

pets
at home



Growing our family of pet specialists

Pets at Home Group Plc
Annual Report and Accounts 2017



Pets at Home is the UK's leading specialist pet retailer.

We provide everything a pet owner needs to ensure their pet can lead a happy and healthy life: food and accessories, specialist advice, grooming services and veterinary care.



Online Annual Report 2017
investors.petsathome.com/ar2017/

Our focus is on becoming:



More specialist

Maintaining and enhancing our specialist credentials gives pet owners more reasons to shop with us. We can do this by providing our customers with inspirational retail and services, expert advice, unmatched range and seamless omnichannel convenience.



Most loved

As pet owners too, we can understand and help support our customers through all the moments they share with their pet. Sharing our love and passion for pets strengthens the bond with our customers and their trust in our colleagues and brands.



With responsibility at the heart of our business

Putting Pets Before Profit is our number one value. Responsible retailing is critical to maintaining our reputation and ongoing business success.

Throughout this report...

You will see the above icons which represent our approach to being the most specialist, loved and responsible pet retailer.

Strategic report

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We are more focused than ever on growing our specialist capabilities.

From the advice and products delivered by colleagues in stores and online, through to our veterinary professionals practising the most advanced tiers of medicine.

We are building a growing business that delivers everything an owner needs to give their pets a happy and healthy life.

Discover a snapshot of our progress on pages 6 to 11.



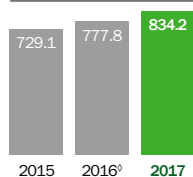
The year in review

Growing our specialist capabilities

Financial highlights

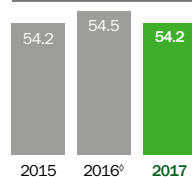
Revenue (£m)

£834.2m +7.2%[◊]



Gross margin (%)

54.2% -35bps[◊]



1 Excludes exceptional costs.

◊ FY16 comparative information presented on a 52 week basis. For reconciliation to a 53 week statutory basis see page 179.

FY16 53 week statutory revenue was £793.1m.

FY16 53 week statutory basic earnings per share was 14.6p.

Operational highlights



Growing our presence...

Delivered our rollout targets for both stores and services, and grew our VIP loyalty club by 300,000 members.

15

new Pets at Home superstores
total stores 434

50

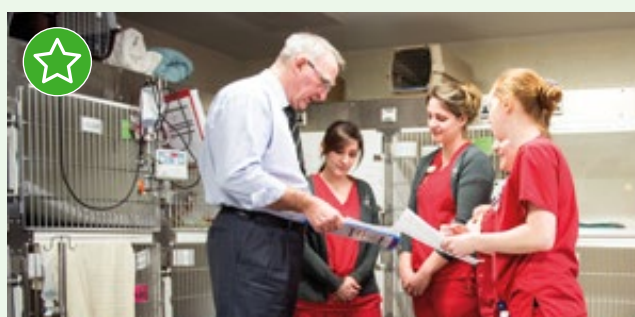
new grooming salons
total salons 290

50

new vet practices
total practices 438

3.7m

active VIP club members



Growing our specialist services...

Increased our presence in the veterinary specialist services market through the acquisition of two referral centres.

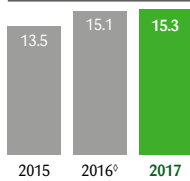
4

specialist veterinary
referral centres
in the Group



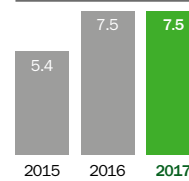
Basic pre-exceptional earnings per share (pence)¹

15.3p +1.0%^o



Dividend per share (pence)

7.5p



Growing our online capabilities...

Ongoing investment has delivered a better online experience for customers, leading to higher order volumes and basket spend.

Nearly

50%

of online orders are collected by customers in-store

Order in-store

Launched 'order in-store', where colleagues can place an online order for our entire extended range of 11,000 products, through their PetPads.



Growing our responsibility...

Our programme to equip stores with LED lighting and a Building Energy Management System is delivering immediate financial savings, reducing our environmental impact and delivering welfare improvements for our pets.

Over

50%

of stores now fitted with LED lights & Energy Management Systems

At a glance

Everything your pet needs for a happy and healthy life

The Group provides a comprehensive range of merchandise and services for customers and their pets. It is the combination of our specialist retail offer, veterinary practices and grooming salons, all within a single pet-focused environment, that represents a uniquely attractive offer to our customers.

Retail

Our merchandise offer is provided from our retail store network and website. Within our stores, well-trained colleagues provide detailed advice on areas such as pet nutrition and the set-up of home aquaria. Investment in our omnichannel capabilities provides additional convenience for customers.

Services

We provide veterinary services through our first opinion network of Joint Venture practices, and our specialist referral centres. Our first opinion practices are operated mainly under the Vets4Pets brand and are situated in stores and in standalone locations. Our referral centres provide high level, specialist services to vets working in our own and in other first opinion practices. Grooming services are provided primarily from salons within our retail stores.



Omnichannel capability: Click and collect in-store

Our extended range of food and accessories is available for customers to shop online and have their order delivered to store to be collected when convenient.

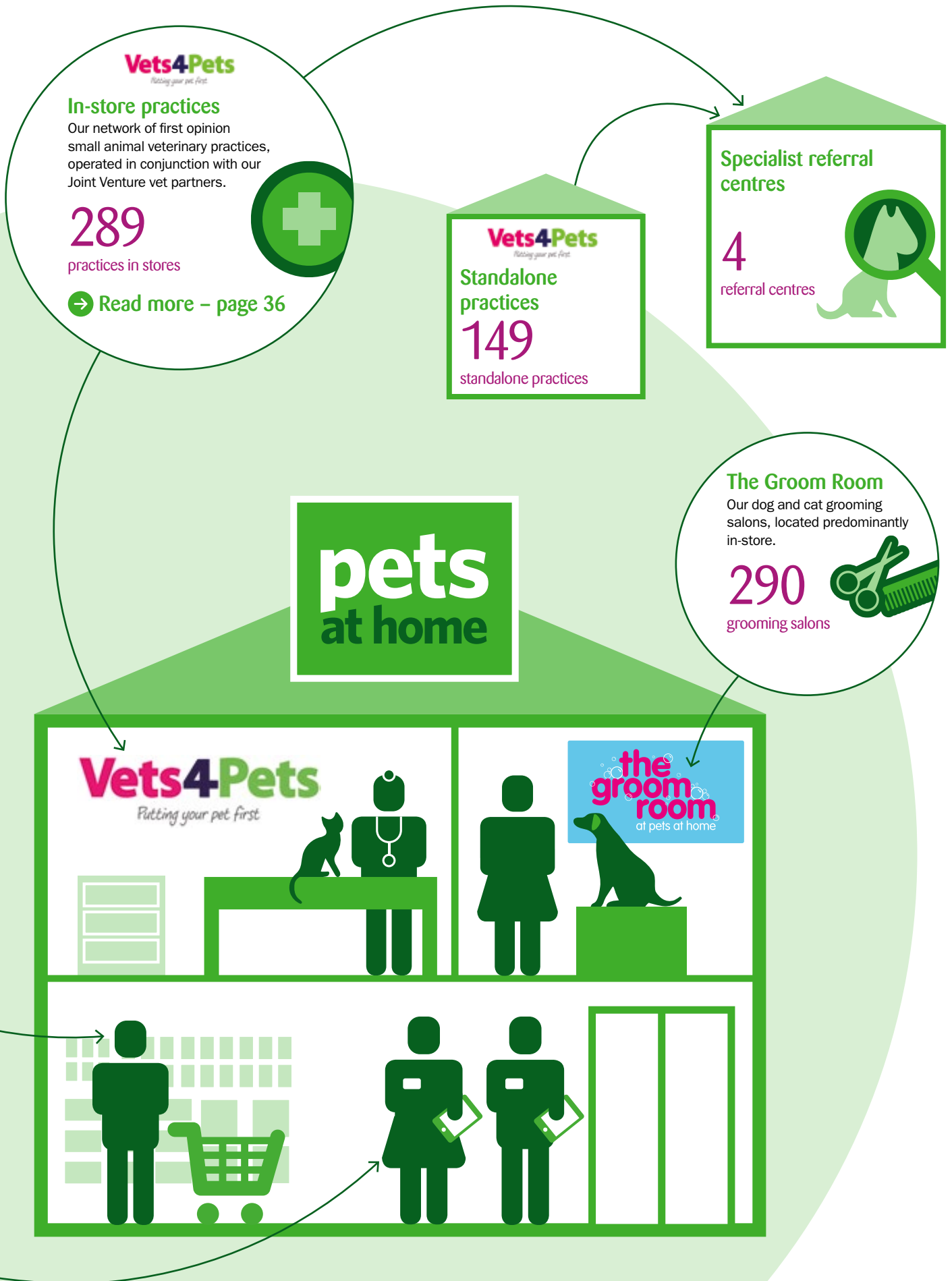
➔ [Read more – page 19](#)

Product not in-store? Order with our experts on their PetPads

Expert colleagues can order from our extended range using a dedicated PetPad app. The PetPad is also set up to enable subscription orders of licensed flea prevention products.

11,000
products in our extended
online range

➔ [Read more – page 9](#)



A snapshot of our progress

Service and convenience matters

Products, veterinary care and grooming services all under one roof.

Stores with vet practice and grooming salon (%)



24%

profit increase in a mature store with services, compared to a store alone

c.450,000

VIP members using vet or grooming services



Going from strength to strength Growing the number of stores with both vet and grooming services is central to our strategy

By creating a store with products, a vet practice and a grooming salon, alongside our website with additional products that can be delivered to home or to our stores, we give pet owners access to everything they need.

A customer who shops online or in our stores but does not use any services spends around £140 a year. Whilst a customer who also uses our vet and grooming services will spend over £180 on products, plus an additional £200 per year on services. This reflects the increased loyalty and shopping frequency of services customers.

[→ Read more strategy in action on pages 22–25](#)

A snapshot of our progress

A better customer experience

Offering our customers unmatched product range and seamless omnichannel convenience.

Online orders collected by customers in store



53%[◇]
increase in online revenues

3
omnichannel initiatives launched in the year

[◇] FY16 comparative information presented on a 52 week basis. For reconciliation to a 53 week statutory basis see page 179.



Online investment delivering results Major customer initiatives during the year

Order online with our colleagues

Our colleagues can now place an order for all the products in our extended online range from their PetPads. This gives store customers easy access to even more of our range, with assistance and advice from our expert colleagues.

Switch & Save calculator

Our online calculator allows customers to see whether they are getting the best deal on their dog food. In four simple steps, customers can check how much they could save by switching to our Wainwright's and AVA private label foods.

First subscription service

Exclusively for VIP members. 'Subscribe & Save flea treatment' allows customers to receive a single flea treatment through the post each month, which acts as a convenient reminder to treat their dog or cat.



➔ Read more strategy in action on pages 22–25

A snapshot of our progress

Expanding our specialist veterinary network

Providing comprehensive veterinary services for our clients and their pets

First opinion practices



4

Specialist referral centres



Expanding our network of specialist referral centres

Our aim is to achieve national coverage for specialist veterinary referrals

The Group operates four specialist veterinary referral centres: Dick White Referrals, Northwest Veterinary Specialists, Anderson Moores, and Eye Vet Referrals. Our aim is to create national coverage by expanding our presence in this premium segment of the veterinary market to up to 15 specialist centres.

To manage this growth we have implemented a divisional structure within the Vet Group, creating a new Specialist Division alongside the existing

First Opinion Division which comprises the Vets4Pets and Companion Care Joint Venture veterinary practices.

Although our entry into the market for specialist referrals was by way of acquisition, we are now able to call on the experience of the founders of some of Europe's most respected veterinary referral clinics to advise on our growth strategy. We expect to achieve our goals through a combination of greenfield openings and further acquisitions.

[➔ Read more strategy in action on pages 22–25](#)

Market overview

The UK pet market is growing and we have taken share

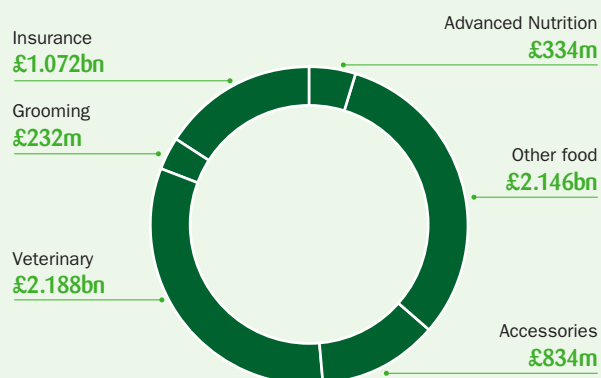
The UK pet market

- We are the only retailer able to deliver an integrated product, services and omnichannel offer for pet owners.
- We have consistently grown our share, from 2014-2016, across all strategic areas and have a significant growth opportunity remaining.



Pets at Home is
the leader in the
£6.8bn
UK pet market

UK market by sector 2016



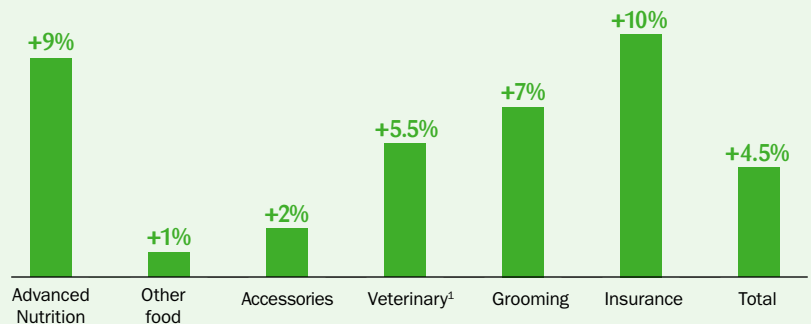
All market data sourced by OC&C Strategy Consultants and refers to the calendar year 2016 unless otherwise stated.

Pet market has shown resilience and premium growth

- Advanced Nutrition, vet and grooming services are among the fastest growing segments.
- Channel shift continues with 11% of market sales made online.



Market CAGR over the past two years



1 Veterinary includes first opinion and referrals market.

Key market drivers

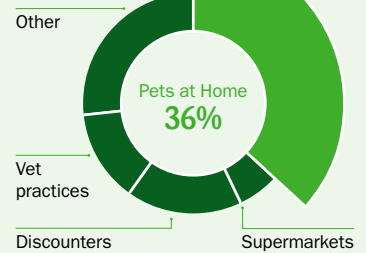
- Pets at Home has 20% share of the food and accessories market and 12% share of the first opinion veterinary market.
- A stable UK pet population and a move within the dog market, with customers opting for more specialised breeds, drives an overall spend premium.
- Humanisation of pets is increasing the need for a wider range of products and services.
- Shift to higher quality pet foods driven by the health benefits to pets.
- Advances in veterinary care, supported by growing insurance coverage.

Market share in 2016

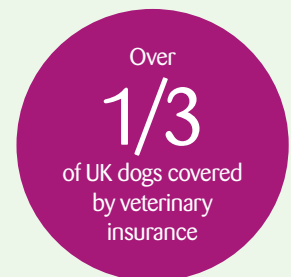
Advanced Nutrition



Accessories



Veterinary²



2 Veterinary includes only the first opinion market.

All market data sourced by OC&C Strategy Consultants and refers to the calendar year 2016 unless otherwise stated.

Delivering the ultimate pet care experience

Specialist capabilities

Passionate and expert colleagues

As pet owners too, our store, vet and grooming colleagues can understand and help support our customers through all the moments they share. An industry leading training programme ensures we can share our knowledge, as well as our passion.



92%

of store colleagues own a pet

Great value private brands

Our private label food and accessories brands deliver high quality, at value prices and are only available at Pets at Home. Exclusive product launches ensure we deliver something new and different to our customers.



41%

of Merchandise revenues are private label

Leading loyalty club

The VIP club is the UK's largest pet loyalty scheme and contains information for over 15m pets. This gives us a leading advantage in tailoring products and services for our customers and understanding their shopping habits.



68%

of store revenues are generated by VIP members

Responsibility at the heart of our business

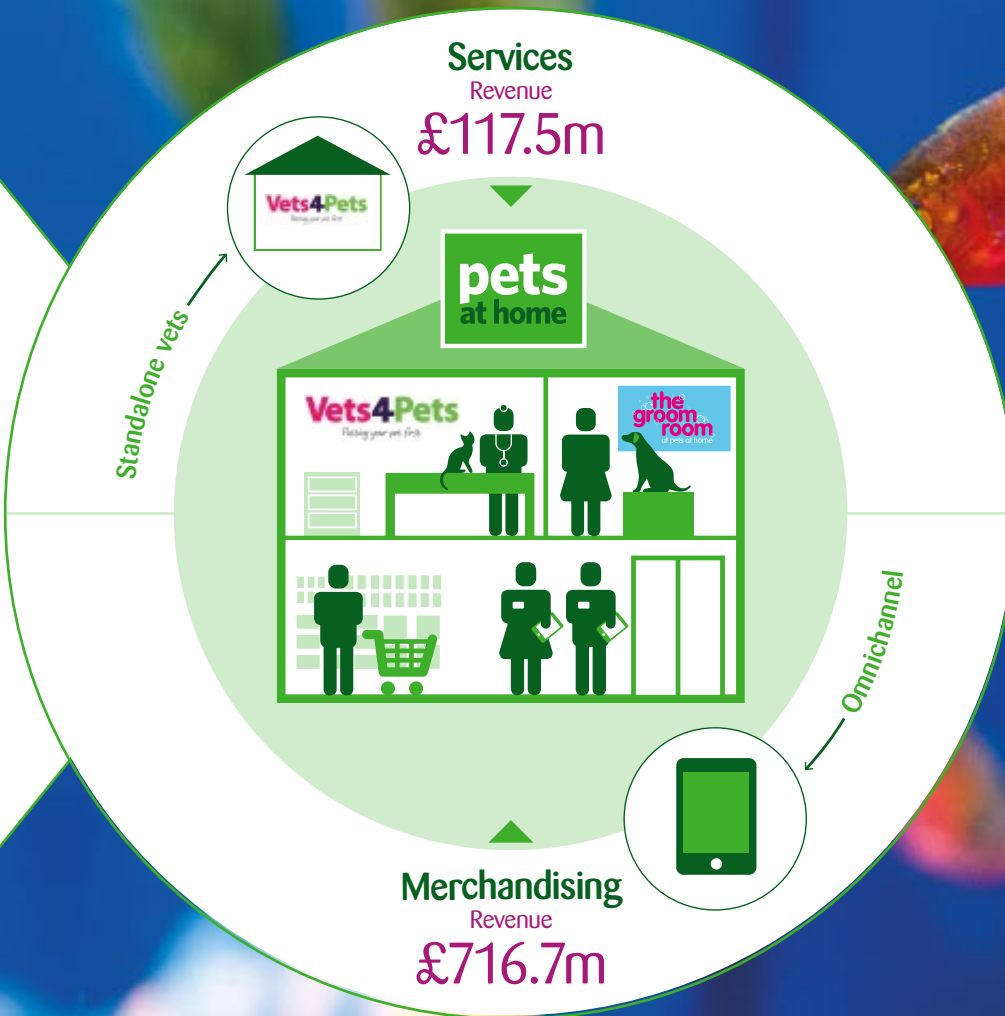
Behaving responsibly is integral to how our business operates and encompasses our engagement with colleagues, impact on the environment, sourcing procedures and interaction with local communities.

Our Green PawPrint highlights the pillars of our responsible retailing strategy.



Revenue generating activities

Value creation



For pets

- Everything a pet needs to keep them happy and healthy
- Supported by our welfare and care standards

For customers

- The ultimate specialist 'pet care' experience
- Value for money, new & different products, pet services

For colleagues

- Sector leading retention rates
- Externally accredited training schemes

For the Group

- Top line and profit growth
- Returns to shareholders

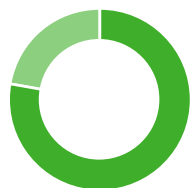
Chairman's statement



In a more uncertain retail and economic environment we are confident the Group is well placed to meet the challenges ahead.”



Gender breakdown – Board of Directors



Male	78%
Female	22%

Membership of the Board



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

In a year that has seen the introduction of the National Living Wage, the vote for the UK to leave the European Union and the resulting devaluation of Sterling against both the US Dollar and the Euro, I am pleased to report another year of progress for the Group. While we expect some uncertainty ahead as the UK negotiates the terms of Brexit, we remain confident in the long term prospects for the Group based around our strategy to build a unique pet-focused offer of products and services within our store estate, to maximise our investments in omnichannel which will bring more of Pets at Home to customers more of the time, and to develop national coverage of first opinion vet practices and specialist referral centres within our Vet Group.

Following a strong first half, Merchandise sales in the second half were softer than anticipated, although online grew strongly reflecting the momentum gained from our omnichannel investments. Vet services again delivered strong growth driven by our strategy of providing a quality service to clients across both first opinion and specialist referral centres. In the year as a whole, revenue grew 7.2%[◇] to £834.2 million. Like-for-like[†] growth was 1.5%[◇]. The Board proposes an ordinary dividend of 7.5p per share.

The combination of our specialist retail offer, veterinary practices and pet grooming salons, all within a single pet-focused environment, represents a uniquely attractive offer to our customers and, as more of our recent investments in vet practices and grooming salons mature, will deliver increasingly powerful financial results. As the year progressed we launched a number of important initiatives to bolster our service and value propositions. Building on our investments that support omnichannel shopping we launched a subscription platform, initially for flea treatments, and Order in Store which allows colleagues to serve customers from our extended online range via instore iPads – our PetPads. Online sales grew by 53%[◇]. We also launched Switch & Save, highlighting the value of our private brands in Advanced Nutrition, and we will continue to offer better value to our customers across our product ranges. Our VIP loyalty scheme continues to grow, delivering highly targeted information and offers to our customers and providing us with powerful data on their purchasing behaviour.

[◇] FY16 comparative information presented on a 52 week basis. For reconciliation to a 53 week statutory basis see page 179.

[†] Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 179.

The diversification of our veterinary business has continued with the acquisitions of Eye Vet Referrals and Dick White Referrals, bringing the number of specialist referral centres in the Group to four. Joining Northwest Veterinary Specialists and Anderson Moores, The Eye Vet is a dedicated ophthalmology practice, while Dick White Referrals is one of the largest specialist veterinary centres in Europe, offering outstanding levels of clinical care in state-of-the-art facilities. We have identified opportunities to expand our network of specialist referral centres to give us nationwide coverage and to maximise this opportunity we have established a new Specialist Division alongside our existing First Opinion Division in the expanded Vet Group.

Management

Following the appointment of Ian Kellett as Group Chief Executive in April 2016, we appointed Mike Iddon as Group Chief Financial Officer in October 2016. Mike joined the Group from New Look, where he had been the Chief Financial Officer. He has a wealth of experience in the retail sector having previously held senior finance positions at Tesco plc. He qualified as a Chartered Accountant with Arthur Andersen. As a consequence of Mike's appointment, Mark Adams, who had been an excellent Interim Chief Financial Officer, left the Group in November 2016. I would like to welcome Mike to the business and to thank Mark for his stewardship as Interim CFO.

We recognise the significant potential that exists for the Group, particularly in the veterinary sector, and have therefore made a number of changes to the responsibilities of our Executive Management Team to give us better focus as we enter the new financial year. Sally Hopson, who was CEO of our Services Division, will exclusively drive the development of our Vet Group. Peter Pritchard, CEO of our Retail Division, will assume responsibility for Grooming, while pet insurance services transfers to Mike Iddon, CFO. Louise Stonier will extend her remit to cover people in a new role as Chief People and Legal Officer.

Board in action

Our Non-Executive Directors frequently spend time in the business, supplementing their knowledge of our strategy, operations and colleagues.

Tessa Green, in her role as Chairman of the Corporate Social Responsibility (CSR) and Pets Before Profit Committees, has focused on furthering her knowledge of operations that have significance for the Group's ethical, social and environmental impacts. During her time with Pets at Home, this has included a number of visits to our first opinion vet practices and specialist referral centres, as the CSR Committee worked towards developing a Clinical Governance Framework. (See page 55 for further details).



“As part of developing a Clinical Governance Framework for our first opinion practices, it was important to me that I spend time in our practices and referral centres, getting to know clinicians in all parts of the business. This was crucial to furthering my knowledge of their day to day operations and helping our Vet Group develop a framework that ensures our vets maintain complete clinical freedom, whilst at the same time being able to better support them in achieving the best clinical standards.”

Tessa Green
Independent Non-Executive Director



Colleagues

It is a shared passion for pets that forms the special bond between our business, our colleagues and our customers. I would again like to thank all our colleagues, in every part of the business, for their hard work and dedication in a more challenging economic environment.

With the adoption of the National Living Wage we made no distinction between colleagues based on age alone and we have maintained our Earn As You Learn approach which rewards retail colleagues further as they develop their knowledge and specialism. In Grooming we saw our first apprentices complete their training and emerge as qualified stylists. And among our veterinary professionals we have launched apprenticeships for veterinary nurses, with the first cohort beginning their training at Dick White Referrals.

Looking forward

The UK pet market has a track record of resilience in more difficult economic times. While we take nothing for granted, the Board believes we have the right strategy and a strong and experienced team to lead the organisation successfully through the more uncertain period ahead. Accordingly, we remain confident in the outlook for the Group.

Tony DeNunzio
Non-Executive Chairman
25 May 2017

Chief Executive's statement



We continue to operate successfully in a growing market, taking share, and are the only UK pet business able to deliver an integrated merchandise, services and omnichannel offer.”



Our Vet Group transacted more than

£260m

in total customer revenues during the year

We will roll out

40–50

vet practices in the coming year

Market review¹

The UK pet market has increased its rate of growth over the past two years to a CAGR of 4.5% and was worth £6.8bn in calendar year 2016. This step forward has been driven by faster growth in the veterinary, insurance and accessories segments.

The veterinary market grew at a CAGR of 5.6% over this same period, which is being driven by the widening availability of more complex procedures and diagnostics, supported by increasing numbers of pet owners with insurance. In food, strong growth in Advanced Nutrition continued at a CAGR of 8.9%, balanced with a flat grocery food market where volumes are falling and pricing remains highly competitive. With the accessories market CAGR at 1.9%, this led to an overall pet products market CAGR of 2.1%.

The transition of the market to online has been consistent with our expectations, accelerating slightly compared with historical rates, reaching 11% of the pet market in 2016.

Over the two year period from 2014 to 2016 we have taken share across the pet market both online and offline. Overall we have grown our share of the important strategic categories including Advanced Nutrition, accessories and veterinary. From 2014-2016, our total share of the pet products market increased from 19% to 20% and in the primary opinion veterinary market from 9% to 12%.

Expanding like-for-like growth

Better value for customers

In the Merchandise business our focus is on delivering even better value for our customers. Value includes price, but also innovation, service and advice. The strong sales of dog accessories this year are

continuing proof that our range innovation drives a positive customer response.

And to improve further on our service to customers, we are refocusing our Steps training programme to ensure more colleagues can develop their expertise at a faster rate in more specialist areas.

We also understand there is a need to provide better pricing to customers. This will involve a move away from promotional offers and vouchers, and towards a simpler, more competitive approach.

