continued

22. Share based payments continued

3. PSP

On 25 February 2014 the Company adopted the PSP. Awards under the PSP were made on 17 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.

(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 25 February 2014, the Company adopted the SAYE (which was registered with and self-certified with HMRC on 4 April 2015. The rules of the SAYE were adopted pursuant to Schedule 3 of the Income Tax (Earnings and Pensions) Act 2003 and provide for the grant of tax approved options. On the 9 September, the Company issued invitations under the rules of the SAYE which provides eligible colleagues with an opportunity to receive share options at a 20% discount to the market price. The maximum monthly savings was £250 per month. The Executive Directors elected to participate in the Sharesave, along with 30% of eligible colleagues.

The Options were granted on 8 October 2014 and they are, in normal circumstances, not exercisable until completion of a 3 years savings period, beginning on 1 December 2014 and will then be exercisable for a period of 6 months. The exercise period will, therefore, in normal circumstances, be from 1 December 2017 to 31 May 2018.

(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, are 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 each 42 day period from (and including) (i) the date on which any amendment to the SAYE is approved or adopted by the Company's shareholders (ii) the announcement of the Company's final or interim results for any financial period, (iii) the occurrence of an event which the Remuneration Committee considers to be an exceptional event concerning the Group or (iv) changes to the legislation affecting tax approved SAYE option schemes coming into effect. If any of the above periods is a 'close period' as a result of the application of the Model Code for Securities Transactions by Directors of Listed Companies (or as a result of the Company's equivalent internal share dealing rules) and the Company is prohibited from issuing invitations and/or granting options as a result then invitations may be made within 42 days of the end of the close period.

Invitations may be issued by the trustee of an employee benefit trust. No invitations may be issued or options granted more than ten years after the adoption of the SAYE.

(c) Exercise price

The price at which an option holder may acquire Shares on the exercise of an option shall be determined by the Board but shall not be less than the greater of 80% of the market value of a Share at the time of grant and its nominal value.

(d) Savings contract

Options may be granted by the Board or the trustee of an employee benefit trust. Upon applying for an option, the colleague will be required to enter into an approved savings contract with a savings institution nominated by the Company which lasts for either three or five years. The maximum amount which an employee is permitted to contribute under SAYE contracts is £250 per month (increasing to £500 per month from 6 April 2014). The Board may set lower savings limits than this for different colleagues by reference to objective criteria such as levels of salary or length of service. The minimum contribution is £5 per month (or such greater amount as the Board may specify, not to exceed £10). The total exercise price of the Shares over which the option is granted may not exceed the aggregate of the monthly contributions and bonus payable at the end of the colleague's related SAYE contract.

(e) Scheme limits

The number of newly issued Shares over which (or in respect of which) options may be granted under the SAYE on any date of grant shall be limited so that the total number of Shares issued or capable of being issued in any ten year period under all the Company's employee share schemes (including the CIP, CSOP, PSP and SIP but other than to satisfy dividend equivalent payments) is restricted to 10% of the Company's issued Shares calculated at the relevant time. Any options or rights to acquire shares granted before, on or in connection with Admission will be excluded from this limit, and no account will be taken of options or awards which have lapsed, been surrendered or otherwise become incapable of exercise or vesting.

(f) Exercisability

Options will normally be exercisable during a period of six months following the allocation of a bonus under the related SAYE contract and will normally lapse upon cessation of employment. Earlier exercise is, however, permitted if the colleague dies or leaves employment through injury, disability, redundancy or retirement or where a colleague leaves employment of the Group by reason of his employing company ceasing to be a member of the Group, or if the undertaking in which he is employed is sold outside the Group. Early exercise will also be permitted in the event of a takeover, reconstructions or voluntary winding up of the Company.

Notes (forming part of the financial statements) continued

22. Share based payments continued

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 17 March 2014. The expected life is the average expected period to exercise, which has been taken as 3 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 | CSOP | SAYE |
|--|-------|-------|-------|-------|
| Share price | £2.45 | £2.45 | £2.31 | £1.75 |
| Exercise price | £0.00 | £0.00 | £1.75 | £1.45 |
| Expected volatility | 30% | 30% | 37% | 30% |
| Option life (years) | 3 | 10 | 10 | 3 |
| Expected dividend yield | 2.00% | 2.00% | 2.00% | 2.00% |
| Risk free interest rate | 1.07% | 1.07% | 2.25% | 1.07% |
| Weighted average fair value of options granted | £2.06 | £2.06 | £0.75 | £0.47 |

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.

Movements in awards under share based payment schemes:

| | CIP '000 | PSP '000 | CSOP '000 | SAYE '000 |
|-----------------------------------|--------------|-------------|--------------|--------------|
| Outstanding at start of year | 2,454 | 304 | – | – |
| Granted | – | – | 1,900 | 3,056 |
| Forfeited | – | – | – | – |
| Exercised | – | – | – | – |
| Lapsed | – | – | – | – |
| Outstanding at end of year | 2,454 | 304 | 1,900 | 3,056 |

The Group Income Statement charge recognised in respect of share based payments for the current period is £1,657,000.