We therefore initiated pricing changes in the fourth quarter with the Switch & Save campaign, which highlights the value in our private label foods, Wainwright's and AVA. The prices on our large bag private label dog foods are now 15-25% lower. Initial results from the campaign have been encouraging and since its launch in January 2017 we have seen an average 50% uplift in the volume of products that have seen a price change. We have also seen an increase in new shoppers, alongside the switching of existing customers from branded foods into our own labels. In the current financial year we have launched price reductions across a number of everyday pet essentials and are also starting to reposition prices in branded foods.

Whilst it is early days, we are encouraged by the improvement in the run rate of Merchandise LFL[†] to 1.0%² in the 16 weeks from the start of our price repositioning actions.

Fast growth and embedded upside in our veterinary business

Our Vet Group continues to go from strength to strength; transacting more than £260m in total customer revenues during the financial year. In the first

¹ Market data sourced from OC&C Strategy Consultants.

² Refers to the 16 week period from 26 Jan – 18 May 2017.

◇ FY16 comparative information presented on a 52 week basis. For reconciliation to a 53 week statutory basis see page 179.

† Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 179.

opinion business, mature practices grew their customer revenues at 8%^o, ahead of the market rate of around 5%. We now have over 100 mature practices that are on average delivering income to the Group of more than £160,000 per year. Combined with our maturing practices, this translated into strong total JV practice income of £47.1m, up 24.6%.

The average age of a practice in our Group is less than five years, when maturity is typically reached at eight years post opening; and having already invested the majority of cost required to support their future growth, there is an inherent embedded profit upside in the current portfolio.

Our newer specialist referral centres also performed well and their integration is delivering group benefits through the sharing of best practice and leveraging scale.

In the year ahead, to accelerate growth in the existing practices, we will increase the number of practices with extended opening hours, invest further in marketing to increase brand awareness and customer care plan participation. And we continue to explore opportunities in the market that will deliver growth to our first opinion and referral businesses, whilst retaining a disciplined approach to capital allocation.

Omnichannel capabilities growing

Our online business performed very well during the year, growing revenues at 53%. The convenience of our UK wide store footprint remains, with almost half the revenue of online orders delivered for customer pickup in-store. Alongside our ongoing improvements in website customer experience, there were a number of major initiatives launched this year:

Order in-store: our colleagues can now place an order for all the products in our extended online range from their PetPads. This gives store customers easy access to even more of our range and has already delivered over £2m in revenue since its launch at the end of the financial year, which we believe is driving incremental sales.

Our first subscription service: 'Subscribe & Save flea treatment' exclusively for VIP members, allows customers to receive a single flea treatment through the post each month, which acts as a convenient reminder to treat their dog or cat. The convenience of this plan has proved very popular with customers, with subscription sales now representing 16% of our total licensed medicine revenues. We plan to extend subscription with another licensed medicine launch in the coming months.

Having seen such a positive customer response to these developments, we will continue to invest and improve our omnichannel offer and develop our subscription platform in the coming year.

A more personalised approach through VIP

We have seen more successes in the VIP club this year, having launched the VIP App, which removes the need for customers to physically carry the VIP card to swipe and build points for their nominated charity. We have increased the overall VIP swipe rate of the VIP card at tills to 68% of store revenues (prior year 64%), and expect the rate to be stable going forward.

We are successfully encouraging our VIPs to spend more, the longer they are members of the VIP club. And we are encouraging our VIPs to shop multiple brands, with nearly 500,000 members purchasing both products and a service, a number which has grown by 14% compared with the prior year. The benefits of multibrand shoppers are very clear; a customer who purchases online or in our stores, but does not use any services spends around £140 a year. Whilst a customer who also uses either of our vet and grooming services will spend over £180 on products, plus an additional £200 per year on services. This reflects the increased loyalty and shopping frequency of services customers.

Space rollout and footprint development

We delivered our rollout targets for the year, having opened 15 new superstores (total 434), 50 vet practices (total 438) and 50 grooming salons (total 290). Paybacks and returns on our new and maturing units remain in line with our expectations.

In the year ahead, our vet practice and grooming salon rollout will continue at a similar pace, with openings of 40-50 vet practices and 40-50 grooming salons. We expect to open around ten superstores, lower than in the previous year, as we come closer to our UK rollout target of 500 stores and maintain a disciplined approach to approving suitable new sites.

Supporting margins

As planned, Group gross margin declined by (35) bps^o to 54.2%; driven by the dilutive mix impact of newly acquired specialist referral centres and increase in overall Services participation, which has a lower gross margin than the Merchandise business. In operating costs, the first year of the National Living Wage, our slower top line growth and gross margin dilution contributed to pre-exceptional EBITDA[†] margin declining by 38 bps^o to 15.6%.

In the coming year, we will invest in product pricing, and widen our marketing campaigns, to drive sales. We will also see an increase in cost pressures that impact both gross and operating margins, including Sterling depreciation, another step up in the National Living Wage, and the Apprenticeship Levy.



Introducing our new Group Chief Financial Officer: Mike Iddon

Mike joined Pets at Home in October 2016 as Group Chief Financial Officer.

Mike was the Chief Financial Officer of New Look from 2014 until 2016. Prior to this, Mike held a number of finance roles at Tesco plc over a period of 13 years, with his final position as Group Planning, Treasury and Tax Director. Before this he held finance roles with Kingfisher plc and Whitbread plc. He qualified as a Chartered Accountant with Arthur Andersen.

→ [Board of Directors – page 70](#)

In order to mitigate some of these pressures, we have already begun to implement a comprehensive simplification programme, which will deliver operational cost savings over the coming year. These will be achieved through efficiencies in store, a simplification of processes in our distribution centre, a reduction in the number of products we stock; and energy savings from the installation of LED lights and energy management systems across the store estate. This will mitigate some of the overall cost challenges, alongside the profit and margin support provided by our growing Services business and private label products, but overall, we expect to see a decline in Group gross margin. This reflects the coming year as one of repositioning the business, which we are confident is the right path for the future success of the Group.

Outlook

We operate in a resilient market, which is forecast to grow at c4.5%¹ over the next five years. Whilst in the near term we are repositioning the Merchandise business and investing in the customer, we are seeing results from our actions and believe this will deliver profitable growth benefits in future years. We will also continue the fast pace of top line and profit growth in our veterinary business. We remain a cash generative business, with a priority to invest in our core capabilities.

Ian Kellett

Group Chief Executive Officer
25 May 2017

Delivery our strategy

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

Grow like-for-like sales

Multiple opportunities to continually improve our customer offer and deliver resilient growth

Innovation

Evolve our Food offer to give pets better quality diets. Develop new and exciting Accessories to ensure customers are always seeing something different.

Private brands

Expand and grow our private labels in Food and Accessories, which are only stocked in Pets at Home.

Value

Ensure a tight focus on delivering overall value for customers; through pricing, product features, service and convenience.

Omnichannel

Stay relevant to customers' evolving shopping habits through an improved omnichannel experience and convenient delivery & collection options.

Services

Develop our vet, grooming and advisory services, which creates more reasons for customers to engage with us.

Loyalty

Grow the VIP club and personalise our approach to targeted marketing so we can increase our share of customers' spend.

Engagement

Maintain leading levels of customer engagement with our highly trained colleagues, to ensure we are the trusted pet experts.

[→ Read more – page 22](#)

Grow retail and services space

Increase our footprint across the UK to improve convenience to existing customers and access new customers

New stores & services

Open new superstores containing vet practices and grooming salons, in optimal locations, to access unmet market spend.

Retrofit services

Retrofit vet practices and grooming salons to improve the customer offer in stores that do not have pet services.

Additional growth

Expand into veterinary market areas that are complementary to our core business and provide additional growth opportunities.

[→ Read more – page 24](#)



→ Key performance indicators – page 26



World class shopping

Friendly experts

At the heart of every community

Grow margins

Focus on strategies that will deliver long term operating margin improvement

Services

Focus on the growth of our vet and grooming services businesses, which deliver premium operating margins when mature.

Private brands

Grow the participation of private brands to increase the mix of premium margin products within the business.

Simplicity

Simplify processes, product management and behaviours to maintain an optimal cost base.

→ Read more – page 25

CSR strategy

Put responsibility at the heart of our business

Our Pets People
Be a great place to work.

Heart of the Community
At the heart of every local community.

Sourcing with Integrity
Ensure we maintain our number one value, putting Pets Before Profit.

Our Pets Environment
Efficiently use and respect resources.

→ Read more – page 44

Grow like-for-like sales



Highlights of 2017

Value

- Evolved our offer to provide even better product pricing
- Alongside moving to a simpler and consistent pricing approach, away from promotional offers and vouchers
- Repositioned private label dog Advanced Nutrition pricing so it is now the best value in the UK

Omnichannel

- Maximised the convenience of Click & Collect store pickup for online product orders
- Launched major initiatives: a subscription service for flea prevention products, and 'order in-store' where colleagues can place a customer order for the extended online range from their PetPads

VIP

- Launched the VIP App which removes the need for customers to physically carry their VIP card
- Encouraged more VIPs to shop across multiple brands, bringing the number who purchase product and using pet services to nearly 500,000

Engagement

- Maintained our overall rates of colleague engagement and retention

Services

- Maintained growth in mature first opinion vet practices ahead of the market
- Encouraged strong growth in all vet practices through increased TV marketing, extended opening hours and space expansions

Relevant KPIs

1.5%[◇]

Group like-for-like growth[†]

0.8%[◇]

Merchandise like-for-like growth[†]

7.9%[◇]

Services like-for-like growth[†]

Future plans

Deliver even better value for customers; through the repositioning of more price points, enhancing our pet services offer and delivering excellent customer advice.

Continue investing to ensure our customer facing developments and internal systems are sector leading.

Develop a more personalised approach when marketing to and engaging with our VIPs.

Revitalise our colleague Steps programme to ensure more colleagues can train to a higher level, in more areas of pet expertise.

Continuing investing in and developing our veterinary business to grow faster and ahead of the overall market.

Key risks associated

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

➔ [Read more on KPIs – page 26](#)

➔ [Read more on risk management – page 38](#)

[◇] FY16 comparative information presented on a 52 week basis. For reconciliation to a 53 week statutory basis see page 179.

[†] Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 179.



Best value Advanced Nutrition with our Switch & Save campaign

The Switch & Save campaign encourages customers to purchase our private label foods, Wainwright's and AVA, by highlighting how much customers can save. This could be up to £260 per year when switching from an equivalent branded food.

The prices on our large bag private label dog foods are now 15-25% lower and represent the best value Advanced Nutrition in the UK market.



Growing our veterinary business even faster

Our first opinion business has the highest average revenue per practice in the UK vet market. This has been achieved by giving our vet partners multiple routes to growth, driven by the convenience of practice locations and opening hours, our national TV campaigns, and practice space extensions, which are all driving new client growth.

24.6%[◇]

growth in total Joint Venture vet practice income

Grow retail and services space



Growing our family of specialists

We expanded our presence further this year in the veterinary referrals market, through the acquisitions of Dick White Referrals in Cambridgeshire and the Eye Vet in Cheshire. Specialist referrals represents the premier tier of veterinary medicine, and by acquiring such centres, we gain access to an additional area of the vet market. Our future growth in this area will come through a combination of acquisition, and greenfield development, as we seek to establish a UK network of between 10-15 referral centres.

Highlights of 2017

Optimised store rollout

- Opened 15 new Pets at Home superstores in optimal locations
- Total portfolio of 434 superstores

Services rollout

- Opened 50 new first opinion veterinary practices bringing the total portfolio to 289 practices within stores and 149 in standalone locations
- Acquired two specialist veterinary referral centres, bringing our total portfolio to four centres
- Opened 50 new grooming salons, bringing the total portfolio to 290 grooming salons of which almost all are located within stores

Future plans

Work towards our UK target of around 500 superstores through carefully selected openings in locations that will deliver against our stringent investment criteria.

Work towards our UK targets of 700 veterinary practices and 350 grooming salons through opening in new stores and standalone locations, and also through retrofits into existing stores.

Continue to look for bolt-on acquisitions that are complementary to our existing business, particularly in the veterinary market.

Relevant KPIs

15

new Pets at Home superstores

50

new vet practices

2

new veterinary referral centres

50

new grooming salons

Key risks associated

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

→ [Read more on KPIs – page 26](#)

→ [Read more on risk management – page 38](#)

Grow margins



Supporting margins through our high margin veterinary business

Whilst we absorb cost challenges such as a weaker Sterling, National Living Wage increases and the Apprenticeship levy, the growing maturity of our higher margin veterinary business will continue to provide underlying mitigation to these headwinds and will deliver Group operating margin expansion in the medium term.

Highlights of 2017

Services

- Services revenue grew to represent 14.1% of the overall Group, up from 10.5%[◇] in the prior year
- Demonstrated the profit per square foot generated in mature store units with pet services is >24% higher than in a store with no services
- 15 mature store units with pet services within the estate, up from 12 in the prior year

Private brands

- Maintained our participation of private brands at broadly the same level as in the prior year

Future plans

Continue to rollout new vet practices and grooming salons, which generate higher operating margins when mature.

Work to increase the participation of private brands in our business, through active marketing to customers and widening our ranges.

Relevant KPIs

54.2%

Group gross margin, -35bps[◇]

33.3%

Services gross margin, +34bps[◇]

57.6%

Merchandise gross margin, +56bps[◇]

15.6%

pre-exceptional EBITDA[†] margin, -38bps[◇]

Key risks associated

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

→ [Read more on KPIs – page 26](#)

→ [Read more on risk management – page 38](#)

[◇] FY16 comparative information presented on a 52 week basis. For reconciliation to a 53 week statutory basis see page 179.

[†] Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 179.

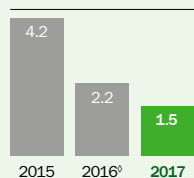
Key performance indicators

Our performance is measured against KPIs across each of our three strategic pillars

Grow like-for-like sales[†]

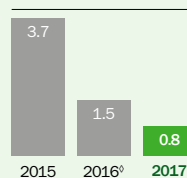
Group like-for-like growth (%)

1.5%[†]



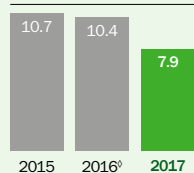
Merchandise like-for-like growth (%)

0.8%[†]



Services like-for-like growth (%)

7.9%[†]



Performance in 2017

Group like-for-like growth impacted by lower Merchandise growth, where we saw a slowdown in the second half of the year. Our Services business, including our vet practices and grooming salons, again grew strongly.

Priorities for 2018

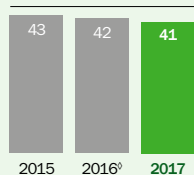
To deliver improved like-for-like momentum in Merchandise and maintain high growth in Services.

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

Private label participation in Merchandise revenues (%)

41%



Performance in 2017

In-line with our aim to broadly maintain the private label participation rate.

Priorities for 2018

A changed priority to increase our level of private label participation, which brings margin and competitive benefits to the business.

Key risks associated

- Our people
- Supply chain/sourcing
- Competition

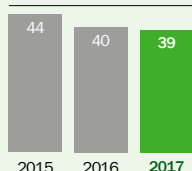
◇ FY16 comparative information presented on a 52 week basis. For reconciliation to a 53 week statutory basis see page 179.

† Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 179.

Grow like-for-like sales[†] continued

Products refreshed and changed (%)

39%



Performance in 2017

In-line with our aim to broadly maintain the product refreshment rate, we changed nearly 3,000 products in the year.

Priorities for 2018

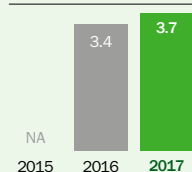
Maintain our rate of refreshment, to ensure our engaged pet customers are seeing something new and different each time they visit.

Key risks associated

- Our people
- Supply chain/sourcing

Active VIP club members (m)

3.7m



Performance in 2017

Active VIP club members, who are defined as members who have made a purchase in the prior twelve months, grew by 300,000 during the year. Swipe rate of the card at tills has been maintained, in line with our expectations at this phase in the loyalty club's maturity.

Priorities for 2018

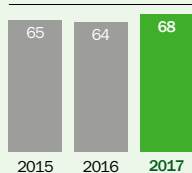
To enroll further new VIP members and continue to expand the club. With data and spend information for over 3.7m pet owners in the UK, our aim is to become more personalised in our communications and offers to VIP members.

Key risks associated

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

VIP card swipe rate in-store¹ (%)

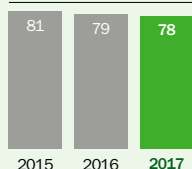
68%



1 Swipe rate represents the final quarter period in each year.

Colleague retention (%)

78%



Performance in 2017

In line with our aim, we broadly maintained our colleague retention rate, which is underpinned by the high levels of satisfaction and engagement colleagues have with the business.

Priorities for 2018

Our aim is to maintain the colleague retention rate, which already ranks as leading in the industry. Alongside our specialised Steps training programme, this will be key to ensuring our colleagues can deliver friendly expertise to customers and their pets.

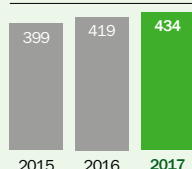
Key risks associated

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

Grow retail and services space

Pets at Home superstores

434



Performance in 2017

We opened a total number of 15 new superstores during the year, in line with our target of 15-20.

Priorities for 2018

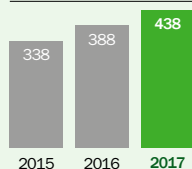
We will open around 10 new Pets at Home superstores in the coming year, taking us closer to our target of 500 stores across the UK.

Key risks associated

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

Vet practices

438



Performance in 2017

We opened 50 new vet practices during the year, in line with our target of 45-55. We now have 289 in-store and 149 standalone practices, with 65% of our stores containing a vet practice.

Priorities for 2018

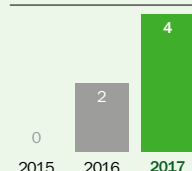
We will open 40-50 new vet practices in the coming year, taking us closer to our target of 700 practices across the UK.

Key risks associated

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

Veterinary specialist referral centres

4



Performance in 2017

As we expand our presence in additional segments of the veterinary market, we acquired two further specialist referral centres during the year.

Priorities for 2018

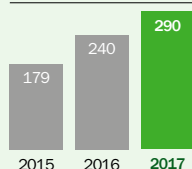
Our aim is to expand further in the specialist referrals space, through organic development and bolt-on acquisitions.

Key risks associated

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

Grooming salons

290



Performance in 2017

We opened 50 new salons during the year, in line with our target of 50-60.

Priorities for 2018

We will open 40-50 new grooming salons in the coming year, taking us closer to our target of 350 Groom Rooms across the UK.

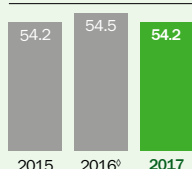
Key risks associated

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

Grow margins

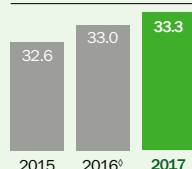
Group gross margin (%)

54.2%



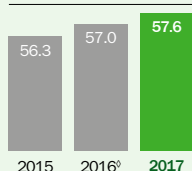
Services gross margin (%)

33.3%



Merchandise gross margin (%)

57.6%



Performance in 2017

We saw expansion in our Merchandise margin, which benefitted from Advanced Nutrition growth and improved product terms with suppliers. Services gross margin increased slightly, reflecting the positive maturation of our vet practices offset by the dilutive mix impact of referral centres.

Priorities for 2018

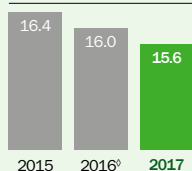
Looking forward, we will continue to see support to our Group gross margin from Advanced Nutrition growth and services maturity, but this will be more than offset in the current financial year by the impact of a weaker sterling and our price investment activity.

Key risks associated

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

Group pre-exceptional EBITDA[†] margin (%)

15.6%



Performance in 2017

Group pre-exceptional EBITDA margins declined, reflecting the impact of the National Living Wage on our colleague costs, our ongoing investment in the online platform and associated systems upgrades, alongside the mix impact of specialist referral centres.

Priorities for 2018

Looking forward, we will see another step up in the National Living Wage and the Apprenticeship Levy. We have already begun to implement a comprehensive simplification programme to deliver operational cost savings. Underlying this, we continue to see margin benefits from the growing maturity of our Services business, which provides some mitigation to the cost challenges.

Key risks associated

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

◇ FY16 comparative information presented on a 52 week basis. For reconciliation to a 53 week statutory basis see page 179.

† Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 179.

Chief Financial Officer's review



We have delivered a solid performance with profits in line with expectations, supported by the growing strength of the Joint Venture vet business where our income grew 24.6%[◇].



Financial highlights

The FY17 audited period represents the 52 weeks to 30 March 2017. The audited comparative period represents 53 weeks to 31 March 2016, but to provide a meaningful comparison, the more appropriate prior year period is the 52 weeks to 24 March 2016. All commentary in this statement in respect of the comparative period is based on the proforma 52-week period to 24 March 2016 unless otherwise stated.

		FY16	FY16	FY17	Change
		Audited 53 weeks to 31 March 2016	Proforma 52 weeks to 24 March 2016	Audited 52 weeks to 30 March 2017	On proforma 52 weeks to 24 March 2016
Revenue	Revenue Split (£m)				
	Food	390.0	382.5	395.1	3.3%
	Accessories	320.2	314.0	321.6	2.4%
	Total Merchandise	710.2	696.5	716.7	2.9%
	Services & other ¹	82.9	81.3	117.5	44.5%
	Total Group	793.1	777.8	834.2	7.2%
	Like-For-Like growth [†]	2.1%	2.2%	1.5%	
	Merchandise LFL [†]	1.4%	1.5%	0.8%	
	Services & other LFL [†]	10.0%	10.4%	7.9%	
	Revenue mix (% of total)				
	Merchandise	89.5%	89.5%	85.9%	(363) bps
	Services & Other	10.5%	10.5%	14.1%	363 bps
Gross margin	Merchandise Gross Margin	57.0%	57.0%	57.6%	56 bps
	Services & Other Gross Margin	32.9%	33.0%	33.3%	34 bps
	Total Gross Margin	54.5%	54.5%	54.2%	(35) bps
EBITDA	Pre-exceptional EBITDA ^{2†} (£m)	127.4	124.7	130.5	4.7%
	Pre-exceptional EBITDA margin ^{2†}	16.1%	16.0%	15.6%	(38) bps
Other income statement	Pre-exceptional PBT ^{2,3†} (£m)	97.3	95.3	96.4	1.1%
	Statutory PBT (£m)	92.1	90.2	95.4	5.8%
	Pre-exceptional basic EPS ^{2,3†} (p)	15.4	15.1	15.3	1.0%
	Statutory basic EPS	14.6	-	15.1	3.4%
	Dividend (p)	7.5	-	7.5	0%
Cash flow and leverage	Free cash flow [†] (£m)	71.6	77.8	64.6	(17.0)%
	CROIC [†]	22.1%	-	20.6%	(150)bps
	Leverage (ND/pre-exceptional EBITDA) [†]	1.3x	1.2x	1.2x	

1 Includes veterinary Joint Venture fees & other veterinary income, specialist referrals revenue, grooming salon revenue, revenue from live pet sales & insurance.

2 FY17 excludes £1.0m of costs related to the disposal of Farm Away Limited. FY16 52 & 53 weeks excludes £0.8m of acquisition related expenses.

3 FY16 52 & 53 weeks excludes an exceptional finance expense of £4.3m associated with the amortisation of capitalised fees from the previous finance facility.

◇ FY16 comparative information presented on a 52 week basis. For reconciliation to a 53 week statutory basis see page 179.

† Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 179.

Sales and revenue

Group revenue grew by 7.2%^o to £834.2m (FY16: £777.8m^o), with good performance in Advanced Nutrition and pet services. Like-for-like sales (LFL) grew 1.5%^{o†}, driven by veterinary and grooming services, omnichannel, and Advanced Nutrition.

Merchandise revenue, which includes Food and Accessories, grew by 2.9%^o to £716.7m (FY16: £696.5m^o), with LFL sales of 0.8%^{o†}. Whilst this reflects an overall slower performance in the business, we have also reduced Merchandise LFL space by around 0.5% during the year through the retrofit of services into existing stores.

Food revenue grew by 3.3%^o to £395.1m (FY16: £382.5m^o), with strong performance in dog Advanced Nutrition and natural based treats, reflecting the ongoing trend for dog owners to feed a higher quality diet. Advanced Nutrition revenue grew by 4.1%^o to £179.1m (FY16: £172.0m^o). Grocery food performance was soft, reflective of the overall market growth in this declining and highly competitive product area, alongside weak performance in wild bird food, which was tightly correlated with the warmer temperatures in the autumn.

Accessories revenue grew by 2.4%^o to £321.6m (FY16: £314.0m^o). We saw excellent growth across dog accessories and an improved performance in Health & Hygiene. This was somewhat offset by weakness in aquatics accessories, an area in the store where space is typically reduced following vet practice and grooming salon retrofits.

Services revenue grew by 44.5%^o to £117.5m (FY16: £81.3m^o), with LFL sales of 7.9%^{o†}. This reflects the acquisition of referral centres and another year of excellent growth in our vet practices and grooming salons. Growth in our Joint Venture (JV) veterinary practices was strong, generating total income of £47.1m (FY16: £37.8m^o), up 24.6%^o compared with the prior year.

Gross margin

Group gross margin declined by 35bps^o to 54.2% (FY16: 54.5%^o), driven primarily by the increasing mix of Services with the business.

Gross margin within Merchandise was 57.6%, an expansion of 56 bps^o on the prior year (FY16: 57.0%^o), where we absorbed a negative foreign currency impact of £2.2m.

Gross margin within Services grew by 34 bps^o to 33.3% (FY16: 33.0%^o), a very good outcome considering the dilutive mix impact from the acquisition of referral centres and was driven by strong gross margin accretion in our core first opinion vet business and a decline in low margin pet sales.

EBITDA and operating costs

Pre-exceptional EBITDA[†] of £130.5m represented a 4.7%^o increase on the previous year (FY16: £124.7m^o), with a margin of 15.6% (FY16: 16.0%).

Selling and distribution expenses of £296.0m increased slightly as a percentage of Group revenue, to 35.5% (FY16: 35.3%^o). Within this, occupation costs (rent, service charges and other costs) again declined as a percentage of sales as we benefit from the rent and rates paid by vet practices within our stores, which contributed £10.7m (FY16: £9.1m^o). Colleague costs of £181.5m (FY16: £156.2m^o), increased as a percentage of sales, primarily due to the introduction of the National Living Wage at the start of the period, which led to additional wage costs of £1.6m.

Pre-exceptional administration expenses of £54.9m were 6.6% of revenue (FY16: 6.4%^o), where we are seeing growth in vet group and referral centre operating costs, alongside our investment in business systems. Exceptional administration costs of £1.0m are recognised in relation to the sale of the Group's equestrian retailing business, Farm Away Limited (see paragraph below).

Depreciation and amortisation, which is contained within our total operating costs, increased to £29.6m (FY16 £24.5m^o) as a result of the overall increase in, and type of, capital investments we make. Our increased investment in business systems to build our on-line capability results in assets that have a shorter depreciable life.

Finance expense

Pre-exceptional net finance expense[†] for the year was £4.5m, a reduction from the prior year (FY16: £4.8m^o) as a result of declining leverage.

Taxation, trading profit & EPS

Pre-exceptional pre tax profit[†] was £96.4m and grew by 1.1%^o compared with the prior year (FY16: £95.3m^o). Statutory pre tax profit was £95.4m and grew by 5.8%^o compared with the prior year (FY16: £90.2m^o).

Underlying total tax expense[†] for the period was £20.1m, a rate of 21% on pre-exceptional pre tax profit, and in line with our expected tax rate for the full financial year.

Pre-exceptional profit for the period[†], after tax, was £76.3m (FY16: £75.5m^o) and pre-exceptional basic earnings per share[†] were 15.3 pence, growth of 1.0%^o compared with the prior year (FY16: 15.1 pence^o).

Chief Financial Officer's review continued

Working capital

The underlying cash movement in trading working capital[†] was an inflow of £8.2m, with an increase in inventory of £5.0m and an decrease in trade receivables of £1.7m, offset by an increase of £11.5m in payables which reflects our efforts to drive a wide range of efficiencies.

We have also supported our younger first opinion veterinary practices with short term funding to underpin their growth. Such operating loans to Joint Venture practices support their day to day working capital management, but also enables them to support extended hours, additional services or capacity extensions. This increased the total reported trade receivables movement to £8.9m. We expect to continue this support to vet practices in the coming year to underpin the growth of the business.

Cashflow and capital structure

Cash flow generation remains good. Free cashflow[†] after interest, tax and before acquisitions was £64.6m (FY16: £77.8m[◊]), with a decline in the cash conversion rate to 49% (FY16: 62%[◊]) as a result of increased capital expenditure and cash working capital requirements compared with the prior year.

We acquired two veterinary specialist referral centres during the period, with cash outflows related to acquisitions of £14.8m. Dick White Referrals (DWR), based in Cambridgeshire, is one of the UK's largest small animal specialist referral centres. We acquired a 76% ownership stake in DWR for a cash consideration of £13.8m and will operate the practice as a shared venture model through which the founder, Professor Dick White, and the key clinicians, will retain 24% equity ownership.

Eye-Vet Referrals (EVR), based in Cheshire, is a dedicated ophthalmology centre with six veterinary clinicians. EVR already provides services to one of our referral centres, NorthWest Veterinary Specialists, as well as to other primary opinion veterinary practices. EVR will also operate as a shared venture, with the founders retaining 10% equity ownership.

The Group's leverage ratio at year end was 1.2x net debt: pre-exceptional EBITDA[†]. This is a slight reduction from the FY16 position of 1.3x (FY16 audited 53 week period), reflecting the cashflow requirements of acquisitions in the veterinary referrals market and increased working capital requirements during the year.

Looking forward, our capital structure and allocation policy remains as previously stated. We remain a cash generative business and our priority is to invest in areas that will expand the Group and deliver appropriate returns – as evidenced by our acquisitions in the veterinary referrals market. We are comfortable with a leverage position of up to 1.5x net debt/EBITDA⁵ under normal circumstances, moving to a maximum of around 1.75x in the event suitable investment or acquisition opportunities arise. We believe this maintains appropriate flexibility for our business, operating in a resilient market with strong cash generation capabilities. And dependent upon our acquisition outlook and if we do not foresee investment uses, it is our intention to return surplus free cashflow to shareholders through a combination of ordinary and special dividends.

Free cashflow [†] (£m)	FY16 [◊]	FY17
Cash EBITDA ^{4†}	127.7	133.0
Working capital	5.0	(2.3)
Tax	(14.8)	(19.3)
Interest cost	(5.3)	(4.2)
Capex	(34.8)	(42.6)
Reported free cashflow	77.8	64.6

4 Defined as pre-exceptional EBITDA plus IFRS 2 share based payment charges.

£m	FY16 Audited 53 weeks to 31 March 2016	FY17
Opening net debt	(192.0)	(162.0)
Free cashflow [†]	71.6	64.6
Ordinary dividends paid	(27.9)	(39.9)
Acquisitions	(8.1)	(14.8)
Other	(5.6)	(1.6)
Closing net debt	(162.0)	(153.7)
Leverage (ND/pre-exceptional EBITDA [†])	1.3x	1.2x

5 On an annualised basis.

◊ FY16 comparative information presented on a 52 week basis. For reconciliation to a 53 week statutory basis see page 179.

† Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 179.

Disposal of Ride-away

On 4 October 2016 the Group disposed of its equestrian retailing business, Farm Away Limited, which operated under the Ride-away brand. Sale proceeds were £0.7m, resulting in a loss on disposal of £0.7m. Costs of disposal of £0.3m are also recognised as an exceptional expense within the income statement.

Capital investment

Capital investment was £44.5m (FY16 53 week period: £41.5m), in line with our expectations, of which £5.8m is part of an energy savings programme to fit LED lighting and smart energy management systems in our store estate. This investment is part of a one-off £8m project, of which the remaining £3m will be invested in FY18, in line with our previous guidance.

Within the underlying capital investment, £11.1m is represented by the retrofit of services into our existing store estate, (FY16 53 week period £8.0m), where we increased both the number of retrofits, with more built on mezzanine floors. New store capital investment declined to £6.4m (FY16 53 week period: £11.5m) in line with our reduced rollout during the year, and investment in business systems also declined to £7.2m (FY16 53 week period: £10.0m) as we move out of the investment phase, and into the refreshment phase of our omnichannel developments.

Cash capital expenditure was £40.9m (FY16 53 week period: £36.8m).

Dividend

The Board has recommended a final dividend of 5.0 pence per share, giving a total dividend of 7.5 pence per share in respect of the 2017 financial year, equal with the prior year. Looking forward to the financial year 2018, the Board has committed to maintaining the ordinary dividend at the same level as the prior year.

The final dividend will be proposed by the Directors at the 2017 AGM and is in addition to the interim dividend of 2.5 pence per share, paid to shareholders on the 6 January 2017. The ex-dividend date will be 15 June 2017 and, if approved at the Company's forthcoming AGM, will be paid to shareholders on 14 July 2017 to those shareholders on the register at the close of business on 16 June 2017.

Foreign exchange outlook

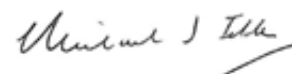
The Group purchases products from Asia to a value of around US\$55 million each year and our policy is to hedge up to 95% of forecast foreign exchange transactions on a rolling 12 month basis. The movement in hedged contract rates for FY17, which were at an average rate of 1.47 USD:GBP, created a £2.2m adverse cost to the Group. Our hedging requirements for FY18 are in place, at an average rate of 1.30 USD:GBP, which will have a negative impact of around £5m.

Accounting treatment of veterinary specialist referral centre

Three of our four veterinary specialist referral centres are structured as a shared venture ownership model, where Pets at Home maintains a minimum 75% controlling share, with the remaining shares owned by multiple clinician Shared Venture Partners (SVPs). This structure maintains strong commercial incentives for the existing SVPs to grow the businesses.

Under this ownership structure, Pets at Home has an option to buy the SVPs shares in the future, typically from three years and onwards post the point of acquisition. The potential value uplift in these shares is related to stretching profit performance targets of the referral centre and the accounting treatment of such an option is therefore structured as a forward contract.

The required accounting treatment of the referral centres is full consolidation of the income statement, balance sheet and cashflow. Within the income statement, the discounted future value of the SVPs shares is recognised as an expense over the period to which the option can be exercised, on our best estimate of the future value. In the event that the referral centres' long term stretching targets are achievable, a non cash charge will be recognised as a non-underlying expense within operating costs, which could be up to £2m in FY18.



Mike Iddon

Group Chief Financial Officer
25 May 2017

Merchandise

Our merchandise segment comprises food and accessories for a wide range of popular pets. This is offered in our stores, with a wider range available online.

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

£716.7m
+2.9%[◇]

Revenue split (%)



Revenue split	Growth
Food	£395.1m +3.3% [◇]
Accessories	£321.6m +2.4% [◇]

Food

Pet food is the largest part of our business, generating revenues of £395.1m in 2017. This represented 55% of our Merchandise revenues. We provide a range of diets for dogs, cats, small mammals, fish, reptiles and birds.

Our ranges of dog and cat food are planned to provide customers with a full spectrum of dietary choices to suit their pet and their pocket. This stretches from grocery brands, which are widely available in supermarkets and other outlets, through to our comprehensive range of Advanced Nutrition diets, which are a more considered purchase offering significant health benefits to dogs and cats. Advanced Nutrition revenues grew at 4.1%[◇] over the year. Pets at Home now has a market share of 53% in Advanced Nutrition.

Pets at Home own label and our private label brands, such as Wainwright's and AVA, now account for 31% of our total food revenues. Private label afford us great opportunities to highlight the value of Advanced Nutrition diets. In the fourth quarter we launched Switch & Save to highlight the everyday value of our Wainwright's and AVA diets compared to other popular brands in the category.

We continue to innovate strongly in this segment and this year we introduced Step Up to Naturals, a bridging brand to provide a first step for customers to improve the diet for their pets.

In pet treats we have expanded our range to include more natural products, as well as items that mirror human food trends but are formulated particularly for pets such as popcorn and muffins.

Grocery pet food, which is also sold in supermarkets and discounters, forms the other major segment in the food category.

Accessories

Accessories account for 45% of our Merchandise revenues. In 2017 revenues grew 2.4%[◇] to £321.6 million.

We range products by pet type. These include collars and leads, feeding bowls, clothing, toys, travel and training products for dogs and cats; housing, bedding and enrichment for small animals; and health and hygiene ranges.

Innovation is critical to growth in this category. Progress follows trends that mirror those in home furnishing and fashion. Our private label brands support innovation in this area. Our 3 Peaks brand delivers a range of harnesses, collars and leads for active dog owners and our new Baby Bea brand provides scratchers and toys that have been specifically designed for kittens, incorporating advice from cat behaviourists, to support their development.

Integrating online with stores seamlessly

Our in-store ranges are supported by an expanded offer of 11,000 products available online. We have developed 'Order in Store' which provides colleagues with the opportunity to advise customers and, using PetPads, place orders from the expanded range while the customer is still in the store. We have also developed a subscription platform with the option to sign up either in-store or online. This provides a convenient solution for customers to receive a regular delivery of products such as preventative flea treatments in a timely manner to benefit their dogs and cats.

[◇] FY16 comparative information presented on a 52 week basis. For reconciliation to a 53 week statutory basis see page 179.



Services

Our Services segment comprises first opinion and specialist vet practices, grooming salons and pet insurance, in addition to sales of pets.

Services & Other

- First opinion veterinary practice services
- Specialist referral veterinary centre services
- Grooming salons
- Insurance
- Pets

Our Services brands



Services revenue

£117.5m
+44.5%[◇]

Revenue split (%)



Revenue split		Growth
Vet practice fee income	£47.1m	+24.6% [◇]
Other services	£70.4m	+61.7% [◇]

Veterinary practices

Pets at Home operates the largest branded network of first opinion veterinary practices in the UK, with 438 practices operating mainly under the Vets4Pets brand name. Two thirds of these practices are in Pets at Home stores, with the remainder in standalone locations. Having entered the market for specialist veterinary referrals in 2015/16 with the acquisitions of Northwest Veterinary Specialists and Anderson Moores, we have subsequently acquired Eye Vet and Dick White Referrals, expanding our representation significantly.

First Opinion Division

We operate the only large-scale joint venture veterinary services business in the UK. This model affords individual vets the opportunity to partner with us and create their own practice operating under our brand. Each joint venture is constituted as an independent small business. These are funded by a small investment into the business from the vet and the Pets at Home Vet Group to create the joint venture. A larger independent bank loan provides for the fit out and initial working capital requirements. The Group receives a percentage of the income of the practice in return for the services we provide, including finance, marketing and systems support. A service charge is also levied on those practices located in a Pets at Home store. The partner has access to all the profits of the business once the loans are repaid. They are also entitled to any increase in value of the business if it is sold to a new

partner. We retain control over the selection of a new partner if the business is sold.

To allow prospective partners to work with us before committing to a joint venture agreement, we operate a number of practices that are wholly owned by us.

Specialist Division

Specialist referral centres are larger and more valuable business than first opinion practices. Recognising the strength of our joint venture model in first opinion, we developed a shared ownership model for our entry into the specialist referrals segment, which not only allows Directors to retain a significant interest in the business, it also supports future growth and clinical development. We are already seeing synergies from consolidating services, such as pathology, into one of our centres, allowing us to build our specialist capability to the advantage of the Group as a whole.

With four specialist centres now in the Group, we have retained the experience of many talented individuals who have been instrumental in establishing and developing these centres of excellence. This is a powerful resource which will be invaluable to us as we seek to build our presence in the specialist veterinary segment through organic growth and bolt-on acquisitions.

Pet grooming

We operate pet grooming salons under two brands: The Groom Room, operating primarily in Pets at Home Superstores,

and Barkers, our premium segment dog stores where the spa and bath house are a major element of our total offer. The 290 pet grooming salons make The Groom Room the largest branded chain of pet grooming salons in the UK.

The pet grooming market in the UK is highly fragmented. In addition to having strong, national brands, our grooming operations rely on having highly trained colleagues as stylists in every salon, delivering a full range of grooming services from our 'Muddy Buddy', a simple bath and brush, through to styling to breed-standard. Our salons are separated from our stores by fully glazed partition walls, providing customers with an excellent view of our talented colleagues at work.

Pet insurance

During the year we made a significant change to our pet insurance offer, forming a strategic partnership with market leader Petplan. Previously we offered a range of Pets at Home branded insurance products that were arranged, administered and underwritten by a third party. Under the new partnership, Pets at Home now recommend Petplan insurance to any new insurance customers, while existing Pets at Home insurance customers will be invited to renew onto a new Pets at Home product underwritten by Petplan's parent company Allianz Insurance plc.

[◇] FY16 comparative information presented on a 52 week basis. For reconciliation to a 53 week statutory basis see page 179.

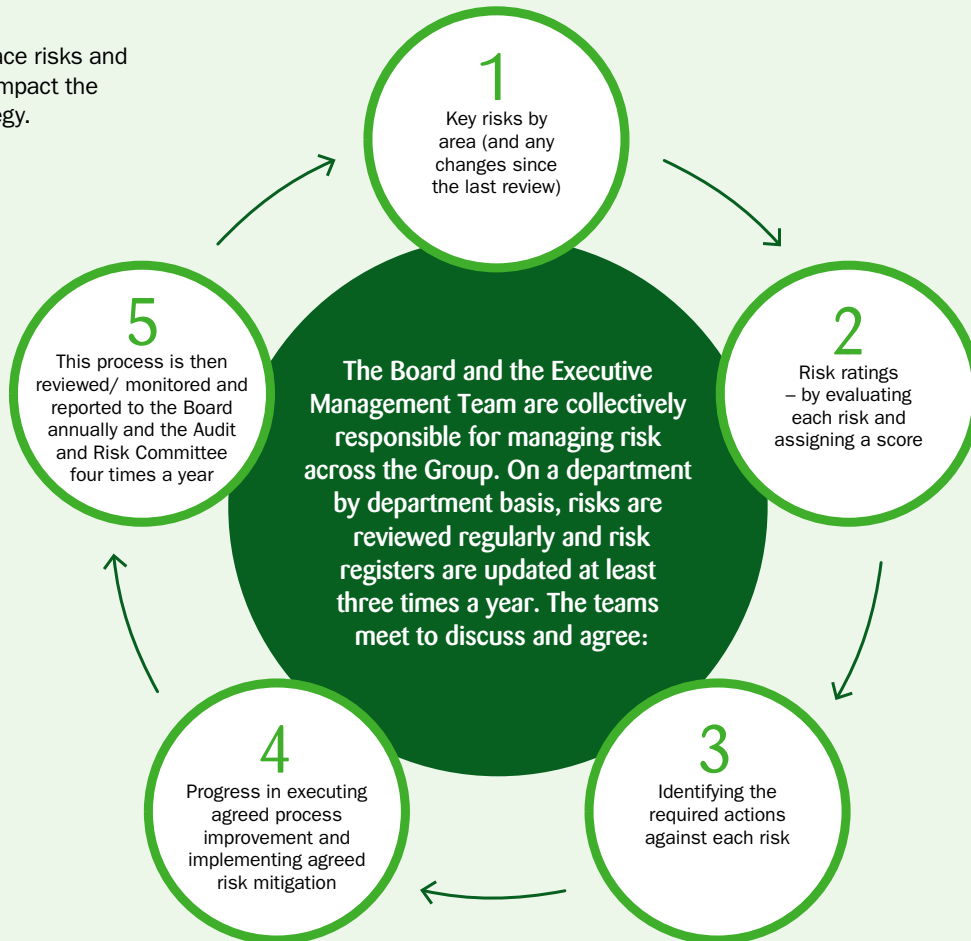


Risk management

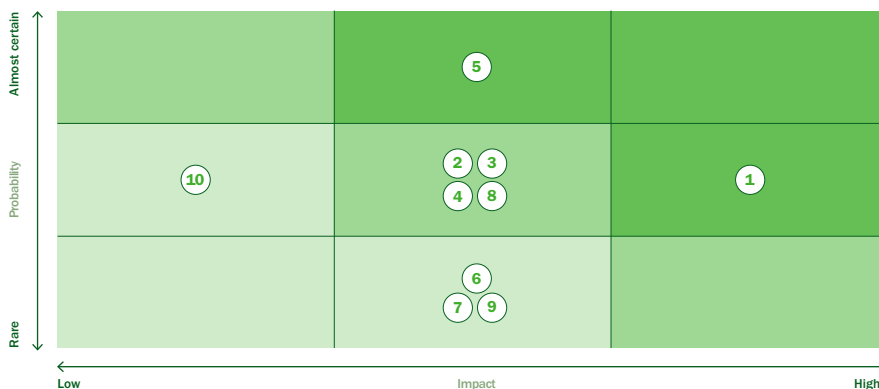
An effective risk management process is in place to help the Group achieve its strategic objectives and enjoy long term success

Our risk management process

Like all businesses, we face risks and uncertainties that could impact the achievement of our strategy.



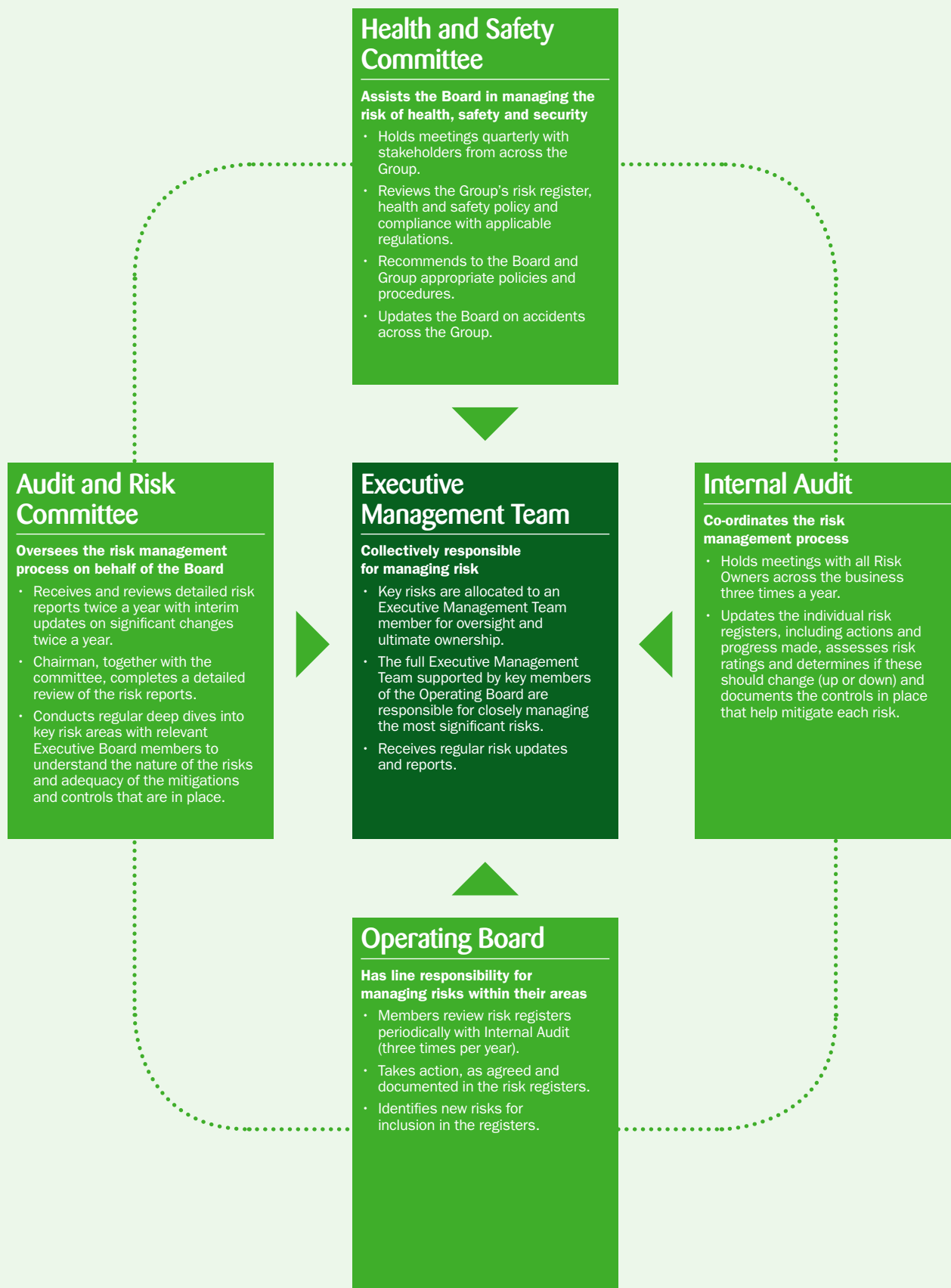
Principal risk rating matrix



Top principal risks

1. Brand and reputation
2. Competition
3. Stores and service expansion
4. Our people
5. Business systems and information security
6. Supply chain/sourcing
7. Liquidity and credit risk
8. Treasury and financial risk
9. Regulatory and compliance
10. Extreme weather

Risk management responsibilities are allocated as follows:



Risks and uncertainties

Key risk

Brand and reputation

Description and impact

The Group places pet welfare as its highest priority and its number one value, pets before profit, reflects this. It also 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.

Mitigation

As a retailer of small pets across a large number of stores, the highest possible welfare standards must be maintained at all times and we have rigorous processes in place to ensure this. 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 are assessed against a comprehensive set of welfare and standards criteria. As an example of our prioritising of pet welfare, during Easter each year, we temporarily halt the sale of rabbits in response to concerns over the welfare of rabbits bought at Easter.

The Group also deals with customers' pets on a daily basis through its veterinary practices, Groom Room salons and Support Adoption centres, with a consequent risk of 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 a highly visible field operations team in respect of in-store pets, grooming and veterinary practices. Each area has specific colleagues focused on ensuring the highest pet welfare standards are maintained.

We operate a confidential 'Pet Promise Line' where colleagues are able to raise concerns about pet care directly with our Head of Pets. Any calls to this line result in appropriate action to address the concerns raised.

Pet welfare across the Group is overseen by the Pets Before Profit Committee. This meets regularly to review pet welfare and check that appropriate processes are in place to ensure we maintain our high welfare standards.

Outlook

As we continue to increase our size and scale, we must work to ensure that 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.

Change on prior year



Strategic priorities

- Grow like-for-like
- Grow retail and services space
- Grow margins

Competition

Description and impact

The Group competes with a wide variety of retailers and vet practices, including other pet specialists, supermarkets, discounters and vet groups. 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.

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

Mitigation

We continue to evolve our proposition through the ongoing 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. We continue to open new stores, vet practices and Groom Rooms. 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 are continually improved. Further enhancements are being made to the Pets at Home website to ensure that it is an optimal experience for customers.

The VIP (Very Important Pet) club was launched in November 2012 and has been very successful – attracting 3.7m active 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.

In January 2017, we launched Switch and Save where customers are able to find out if they can save money by switching their dog food brand to either Wainwrights or AVA, both of which are Pets at Home own label high-nutrition complete dog food. Moving to these Pets at Home products will generate savings for the customer over other brands.

We operate a Brand Match process where customers can check their spend on branded products at Pets at Home against Tesco.com and Jollyes.com and receive a voucher for the difference. We also 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.

Outlook

Vacancy levels for existing store space have decreased leading to more competition for physical store space. There has been 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.

Change on prior year



Strategic priorities

- Grow like-for-like
- Grow retail and services space
- Grow margins

Key risk

Stores and services expansion

Description and impact

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, Groom Room salons and Barkers for Dogs stores.

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.

Mitigation

To open a new store successfully, 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 Barkers for Dogs store or a standalone veterinary practice or grooming salon. However, in common with our in-store veterinary practice-opening programme, we also need to recruit a joint venture veterinary partner with the ability to fund their investment into the joint venture and with the ability to provide the personal guarantee to the bank providing the third party financing to the joint venture veterinary practice.

The business maintains new store and new joint venture partner pipelines, which identify potential locations and potential partners at each stage of our process. This enables the Board to monitor progress in delivering the expected number of new stores, veterinary practices and Groom Rooms. Certain geographical areas (for example, within the M25) require a more innovative approach as space for new stores, groom rooms and vet practices is limited. For example, we are developing new formats such as small format Groom Rooms to address these opportunities. 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.

Outlook

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 the short term. However, new developments are very much dependant on tenant demand and the overall economy.

Change on prior year



Strategic priorities

- Grow like-for-like
- Grow retail and services space
- Grow margins

Our people

Description and impact

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

A significant number of colleagues in certain areas of our business are EU nationals. The Brexit vote in June 2016 has increased the risks around the retention and further recruitment of EU nationals.

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.

Our growth plans and future success are at risk if we do not recruit and retain high calibre, talented senior management.

Mitigation

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

Our remuneration policy, as set out on pages 92 to 104, 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 the Board and senior management regularly review these.

We continue to monitor the ongoing impacts of the Brexit vote on the recruitment and retention of colleagues who are EU nationals in those parts of the business most likely to be affected. We operate flexible recruitment and retention initiatives across the Group.

Outlook

The ongoing Brexit negotiations may well have an impact on our employment of EU nationals. 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.

Change on prior year



Strategic priorities

- Grow like-for-like
- Grow retail and services space
- Grow margins

Risks and uncertainties continued

Key risk

Business systems and information security

Description and impact

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

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. In addition, the scale of ongoing system and infrastructure change is significant and this may affect our ability to deliver IT services to the business.

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.

Mitigation

In recent years, we have made significant upgrades to our business critical systems including the implementation of SAP Financials, HR and payroll along with SAP HANA and BPC. Our warehouse management system was upgraded to JDA last year and our main retail website has been enhanced. A single practice management system has been implemented across our vet practices.

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.

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 are in place and are regularly tested. The business also undertakes regular system penetration testing.

An information security project is ongoing to ensure that we have a good understanding of information security threats and that we have appropriate measures in place to mitigate the associated risks. 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.

Outlook

Our systems stability and reliability will continue to improve as upgrades and enhancements are implemented and new systems are adopted.

Information security risks are likely to continue to increase. We monitor this risk and will strengthen our controls as required.

Change on prior year



Strategic priorities

- Grow like-for-like

Supply chain/sourcing

Description and impact

During the financial year, approximately £60m of the Group's merchandise cost of goods was globally sourced, and therefore we are exposed to the risks associated with international trade, such as inflation, changing regulatory frameworks and currency exposure. The impact of Brexit on our overseas supply chain is unclear but may be significant, particularly in view of probable changes to the UK's trading terms with the rest of the world. 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.

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

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.

Mitigation

Having Pets at Home colleagues on the ground working collaboratively with suppliers enables us to monitor closely compliance with the Group's Code of Ethics and Business Conduct policy, as well as compliance with our Supplier Quality Manual. In addition, an independent third party undertakes unannounced visits to further monitor compliance with Group policies. During the year we have undertaken a Group wide risk assessment to highlight any areas where we may be vulnerable to the risk of modern slavery and will strengthen our processes in the areas highlighted.