23. Operating leases

Non-cancellable operating lease rentals are payable as follows:

| | Land and Buildings | | Other | |
|----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | At 26 March 2015 £000 | At 27 March 2014 £000 | At 26 March 2015 £000 | At 27 March 2014 £000 |
| Less than one year | 66,866 | 65,320 | 3,292 | 2,634 |
| Between one and five years | 256,155 | 252,770 | 6,507 | 3,922 |
| More than five years | 241,851 | 271,260 | 144 | 65 |
| | 564,872 | 589,350 | 9,943 | 6,621 |

Land and buildings relate to the hire of stores under operating leases. No lease is considered individually significant.

During the period £70,122,000 was recognised as an expense in the income statement in respect of operating leases (period to 27 March 2014: £65,300,000).

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. Sublease income commitments set out below exclude rentals charged to veterinary practices within Pets at Home stores (see note 26).

| | Sublets | At 26 March 2015 £000 | At 27 March 2014 £000 |
|----------------------------|--------------|-----------------------------|-----------------------------|
| Less than one year | 1,008 | 868 | |
| Between one and five years | 3,652 | 2,920 | |
| More than five years | 2,060 | 2,335 | |
| | 6,720 | 6,123 | |

24. Commitments

Capital commitments

At 26 March 2015, the Group is committed to incur capital expenditure of £1,272,000 (at 27 March 2014: £2,883,000). Capital commitments predominately relate to the costs to fit out new Pets at Home stores and investment in new IT systems.

25. Contingencies

Veterinary practices

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 £5,845,000 (period to 27 March 2014: £5,750,000).

£nil (period to 27 March 2014: £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 £nil (period to 27 March 2014: £156,000).

Kohlberg Kravis Roberts & Co. L.P. received a management fee in the period of £nil (period to 27 March 2014: £1,220,000), which includes the provision of Non-Executive Director services and expenses recharged.

Kohlberg Kravis Roberts & Co. L.P. also received fees of £nil and expenses of £nil (period to 27 March 2014: fees of £8,685,105 and expenses of £113,735), relating to a termination payment and transaction fees following the termination of an advisory services agreement dated 19 March 2010 upon the IPO of Pets at Home Group Plc on 17 March 2014.

KKR Capital Markets LLC received fees of £nil (period to 27 March 2014: £600,000), relating to professional services associated with debt financing following the refinancing of the Pets at Home Group in April 2013, £nil (period to 27 March 2014: £1,775,000) relating to professional services associated with the debt refinancing of the Pets at Home Group in March 2014, £nil (period to 27 March 2014: £1,757,307) relating to fees in relation to the Pets at Home Group Plc IPO, and £nil (period to 27 March 2014: £200,000) relating to professional services associated with the arrangement of loan agreements which Companion Care Management Services Limited became party to in March 2014.

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 previous 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 1.4.

Commitments relating to these veterinary practices are included within notes 24 and 25.

The transactions entered into during the period, and the balances outstanding at the end of the period are as follows:

| | At 26 March 2015 £000 | At 27 March 2014 £000 |
|---|-----------------------------|-----------------------------|
| <i>Transactions</i> | | |
| – Fees for services provided to veterinary practices | 28,249 | 21,610 |
| – Rental charges to veterinary practices | 7,056 | 5,039 |
| <i>Balances</i> | | |
| – Due from veterinary practice companies at end of period included within other receivables | 17,334 | 12,673 |

27. Subsequent events

Refinance

On 14 April 2015, the Company and certain of its subsidiaries entered into the amendment agreement to the Senior Facilities Agreement. The Amendment Agreement became effective on 15 April 2015 (the "Effective Date"), after the date of the Company's financial year end on 26 March 2015.

The Amendment Agreement provided that a new revolving facility of £260 million (the "Revolving Facility 2") was incorporated into the Senior Facilities Agreement. The existing term and revolving facilities were repaid on the Effective Date with the proceeds of a drawing under Revolving Facility 2 and cash on balance sheet and upon the prepayment such facilities were cancelled. Revolving Facility 2 is available for drawing to finance and/or refinance (as applicable) the general corporate purposes and/or working capital requirements of the Group. The interest rate applicable to Revolving Facility 2 is LIBOR (or, for loans in Euro, EURIBOR) plus a margin ranging between 2.00% and 0.75% per annum depending on the ratio of consolidated EBITDA to total net debt. The margin currently applicable to utilisations under Revolving Facility 2 is 1.50% per annum. KKR Capital Markets Limited ("KCM"), an affiliate of the Principal Shareholder, KKR My Best Friend Limited, received a fee of £500,000 for arranging Revolving Facility 2.

Acquisition of North West Surgeons

Subsequent to the period end, on 15 April 2015, NWS (Holdings) Limited, a subsidiary of Pets at Home Group Plc, acquired 100% of the issued share capital of Northwest Surgeons Limited, in exchange for an initial cash consideration of £2.6m. Northwest Surgeons Limited is a company registered in England and Wales, engaged in the provision of specialist veterinary services to veterinary practices in the north west of England. The acquisition represents the first specialist veterinary referral practice within the Group.

The practice makes no contribution to these financial statements, due to the transaction closing subsequent to the period end.

It is anticipated that the financial statements of Pets at Home Group Plc for the 53 week period to 31 March 2016 will include full disclosure in accordance with IFRS 3 of consideration paid or payable, the fair value of net assets acquired, goodwill recognised, and acquisition related costs, at such time as the initial accounting for the business combination is complete.

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Notes



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