We will monitor Brexit developments and respond proportionately. Exposure to foreign currency movements is mitigated through our hedging strategy, see the Treasury and financial risk.

Business continuity plans are in place and tested 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.

Outlook

We continue to develop our quality assurance processes and to ensure the effectiveness of our Far East sourcing office in mitigating our sourcing risks in the region.

Change on prior year



Strategic priorities

- Grow like-for-like
- Grow margins

Key risk

Liquidity and credit risk

Description and impact

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.

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

Mitigation

The Group's finances are continually monitored in the context of its growth plans and a re-financing arrangement was made during the year. As a result, the Group is confident that it has adequate revolving facilities in place, with a broad syndicate of ten banks.

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

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

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

Outlook

We will continue to monitor our finances and build relationships with our finance providers. We do not anticipate any significant macroeconomic changes in the short to medium term that may affect this risk area although the outcome of the EU referendum may have some bearing.

Change on prior year



Strategic priorities

- Grow retail and services space

Treasury and financial risk

Description and impact

The Group has an exposure to exchange rate risk in respect of the US dollar that is the principal purchase currency for goods sourced from the Far East. The Brexit vote in June 2016 has increased currency pressures and we may see this continue for some time as the Brexit process takes place. The Group also faces risks from changes to interest rates and compliance with taxation legislation. If we do not adequately manage this exposure there could be an impact on the Group's financial performance with a consequential impact on operational and growth plans.

Mitigation

This exposure to FX fluctuation is managed via forward foreign currency contracts that are designated as cash flow hedges. The Group has borrowings with floating interest rates linked to LIBOR, thereby exposing the Group to fluctuations in LIBOR and the consequent impact on interest cost. To manage this risk the Group has interest rate swaps in place that fix the interest rate on a significant proportion of the Group borrowings. Further details can be found on page 153.

All hedging activity is undertaken by the Group Treasury function in accordance with the Group Treasury policy that 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 cash flows, with speculative transactions specifically prohibited. Dedicated tax resource is in place and specialist tax advisors are retained to assist in this area.

Outlook

Ongoing currency movements between the US dollar and GBP may result in further exchange risk, particularly in light of the ongoing Brexit process. We will continue to monitor this and adjust our approach to hedging where necessary.

Change on prior year



Strategic priorities

- Grow margins

Regulatory and compliance

Description and impact

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.

Mitigation

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.

Our suppliers commit to adhering to relevant regulations and standards as outlined in our Quality Manual. We carry out a rolling programme of supplier audits to check for compliance with our requirements.

Outlook

We welcome the Government's recent proposals around animal establishments licensing. We continue to monitor this and other regulatory developments such as the new European General Data Protection Regulation and to plan accordingly.

Change on prior year



Strategic priorities

- Grow like-for-like

Extreme weather

Description and impact

Prolonged extreme or unseasonal weather conditions may reduce footfall in our stores, resulting in weak sales, leading to adverse impacts on profit and inventory.

Mitigation

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

Further improvements to our omnichannel offering will continue to improve our resilience to reduced store footfall during periods of extreme weather.

Change on prior year



Strategic priorities

- Grow like-for-like

Putting Pets Before Profit

Our commitments

Being the UK's leading retailer of pet food, accessories and grooming services, and one of the foremost veterinary services providers we have an important role to play in delivering the highest possible welfare standards for pets. We also aim to make a positive impact on the communities where we operate and to reduce our environmental footprint.



Green Paws
Responsible Retailing people • pet • planet

CSR at a glance

Behaving responsibly is integral to how Pets at Home operates across every facet of our business. Our commitments are expressed under four pillars:

Our pillars	1 Our Pets People	2 Heart of the Community	3 Sourcing with Integrity	4 Our Pets Environment
Our vision	To be a great place to work	Being at the heart of every community	Always putting Pets Before Profit	Respecting and using resources efficiently
Our commitments	<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"> • Driving standards in the pet industry • Promoting the highest possible animal welfare standards 	<ul style="list-style-type: none"> • Eliminating waste sent to landfill • Using less energy • Rethinking our packaging • Becoming more fuel efficient
2017 Highlights	<ul style="list-style-type: none"> • Colleague engagement maintained at 94% 	<ul style="list-style-type: none"> • More than 102,000 people registered for "My Pet Pals" pet care workshops 	<ul style="list-style-type: none"> • Clinical governance framework developed; audits launched in vet practices 	<ul style="list-style-type: none"> • Significant reduction in energy usage delivered through investment in BEMS technology and LED lighting
	➔ More on page 48	➔ More on page 50	➔ More on page 54	➔ More on page 56



Through our Learning Academy we delivered training to 547 vets and nurses

➔ More on page 48

We enrolled 98 colleagues onto grooming apprenticeships and will offer 75 more in the year ahead

➔ More on page 48

We operate an 'Earn as you Learn' model which rewards colleagues as their training progresses and their knowledge increases

➔ More on page 48

Pets Before Profit: A safe and healthy journey to a happy home

Breeders




We work only with carefully selected breeders. We undertake regular audits to ensure compliance with our strict code of conduct.

Health check




Our trained colleagues check the health of our pets regularly. If ever we have concerns we always seek veterinary advice, irrespective of cost.

Quiet room

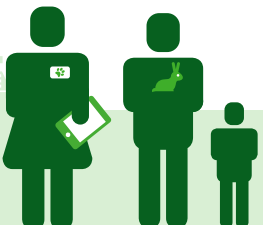


There is a purpose built quiet room in every store where pets settle in to their new surroundings for a specified time. Quiet rooms are linked to our Building Energy Management Systems to maintain a suitable temperature range.




Health check

Pet Sale



We aim to find the right pet for every customer and the right home for every pet. PetPads provide reference welfare guidance for our colleagues and record the details of every sale. Colleagues are all empowered to refuse a sale if they cannot be certain a pet's welfare needs will be met fully.



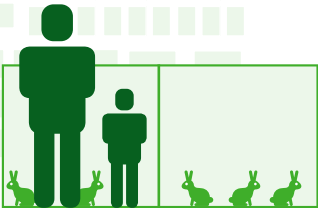
Health check

Transport




We have our own dedicated fleet of climate controlled vehicles which are fitted out specifically for the transport of pets. Drivers of these vehicles receive specific training.

Sales floor



Our pets are provided with the fresh water, food and enrichment they need to keep them fit and healthy. Colleagues follow carefully specified cleaning routines every day, including Christmas Day. We provide a full range of care leaflets for every pet type in our stores.

Aftercare



We aim to follow up every pet sale with a call to check that the pet is settling in to its new home and provide further advice and support if necessary.

Pets Before Profit: Keeping pets healthy and safe

Pet Team

We have a dedicated team of experts who ensure that we adopt the highest possible welfare standards and that these are implemented consistently in every store.



We provide everything our customers are likely to need to ensure their pets remain happy, healthy and safe throughout their life.



Support Adoption For Pets

For pets that cannot stay with their owner for whatever reason, we aim to provide a second chance of happiness.

1 Our Pets People

Our colleagues are fundamentally important to us. Their knowledge and passion for pets is at the heart of the relationships we build with our customers and our clients.

Exceptional colleague engagement

We recognise the value of our colleagues' knowledge if we are to provide the best possible advice for our customers and their pets. We consciously recruit colleagues who share our love of pets and, recognising the correlation between colleague turnover and expertise, we aim to maintain a consistently high level of engagement with them.

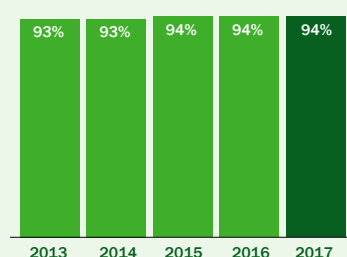
We measure engagement annually by inviting every colleague to participate in an online survey 'We're All Ears'. Now in its tenth year, this survey asks colleagues to select from a range of responses, from 'strongly agree' to 'strongly disagree', in answer to questions based on our values, vision and culture. We aim to maintain the measure of overall engagement above 90%. We also measure the percentage of 'strongly agree' responses. This was 78% in 2017 compared to 77% in 2016. Our ambition is to increase the level of 'strongly agree' responses to 80%.

In 2013 we were ranked first in the Sunday Times list of Best Big Companies to Work For. Having reached this level among UK companies, we decided it would be appropriate to challenge ourselves against a broader peer group and

entered the Great Place To Work survey which affords colleagues a further opportunity to provide feedback and allows us to benchmark Pets at Home against the best in Europe. In 2015 we were ranked 15th among larger UK companies. In 2016 we improved to 7th overall in the UK and were the highest placed retailer. In 2017, we were placed 9th overall in the UK and retained our position as the highest placed retailer.

Most of our first opinion veterinary practices are separate small business, owned mainly in joint ventures with partners from the veterinary profession. Colleagues in the veterinary practices are employed by the Joint Venture companies rather than the Group. Many of these Joint Venture companies also recognise the value of measuring colleague engagement and in 2016 we introduced a colleague engagement survey across our first opinion practices. Now in its second year, this survey has proved invaluable in helping our partners measure colleague engagement in their own practice. In FY2017 we generated practice-specific responses from 91 practices and aim to build on this with each successive year, helping our partners be the employer of choice in their community.

Colleague engagement (%)



World-class training

Being a specialist retailer we recognise that our colleagues need specialist knowledge if they are to engage with our customers and provide the service and advice they seek. As a result we place great emphasis on colleague development.

At the heart of our training is our Steps programme, which we are updating from April 2017 to better reflect the career aspirations of our colleagues. We have amalgamated the two existing compulsory steps into a single new training programme after which colleagues will 'Step Up' to Pet Colleague. Colleagues can then develop their pet specialisms after which they will 'Step Up' to Pet Expert. Colleagues who stretch themselves further and develop an in-depth knowledge of pets can 'Step Up' to Pet Specialist once they have completed five years' service.

We operate an Earn As You Learn model which rewards colleagues as their training progresses and their expertise increases. On stepping up to Pet Colleague, colleagues will receive an increase in their pay of 25p per hour. For each pet specialism they add, up to a maximum of four colleagues will receive an additional 20p per hour on stepping up to Pet Expert. Pet Specialists will receive a further 20p per hour, bringing the total Earn As You Learn addition to £1.25 an hour.



Colleagues embarking on a career in grooming now have the opportunity to follow our apprenticeship training. In the past year we have enrolled 98 colleagues onto grooming apprenticeships. From the initial cohort of 12 apprentices we have offered ten permanent roles as stylists in our Groom Room salons. We plan to offer a further 75 grooming apprenticeships in the year ahead.

Our veterinary colleagues undergo rigorous professional development as part of their ongoing professional requirements. We are committed to ensuring our vets and nurses have access to the highest quality training and have developed our own Learning Academy to support this. In FY2017 our Learning Academy delivered training to 547 colleagues and we will further expand this facility each year. We are also developing an apprenticeship programme to help train more veterinary nurses and make nurse training more accessible. We are working with a number of providers to deliver these programmes, including developing a Nursing Academy utilising the renowned teaching capabilities at our specialist referral centre Dick White Referrals.



Keeping Our Pets People healthy and safe

We are committed to providing a safe and healthy environment for all of our colleagues, customers and third party contractors. We actively encourage a positive health and safety Culture throughout our stores, practices, distribution centres and support offices. The safety and wellbeing of our colleagues is an important part of our colleague engagement levels.

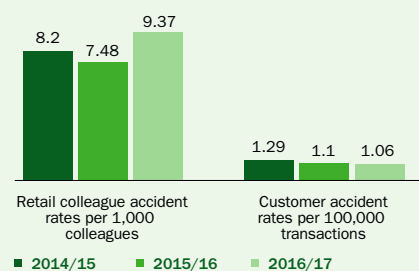
The Group recognises its responsibility for health and safety and we have robust control measures in place to minimise the risk of incidents. Our Group Chief Executive reviews and signs off our Health and Safety policy Statement every year prior to our annual Health and Safety week.

There have been no Health and Safety Enforcement Notices served on the Group.

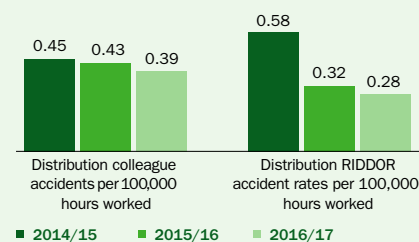
We continue to benchmark accident rates across the Group which also includes the accidents which have taken place in our joint venture veterinary surgeries and specialist referral centres. We record all incidents (including non-work related injuries) and report all accidents in accordance with the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations (RIDDOR). We also classify all incidents where we are aware a customer intends to go to hospital as RIDDOR reportable, which will result in some over reporting of RIDDORs.

During the year, total accidents across the Group increased with our store and colleague growth. While our colleague accident rate increased from 7.48 to 9.37 accidents per 1,000 colleagues, we saw a reduction in Customer accidents from 1.10 to 1.06 per 100,000 transactions, while the number of RIDDOR accidents remained similar to previous year in our stores/practices. In Distribution, there was a slight decrease of 0.04 accidents per 100,000 hours worked, and a 0.04 decrease in RIDDOR accidents for the year.

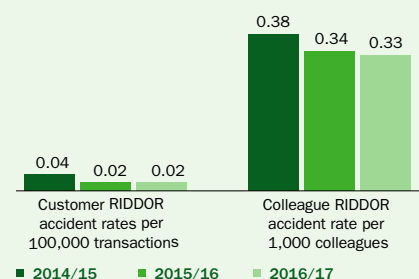
Accident rates – stores/practices



Distribution accident rates



Group RIDDOR rates



We continue to promote a “Stay Safe” culture of health and safety throughout the Group. For the third year running, our two distribution centres applied for the British Safety Council’s international Safety Awards and achieved passes demonstrating our commitment to the health, safety and wellbeing of our colleagues and contractors. All Joint Venture practices open for more than a year received a health & safety audit from our In-house team. Within Retail we achieved 100% compliance for our internal audits.

2 Heart of the Community

We have stores and vet practices over the length and breadth of the UK and we aim to contribute positively towards the wellbeing of our local communities.

Educating the next generation of pet owners

We understand that pets add immeasurably to our lives and in return we believe it is essential that a prospective pet owner understands the needs of a pet and can provide for them fully before taking on the long-term responsibility of pet ownership.

For children in particular a new pet can be particularly thrilling, so to make them aware of the responsibility that comes with a new pet, we have developed a programme of workshop events which we call "My Pet Pals". These are free to attend and parents can book their children onto one of the workshops using our online booking platform. Over the course of the year, more than 102,000 people registered to take part in one of our workshops which cover aquatics, small mammals and reptiles.

We have also built strong relationships with organisations like the Scouting Association, where we sponsor the Beavers' Animal Friend and the Cubs' Animal Carer badges, the Girlguiding Association, and the RSPB where we collaborate on wild bird workshops and support the annual Big Garden Birdwatch campaign.

We recognise the contribution of our colleagues in delivering these community-based initiatives and reward their achievement through an internal programme 'My Pond League'. This year our colleagues delivered a message about responsible pet ownership to more than 600 groups of Scouts, Guides, Brownies and Beavers and engaged with 400 schools.

Providing a second chance of happiness for less fortunate pets

Sadly, through no fault of their own, not every pet is able to enjoy a permanent loving home. For these pets rescue and rehoming centres offer a vital second chance of happiness.

In 2006 Pets at Home established the charity Support Adoption For Pets which provides rehoming centres in our stores and funding for organisations who rescue and rehome domestic pets. The charity has grown to be one of the largest in its sector. Our colleagues care for pets in the Support Adoption For Pets rehoming centres in our stores and make sure we apply the same diligence to the adoption of a pet as we do to the sale of a pet.

Our stores are encouraged to form partnerships with local rescue and rehoming centres whereby store teams and rescue volunteers work together to promote the work of the rescue within the community, highlight pets in need of new homes and raise valuable funds.

Over the past year our colleagues have supported a number of fundraising drives which have benefitted Support Adoption For Pets and their local partnered organisations. The biggest fundraising event of the year is the Santa Paws appeal. Through the efforts of our colleagues and the generosity of our customers, more than £1 million was raised this year, enough to provide more than two million meals for pets in rescue centres around the country. Over the year as a whole £3.8m was raised, allowing Support Adoption For Pets to support 1,000 charities.

£3.8m

raised for Support
Adoption For Pets



Providing Lifelines to local and national charities



Through our VIP loyalty scheme customers can generate 'lifelines' rewards from their purchases. Lifelines are donated to animal charities nominated by our customers which can be used to purchase food and accessories from our stores.

We aim to grow the value of lifelines donated in line with our sales growth. This year £2 million worth of lifelines was donated, bringing the total value of lifelines donated to more than £6.25 million since the scheme was launched.

Supporting the work of the Dogs Trust

We continue to provide support to the Dogs Trust with donations of Wainwrights dog food so that every dog rehomed goes to its new home with a healthy and nutritious diet. This year more than £450,000 worth of food was requested by the Dogs Trust.



Community Vet of Choice

Many of our vet practices are already embedded within their local community, having strong links to animal charities and rehoming centres in the area.

In May 2016 we launched 'Community Vet of Choice' to help our veterinary practices become a vital and treasured part of their community. We provide vets with materials to support their engagement with pet owners and with local animal organisations. Vets have been particularly keen to embrace opportunities to help pet owners understand issues like firework anxiety and suggest appropriate strategies to help them and their pets deal with the stress fireworks can cause. Firework anxiety workshops were run by 176 practices in the first year. Pet First Aid workshops were also popular, with 60 practices running these workshops. Work is underway to encourage further participation among our Joint Venture partners and to develop additional workshops that vets can provide locally.

60

of our vet practices ran Pet First Aid workshops in 2016

176

of our vet practices ran Firework Anxiety workshops in 2016



Corporate social responsibility continued

Promoting responsible pet ownership

Through our programme of 'My Pet Pals' workshops we aim to educate the next generation of pet owners about the responsibilities of pet ownership.

We rehome pets that need a second chance of happiness

➔ More on page 50

More than 102,000 people registered for one of our workshops

➔ More on page 50



Pet care leaflets, many produced in conjunction with the RSPCA, are available in every store

➔ More on page 54

Highly trained colleagues provide guidance on all aspects of pet welfare

➔ More on page 48

We explain the importance of the 5 welfare needs

➔ More on page 54

3 Sourcing with Integrity

Our core belief is that pets always come before profit. This makes us acutely aware of our responsibilities to deliver the highest ethical standards in relation to the pets in our stores and the supply of the products and services we provide.

Delivering the best possible pet welfare

The welfare of pets is fundamental to our business. So there is nothing more important to us than making sure our pets have the best start in life and find their way to a permanent loving home when they leave our care.

We have an expert pet team, headed by an experienced vet who is supported by three qualified veterinary nurses, and specialists in freshwater and marine biology, and in pet and reptile welfare. A dedicated field team is responsible for ensuring we implement the best possible standards consistently across all our stores and breeders. A confidential hotline is in place for colleagues to raise any concerns they may have directly with our Head of Pets.

We aim to reflect the most up-to-date practice in the welfare standards we adopt. Our pet information leaflets have been written to ensure customers are aware of their responsibility, under the Animal Welfare Act, to care for their animals properly and in particular to provide for the five welfare needs. Many of these have been produced in conjunction with the RSPCA and are co-branded to highlight this endorsement. Our store audits are also based around the five welfare needs.

The 5 welfare needs:



A suitable place to live



A healthy diet



The ability to behave normally



To be housed with, or apart from, other animals



To be protected from pain, injury, suffering and disease

To ensure our operations reflect the best and most up-to-date welfare standards the pet team maintains strong relationships with independent experts on animal health, welfare and husbandry. To further improve the welfare of our pets we have initiated a number of changes:

We are consolidating the sale of reptiles into 66 stores. This allows us to focus our expertise in regional centres and provide the best possible advice and service to customers considering keeping a reptile as a pet. Through our investment in BEMS technology (see page 56) we can control temperatures more accurately for our pets whilst delivering overall energy savings. We have introduced clear “Do not release into the wild” messaging on our fish bags and tanks and on the pet certificate that accompanies every pet sale. And we no longer sell or adopt out rabbits as pets over the Easter holiday, recognising the addition pressure on parents to obtain a pet rabbit at this time of year.

Creating standards in the pet industry

Advocating the ethical and responsible treatment of pets is fundamentally important to us, and our passion extends to the food and accessories we provide for pet owners.

We are the only UK pet retailer to have invested in a dedicated sourcing operation in Asia with a team of trained technologists who have worked systematically to ensure that all of our Asian suppliers of Pets at Home registered brands and Pets at Home branded products, irrespective of whether they supply us directly or through UK agents, have submitted evidence of compliance with our Ethical Trading Policy. In addition to our own regular interaction, Asian suppliers are independently audited by third parties to ensure our standards are being maintained. These regular ethical audits probe in detail the standards we require in relation to:

- Hours of work
- Wages
- Labour practices
- Working conditions
- Onsite accommodation
- Homeworkers and sub-contractors
- Health & safety
- Environmental compliance
- Supply chain management

We also work with our European suppliers to establish what audit information they hold for their factories, ensuring that our standards are being maintained.

Supporting our vet partners through clinical freedom and governance

There are no formal regulations specific to pet accessories in the UK so we have developed our own testing protocols for each product category, and where there are legal requirements for products such as batteries, electrical products and toys, the relevant regulations are applied to our products. More recently we have entered into an agreement with a major US pet retailer to collaborate on common testing protocols for important categories such as dog toys to help reduce costs and create better value for customers.

We have a highly experienced team of Technical Managers who keep our testing protocols and British/European Standards under regular review to ensure they keep pace with developments in our product portfolio. They also monitor carefully all product feedback provided by customers through our dedicated customer services team.

We are currently undertaking an independent review of the extent and frequency of testing in our own label food ranges.

During the year we made improvements to the range of hamster cages to help customers provide better standards of pet welfare. Also we eliminated cooked pork bones from our range, which now features only beef bones. This was a result of our detailed analysis of complaints which revealed that, whilst the number of complaints overall was low, pork bones were more likely to fragment when chewed.

Clinical freedom is a central tenet of our veterinary business and an essential way to ensure the health and welfare of the pets in our care is always the highest priority for our business. We work with more than 440 Joint Venture partners and employ more than 2,500 vets, nurses and Veterinary Care Assistants in our veterinary practices.

We have the utmost respect for their professional knowledge and expertise and we are committed to ensuring they have complete clinical freedom when making medical and surgical decisions. Our vet partners are able to make their own decisions about the medical products they use and which procedures they carry out within their practices.

The concept of clinical governance has not yet been widely adopted in the veterinary profession, and we recognise the opportunity for us to develop a framework that will improve quality of care, clinical standards and patient safety across our veterinary network. In our first opinion business we have established a Clinical Advisory Board,

comprised of a cross section of veterinary professionals, which has made key contributions to a number of initiatives.

For example, we have launched two clinical audits to act as clear indicators of clinical standards. A post-operative complications audit, the most widely used audit in veterinary practice, will allow comparison with published benchmarks, and an intravenous catheter utilisation audit, which was proposed by our Clinical Advisory Board, which will provide information from which we can challenge working standards and promote best practice. Results will be shared with our vet partners through our business-wide communication system. We will continue to widen our clinical audit spectrum over time.

Another important aspect of our clinical governance work focuses on responsible use of antibiotics. Bacterial resistance to antibiotics is a growing problem in both human and animal health. Through the development and implementation of initiatives over a three year timeframe we intend to lead the way in the responsible use of antibiotics in the small animal veterinary sector.



4 Our Pets Environment

Our plans to minimise consumption of core resources and maximise efficiency are key to minimising our impact on the environment as we grow our operations.

Reducing energy usage

As we reported last year, trials of a combined Building Energy Management System (BEMS) with LED lighting delivered a 35% – 40% reduction in the daily energy load in the trial stores.

The rollout to all stores is the biggest single project we have undertaken. By the end of the year we completed a combined BEMS/LED installation in 250 stores, which involved fitting LED lighting right across our sales floors and in illuminated display signage. We are on track to have converted the entire store estate by May 2017 delivering annual savings of £3m in 2017/18.

As part of the new BEMS set-up we have installed eight temperature sensors across each of our stores, which record temperature data every 30 seconds. This helps control our in-store heating and cooling to maintain an optimum comfort level for our pets, customers and colleagues. Additional temperature probes in our quiet rooms ensure pets are kept within a temperature range that reflects current welfare guidelines. This is monitored centrally with any variance immediately reported and quickly rectified. We are also exploring the application of BEMS technology to control the temperatures in our in-store fish tanks and vivariums.



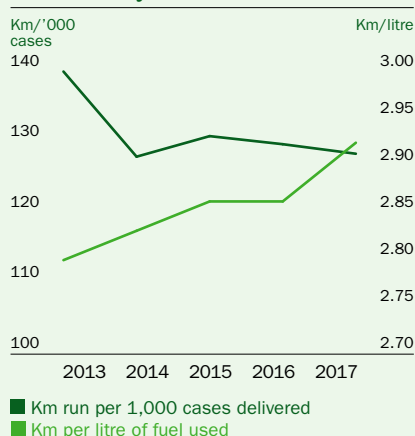
Minimising fuel consumption

With an expanding business and upward pressure on fuel costs there are both financial and environmental pressures on our logistics operation.

Since insourcing the dedicated transport operations based at our distribution centres in Stoke and Northampton in 2013, our aim has been to maintain consistent improvement in fuel efficiency, measured by both the number of kilometres run per 1,000 cases delivered and kilometres per litre of fuel used. Investments in tractor units that comply with Euro6 emissions standards and more aerodynamic trailers have helped to reduce CO₂ emissions and improve the fuel efficiency of the fleet.

Alongside these physical improvements we have invested in Microlise, a vehicle telemetry system installed across our heavy vehicle fleet, to provide information about driver efficiency, and we support this with a programme of driver training to promote more efficient and defensive driving techniques.

Fuel efficiency



Reducing waste

We have continued to challenge ourselves against our aspiration to divert 100% of waste arising from our stores, support offices and distribution centres, away from landfill. We retendered our waste contract in the previous year and, under this new contract, we have achieved our goal of sending zero waste direct to landfill.

The housings for all the pets in our stores are cleaned every day of the year. Used bedding, wood shavings and other waste is collected and returned to our distribution centres for recycling.

We have implemented a sustainable packaging policy to ensure that any packaging necessary to deliver our products to customers in the perfect condition we intend is created in the most sustainable way we can, throughout the packaging life cycle. The principles that underpin our policy can be summarised as “use a little; use the old; use it again and use it wisely”. Through these principles we aim to reduce packaging volume, material weight and optimise volume; maximise recycled content and post-use recyclability; and minimise environmental impact throughout our process.

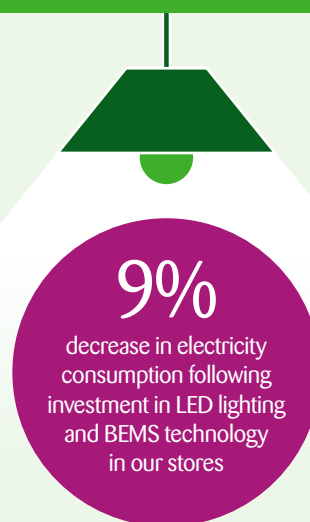
Minimising water consumption

In April 2017 the water market was opened up to competition for the first time. We are undertaking a review of water consumption across our business and the data we collect will be analysed in detail before deciding whether to tender a Group-wide contract later in the year.

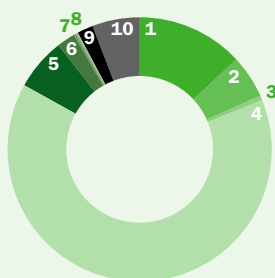
Total carbon footprint

We continue to monitor the CO₂ emissions from our business activities and to challenge areas where reductions can be made without compromising the welfare of our pets or the comfort and safety of our colleagues and customers.

Our electricity consumption, by far the most significant element in our total carbon footprint, showed a marked decrease of 9% as we saw immediate benefits from our investment in LED lighting and BEMS technology in our stores. This was despite the continued expansion of our veterinary practices and grooming salons which have inherently higher energy consumption than our retail environment.



Carbon footprint summary



1. Diesel (Core Fleet)	13%
2. Gas	5%
3. Red Diesel	1%
4. Electricity	64%
5. Diesel (3rd Party)	7%
6. Fuel Used company cars (fuel cards)	2%
7. Personal Business Travel (Rail)	0%
8. Personal Business Travel (Air)	0%
9. Personal Business Travel (Car)	2%
10. Electricity T&D losses	6%

Fuel source (Tonnes of CO ₂ e emissions)	2017	2016
Diesel (Core Fleet)	5,991	5,942
Gas	2,282	2,091
Red Diesel	328	314
Electricity	28,840	31,680
Diesel (3rd Party)	2,960	2,817
Fuel Used company cars (fuel cards)	1,017	1,151
Personal Business Travel (Rail)	38	12
Personal Business Travel (Air)	141	194
Personal Business Travel (Car)	873	754
Electricity T&D losses	2,609	2,616
	45,079	47,570

- Pets at Home CO₂e footprint has been calculated using the 2017 DEFRA emissions factor and based on a Financial Control approach.
- In line with DEFRA methodology, electricity emissions have been split into into scope 2 indirect consumption and scope 3 for transmission and distribution losses.
- 2016 saw the inclusion of limited scope 3 emissions including outsourced transportation and business travel (car, rail and air), and this scope of reporting has been maintained for FY17.
- 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.

Corporate social responsibility continued

Exploring our store environment

We provide a safe and comfortable in-store environment for our colleagues, customers and pets, while managing our operations to reduce our environmental footprint.



We use technology to maintain a suitable temperature range for our pets


➔ More on page 47

We recycle all waste bedding and shavings from our daily pet routines

➔ More on page 56

Our colleagues support local pet rescues and rehoming centres

➔ More on page 50



We have invested in energy efficient lighting and control systems

➔ More on page 56

We have developed our own testing protocols for pet accessories

➔ More on page 55

We specify packaging responsibly to minimise environmental impact

➔ More on page 56

Clear and consistent governance framework



Tony DeNunzio
Non-Executive Chairman

“ We recognise that corporate governance touches all aspects of our business, it underpins the management of our risk profile and it also affects our colleagues in many different ways.”

Chairman's introduction

As Chairman, my role is to manage the Board, ensuring it operates effectively and contains the right balance of skills, diversity and experience to successfully execute the Group's long-term strategy. We recognise that corporate governance touches all aspects of our business, it underpins the management of our risk profile and it also affects our colleagues in many different ways. This has been reflected in the activities that we have undertaken throughout the year.

Key governance activities

In October, we completed our search for a new Group Chief Financial Officer and we welcomed Mike Iddon to the business. Mike has brought with him a wealth of financial expertise gained within established retail and consumer businesses including New Look, where he held the role of Chief Financial Officer from 2014 until 2016 and Tesco plc, where he held a number of finance roles over a period of 13 years.

In December, I accepted Brian Carroll's resignation from the Board. Brian was appointed as a Non-Executive Director of Pets at Home in 2011 and his contribution and perspectives were highly valued by his colleagues. Brian was replaced by Nicolas Gheysens, Director, Private Equity at Kohlberg Kravis Roberts & Co. L.P (KKR). Nicolas is highly experienced and has also been a key member of the Board since KKR acquired Pets at Home in 2010. Nicolas has also been a Board Observer since 2014.

Amy Stirling and Paul Coby have also confirmed that they will also step down from the Board with effect from the close of the annual general meeting on 11th July 2017 in order to fulfil commitments in their full time roles.

Paul has been a Director of Pets at Home since 2014 and will be replaced by Stanislas Laurent who was appointed on 25 May 2017. Stan was formerly President and CEO of Photobox and COO of AOL Europe. He is currently entrepreneur in residence with Highland Capital Partners Europe. Amy has been a Director of Pets at Home and Chairman of the Audit Committee since 2014. Amy will be succeeded by Sharon Flood, Chairman of ST Du Pont S.A, the Paris based luxury goods company and Audit Chairman at Crest Nicholson plc. Sharon was appointed on 25 May 2017 and will take on the Chairmanship of the Audit and Risk Committee after the close of the annual general meeting on 11 July 2017.

Stan and Sharon bring a wealth of experience to the Board. Stan's entrepreneurial background and understanding of the digital online space in consumer facing businesses will add significant value as we expand our omnichannel capabilities at Pets at Home. Sharon has impeccable retail credentials having worked with Kingfisher, John Lewis and more recently as Chairman of French luxury goods company ST Du Pont, and Audit Chair at Crest Nicholson Plc and Network Rail.

Her plc experience and understanding of the retail market will contribute greatly to the growth of the business.

On appointment Stan will also become a member of the Audit Committee, Nominations & Governance Committee, CSR Committee and Pets Before Profit Committee and Sharon will also become a member of the Remuneration Committee and the Nominations & Governance Committee as well as Chairman of the Audit Committee.

During the year, we progressed the actions that were highlighted from the 2016 external evaluation report which emphasised the need to increase the Board's focus on talent and succession planning, supporting Ian Kellett as he continues to strengthen the leadership team. This has led to a number of appointments at Executive and Senior Operating Board level, further details can be found on page 87 of the Nominations & Corporate Governance Committee report. The Non-Executive Directors also continued to spend time with the leadership teams outside of formal meetings to gain a deeper insight into key rising talent throughout the organisation.

As part of our continued commitment to ensuring that our governance arrangements reflect the challenges and demands of our business, we reviewed our Committee meeting structure against our risk profile which resulted in an increase of the number of Pets Before Profit Committee meetings to four times a year to ensure that we maintain the focus on the Group's number one value, Pets Before Profits. We now require all Board members to attend these meetings along with Board Observers. We re-launched our Code of Business Conduct during the year so that we continue to promote responsible and ethical behaviours at all levels of our business and ensure that our colleagues feel empowered to and have the confidential means to speak up and voice concerns.

Throughout the year, we also consulted with major shareholders on both the proposed changes to our remuneration policy as well as the performance of the business. Further details of the consultations on remuneration and the new policy are in the Directors remuneration report on pages 90 to 112.

The following pages set out our governance processes within the Group and demonstrate how we are committed to maintaining high standards of corporate governance to ensure that the Group is managed with integrity and transparency.

Tony DeNunzio
Chairman, Pets at Home Group Plc
24 May 2017

Pets at Home Group Plc Board

The Company is led and controlled by the Board. The Board has delegated certain responsibilities to Board Committees and the day to day management to the Executive Management Team. Further details can be found on pages 66 to 69.

Board Committees

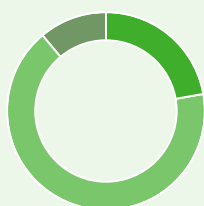
Audit & Risk Committee Due consideration of laws and regulations, the provisions of the Code and the requirements of the LRs.	Nomination & Corporate Governance Committee Oversight of Board composition and succession planning.	Remuneration Committee Assists the Board in determining responsibilities on Directors' remuneration.	Pets Before Profit Committee Oversight on pet welfare and achieving strategy on responsible pet retailing.	Corporate Social Responsibility Committee Oversight on strategy for responsible retailing including engagement, sourcing, community and the environment.
Members Amy Stirling (Chairman) Dennis Millard Paul Coby Paul Moody	Members Tony DeNunzio (Chairman) Dennis Millard Tessa Green Amy Stirling Paul Coby Paul Moody Nicolas Gheysens	Members Paul Moody (Chairman) Amy Stirling Dennis Millard Tessa Green	Members Tessa Green (Chairman) Dennis Millard Paul Coby Tony DeNunzio	Members Tessa Green (Chairman) Dennis Millard Paul Coby Tony DeNunzio

Executive Management Team

Investment Committee	Health & Safety Committee	Executive Team and Operating Boards
<ul style="list-style-type: none"> Ensures the Group's new store and veterinary surgery investment process is managed effectively. 	<ul style="list-style-type: none"> Oversees Group health and safety matters. 	<ul style="list-style-type: none"> Executive Team (as detailed on pages 72 to 73) leads on strategy and its execution; Operating Board with clearly defined roles covering: current trading, customers, new developments, operational issues, marketing, pets and our colleagues.

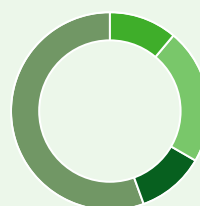
Board composition

Board tenure



6 years or more	2
3-5 years	6
1-2 years	0
Less than one year	1

Membership of the Board



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

Statement of Compliance with UK Corporate Governance Code

The following Corporate Governance Report outlines how the Board has applied the main principles of good governance as required by the UK Corporate Governance Code ('Code'), the Disclosure and Transparency Rules (DTRs) and the Listing Rules (LRs). The Board is committed to the highest standards of corporate governance and, except as set out below, the Board has complied with and intends to continue to comply with the requirements of the Code.

Our corporate governance is split into four sections showing the past year's activity:

Leadership	page 62
Effectiveness	page 64
Board Committees	page 66
Shareholder relations	page 69

Leadership

The role of the Board

Division of responsibilities

The Company is led and controlled by the Board which is collectively responsible for the long-term and sustainable performance of the Group. The roles of Chairman and Group Chief Executive Officer are separate and clearly defined, with the division of responsibilities set out in writing and agreed by the Board. The definitions of the roles are published on the Group's website (<https://investors.petsathome.com/investors/shareholder-information/governance/our-committees>).

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 Tony should remain as Non-Executive Chairman of the Group since he brings vast retail experience and knowledge to the Pets at Home team. The Directors consider that he exercises his role as Chairman independently of management and exercises his judgement in the interests of all shareholders.

Board composition

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 Board currently 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 70 to 71. The Board considers that all of its Non-Executive Directors are independent in character and judgement and that both individually and collectively, the Directors have the range of skills, knowledge, diversity of experience and dedication necessary to lead the Group and also contribute significantly to the work of the Board together with the requisite strategic and commercial experience. More than half of the directors excluding the Chairman and the Non-Independent Non-Executive Director are considered to be independent in accordance with the Code.

Matters reserved for Board approval

A formal schedule of matters is reserved to the Board for its approval, which includes the matters listed below. The separation of responsibilities between the Chairman and the Group Chief Executive Officer, coupled with the reserved matters described below, ensures that no individual has unfettered powers of decision-making.

Group strategy and risk management

- Agreement of the Group's strategy;
- Approval of extension of activities into new businesses or geographical areas;
- Approval of any decisions to cease to operate all or any material part of the Group's business;

Financial and internal controls

- Changes to the structure and capital of the Group;
- Reviewing the effectiveness of internal controls;
- Approval of financial statements and results announcements;
- Approving significant expenditure, material transactions and contracts;
- Reviewing and agreeing Group tax and treasury policy;

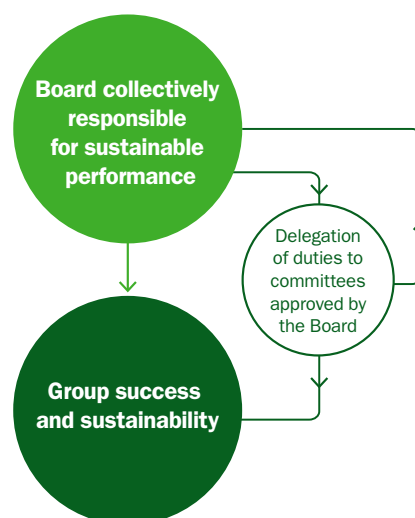
Board membership, committees, notices

- Delegation of authority to the Group Chief Executive Officer;
- Board and Senior Management appointments, arrangements and succession planning;
- Setting of Board Committees' terms of reference;
- Approval of shareholder communications, circulars and Notices of Meetings;

Corporate governance

- Review of the Group's overall corporate governance matters.

Role of the Board and delegating duties



More than

55%

of the Directors excluding the Chairman and the non-Independent Non Executive Director are considered to be independent in accordance with the Code.

Board responsibilities	
Role	Main responsibilities
Chairman of the Board	<ul style="list-style-type: none"> • Manages and provides leadership to the Board of Directors; • Acts as a direct liaison between the Board and the management of the Company, through the Group Chief Executive Officer; • Ensures that the Directors are properly informed and that sufficient information is provided to enable the Directors to form appropriate judgements; • In concert with the Group Chief Executive Officer, and Group Company Secretary, develops and sets the agendas for meetings of the Board; • Recommends an annual schedule of the date, time and location of Board and Committee meetings; and • Ensures effective communications with shareholders and other stakeholders.
Group Chief Executive Officer	<ul style="list-style-type: none"> • Responsible for the day-to-day management of the Company; • Together with the Executive Management Team, is responsible for executing the strategy, once it has been agreed by the Board; • Creates a framework that optimises resource allocation to deliver the Group's agreed strategic objectives over varying timeframes; • Ensures the successful delivery against the financial business plan and other key business objectives, allocating decision making and responsibilities accordingly; • Together with the Executive Management Team, identifies and executes new business opportunities and potential acquisitions or disposals; and • Manages the Group with reference to its risk profile in the context of the Board's risk appetite.
Senior Independent Director	<ul style="list-style-type: none"> • An Independent Non-Executive Director; • Provides a sounding board for the Chairman; • Serves as an intermediary for the other Directors when necessary; and • Is available to shareholders if they have concerns, which contact through the normal channels of the Group Chief Executive Officer has failed to resolve, or for which such contact is inappropriate.
Appointment of Directors by the Principal Shareholder	<ul style="list-style-type: none"> • Appointed pursuant to the Relationship Agreement with the Principal Shareholder KKR My Best Friend Limited; • Two Non-Executive Directors can be appointed 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; • One Non-Executive Director can be appointed 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 Nicolas Gheysens as a Non-Executive Director of the Board; • Although Tony DeNunzio 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; and • For further details of the Relationship Agreement and confirmation of compliance with the provisions set out in the Relationship Agreement, see page 78 of the Directors' Report.
Non-Executive Directors	<ul style="list-style-type: none"> • Provide constructive challenge to the Executive Team; • Help develop proposals on strategy; • Scrutinise management's performance in meeting agreed goals and objectives; • Monitor performance reports; • Satisfy themselves on the integrity of financial information and that controls and risk management systems are robust and defensible; and • Determine appropriate levels of remuneration for Executive Directors, appointing and removing Executive Directors, and succession planning.
Group Chief Financial Officer	<ul style="list-style-type: none"> • Management of the financial risks of the Group; • Responsible for financial planning and record-keeping, as well as financial reporting to the Board of Directors and shareholders; and • Ensures effective compliance and control and responding to ever increasing regulatory developments, including financial reporting, capital requirements, and corporate responsibility.
Board Observers	<ul style="list-style-type: none"> • The Chief Executive Officer of the Retail Division and the Chief Executive Officer of the Vet Group Division are Board observers; • The Principal Shareholder also has the right to appoint one Board Observer for so long as it holds voting rights over more than 10% of the Company's shares; • Rights to receive notice of, attend and speak at, Board meetings; and • No entitlement to vote on any matter requiring a resolution of the Board.

Effectiveness

Directors' induction and ongoing training

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 together with training on the Group's core values including environmental, social and governance issues. Individual training needs are reviewed regularly and training is provided where a need is identified or requested. All Directors receive frequent updates on a variety of issues relevant to the Group's business, including regulatory and governance issues.

Appointments

2017 saw changes to the Board in relation to the appointment of Mike Iddon as Group Chief Financial Officer.

Brian Carroll's resignation was accepted as Non-Executive Director in December 2016 and Nicolas Gheysens was appointed in his place.

Amy Stirling and Paul Coby will also step down from the Board with effect from the close of the annual general meeting on 11th July 2017 in order to fulfil commitments in their full time roles.

Paul has been a Director of Pets at Home since 2014 and will be succeeded by Stanislas Laurent who was appointed on 25 May 2017. Stan was formerly President and CEO of Photobox and COO of AOL Europe. He is currently entrepreneur in residence with Highland Capital Partners Europe.

Amy will be succeeded by Sharon Flood, Chairman of ST Du Pont S.A, the Paris based luxury goods company and Audit Chairman at Crest Nicholson plc and Network Rail. Sharon was appointed on 25 May 2017 and will take on the Chairmanship of the Audit and Risk

Committee after the close of the annual general meeting on 11 July 2017.

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 Report on pages 100 to 102. 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 Code.

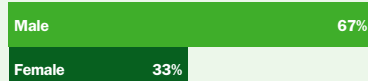
Considering diversity

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

Gender diversity



Board



Group Executive Management



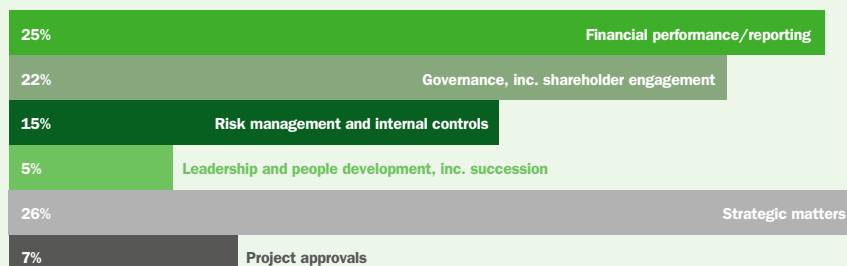
2017 Board considerations

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

These included:

- Strategy;
- Succession planning;
- Performance overall of individual businesses and functions in the Group;
- Budgets and long term plans for the Group;
- Financial statements, announcements and financial reporting matters;
- Reviewing reports from the Committees, notably on audit strategy, remuneration, succession planning, the Group's corporate social responsibility strategy and measures in place to ensure that Pets Before Profit is maintained as the Company's number one value;
- Approving significant items of capital expenditure and contracts, investments, treasury and dividend policy;
- Approving new acquisitions and other M&A;
- Shareholder feedback and reports from brokers and analysts;
- Regulatory updates;
- Risk management and controls in the Group including reputational risks and corporate governance; and
- Delegated authorities.

How the Board is spending its time through the year



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 the CEO of the Vet Group, 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. Amy Stirling will be succeeded by Sharon Flood as Chairman of the Audit and Risk Committee on 11 July 2017.

This policy applies equally to all appointments in the Company and the board of the Pets at Home Vet Group, where Fiona Briault, another female board member, is appointed.

Board meetings and attendance

In this financial year, the Board met formally nine times, plus the annual strategy meeting. Ad hoc meetings of both the Board and Committees 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.

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

All Directors receive papers in advance of Board meetings via an electronic board paper system which enables the fast dissemination of quality information in a safe and secure manner. 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. Performance against budget is reported to the Board monthly and any substantial variances are explained. Forecasts for each half year are revised and reviewed monthly.

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 is provided to the Board by the Company's Head of Investor Relations, covering broker reports and the output of meetings with significant shareholders.

Board meetings and attendance

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	4	4	2	2	4
Director²						
Tony DeNunzio (Chairman)	9	–	–	2	2	4
Dennis Millard (Deputy Chairman)	9	4	4	2	2	4
Ian Kellett	9	–	–	–	–	–
Nick Wood ³	0	–	–	–	–	–
Amy Stirling	9	4	4	2	–	–
Tessa Green	9	4	–	2	2	4
Paul Coby	6	–	2	1	2	4
Paul Moody	9	4	4	2	–	–
Brian Carroll ⁴	6	–	–	1	–	–
Nicolas Gheysens ⁵	2	–	–	1	–	–
Mike Iddon ⁶	4	–	–	–	–	–

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.

3 Nick Wood resigned as an Executive Director with effect from 4 April 2016 and no meetings were held prior to this date.

4 Brian Carroll either attended in person or attended by Nicolas Gheysens as Brian Carroll's alternate (prior to Brian Carroll's resignation).

5 Nicolas Gheysens was appointed as a Director on 2 December 2016 and has attended the maximum number of meetings.

6 Mike Iddon was appointed as a Director on 17 October 2016 and has attended the maximum number of meetings.

Board Committees

The Board has established three Board Committees: an Audit and Risk Committee, a Nomination and Corporate Governance Committee, and a Remuneration Committee. In addition, the Board has also established the Pets Before Profit Committee and the Corporate Social Responsibility ('CSR') Committee which comprise both Non-

Executive Directors, Executive Directors and colleagues. The Board has also established two management committees, the Investment Committee and Health and Safety Committee, which comprise Executive Directors and colleagues. 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 (<https://investors.petsathome.com>).

Key objectives and responsibilities of the Board Committees

	Key objectives:	Main responsibilities/duties
Audit & Risk Committee	<ul style="list-style-type: none"> To assist the Board to fulfil its corporate governance and overseeing responsibilities in relation to an entity's financial reporting, internal control system, risk management system and internal and external audit functions; 	<ul style="list-style-type: none"> monitor the integrity of Group financial statements; review and challenge accounting policies, unusual transactions; assumptions/qualifications on viability; compliance with accounting standards; review clarity and completeness of financial statements; oversee material information presented with financial statements; review content of Annual Report and Accounts to advise if fair, balanced and appropriate for shareholders; assessment and advice on risk management system; review and advice on adequacy and effectiveness of the Company's internal financial and regulatory controls; monitoring and review of internal and external audit; review of whistleblowing, fraud and compliance.
Remuneration Committee	<ul style="list-style-type: none"> To assist the Board in determining its responsibilities in relation to Directors' remuneration. 	<ul style="list-style-type: none"> responsibility for setting, monitoring and reviewing the Remuneration Policy; consultation on major changes to employee benefit structure; approval and determination of performance related pay schemes (with regard to the Code and LRs); responsible for selection and appointment of remuneration consultants; review, design and assessment of share incentive plans; review of Director pension arrangements; approval of Director service contracts and severance.
Nomination and Corporate Governance Committee	<ul style="list-style-type: none"> To assist the Board in considering the structure, size and composition of the Board whilst advising on succession planning. 	<ul style="list-style-type: none"> reviewing structure, size and composition of the Board; Board succession planning; evaluation of Board appointments – with consideration to matters such as skill, experience, knowledge, diversity; review of Non-Executive Directors' time required; review matters relating to continuation of Directors' office; conduct Board performance evaluation process; review all conflicts of interest.
Pets Before Profit Committee	<ul style="list-style-type: none"> To oversee Group strategy on pet welfare. 	<ul style="list-style-type: none"> monitoring, reviewing and considering pet welfare standards across the Group; monitoring and reviewing compliance with legislation relating to the sale of pets, welfare standards and veterinary medicine and engaging in the development of such legislation where appropriate; monitoring and reviewing colleague feedback on pet welfare standards; overseeing welfare in relation to pet supply, transportation and audit; monitoring impact of PR and social media; monitoring pet processes, including audits and vet clinical standards.
Corporate Social Responsibility Committee	<ul style="list-style-type: none"> To oversee Group corporate social responsibility matters. 	<ul style="list-style-type: none"> reviewing Group CSR policy and strategy; monitoring implementation of CSR activity.

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 Ian Kellett and its other members are Mike Iddon, Sally Hopson and Peter Pritchard. A number of the Group's colleagues are entitled to attend meetings of the Investment Committee as observers including the Director of Property, the Group Development Director and the Vet Group Partner Recruitment, Property and People Director.

The Investment Committee meets formally at least ten times a year and otherwise as may be required. Duties of the Investment Committee include reviewing and considering all proposals presented for new store and standalone surgery acquisitions by a Group company; approving all material variations to proposed new stores and standalone surgery acquisitions; periodically reviewing proposed changes to the reporting and presentation of new store investment criteria; reviewing all proposals presented for lease renewals and reviewing alternative strategies for new store investment, formats and geographical markets and reporting on such strategies to the Board for final approval on the terms of any such matter; and reviewing all proposals for the dispositions of all or part of any of the lease on stores including any sub-letting, assignments, surrenders or relocations and 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 Governance Report on pages 72 and 73 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 programs.

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 & Safety Committee that meets at least on a quarterly basis and is chaired by the Group Chief Finance Officer with the agenda led by the Group 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, retail and grooming 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 veterinary business also has a designated health and safety manager and two health and safety assessors.

Further details of the work of the Health & Safety Committee are contained on page 49 of our CSR report.

Directors' conflicts of interest

The Articles of Association of the Company give the Directors the power to consider and, if appropriate, authorise conflict situations where a Director's declared interest may conflict or does conflict with the interests of the Company.

Procedures are in place at every meeting for individual Directors to report and record any potential or actual conflicts which arise. The register of reported conflicts is reviewed by the Board at least annually. The Board has complied with these procedures during the year. One potential conflict of interest was reported in the year ended 30 March 2017 in circumstances where the Non-Executive concerned was neither directly or indirectly involved in any potential dealings between the Group and the company concerned. The conflict was authorised by the Board with appropriate safeguards being put in place.

Whistleblowing Policy

The Company has a duty to conduct its affairs in an open and responsible way. We are committed to high standards of corporate governance and compliance with legislation and appropriate codes of practice. By knowing about any wrong doing or malpractice at an early stage, we stand a good chance of taking the necessary steps to stop it. We relaunched our whistleblowing policy in FY18. The policy is designed to encourage colleagues to identify such situations and report them without fear of repercussions or recriminations provided that they are acting in good faith. The policy sets out how any concerns may be raised and when response can be expected from the Company and in what timescales. A copy of the Group's Code of Ethics and Business Conduct is published on the Group's website (<https://investors.petsathome.com/investors/shareholder-information/governance/code-of-ethics-and-business-conduct>). This policy and the procedures in place to deal with concerns raised under the policy were reviewed by the Audit & Risk Committee during the year.

Share dealing code

The Company has adopted a share dealing code in relation to its shares. The share dealing code applies to the Company's Directors, its other PDMRs and certain colleague insiders 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 2016, the Company engaged Lintstock Limited ("Lintstock") to undertake an independent evaluation of the Board and Board Committee performance and to identify areas where the performance and procedures of the Board might be further improved. This year, the Company carried out an internal evaluation that included the completion of a short form online questionnaire that considered topics covered in the 2016 evaluation under the headings:

- Board composition expertise and dynamics;
- Time management and Board support;
- Competitors and the market;
- The people strategy;
- Values and culture;
- The IT strategy;
- Succession planning; and
- Board Committees.

Outputs of the evaluation

At a dedicated Board session, a report of the findings of the evaluation and its recommendations were discussed and specific actions agreed. Overall, the majority of areas have seen an improvement in the scoring, however, the following have been identified as requiring additional focus:

- succession and talent management;
- visibility and depth of the people strategy;
- presentation and understanding of the business systems;
- streamlining of agenda items; and
- refinement of the Board packs.

Beyond the annual evaluation, the performance of the Group Chief Executive Officer is continuously monitored throughout the year by the Chairman and the Senior Independent Director.

Internal control and risk management

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness and has carried out a robust assessment of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity as detailed on pages 40 to 43 of the Strategic Report. 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 38 to 39 of the Strategic Report and page 84 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 2016 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 on 24 May 2017.

- Management accounts have been reviewed at meetings of 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 Group Chief Financial Officer.

- All capital investments during the year have been approved by the Group 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 Group Chief Executive Officer, has reviewed and approved investments in respect of the acquisition and fit-out of new stores and new standalone veterinary practices.

- The business plans for each new company acquisition undertaken during the year, namely the acquisition of Dick White Referrals Limited, have been reviewed and approved by the Board prior to acquisition following internal review and approval.

- 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 and Risk Committee for review and consideration of any material findings. Where audit findings have been raised, management have agreed appropriate actions and details of the areas covered in the internal audit reports can be found in the Audit & Risk Committee report on page 84.

- A clearly articulated delegated authority framework in respect of all purchasing activity is in place across the Group. This is complemented by systemic controls including a contract approval policy that reflect the agreed authority framework and clear segregation of duties between relevant functions and departments.

- A schedule of matters reserved for the Board is in place for approving significant transactions and strategic and organisational change.
- Board discussion of the key risks and uncertainties facing the Group and the risk management system together with deep dives on a number of key risk areas. Further details are contained in the Audit & Risk Committee report on page 82.

Shareholder Relations

The Board’s primary role is to promote the success of the Company and the interests of shareholders. The Board is accountable to shareholders for the performance and activities of the Group.

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 communicate with shareholders on a regular basis.

The Board communicates with its shareholders in respect of the Group’s business activities through its Annual Report, yearly and half yearly announcements, interim management statements and other regular trading statements. This information is also made publicly available via the Company’s website.

During the year, the Company met regularly with analysts and institutional investors and such meetings will continue. The Group Chief Executive Officer and the Group Chief Financial Officer have lead responsibility for investor relations. They are supported by a dedicated Director 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 Chairman of the Remuneration Committee and the Group Company Secretary consulted extensively with major shareholders on the proposed new remuneration policy. Further details of the consultation are contained on pages 90 to 91 of the Remuneration Report.

All the Non-Executive Directors are available to meet with major shareholders, if they wish to raise issues separately from the arrangements as described above, and during the year, the Chairman and Senior Independent Director held such meetings and reported back to the Board.

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 (<https://investors.petsathome.com>).

The right skills and experience amongst our Board members



Board of Directors



Tony DeNunzio CBE Non-Executive Chairman

Appointment to the Board
2014

Committees
Nomination & Governance,
Pets Before Profit, CSR

Meetings attended
9/9

Current roles

Deputy Chairman
and Senior Independent Director
at Dixons Carphone plc
Non Executive Director
of PrimaPrix SL.
Non Executive Director
of DeNunzio Associates Ltd
Senior Advisor to Kohlberg,
Kravis, Roberts & Co. L.P.

Past roles

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

Brings to the Board

Vast retail and financial
experience. Tony was
also awarded a CBE
for services to retail
in 2005.



Dennis Millard Deputy Chairman and Senior Independent Non-Executive Director

Appointment to the Board
2014

Committees
Nomination & Governance,
Audit & Risk, Remuneration,
Pets Before Profit, CSR

Meetings attended
9/9

Current roles

Chairman of Halfords Group Plc
Chairman of Trustees of the charity
The Holy Cross Children's Trust

Past roles

Chairman of Connect
Group Plc
Senior Independent Director
at Debenhams plc
Senior Independent Director
at Premier Farnell Plc
Senior Independent Director
of Xchanging Plc from
2005–2012

Brings to the Board

Wide ranging public
company experience
and retail and financial
expertise. Dennis is also
a Chartered Accountant.

Pets

Nandi
 Boris
and four chickens.



Ian Kellett Group Chief Executive Officer

Appointment to the Board
2014

Committees
–

Meetings attended
9/9

Current roles

Group Chief Executive Officer
since April 2016
Joined Pets at Home as
Chief Financial Officer in 2006
Appointed as Chief Executive Officer
of the Retail Division in 2015

Past roles

Finance Director of Staples
retail business from
2004–2006
Deputy Finance Director
of JD Wetherspoon from
1999–2004

Brings to the Board

Significant strategic and
operational expertise
through time spent
at Pets at Home.

Pets

Zico Stanley
 Oscar Flynn
 Ted



Mike Iddon Group Chief Financial Officer

Appointment to the Board
2016

Committees
–

Meetings attended
4/4*

Current roles

Chief Financial Officer since 2016

* Joined the Group partway through
the year.

Past roles

Chief Financial Officer of
New Look from 2014-2016
A number of finance roles at
Tesco plc over 13 years, with
his final role as Group
Planning, Treasury and
Tax Director

Brings to the Board

Financial knowledge
and retail industry
expertise



Amy Stirling Independent Non-Executive Director

Appointment to the Board
2014

Committees
Nomination & Governance,
Audit & Risk, Remuneration

Meetings attended
9/9

Current roles

Chief Financial Officer,
The Virgin Group
Chair of Audit and Risk Committee
for the Cabinet Office
Non-Executive Director at
RIT Capital Partners Plc

Past roles

Non-Executive member
of the Cabinet Office board
Chief Financial Officer and
Trustee 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
2007–2010

Brings to the Board

Financial, accounting
and public company
experience. Amy is also
a Chartered Accountant.

Pets

Winston



Paul Coby
Independent
Non-Executive Director

Appointment to the Board
2014

Committees
Nomination & Governance,
Audit & Risk, Pets Before Profit,
CSR

Meetings attended
6/9

Current roles

Chief Information Officer of the
John Lewis Partnership
Board member of Clydesdale
and Yorkshire Banking Group

Past roles

Board member of P&O Ferries
CIO at British Airways
from 2001–2011
Civil Servant in the
Departments of Transport
and Environment
Director of
Randalls Cottages Ltd

Brings to the Board

Significant ecommerce,
international and
systems technology
experience.

Pets

George
 Elsa
 Leo



Tessa Green CBE
Independent
Non-Executive Director

Appointment to the Board
2014

Committees
Remuneration, Nomination
& Governance, Pets Before
Profit, CSR

Meetings attended
9/9

Current roles

Trustee of the Royal Foundation
of the Duke and Duchess of
Cambridge and Prince Harry
Chairman of Moorfields Eye Hospital
NHS Foundation Trust
Member of Advisory Board
of Healthcare U.K.
Member of Bupa Medical
Advisory Panel
Member of Bupa Association
Director of UCL Partners

Past roles

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

Brings to the Board

Considerable
background in
healthcare and
not-for-profit/charitable
sectors.

Pets

Flash
 Easton
 Strider



Paul Moody
Independent
Non-Executive Director

Appointment to the Board
2014

Committees
Audit & Risk, Remuneration,
Nomination & Governance

Meetings attended
9/9

Current roles

Non-Executive Chairman
of Johnson Service Group
Non-Executive Chairman
of 4imprint Group Plc

Past roles

Chief Executive Officer
of Food Freshness Technology
Over 17 years at Britvic Plc,
with the last eight years
as Chief Executive Officer
until 2013

Brings to the Board

Deep consumer goods
and public company
experience.



Nicolas Gheysens
Non-Executive Director

Appointment to the Board
2016

Committees
Nomination & Governance
Meetings attended
2/2

Current roles

Non-Executive Director of Pets
at Home since 2011
Director of Kohlberg Kravis Roberts
& Co. Partners LLP and responsible
for retail industry coverage in Europe
Member of the Boards of Directors
of Flowstream, SMCP, Webhelp,
Winoa, and The Hut (observer)

Past roles

Investment executive at
Sagard Private Equity
(2002-2004)
Investment banking analyst at
Goldman Sachs International
(2000-2002)

Brings to the Board

Strategic business,
financial and corporate
finance expertise.

Pets

Noix



Louise Stonier
Chief People and Legal Officer

Committees
–

Meetings attended
9/9

Current roles

Chief People and Legal Officer and
Company Secretary of Pets at Home
Group since 2017
Joined Pets at Home as Legal
Director and Company Secretary
in 2004
Chair and Trustee of the charity
Support Adoption For Pets

Past roles

Associate in the corporate
team at DLA Piper LLP from
2000–2004
Solicitor at CMS Cameron
McKenna from 1997–2000

Brings to the Board

Legal knowledge
and expertise.

Pets

Skye

Executive Management Team

The Board is supported by a highly experienced management team. Operational day-to-day matters are delegated to the Group Chief Executive Officer together with the rest of the Executive Management Team.



Ian Kellett
Group Chief Executive Officer

Joined Pets at Home
2006

Biography

Ian joined Pets at Home as Chief Financial Officer in April 2006, was appointed as Chief Executive Officer of the Retail Division in June 2015 and moved to the role of Group Chief Executive Officer in April 2016.

During his eleven years at Pets at Home, Ian was involved in the sale of the business to KKR in 2010, the acquisition of Vets4Pets in 2013 and the IPO of the Group in 2014. As well as focusing primarily on his role as CFO and more recently as Chief Executive Officer of Retail Division, Ian has previously held responsibility for distribution and logistics, business systems, and the strategic development of the business across both Merchandise and Services. In addition, Ian has been a member of the Vet Group Board for the last eleven years.

Previous to his time at Pets at Home, Ian was Finance Director of Staples' retail business in the UK between 2004–2006 and Deputy Finance Director of JD Wetherspoon plc between 1999–2004.

Pets

- Zico
- Oscar
- Ted
- Stanley
- Flynn



Mike Iddon
Group Chief Financial Officer

Joined Pets at Home
2016

Biography

Mike joined Pets at Home in September 2016 as Group Chief Financial Officer.

Mike was the Chief Financial Officer of New Look from 2014 until 2016. Prior to this, Mike held a number of finance roles at Tesco plc over a period of 13 years, with his final position as Group Planning, Treasury and Tax Director. Before this he held finance roles with Kingfisher plc and Whitbread plc. He qualified as a Chartered Accountant with Arthur Andersen.



Sally Hopson MBE
Chief Executive Officer Vet Group

Joined Pets at Home
2008

Biography

Sally joined Pets at Home in 2008 as the Customer, People and Development Director and became Chief Executive Officer of the Vet Group in June 2014.

Sally joined Pets at Home 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.

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.



Peter Pritchard
Chief Executive Officer of Retail

Joined Pets at Home
2011

Biography

Peter joined Pets at Home in January 2011 as Commercial Director and moved to the role of Chief Executive Officer of Retail in March 2016.

Peter has worked in retail for 30 years in various senior operational and commercial roles. Previous companies include Asda, Sainsbury's, Iceland, Marks and Spencer and Wilkinson Hardware Stores. Peter has a Masters Degree in Business Administration from Stirling University.

Peter is a Trustee of Community Integrated Care, one of the UK's largest health and social care charities. They work in the community delivering life enhancing support to people with learning difficulties, mental health concerns, autism, age related needs and dementia.

Pets

 Oscar
 Leo



Louise Stonier
Chief People and Legal Officer

Joined Pets at Home
2004

Biography

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. She became Chief People and Legal Officer in 2017.

Louise is also the Chair and 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.

Pets

 Skye

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 ("Code"), the Disclosure and Transparency Rules ("DTRs") and the Listing Rules ("LRs").

Pets at Home Group Plc

Registered Number:	8885072
Registered Office:	Epsom Avenue, Stanley Green Trading Estate, Handforth, Cheshire, SK9 3RN
Telephone Number:	+44 161 486 6688
Date of Incorporation:	10 February 2014
Country of Incorporation:	England and Wales
Type:	Public Limited Company

Statutory information

The Company has chosen in accordance with Section 414C(11) of the Companies Act to provide disclosures and information in relation to a number of additional matters which are covered elsewhere in this Annual Report. These matters and cross-references to the relevant sections of this Annual Report are shown in the following table.

Statutory information	Section heading	Page number	Statutory information	Section heading	Page number
Amendment of the Articles	Directors' Report	78	Independent Auditors	Audit & Risk Committee Report	85
Appointment and Removal of Directors	Directors' Report	76	Internal Controls and Risk Management	Governance Report	68–69
Board of Directors	Directors' Report Board of Directors	76 70–71	Political Donations	Directors' Report	79
Branches outside of the UK	Directors' Report	80	Profits and Dividend	Directors' Report	78
Change of Control	Directors' Report	78	Post Balance Sheet Events	Directors' Report	79
Colleague Involvement	Exceptional Engagement – Corporate Social Responsibility	48	Powers for the Company to issue or buy back its shares	Directors' Report	76
	Directors' Report	75	Powers of the Directors	Directors' Report	76
Colleague Diversity and Disabilities	Directors' Report	75	Principal Activities	Directors' Report	75
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Community	Strategic Report – Corporate Social Responsibility	50–53	Research and Development	Directors' Report	75
Compensation for loss of office	Directors' Report	78		Strategic Report – Merchandise	34
Compliance with the terms of the Relationship Agreement (including the independence provisions)	Directors' Report	78	Restrictions on transfer of securities	Directors' Report	77
Directors Biographies	Board of Directors	70–71	Share capital	Directors' Report	77
Directors Indemnities	Directors' Report	77		Note 21 to the consolidated statements	150–151
Directors' information to Auditors	Directors' Report	82	Significant related party transactions	Directors' Report	77
Directors' Interests	Directors' Report	76		Note 27 to the consolidated statements	166–167
Directors Responsibility Statement	Directors' Report	81	Significant Shareholders	Directors' Report	77
Executive Share Plans	Remuneration Report	96 99–101	Subsidiary and Associated Undertakings	Note 29 to the consolidated statements	168–178
Financial Instruments	Note 22 to the consolidated financial statements	151–161	Statement of Corporate Governance	Governance Report	61
Future Developments of the Business	Strategic Report	20–25	The Audit & Risk Committee Report	Governance Report	82–85
Financial position of the Group, its cash flow, liquidity position and borrowing facilities	Chief Financial Officer's review	30–33	The Governance Report	Governance Report	60–69
Greenhouse Gas Emissions	Corporate Social Responsibility	57	The Directors' Remuneration Report	Governance Report	90–112
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Health and Safety	Governance Report	67	The Strategic Report	Governance Report	1–59
	Corporate Social Responsibility	49	Treasury and Risk Management	Strategic Report	43
Human Rights and Modern Slavery Statement	Directors' Report	80	Viability Statement	Directors' Report	79
			Voting Rights	Directors' Report	77

Disclosures required under Listing Rule 9.8.4R

The information required by LR 9.8.4R is disclosed on the following pages of this Annual Report:

Disclosure	Page number
Long term incentive schemes	96
Significant contracts	78
Dividend waivers	Note 9 to the consolidated financial statements

Principal Activities

The principal activity of the Group is that of a specialist retailer of pet food, pet related products and pet accessories. The Group is also the operator of a small animal veterinary business, specialist veterinary referral hospitals and pet grooming salons. The Group operates a dog focused high street store called Barkers, which offers premium products and services targeted at highly engaged dog owners. The principal activity of the Company is that of a holding company. The Company's registrar is Computershare Investor Services Plc situated at The Pavilions, Bridgwater Road, Bristol, BS99 6ZZ.

Research and development

The Strategic Report sets out on page 34, 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 continued to co-fund 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. The Group is also in partnership with Mars Fishcare and the University of West Scotland, looking at stress caused during transportation of fish from overseas breeders.

Colleague involvement

The Group places significant emphasis on colleague engagement at all levels. Colleagues are kept informed of issues affecting the Group through formal and informal meetings and through the Group's internal written communications. Further information on colleague engagement is included in the CSR Report on page 48. Details of the Group's employee share plans are contained in the Remuneration Report.

Colleague diversity and disabled persons

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' Report continued

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	4 April 2016
Ian Kellett	11 February 2014	N/A
Dennis Millard	18 February 2014	N/A
Brian Carroll	18 February 2014	2 December 2016
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
Mike Iddon	17 October 2016	N/A
Nicolas Gheysens	2 December 2016	N/A

Nick Wood resigned from his position as Group Chief Executive Officer of the Group on 4 April 2016 although he remained as an employee of the Company until 1 July 2016. Nick Wood was succeeded by Ian Kellett on 4 April 2016.

Mike Iddon was appointed as Group Chief Financial Officer on 17 December 2016, replacing Mark Adams who had been acting in the same role on an interim basis.

Brian Carroll resigned from his position of Non-Executive Director with effect from 2 December 2016 and was replaced by Nicolas Gheysens from the same date.

Amy Stirling and Paul Coby will step down from the Board with effect from the close of the Company's annual general meeting on 11 July 2017.

Paul will be replaced by Stansilas Laurent and Amy will be replaced by Sharon Flood who were both appointed on 11 July 2017.

Appointment and removal of a Director

A Director may be appointed by an ordinary resolution of shareholders in a general meeting following recommendation by the Nomination & Corporate Governance Committee in accordance with its terms of reference as approved by the Board or by a member (or members) entitled to vote at such a meeting, or following retirement by rotation if the Director chooses to seek re-election at a general meeting.

In addition, the Directors may appoint a Director to fill a vacancy or as an additional Director, provided that the individual retires at the next AGM. A Director may be removed by the Company in certain circumstances set out in the Company's Articles of Association or by a special resolution of the Company.

Specific details relating to the Principal Shareholder, KKR My Best Friend Limited, an affiliate of Kohlberg Kravis Roberts & Co. L.P and their right to appoint Directors are set out in the Governance Report on page 63.

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 2016 AGM, held on 14 September 2016, will expire on the date of the 2017 AGM.

Since the date of the 2016 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 and options over ordinary shares in the Company are shown in the Directors' Remuneration Report on page 109.

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

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 31 March 2017 and 24 May 2017, 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 on page 150 of the Group's financial statements.

There have been no movements in the Company's issued share capital in the 2016 reporting period.

Details of employee share schemes are provided in note 23 to the Group's financial statements.

Shareholders' 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 and the Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on voting rights.

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 marketing requirements relating to close periods) and requirements of the LRs whereby Directors and certain employees of the Company require 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 expired on 16 March 2015, 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 expired on 16 March 2016.

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

Significant shareholdings

As at 31 March 2017 and 24 May 2017, 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 31.03.17	% of issued share capital	Number of ordinary shares as at 24.05.17	% of issued share capital	Nature of holding (direct/indirect)
KKR My Best Friend Limited*	99,372,190	19.9%	99,372,190	19.9%	Direct
MBF Co-Invest L.P.*	23,640,896	4.7%	23,640,896	4.7%	Direct
Schroders Investment Management	35,584,330	7.12%	35,584,330	7.12 %	Direct
Old Mutual Plc	57,455,615	11.49%	60,073,194	12.01%	Indirect
Norges Bank	15,132,166	3.03%	19,479,847	3.9%	Direct
Canada Pension Plan Investment Board	50,095,670	10.02%	50,095,670	10.02%	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") 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; appoint observers to the Remuneration, Audit & Risk and the Pets Before Profit/CSR Committees 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, KKR My Best Friend Limited 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.
- **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. KCM received fees of £500,000 (period to 26 March 2015 £nil), relating to professional services associated with debt financing following the refinancing of the Pets at Home Group in April 2015.

Further details of the Group's banking facilities are shown in note 18 on page 148 of the financial statements. Certain of the payments made under the Amendment to the Senior Facilities Agreement have been made this financial year.

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 and excluding exceptionals was £75,364,000 (FY16: £72,783,000). The results are discussed in greater detail in the financial review on pages 30 to 33.

A final dividend of 5.0 pence per share (FY16: 5.5p per share) will be recommended to the Company's shareholders in respect of the 2017 financial year. The final dividend will be proposed by the Directors at the AGM on 11 July 2017 in respect of the year ended 30 March 2017 to add to an interim dividend of 2.5 pence per share paid on the 6 January 2017 (FY16: 2.0 pence per share).

The Directors' proposed final dividend of 5.0 pence per share takes the total dividend payable in respect of the 2017 financial year to 7.5 pence per share. The ex-dividend date will be 15 June 2017 and, subject to shareholder approval at the 2017 AGM, the final dividend of 5.0 pence per share will be paid to shareholders on the register at the close of business on 16 June 2017.

Compensation for loss of office and 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 Senior Facilities Agreement 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 Group made no political donations and incurred no political expenditure during the year (FY16: nil). It remains the Company's policy not to make political donations or to incur political expenditure, however the application of the relevant provisions of the Companies Act 2006 is potentially very broad in nature and, as last year, the Board is seeking shareholder authority to ensure that the Group does not inadvertently breach these provisions as a result of the breadth of its business activities, although the Board has no intention of using this authority.

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 FY17 were 47 days (FY16: 46 days).

Post balance sheet events

On 24 May 2017, Paul Coby, Independent Non-Executive Director confirmed that he will step down from the Board with effect from the close of the Company's annual general meeting (AGM) which will be held on 11 July 2017. Paul will be succeeded by Stansilas Laurent who was appointed on 25 May 2017. Stan was formerly President and CEO of Photobox and COO of AOL Europe and is currently entrepreneur in residence with Highland Capital Partners Europe.

In addition Amy Stirling, Independent Non-Executive Director, also confirmed that she will step down from the Board with effect from the close of the AGM. Amy has been a Director of Pets at Home and Chairman of the Audit Committee since 2014. Amy will be succeeded by Sharon Flood who was appointed on 25 May 2017. Sharon is Chairman of ST Du Pont S.A, the Paris based luxury goods company and Audit Chair at Crest Nicholson plc and Network Rail. Sharon will take on the Chairmanship of the Audit and Risk Committee with effect from the close of the AGM on 11 July 2017.

Both Paul and Amy are standing down from the Board in order to fulfil commitments in their full time roles.

Stan and Sharon bring a wealth of experience to the Board. Stan's entrepreneurial background and understanding of the digital online space in consumer facing businesses will add significant value as we expand our omnichannel capabilities at Pets at Home. Sharon has impeccable retail credentials having worked with Kingfisher, John Lewis and more recently as Chairman of French luxury goods company ST Du Pont. Her plc experience and understanding of the retail market will contribute greatly to the growth of the business.

On appointment Stan will also become a member of the Audit Committee, Nominations & Governance Committee, CSR Committee and Pets Before Profit Committee and Sharon will also become a member of the Remuneration Committee and the Nominations & Governance Committee.

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 have adequate resources to continue in operational existence for a period of twelve months from the date of approval of the financial statements. Accordingly, the financial statements continue to be prepared on a going concern basis.

Viability statement

The Group has developed a detailed strategic and business planning ('SBP') process, which comprises a strategic plan ('Plan') containing financial projections for a number of future years and a business plan which forms a detailed near term one year plan for the upcoming financial year. The SBP process produces standard outputs in respect of the key financial performance metrics of the Group which deliver consolidated financial plans at both Group level and at a number of levels within the Group. The Plan is reviewed each year by the Board as part of the strategy review process. Once approved by the Board, the Plan is cascaded across the Group and provides the basis for setting all detailed financial budgets and strategic actions that are subsequently used by the Board to monitor performance.

The SBP process covers a three year period. The three year plan provides a robust planning tool against which strategic decisions can be made. In making their viability assessment, the Board has taken into consideration that financing facilities are maintained for the duration of the Plan. The Directors have considered a combination of risks and uncertainties and the mitigating controls operated by the Group as detailed on pages 38 to 43 that may impact on the Group's reputation and its ability to trade. These risks include issues on pet welfare, competitor activity and broader macro-economic risks and their impact on the strategic plan on an individual and combined level.

On this basis and in conjunction with other matters considered and reviewed by the Board during the year, the Board has reasonable expectations that the Group will be able to continue in operation and meet its liabilities as they fall due over the three financial years used for their assessment. In making this assessment, the Board has assumed that there is no material change in the legislative environment in relation to the sale of small animals and the practice of veterinary medicine. It is recognised that such future assessments are subject to a level of uncertainty that increases with time and therefore future outcomes cannot be guaranteed or predicted with certainty.

Human rights and modern slavery statement

Pets at Home is the UK's leading specialist retailer of pets, pet related products and services. We run the UK's largest small animal veterinary and grooming businesses through our vets and services brands.

Our mission is to be the best pet shop in the world. We therefore take great care in operating our business and in selecting our business partners and suppliers. The products we sell are sourced from a broad range of suppliers, both national and international. We are the only UK pet retailer to have a dedicated sourcing office in the Far East. From our regional base in Hong Kong, which opened in 2012, we have a team of product technologists who support our buyers, oversee our suppliers and monitor production.

Our suppliers are required to comply with our Ethical Trading Policy and we undertake ethical audits which cover: hours of work, labour practices, working conditions, onsite accommodation, health & safety, environment, supply chain management and wages. We also require compliance with the Pets at Home Group's Code of Business Ethics and Conduct.

In FY17, we highlighted a number of areas where we wished to strengthen our processes to protect against the risk of modern slavery, following a group wide risk assessment. These areas included: reviewing supplier due diligence and audit processes to ensure compliance with the Modern Slavery Act 2015 ("Act"), updating supplier trading terms and the Code of Business Ethics and Conduct in relation to the Act.

During last financial year, we reviewed our procurement processes in respect of modern slavery and have included appropriate questions in our tender documentation in relation to supplier compliance with the Act. In addition, we reviewed our audit processes and looked in detail at the questions asked during audits and the checks carried out. On review, our audits already include checks on working conditions, pay and other appropriate areas in sufficient detail to highlight any instances of modern slavery.

We have updated our supplier general terms and conditions to further drive compliance with the Act. We have included a warranty from suppliers requiring compliance with the Act, the right to audit in respect of the Act and also the right for Pets at Home to terminate in the event of supplier non-compliance with the Act.

In addition, we updated our Code of Business Ethics and Conduct to specifically cover the Act.

We consider that training is also key to raising awareness on modern slavery and will assist our colleagues and suppliers gain a better understanding on the issue of modern slavery and requirements set out in the Act. In November 2016, we delivered a workshop on this subject to all 45 suppliers attending our Asia supplier conference (being an area where we considered

a greater potential risk of modern slavery being prevalent). We have also delivered training to colleagues in our UK support office where relevant.

To ensure we continue to drive compliance with the Act, during this financial year we intend to review the previously undertaken risk assessment to ensure it remains up to date and will assess any new risk areas or actions. We will continue to train colleagues and suppliers as appropriate.

Should any instances of non-compliance with the Act arise in relation to any of our suppliers then this will be reviewed and appropriate action taken.

Branches outside of the UK

The Company has no branches outside of 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 14 September 2016, KPMG LLP was appointed as the Company's Auditor. During the 2016 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.

A resolution is to be proposed at the 2017 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 24 May 2017.

Approved by the Board and signed on its behalf by



Louise Stonier

Group Company Secretary
24 May 2017

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. 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.

We consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's position and performance, business model and strategy.

Approved by the Board and signed on its behalf by



Ian Kellett
Group Chief Executive Officer
24 May 2017

Audit & Risk Committee Report



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	2/4
Paul Moody	4/4

What we did in 2017

Reviewed key financial reporting matters and considered how these are presented in the Financial Statements.	✓
Reviewed and challenged the Longer Term Viability Statement (LTVS) and going concern basis of preparation in advance of its approval by the Board. As part of this work, the carrying value of the goodwill balance has been reviewed.	✓
We have reviewed and updated the Group's policy on non-audit fees with our external auditor which has adopted the provisions of new EU legislation.	✓

What we will do in 2018

Continue to carry out our responsibilities as set out in the terms of reference, including monitoring the integrity of the Group's Financial Statements, challenging the judgemental areas contained within the Financial Statements and advising the Board on whether external reporting is fair, balanced and reasonable.

Our focus on the control environment across the Group will consider the Vet Group in particular as the business continues to grow and mature, to ensure controls continue to meet the needs of the growing business. This review will also include risk and control within the Specialist Division.

We will continue to monitor the effectiveness of the Group's Internal Audit function. We will agree an Internal Audit strategy for FY18 and beyond, defining ways of working as well as specific projects. We expect to review each of the top risks in a 'deep dive' during the year.

Introduction

I am pleased to present the Audit & Risk Committee's report for the year. 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, the adequacy and effectiveness of the risk management systems and internal controls, the effectiveness of the internal audit function and the relationship with the external auditors.

During the year the Committee met four times with our agenda covering financial reporting considerations, progress against the internal audit plan and the external audit process. We have considered risk regularly throughout the year, reviewing updates to the Group risk register, including a review of the risks associated with the Group's recent acquisitions in the specialist referral centre market.

In addition to our regular agenda, this year we have considered accounting for business combinations and the segmental disclosures made by the Group. We have reviewed and updated our policy on non-audit fees to respond to emerging legislation refining the list of permissible services our external auditor can complete and considered the Group's approach to managing data protection and discussed specific risks identified within the Vet Group.

Committee membership

The Audit & Risk Committee ("the Committee") members have been selected to provide a wide range of financial and commercial experience necessary to fulfil the duties and responsibilities of the Committee. Each member of the Committee is an independent Non-Executive Director and has, through their other business activities, significant experience in financial matters. Further details of the Committee members and their experience can be found on pages 70 and 71.

The Chairman of the Company's Board, Executive Management and senior managers within the business are invited to attend meetings as appropriate to ensure that the Committee maintains a current and well-informed view of events within the business, and to reinforce a strong risk management culture. The Group Company Secretary and Legal Director acts as secretary to the Committee.

The Committee meets according to the requirements of the Company's financial calendar. The meetings of the Committee also provide the opportunity for the Independent Non-Executive Directors to meet without the Executive Directors present and to raise any issues of concern with the internal and external auditors.

Committee activities

The Committee's role primarily covers the following areas:

- Financial reporting;
- Ongoing viability;
- Risk management systems;
- Internal controls;
- Internal audit; and
- External audit

The Committee met on four occasions since the end of the last financial year with each meeting having a distinct agenda to reflect the annual reporting cycle of the Group. The planner is regularly reviewed and developed to meet the changing needs of the Group.

A summary of the key matters considered at each meeting is as follows:

September

- Accounting for business combinations
- Internal Audit update
- Risk update (deep dive on data protection)
- Policy on non-audit fees
- External audit effectiveness
- Information security and data protection updates
- Treasury including interest rate hedging update
- Code of Ethics and whistleblowing update

November

- Interim Financial Statements
- KPMG report on Interim financial statements
- Business combinations and disposals
- Goodwill impairment review
- Internal Audit update
- Risk update
- Policy on non-audit fees

February

- KPMG year end audit approach and strategy
- Internal Audit update
- Risk update (deep dive on Vets Group)
- Response to letter received from Financial Reporting Council
- Review of Committee terms of reference

May

- Annual Report & Financial Statements, including our response to the FRC review of the Group's financial statements
- Review of Preliminary announcement
- KPMG report on the financial statements
- Review of Alternative performance measures
- Goodwill impairment review
- Viability Statement and Going concern review
- Share plan performance
- Dividend capacity
- Risk update including review of Joint Venture risk register
- Review internal audit reports on:
 - Overrider income
 - Joint Venture Partner support
 - Data security

Financial statement reporting issues

The Committee considered a number of significant issues in the year, taking into account in all instances the views of the Company's external auditor. The Committee consider the key risks within the Financial Statements to be the carrying value of goodwill and the carrying value of inventory.

The Committee considered the following in making their assessment of the reporting in the financial statements.

Issue	Nature of the risk	How the risk was addressed by the Committee
Carrying value of goodwill	The Group holds a significant goodwill balance. There are a number of factors that could impact on the future profitability of the business (e.g. threat of competition, changes in market behaviour, changes in the broader macro-economic environment) and there is a risk that the business will not meet the required financial performance to support the carrying value of the intangible asset.	<p>The Committee reviewed and challenged management's process for testing goodwill for potential impairment and ensuring appropriate sensitivity disclosure. This included challenging the key assumptions: principally cash flow forecasts, growth rates and discount rates.</p> <p>The Committee also reviewed KPMG's work and conclusions on this risk and the key assumptions they tested in reaching their conclusions.</p> <p>The Committee is satisfied that there is no impairment to the goodwill balance and that there is appropriate disclosure in the financial statements.</p> <p>See note 12 of the financial statements for details on the impairment testing.</p>
Inventory valuation	The business carries a wide range of Stock Keeping Units (SKUs) and with a variety of expiry dates on most food lines. Changes in customer demand may mean that some lines cannot be sold, or will be sold below carrying value. Whilst provisions are made to reflect this, there is a risk that the provisions are inadequate. Management have established a detailed range review process to identify action to be taken against inventory lines and assessing the required inventory provision.	The Committee reviewed management's judgement in assessing the required level of inventory provisioning and concluded that the method of estimating the carrying value of inventory remains appropriate, and that the level of provisioning is appropriate.

Audit & Risk Committee Report continued

Ongoing viability

In considering viability overall, the Committee reviewed the Group's strategic plan with particular focus on the key assumptions in relation to revenue and our store and service expansion plans. Sensitivities to these key assumptions were also reviewed based on the impact of the Group's key risks, individually and conflated, as set out on pages 38 to 43.

Following a review of the detailed considerations set out above by the Committee and the Executive Management, 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 and, further, that the Longer Term Viability Statement on page 79 is appropriate.

Risk management and internal controls

Risk management and the system of internal control are the responsibility of the Board. It ensures that there is a process in place to identify, assess and manage significant risks that may affect achievement of the Group's objectives and that the level and profile of such risks is acceptable. The Committee provides oversight and challenge to the assessment of principal risks as set out on page 38. The Group's key risks and uncertainties are set out on pages 40 to 43.

The Committee explores specific key risks of the Group in detail, inviting the management team to discuss the issues and mitigations and further proposed actions. During the year, the Committee reviewed the Group's approach to the protection of confidential data and considered risks specific to the Vet Group.

Internal Audit

The Internal Audit function has a direct line of report into the Committee and is an important part of the assurance processes within the business. The Committee reviews and approves the Internal Audit plan for the year which is developed to address key risks across the business as well as reviewing core governance, financial and commercial processes.

The Head of Internal Audit and Risk has attended each Committee meeting, updating on progress against the audit plan throughout the year, reporting on any key control weaknesses identified and progress against mitigating actions.

Specific work performed during the year in our key risk areas included:

Risk area	Work undertaken
Brand and reputation	<ul style="list-style-type: none">• Pet welfare in our stores• Overrider Payments
Regulatory and compliance	<ul style="list-style-type: none">• Review of driver and vehicle regulation compliance in our transport office• VAT compliance processes
Liquidity and credit risk	<ul style="list-style-type: none">• Cash settlement and accounts payable processes for our Joint Venture partners
Business Systems and information security	<ul style="list-style-type: none">• Review data migration to the new Group wide payroll system• Customer data security
Treasury and financial risk	<ul style="list-style-type: none">• Review of the effectiveness of SAP finance system• Joint Venture Partner support

All reports, related findings and recommended actions have been discussed by the Committee and are tracked to completion.

External audit

KPMG presents their audit plan, risk assessment and audit findings to the Committee, identifying their consideration of the key audit risks for the year and the scope of their work. These reports are discussed throughout the audit cycle. As in the prior year, these risks were considered to be the carrying value of goodwill and the carrying value of inventory. In their reports presented to the Committee at both the half year and full year, the auditors considered these risks to be appropriately addressed and raised no significant areas of concern in these or any other areas of their review.

KPMG also attend the Committee meetings and meet separately, without management present, to discuss any issues in detail.

We are in compliance with The Order and performed a tender process which concluded in January 2015. KPMG, who have audited the Group since 2000, were reappointed at the AGM in September 2016. Nicola Quayle has been the audit partner since 2016.

External auditor's effectiveness

The Committee considered the effectiveness, independence and objectivity of the external auditors through the review of all reports provided, regular contact and dialogue both during Committee meetings and separately without management. We conducted an audit effectiveness review through a questionnaire to Committee members, management and member of the Finance team. This questionnaire expanded on the process in the previous year, providing more focused insight into KPMG's effectiveness. The results were discussed with KPMG and specific actions were agreed.

Auditor independence

Maintaining the objectivity and independence of the external auditors is essential. The Committee has taken appropriate steps to ensure that the Company's external auditors are independent of the Company and obtained written confirmation from them that they comply with guidelines on independence issued by the relevant accountancy and auditing bodies.

Additional non-audit services provided by the auditors may impair their independence or give rise to a perception that their independence may be impaired. During the year, the policy on non-audit fees has been reviewed and updated to align with EU Regulation and Statutory Audit Directive to provide further clarity over the type of work that is acceptable for the external auditors to carry out. The policy sets out the process required for approval and a cap to the total non-audit fees for permitted services (at 70% of the audit fee) – the non-audit fee cap policy has been adopted a year earlier than the regulations require (see below).

Following the audit tender process in 2015, we appointed Ernst & Young LLP as tax advisors to the Group, while KPMG continue to provide tax support services to the Joint Venture partners. In applying the new EU Regulation and Statutory Directive, consideration has been given to the fee payable to KPMG for tax compliance fees for joint venture companies. The work is a permitted service as the joint venture tax charges do not form part of the consolidated financial statements, however, the fees chargeable for those services do count towards the fee cap. Accordingly, whilst the EU Regulation and Statutory Directive has been adopted early, the tax fees for joint venture companies chargeable in the year to March 2017 have been excluded in the application of our policy in the current financial year as the work was substantially underway prior to publication of the EU Directive.

Audit and non-audit fees paid to KPMG in the year were £246,000 and an analysis is presented in note 3 to the consolidated financial statements on page 134. Non-audit fees represent 12% of the audit fee.

Resolutions to re-appoint KPMG as auditors and to authorise the Directors to agree their remuneration will be put to shareholders at the Annual General Meeting that will take place on 11 July 2017.

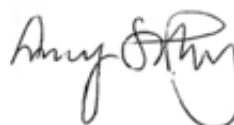
Financial Reporting Council

During the year, the Financial Reporting Council ("FRC") Corporate Review team reviewed our Annual Report and Accounts for the year to March 2016. Following their review, the Corporate Review team entered into correspondence with the Group. All correspondence received and our responses were discussed with the Committee and the Group's external auditors. Following the conclusion of the FRC's review we have taken the opportunity to improve the clarity of disclosure in relation to:

- Investment in veterinary practices, including clearer analysis of the investment and loan balances held with our joint venture partners and the rental contribution made by our partners for space in our stores, specifically in note 15 and 27 to the financial statements
- Accounting for estimates and judgements, including inventory provisions, goodwill impairment and onerous lease sensitivity analysis and our assessment of judgement in recognising income from suppliers, specifically in notes 1.18, 12, 13 and 20 to the financial statements
- The description of the factors that make up the goodwill recognised as part of a business combination. The enhanced disclosure has been applied to the acquisition of Dick White Referrals Limited and Eye-Vet Limited during the year ended 30 March 2017, specifically in note 10 to the financial statements
- Related party disclosures, particularly those related to key management personnel, specifically in note 4 to the financial statements

The FRC's Audit Quality Review team carried out a review of the audit conducted by KPMG LLP for the year ended 31 March 2016 specifically in the areas of impairment of goodwill and other intangible assets, business combinations, revenue recognition – supplier income and inventory. In selecting which aspects of an audit to review, the FRC take account of those areas considered to be higher risk by the auditors and Audit and Risk Committee, their knowledge and experience of audits of similar entities and the significance of an area in the context of the financial statements. The results of this review were shared with the Audit Committee in April 2017 and have been discussed with KPMG, the FRC and at the Audit Committee.

Both supplier income and accounting for business combinations have been specific areas of focus for the Audit Committee and KPMG during 2017, and where for the 2017 audit, additional audit procedures have been performed.



Amy Stirling
Chairman
Audit & Risk Committee
24 May 2017

Nomination & Corporate Governance Committee Report



Tony DeNunzio
Chairman of the Nomination &
Corporate Governance Committee

Who is on the Nomination & Corporate Governance Committee?

Member	No. of meetings
Tony DeNunzio (Chairman)	2/2
Dennis Millard	2/2
Paul Coby	1/2
Tessa Green	2/2
Amy Stirling	2/2
Nicolas Gheysens	1/1
Paul Moody	2/2

What we did in 2017

Concluded the search for a Group Chief Financial Officer.	✓
Reviewed the talent and succession plans for the Executive Management Team and the Operating Board.	✓
Assessed the Board Composition and how it may enhanced.	✓
Reviewed the time commitment and length of service of the non-executive directors.	✓
Recommended the appointment of Sharon Flood and Stansilas Laurent as non-executive directors on 25 May 2017.	✓
Recommended to the board the re-appointments of Tony DeNunzio, Dennis Millard and Tessa Green for a further three year term commencing 17 February 2017 and Paul Moody for a further three year term commencing 25 April 2017.	✓
Conducted and reviewed the board evaluation and effectiveness survey.	✓
Reviewed the independence of the Non-Executive Directors.	✓
Considered Directors conflicts of interest.	✓

What we will do in 2018

Continue to assess the Board composition and how it may be enhanced.
Implement further reviews and assessment of succession planning and development plans.
Widen the succession planning review to further levels in the organisation.

Introduction

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 and has responsibility for nominating candidates for appointment as Directors to the Board having regards to its structure, size and composition (including the skills, knowledge, experience and diversity of its members).

We are also tasked with ensuring that succession plans are in place for the Directors, the Executive Management Team and 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.

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 myself, 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 Nicolas Gheysens. The Nomination & Corporate Governance Committee meets not less than once a year.

How the Committee discharged its responsibilities in FY17

Board appointments

The search for a Group Chief Financial Officer was concluded with the appointment of Mike Iddon in October 2016. Kornferry was appointed as advisor to the Committee in the search for external candidates and the process was led by myself together with the Committee, Amy Stirling, the chair of the Audit & Risk Committee, and Ian Kellett, the Group Chief Executive Officer.

Following the search and selection process, Mike Iddon was the standout candidate and was appointed as Chief Financial Officer on 17 October 2016.

In December, I accepted Brian Carroll's resignation from the Board. Brian was appointed as a Non-Executive Director of Pets at Home in 2011 and had continued as the principal shareholder's appointed Director pursuant to the terms of the Relationship Agreement entered into with KKR My Best Friend Limited as part of the IPO process in 2014. Brian was replaced by Nicolas Gheysens who is a director at Kohlberg Kravis Roberts & Co. L.P (KKR). Nicolas has also been a key member of the Board since KKR acquired Pets at Home in 2010.

Amy Stirling and Paul Coby will also step down from the Board with effect from the close of the annual general meeting on 11th July 2017 in order to fulfil commitments in their full time roles.

Paul has been a Director of Pets at Home since 2014 and will be replaced by Stanislas Laurent who was appointed on 25 May 2017. Stan was formerly President and CEO of Photobox and COO of AOL Europe. He is currently entrepreneur in residence with Highland Capital Partners Europe. Amy has been a Director of Pets at Home and Chairman of the Audit Committee since 2014. Amy will be succeeded by Sharon Flood, Chairman of ST Du Pont S.A, the Paris based luxury goods company and Audit Chairman at Crest Nicholson plc and Network Rail.

Sharon was appointed on 25 May 2017, will take on the Chairmanship of the Audit and Risk Committee with effect from the close of the AGM on 11 July 2017.

Stan and Sharon bring a wealth of experience to the Board. Stan's entrepreneurial background and understanding of the digital online space in consumer facing businesses will add significant value as we expand our omnichannel capabilities at Pets at Home. Sharon has impeccable retail credentials having worked with Kingfisher, John Lewis and more recently as Chairman of French luxury goods company ST Du Pont. Her plc experience and understanding of the retail market will contribute greatly to the growth of the business.

On appointment Stan will also become a member of the Audit Committee, Nominations & Governance Committee, CSR Committee and Pets Before Profit Committee and Sharon will also become a member of the Remuneration Committee and the Nominations & Governance Committee as well as Chairman of the Audit and Risk Committee.

The Committee considered and recommended to the Board the terms of appointment for Dennis Millard, Tessa Green and Paul Moody for a second three-year term subject to annual shareholder re-election. It also recommended my re-appointment, again for a three-year term subject to annual shareholder re-election.

Succession planning

A principal risk to the business is the inability to attract, retain and incentivise talented individuals to deliver our strategy. The Committee is responsible for reviewing talent, capability and succession at the most senior levels of the business, however, the Board evaluation carried out in 2016 highlighted the Board's view that there was a lack of time devoted to succession planning below the Executive Management Team level and that it was important to spend more time focusing on talent development and retention.

As a result, there has been an increased focus on the succession plans across the wider Group operating team with the Board and the Committee considering skills and capability gaps along with succession planning immediately below the Executive Management Team. Considerable progress has been made in identifying gaps in the talent pool in addition to mitigating the risks associated with unforeseen events such as key individuals leaving the business. Following this review, the Board appointed Louise Stonier to the role of Chief People and Legal Officer with effect from the new financial year. Louise has been in the business for 13 years as Group Legal Director and Company Secretary and has been a member of the Executive Management Team since 2015.

The role of operations director has also been created with responsibility for the retail, logistics and pet operations. Following an extensive search, Stuart Livingstone has been appointed to the role reporting directly to the Chief Executive Officer of Retail, Peter Pritchard. Stuart joined the business in April from Screwfix where he was Director of Retail and Trade Plus for six years. We also strengthened our Vet Group with the appointment of a new Chief Financial Officer – Harvey Ainley, who brings a wealth of health services and retail experience.

These appointments provide organisational strength and support our succession planning objectives.

Despite the progress that has been made on succession planning, the Board recognises that more work is required in order to ensure that a clear development framework is in place for identified successors and this will be a focus of the Committee for the next financial year.

Board evaluation and effectiveness

During 2015 and 2016, we appointed Linstock Limited to carry out external evaluations on the performance of the Board and its Committees. This year, we carried out an internal evaluation that included the completion of a short form online questionnaire that considered the priority areas highlighted in the 2016 external evaluation. The Company Secretary also held discussions with each of the Board members. The Chairman and the Non-Executive Directors also met in the absence of the Executive Directors.

The Board considered the output from the review in May 2017 and concluded that the performance of the Board, its committees and individual Directors was effective. Any areas for improvement have been agreed by the Board and are detailed on page 68 of the Governance Report.

Diversity

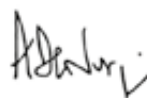
We take into account a variety of factors before recommending any new appointment to the Board, including relevant skills to perform the role, experience, knowledge, ethnicity and gender. The most important priority of the Committee, however, is ensuring that the best candidate is selected to join the Board. However, we will monitor the Group's approach to people development to ensure that it continues to enable talented individuals, both male and female, to enjoy career progression with the Group. Further details on Board diversity can be found on pages 64 to 65 of the Governance Report.

Conflicts of interest and independence of the Non-Executive Directors

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. We considered potential conflicts of interest as they arose during the course of the year.

We also support 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 consider the independence of the Non-Executive Directors, in the context of the criteria set out in the Code. The Board's view on independence is contained on page 62 of the Governance report.

I will be available at the AGM to answer any questions on the work of the Nomination & Corporate Governance Committee.



Tony DeNunzio

Chairman
Nomination & Corporate Governance Committee
24 May 2017

Corporate Social Responsibility and Pets Before Profit Committee Report



Tessa Green
Chairman of the Corporate Social Responsibility and Pets Before Profit Committee

Who is on the Corporate Social Responsibility and Pets Before Profit Committee?

Member	No. of meetings
Tessa Green (Chairman)	6/6
Dennis Millard	6/6
Paul Coby	6/6
Tony DeNunzio	6/6

What we did in 2017 – CSR

Reviewed terms of reference for the committee.	✓
Appraised the investment case for upgrading store lighting to LED with BEMS technology.	✓
Considered the reporting of achievements to key stakeholders.	✓
Reviewed the Group's Asian sourcing policies and practices	✓

What we did in 2017 – Pets Before Profit

Reviewed proposals for development of Clinical Governance protocols in first opinion vet practices.	✓
Reviewed proposals for further improvements to the supply and sale of pets, and to pet audits.	✓
Considered welfare related matters in Grooming.	✓
Considered Defra proposals from their review of animal establishments licensing.	✓
Reviewed the provision of adoption centres for small animals in stores.	✓

What we will do in 2018

- Continue to ensure delivery of the best possible pet welfare standards across the Group.
- Monitor and drive forward standards in relation to CSR.
- Review the development of clinical governance framework in veterinary practices.
- Monitor developments in CSR evaluation and reporting.

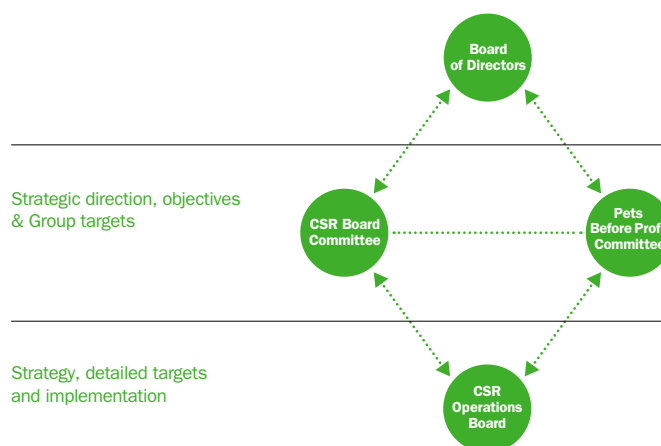
Introduction

Recognising the Group encompasses a broad range of activities which are all focused around pets, the Board maintains a regular and detailed review of pet welfare in addition to Corporate Social Responsibility (CSR) more widely. It achieves this by having both a CSR Committee and a Pets Before Profit Committee which, together, help manage the Group's most important ethical, social and environmental impacts. The committees will review compliance with and the development of legislation which will affect the sale, veterinary care and grooming of pets and all ethical matters in respect of the supply, transportation and sale of pets in stores. The committees will also review all other elements of the Group's CSR strategy, including caring for the environment, sourcing with integrity and 'Our Pets People'.

The CSR Committee, which meets twice a year, is chaired by Tessa Green and its other members are Tony DeNunzio, Dennis Millard and Paul Coby. The Pets Before Profit Committee, which meets four times a year, is also chaired by Tessa Green with Tony DeNunzio, Dennis Millard and Paul Coby as its members.

Acknowledging the importance of pets to the Group, all Board members are required to attend Pets Before Profit Committee meetings, along with Board observers.

Managing our commitments



Being the UK's leading retailer of pet food, accessories and grooming services, and one of the foremost veterinary services providers, we have an important role to play in delivering the highest possible welfare standards for pets. We also aim to make a positive impact on the communities where we operate and to reduce our environmental footprint.

A group of senior managers from across the business have specific responsibility to ensure the delivery of our CSR commitments and to further improve standards of pet welfare. In last year's report we described how we had consulted with key stakeholder groups, including customers, colleagues and animal welfare organisations, to identify priorities from which we could allocate resources to deliver the greatest impact environmentally, socially and financially.

Reflecting these priorities I am delighted with the progress that has been made in the past year:

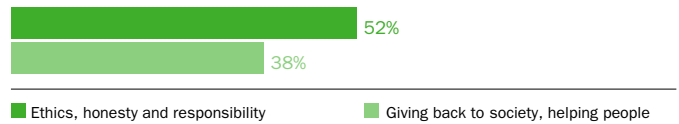
- We have delivered a major investment programme to upgrade store lighting to LED and install Building Energy Management technology across our store estate. This is providing significant energy savings and improving the store environment for our customers, colleagues and pets (see page 56)
- A clinical governance framework, which is designed to improve quality of care, clinical standards and patient safety, has been developed and implemented across our first opinion veterinary practice network (see page 55)
- We rely on highly engaged and motivated colleagues whose shared love of pets provides an important bond with our customers. We have continued to invest in our colleagues, providing them with world-class training and rewarding their knowledge and experience through our Earn As You Learn policy. Colleague engagement, a key measure for us, has remained high this year (see page 48)
- Education and information are essential for customers who are considering introducing a new pet to their home. Our investment in an online booking platform allows parents to register their children in our 'My Pet Pals' workshops where our highly trained colleagues provide essential information about responsible pet ownership. This year more than 102,000 people registered for one of these workshops (see page 50)
- Our colleagues helped to raise £3.8 million to support the rehoming of pets. In the four weeks leading up to Christmas 2016, they raised a staggering £1,064,064 in conjunction with the charity Support Adoption For Pets, to help with this vital work (see page 50)

Review of Animal Establishments Licensing

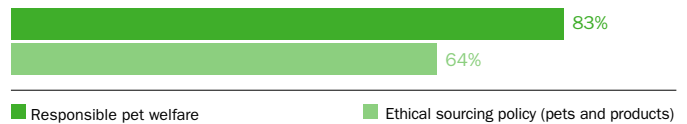
In December 2015 the Department for Environment, Food and Rural Affairs (Defra) issued a consultation on its review of animal establishments licensing. As a consequence of our scale we have first-hand experience of the variation that exists among local authorities when licensing pet shops and of the pressure the current system creates by requiring every licence to be renewed at the end of the calendar year. We provided a detailed response to Defra's consultation on their proposals for reform, many of which we supported.

We welcome the proposals that Defra have brought forward, particularly the introduction of a risk-based approach to the length of a licence term, and the introduction of a rolling twelve month period instead of the current end of December expiry for all licences. We also welcome proposals to enshrine the key requirements from the Model Licence Conditions into law which we believe will remove much of the variation that exists currently, and also the plans to allow licensing by accredited third parties, linked to risk based assessments. We believe the steps announced by Defra represent a positive step forward for animal welfare and are welcomed by Pets at Home.

What does CSR mean to you?

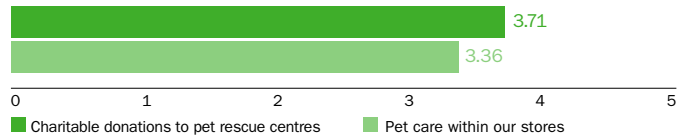


What are the CSR issues most important to a pet retailer?



Awareness of CSR initiatives

5 point scale – totally unaware to fully aware



Representative sample of 1,038 VIP members surveyed, September 2015.

Tessa Green

Chairman
Corporate Social Responsibility
and Pets Before Profit Committee
24 May 2017

Directors' Remuneration Report



Paul Moody
Chairman of the
Remuneration Committee

Who is on the Remuneration Committee?

Member	No. of meetings
Paul Moody (Chairman)	4/4
Dennis Millard	4/4
Amy Stirling	4/4
Tessa Green	4/4

What we did in 2017

Re-tendered the contract for the provision of executive remuneration consulting services and appointed new advisors;	✓
Reviewed the Remuneration Policy for approval at the 2017 Annual General Meeting of the Company;	✓
Consulted extensively with shareholders throughout the policy review;	✓
Considered and recommended the remuneration package for the new Chief Financial Officer;	✓
Reviewed the fees paid to the Non Executive Directors and recommended to the Board the fees to be paid for any new appointments;	✓
Discussed and reviewed attainment against the performance conditions for the Group's Long Term Incentive Plans due to vest during the period;	✓
Approved awards to colleagues in the Group under the Long Term Incentive Plans (LTIP);	✓
Agreed the annual bonus targets for the Executive Management Team for FY17 and measured performance against them; and	✓
Reviewed the terms of reference of the Committee.	✓

What we will do in 2018

Approve share awards under the new LTIP to all eligible colleagues;
Agree the annual bonus targets for the Executive Management Team for FY18 and measure performance against them;
Continue to engage with shareholders on the new remuneration policy;
Review the remuneration structure of the wider colleague population; and
Assess the requirements of the Gender Pay Regulations.

Introduction

On behalf of the Remuneration Committee (Committee), I am pleased to present our Directors' Remuneration Report for FY17.

Remuneration Policy

Much of the Committee's activity during FY17 has focused on reviewing our policy. We have undertaken a thorough and detailed review of our existing policy to assess whether it remains appropriate and relevant in the context of our strategic plan and business goals set against a changing macro-economic environment.

The Committee concluded that the policy remains appropriate in respect of salary, annual bonus and benefits provided to Executive Directors, and there are no changes proposed in respect of these elements. The key area of focus has been on redesigning our LTIP, which the Committee considers was not delivering the best value for shareholders in its current form. We have also amended the pension provision, in line with proposed changes to be made to the pension entitlement across the Group.

The Committee firmly believes that the remuneration arrangements for the senior team should be based on the same principles as those for the wider colleague population, which are simplicity, alignment and long-term share ownership. In designing the new executive remuneration policy, we have taken a "bottom up" approach to design long-term incentives for the broader organisation that are then applied to our executives.

Proposed changes

The Committee considered a range of approaches for the Group's LTIPs and sought an early view from investors for a significant simplification of our share plans. As a result, the Committee is proposing to replace our Co-Investment Plan, Performance Share Plan (PSP) and Company Share Option Plan (CSOP) with a new Restricted Stock Plan (RSP).

- The RSP will be the sole long term incentive arrangement used;
- The maximum award level under the new plan will be reduced by 50% from the current maximum PSP and CSOP awards;
- A total shareholder return (TSR) underpin applies and will be measured at the end of year 3;
- Awards will vest in tranches over years three to five, (extended from the current three year timescale) if the underpin has been satisfied;
- Likewise all of the awards will lapse if the underpin is not satisfied at the end of year 3; and
- Awards remain subject to leaver provisions, and malus and clawback will apply.

Shareholder engagement

We have consulted extensively with and have received support from all of our major shareholders throughout the policy review. The majority of shareholders who participated in this process:

- Recognised the level of challenge in designing long term incentive plans that are easily understood and valued by colleagues;
- Strongly supported the simplified remuneration structure;
- Welcomed the inclusion of the TSR underpin and the extended vesting period;

- Recognised the level of challenge in providing competitive remuneration packages to attract and retain top class talent;
- Appreciated that there would be a reduction in overall quantum in return for more certain awards;
- Supported the “bottom up” approach and the colleague alignment on share plans that runs through the organisation.

We consulted in particular with shareholders on the performance underpin below which it would not be appropriate for awards to pay out. Investors’ preference was that the underpin relates to TSR rather than a dividend or financial metric. The Committee therefore determined to apply an absolute TSR underpin, as follows.

- Awards under the RSP will vest in full subject to absolute TSR being positive over the first three years of the vesting period;
- If absolute TSR performance is negative at the end of the three year period the awards will lapse in full; and
- For awards made in 2017 absolute TSR performance will be calculated by taking the average absolute TSR for the final three or six month period of the plan ending on 26 March 2020 and comparing it with the average absolute TSR for the three or six month period ending on 30 March 2017. This ensures that the starting point for the underpin calculation occurs prior to the recent reduction in share price.

We believe the RSP is right for our business. It provides a simpler approach, which offers the ability to build up meaningful shareholding over the long term, strengthening alignment, increasing retention and delivering a greater incentive for our colleagues, including our Executive Directors, given the long maturity curve of our investment in space and services.

Remuneration in respect of FY17

Results for FY17

FY17 saw the delivery of a solid performance with profits in line with expectations.

- Total income from Joint Venture vet practices up 24.6% to £47.1m; Positive response to the launch of pricing initiatives in Advanced Nutrition private labels and everyday pet essentials. Pricing initiatives now extending to branded foods;
- Progress in Q4 with Merchandise returning to growth. Q4 LFLs: Group 1.2%, Merchandise 0.5% & Services 7.1% when adjusted for the impact of Easter;
- New openings in line with targets: 15 superstores, 50 vet practices and 50 grooming salons. A further two veterinary specialist referral centres acquired;
- Strong results from omnichannel investment with online revenue growth of 53%: launched colleague assisted ‘Order in-store’ and a subscription platform with potential for broader product application; and
- Total dividend payable of 7.5 pence per share.

We are not, however, immune to the wider macroeconomic environment and changes in consumer behaviour. Encouraged by the positive customer reaction to our value initiatives, we are continuing to reposition our prices across additional Merchandise lines and branded foods.

In FY18, we will also accelerate growth in our vet business, invest in marketing and deliver operational cost efficiencies. Whilst there will be some short term margin impacts from these initiatives, we are confident this is the right path for success and will give us a strong platform from which to grow.

Annual bonus

The Committee reviewed the performance of both the business and each Executive Director against targets set at the beginning of the year for the annual bonus scheme. For FY17 the annual bonus continued to be based on EBITDA (75%) and free cash flow (25%) measured over the 52 week period. Detailed information on the targets can be found on page 106 of the Annual Report on Remuneration.

EBITDA at £130.5m was above the minimum threshold levels at which payments against this financial target were triggered for the Executive Directors.

As a result, the EBITDA portion of the annual bonus paid out at 27.2% of maximum (equal to 20.4% of salary).

The stretching free cash flow targets were not met and so no portion of this bonus will be paid. Free cash flow after interest, tax and before acquisitions was £64.6m (FY16: £77.8m), with a decline in the cash conversion rate to 49% (FY16: 62%) as a result of increased capital expenditure and cash working capital requirements compared with the prior year.

Further information can be found on page 106 of our Annual Report on Remuneration.

Share incentive plans

Executive Directors participated in the PSP and the CSOP for the first time in FY17. As set out in our Policy in 2014, the main Long-Term Incentive Plan for Executive Directors was the PSP, although in line with the approach for all our colleague participants, we delivered an element of this under the CSOP to take advantage of HMRC-approved tax savings. The awards were made subject to the following targets, to be measured over three financial years (FY17 to FY19):

- 10% of the total award will vest for earnings per share (EPS) growth of 5% per annum, rising to 75% for EPS growth of 12.5% per annum; and
- 6.25% of the total award will vest for median TSR performance against the FTSE 350 UK General Retail Index, rising to 25% for upper quartile TSR performance against the Index.

Matching Awards held by the Executive Directors under the 2014 Co-Investment plan awards vested as to performance in May 2017. The vested awards become exercisable in tranches, subject to continued employment, between May 2017 and March 2019. Only part of the EPS portion of the awards will vest. Further details are set out on page 106 of the Annual Report on Remuneration.

Remuneration review

The Committee gave consideration to the remuneration arrangements for Ian Kellett following his appointment to the role of Group CEO. There were no changes to his variable pay framework or benefit entitlement, however, the Committee took the opportunity to reflect the promotion and significantly increased scope of his responsibilities at this time by repositioning his salary to £475,000 with effect from 4 April 2016.

In October, the Committee recommended to the Board the approval of an appropriate CFO remuneration package to the Board to achieve the appointment of his successor and the Board was delighted to secure Mike Iddon as the Group CFO. Details of his package, which is within the approved policy limits, can be found on page 104.

FY18 salary review

The Committee has reviewed the salary levels of the Executive Directors and has concluded that an increase of 2% will be made to the Executive Directors in line with those made to other colleagues. All salary increases take effect from 31 March 2017.

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 we believe that share ownership enhances loyalty and engagement. In keeping with this ethos, the Committee approved a further grant of a discretionary share award under the CSOP to every eligible colleague in the Group in June 2016.

Following on from the successful launch of the Company's Sharesave plan in 2014, the Committee doubled the monthly sum that colleagues are permitted to save from £250 to £500 for the 2015 plan and this continued at this level for the 2016 plan.

The Committee intends to grant awards to every eligible colleague in the Group under the new RSP following its approval at the AGM.

Resolutions

At our AGM on 11 July 2017 we will be asking shareholders to pass resolutions to approve:

- Our new Directors' Remuneration Policy.
- Our Directors' Remuneration Report which sets out how we have applied our existing policy during FY17.
- Our new LTIP in line with the new Directors Remuneration Policy.

I would like to thank the shareholders who took part in the consultations on our new Directors Remuneration Policy and we hope that all of our shareholders will support these resolutions.



Yours faithfully

Paul Moody

Chairman of the Remuneration Committee
24 May 2017

Remuneration principles

In summary, the objectives of our new Directors remuneration policy are:

Strategy

- To align with our programme of Group wide simplification.
- To have incentives that are appropriate for our business for the next three years as we focus on delivering long-term, sustainable returns, to investors.

Culture

- To adopt a 'bottom-up' approach to remuneration – a policy that works for our colleagues and can be applied to our executives.
- To support our ongoing desire to embed share ownership across the organisation.
- To assist with succession planning.

Retention

- To simplify and therefore enhance perceived value of awards and thereby reduce flight risk.

Shareholders

- To deliver better value to shareholders for their reward spend by:
 - Improving perceived value;
 - Creating stronger alignment with shareholders; and
 - Increasing focus on long term sustainable value creation

How we ensure pay for performance linkage



Annual bonus

- Pay-out linked to achievement of robust and challenging annual performance targets.
- Full disclosure of bonus – commitment to disclosing all target ranges on a retrospective basis at the end of the financial year in question.



Underpin

- The absolute TSR underpin guarantees baseline performances below which awards will not vest.
- Serves as a security mechanism to prevent pay-outs for poor performance.



Share price

- Share price inherently links pay to performance.
- Build up of shareholding and long term vesting horizon incentives senior colleagues to increase focus on long term, sustainable performance.

Summary of the proposed changes are:

Not changing

No changes to policy in respect of:

- Salary
- Annual bonus
- Benefits
- Pension contributions for current incumbents in FY18
- Recruitment or leaver provisions

Proposed changes

- **Replace performance shares with a time-vested restricted stock plan**
- **Reduce overall maximum package opportunity from 250% salary to 175% salary**

	Current			Proposal	
	Expected value	Awards made	Policy max	Expected value	Policy max
Bonus	50%	100%	100%	50%	100%
LTI/RSP (as % of base salary)	75%	125%	150%	75%	75%
Overall incentive opportunity (% of base salary)	125%	225%	250%	125%	175%

Timing of vesting

Increase vesting horizon to five years

Illustrative vesting schedule

	2017	2018	2019	2020	2021	2022
Restricted stock (75%)	Award			50% Vest	25% Vest	25% Vest

Baseline underpin

An absolute TSR baseline performance underpin would apply during the first three financial years below which no vesting of restricted stock awards would occur.

• Leavers

The default position remains that leavers would lose their unvested shares awards, subject to certain 'good leaver' circumstances.

• Change of control

The default position remains that the Committee will determine whether and to what extent unvested awards shall vest, taking into account all relevant factors including Company performance, the period of time elapsed since the date of the grant and the interests of our shareholders.

• Pension

Change pension policy to permit contributions up to 15% of base salary to take into account the roll out of pension increases across the organisation within the next three years. Nevertheless, the pension contributions for the CEO and CFO remain unchanged at 9% pa.

Our new Directors Remuneration Policy continued

Rationale for change

We believe that this new, simpler approach is right for Pets at Home, for the following reasons:

- Our culture is built on a cohesive team approach and widespread shareholding amongst colleagues. We believe in having a consistent approach to remuneration rather than designing alternative plans for our Executive Directors. As an example of the consistency in our approach, the pension provision for our executives is in line with that of the wider colleague population.
- The current performance share plans, which are based on the achievement of EPS and relative TSR targets, are perceived by colleagues as overly complex and with limited line of sight between performance and reward.

A simpler approach, which offers the ability to build up meaningful shareholding over the long term would provide stronger alignment, with our focus on delivering long term sustainable returns to investors and provide a greater retention and incentive effect for our senior employees given the long maturity curve of our investment in space and services.

It also aligns with a much wider programme of simplification across the Group as a whole, from how we operate our supply chain and stores, right through to our Support Offices and has the benefit of being based on intrinsic as opposed to extraneous performance factors.

As an established FTSE 250 company, we focus on delivering long term, sustainable returns to investors. We do not feel that a remuneration package that features elevated rewards linked to very high stretch targets aligns with our long term approach.

1. Directors' Remuneration Policy

a) Policy Report

The following section pages 94 to 104 sets out our Directors' Remuneration Policy (Policy) for all of the Executive Directors and the Non-Executive Directors (as well as any individuals who may become Directors whilst this Policy is in effect) for approval by shareholders at the Company's AGM in July 2017. A copy of our current policy that was approved by shareholders at the Company's AGM in September 2014 can be found on the Group's website (<https://investors.petsathome.com>).

Subject to shareholder approval, the new Policy is intended to remain in effect for three years from the 2017 AGM. There are four substantive differences between the previous policy approved by shareholders in September 2014 and the proposed Policy: (i) our current long term incentive plans will be replaced with a time-vested restricted stock plan (RSP) with a baseline underpin, (ii) the maximum package opportunity for variable pay will be reduced from 250% of salary to 175% of salary per annum and (iii) there will be an increase in the vesting horizon for our new long term incentive plan, so that awards vest over three to five years and (iv) the pension policy maximum has been increased to permit contributions of up to 15% of base salary (in line with the planned roll out of pension increases across the organisation within the next three years).

No new awards will be made under the Co-Investment Plan, PSP or CSOP. For the outstanding PSP and CSOP awards that still have performance years to run in 2017, 2018 and 2019, performance will be assessed against unchanged targets.

The Policy explains the purpose and principles underlying the structure of remuneration packages and how the Policy links remuneration to the achievement of sustained high performance and long term value creation.

Overall remuneration is structured and set at levels to enable us to recruit and retain high calibre colleagues necessary for business success whilst ensuring that our reward structure and performance measures should be aligned to the strategy and be simple to communicate to participants and shareholders.

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

Pay element – Fixed pay

Base salary

Purpose and link to strategy

The Company provides competitive salaries suitable to attract and retain individuals of the right calibre to develop and execute the business strategy.

Operation

- Base salaries are paid in cash and are pensionable.
- Base salaries are reviewed annually, typically at the March Remuneration Committee meeting. Any changes are usually with effect from the start of the next financial year. The Committee takes into consideration a number of factors when setting salaries, including (but not limited to):
 - 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.

Maximum opportunity

- Whilst there is no maximum salary level, any increases will normally be broadly in line with the wider colleague population.
- Higher increases may be made under certain circumstances, at the Committee's discretion. For example, this may include:
 - 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 on page 104 of this report.

Changes

No change

Benefits

Purpose and link to strategy

The Company provides colleagues with market competitive benefits suitable to attract and retain individuals of the right calibre to develop and execute the business strategy.

Operation

- The Company provides a range of benefits, which may include:
 - a company car (or cash equivalent)
 - life assurance
 - permanent health insurance
 - private medical insurance.
- These benefits are not pensionable.
- Other benefits may be offered from time to time, if considered appropriate by the Committee and consistent with the Company's overriding purpose for offering such benefits.

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 such as the SAYE scheme (set out below on page 97).

Maximum opportunity

- The cost to the Company of providing other benefits may vary depending on, for example, market practice and the cost of insuring certain benefits.
- The Committee keeps the level of benefit provision under regular review.

Details of the current benefit provision for the Executive Directors is set out on page 111 of this report.

Changes

No change

Pensions

Purpose and link to strategy

To provide colleagues with an allowance for retirement planning.

Operation

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

Maximum opportunity

The contribution level for an individual Executive Director is capped at 15% of base salary per annum for employer contributions. Details of current pension provision for the Executive Directors are set out on page 111 of this report.

Changes

The pension policy maximum has been changed from 9% of base salary to permit contributions of up to 15% of base salary for employer contributions to take into account the roll out of pension increases across the organisation within the next three years.

Our new Directors Remuneration Policy continued

Pay element – variable pay				
Annual bonus				
Purpose and link to strategy	Operation	Maximum opportunity	Performance measures	Changes
<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>	<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. • Awards are subject to malus and clawback provisions where there has been a material misstatement of audited results; serious financial irregularity; any circumstances justifying summary dismissal of a participant from his office or employment with any Group Company including, but not limited to, dishonesty, fraud, misrepresentation or breach of trust; any material breach of a participant's terms and conditions of employment; and/or any material violation of Company policy, rules or regulations. 	<p>The maximum bonus opportunity is 100% of base salary.</p>	<ul style="list-style-type: none"> • 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, in the context of the underlying business strategy, amend the performance measures or targets. <p>The performance metrics for the annual bonus for the Executive Directors are set out on page 111 of this report.</p>	<p>No change</p>
Long Term Incentive Plan ¹				
Purpose and link to strategy	Operation	Maximum opportunity	Performance measures	Changes
<ul style="list-style-type: none"> • To promote continued alignment between Executive Directors and shareholders, increasing focus on long term sustainable value creation • To support our principle of embedding share ownership across the organisation • To assist with succession planning 	<ul style="list-style-type: none"> • Awards will be made under the RSP annually. • Share awards are normally made in the form of nil cost options but may be awarded in other forms if appropriate (such as conditional share awards). The plan rules specify that awards may also be satisfied in cash although this is unlikely to apply to Executive Directors. • No award will vest under the RSP unless the TSR underpin referred to below has been achieved. • Subject to the achievement of the TSR underpin at year three and continued employment: <ul style="list-style-type: none"> – 50% of the award will vest after three years. – 25% of the award will vest in each of years four and five. • 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. • Malus and clawback applies under the circumstances set out on page 101 of this report. • Change of control provisions apply as set out on page 101 of this report. • Leaver provisions apply as set out on page 101 of this report. 	<p>The maximum value of restricted shares that may be awarded in respect of any financial year is 75% of salary</p>	<ul style="list-style-type: none"> • There are no performance targets attached to the awards. • A baseline performance underpin applies, which requires absolute TSR performance to be positive over the first three years of the vesting period. If the underpin is not achieved, the awards lapse in full. • The plan rules stipulate that the Committee may amend the performance measures or underpin in exceptional circumstances where it considers that they are no longer appropriate. If this discretion was used, we would consult with shareholders and the rationale would be clearly explained in the remuneration report. 	<ul style="list-style-type: none"> • The Co-Investment Plan, PSP and CSOP have been replaced with a simplified plan for awards to be made in FY18 onwards. • A 50% discount has been applied to the previous policy maximum of 150% of base salary per annum allowing the Committee to make an award of up to 75% of base salary per annum. • The level of awards made to Executive Directors are set out on page 111 of this report.

Pay element – variable pay

SAYE¹

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures	Changes
<ul style="list-style-type: none"> 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. Options are granted to be exercisable in conjunction with either a three-year or five-year savings contract with a monthly savings limit set according to HMRC limits (currently £500 per month). Options are normally granted at a discount to market price at the time of invitation, as per HMRC regulations (currently 20%). 	<p>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.</p>	<p>There are no performance measures attached to awards under the SAYE.</p>	<p>No change</p>

Chairman and Non-Executive Director Remuneration Policy

Purpose and link to strategy	Operation	Maximum opportunity	Performance measures	Changes
<p>To attract and retain high calibre individuals by offering market competitive fee arrangements.</p>	<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. <p>Expenses incurred in the performance of Non-Executive duties for the Company may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on the benefits.</p>	<ul style="list-style-type: none"> Current fee levels can be found on page 107. 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. 	<p>N/A.</p>	<p>No change</p>

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

Our new Directors Remuneration Policy continued

Legacy matters

The Committee will honour remuneration related commitments to former, current and future Executive and Non-Executive Directors (including the exercise of any discretions available to the Committee in relation to such commitments) where the terms were agreed prior to them becoming a Director (provided that, in the opinion of the Committee, the payment was not in consideration for the individual becoming an Executive Director or Non-Executive Director of the Company) and/or where the terms were agreed and commitments made in accordance with the policy approved by the Company's shareholders in September 2014, and which become due and payable or otherwise vest during the period covered by this Policy.

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. This includes allowing the vesting of outstanding awards under the Co-Investment Plan, CSOP and PSP, the terms of which are detailed in the previous policy that was approved by shareholders at the Company's AGM in September 2014, a copy of which can be found on the Group's website (<https://investors.petsathome.com>).

Remuneration arrangements throughout the Company

The Policy for our Executive Directors is designed in line with the remuneration philosophy and principles that underpin remuneration for the wider Company. The Company believes in having a consistent approach to remuneration rather than designing alternative plans for our Executive Directors.

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

- **Aligned incentives** – A meaningful proportion of remuneration is based on performance. Individuals are incentivised towards consistent financial and non-financial business goals and objectives, in addition to appropriate individual goals.
- **Colleagues as shareholders** – Our culture is built on a cohesive team approach and widespread shareholding amongst colleagues which we believe enhances our long term sustainable success by promoting stewardship and alignment amongst a wide colleague participation group
- **Simplification** – our Policy aligns with a much wider programme of simplification across the Group as a whole, from how we operate our supply chain and stores, right through to our Support Offices.

(b) 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 and which remain unchanged from the previous Policy.

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, pension 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 RSP, 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. 75% of base salary).
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 of these plans 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.

Our new Directors Remuneration Policy continued

(c) 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 and remain unchanged from the previous policy:

Area	Policy and operation
Notice period	<ul style="list-style-type: none"> The service contract for Ian Kellett provides for a notice period of 12 months from the Company and six months from the individual The service contract for Mike Iddon provides for a notice period from both the Company and the individual of six months. <ul style="list-style-type: none"> 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. <ul style="list-style-type: none"> 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. <ul style="list-style-type: none"> 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.

Area	Policy and operation
Long term incentives	<p data-bbox="308 495 906 544">• The treatment of invested long term incentive awards is governed by the rules of the relevant incentive plan.</p> <p data-bbox="308 555 347 577">CIP</p> <p data-bbox="308 580 906 629">• Treatment under the CIP is dependent on the period elapsed since the IPO.</p> <p data-bbox="308 647 754 674">a) Within the first 24 months following admission</p> <p data-bbox="308 680 906 786">• 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. This period ended on 17 March 2016.</p> <p data-bbox="308 801 847 828">b) Between 24 months and 36 months following admission</p> <p data-bbox="308 835 906 1072">• 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. This period ended on 17 March 2017.</p> <p data-bbox="308 1088 719 1115">c) On or after 36 months following admission</p> <p data-bbox="308 1122 906 1391">• 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 vested Matching Award, unless the Committee determines otherwise. Matching Awards vest after three, four and five years, subject to achievement of performance conditions at year three.</p> <p data-bbox="331 1406 855 1480">Any participant who is dismissed for reasons of fraud or negligence will forfeit their Invested Shares and Matching Awards in full.</p>
Change in control	<p data-bbox="308 1503 906 1576">• The Committee's policy is that service contracts should not provide for additional compensation on severance as a result of a change in control.</p> <p data-bbox="308 1588 906 1720">• Under the CSOP, the PSP, the Co-Investment Plan and the RSP, the Committee will determine whether and to what extent awards shall vest, taking into account all relevant factors including Company performance, the period of time elapsed since the date of grant and the interests of our shareholders.</p> <p data-bbox="922 1503 1520 1576">• Under the SAYE, awards shall vest pro-rata by reference to the period of time that has elapsed since the date of grant and up to six months following the change of control.</p>
Malus and clawback	<p data-bbox="308 1731 906 1836">Annual bonus payments and long term incentive awards (but not including SAYE awards) are subject to malus and clawback for a period beginning on the date of award and ending two years following vesting in the event of:</p> <ul data-bbox="308 1848 906 2022" style="list-style-type: none"> • a material misstatement of audited results; • serious financial irregularity; • any circumstances justifying summary dismissal of a participant from his office or employment with any Group Company including, but not limited to, dishonesty, fraud, misrepresentation or breach of trust; <p data-bbox="922 1731 1520 1814">• any material breach of a participant's terms and conditions of employment; and/or any material violation of Company policy, rules of regulation.</p> <p data-bbox="922 1848 1520 1930">• Malus and clawback will continue to apply to any bonus payments or awards retained by Leavers and/or on a Change of Control.</p>

Our new Directors Remuneration Policy continued

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 and remain unchanged from the previous policy:

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.
Appointment terms	<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 111.
Expiry of current term	<ul style="list-style-type: none">See page 76 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 11 July 2017.

(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 on page 103 provide illustrative values of the remuneration package for Executive Directors under three assumed performance scenarios under the proposed RSP together with a comparison with the previous PSP.

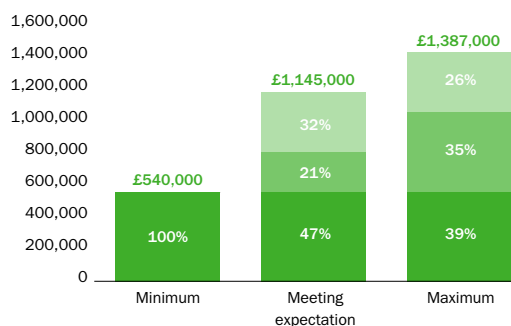
These charts are for illustrative purposes only and actual outcomes may differ from those shown.

Scenario	Assumptions under the new RSP
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 31 March 2017 – Benefits – amount estimated to be received by each Executive Director in FY18 – Pension – salary supplement effective as at 31 March 2017.
Variable pay	
Minimum performance	<ul style="list-style-type: none"> No pay-out under the annual bonus No vesting under the RSP
On-target performance	<ul style="list-style-type: none"> 50% of the maximum pay-out under the annual bonus (i.e. 50% of salary) 100% vesting under the RSP (i.e. 75% 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 RSP (i.e. 75% of salary)

Notes

- Under the RSP, the normal maximum limit of 75% of salary has been shown.
- All-colleague share plans (i.e. the SAYE) have been excluded.
- Any legacy awards made in accordance with the policy for 2014 which Executive Directors hold have been excluded although a comparison has been made against the PSP.

Group Chief Executive Officer – Illustrative example under the new RSP

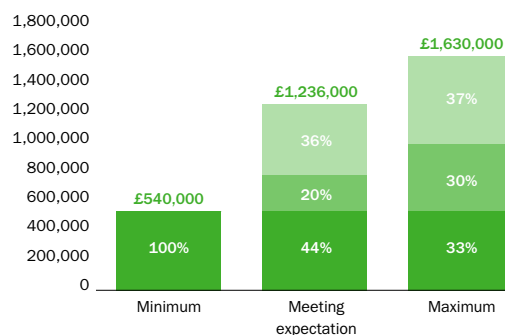


Scenario	Assumptions under the previous PSP
Fixed pay	
All performance scenarios	<ul style="list-style-type: none"> Consists of total fixed pay, including base salary, benefits and pension – Base salary – salary effective as at 31 March 2017 – Benefits – amount estimated to be received by each Executive Director in FY18 – Pension – salary supplement effective as at 31 March 2017.
Variable pay	
Minimum performance	<ul style="list-style-type: none"> No pay-out under the annual bonus No vesting under the PSP
On-target performance	<ul style="list-style-type: none"> 50% of the maximum pay-out under the annual bonus (i.e. 50% of salary) 75% vesting under the PSP (i.e. 60% 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 PSP (i.e. 125% of salary)

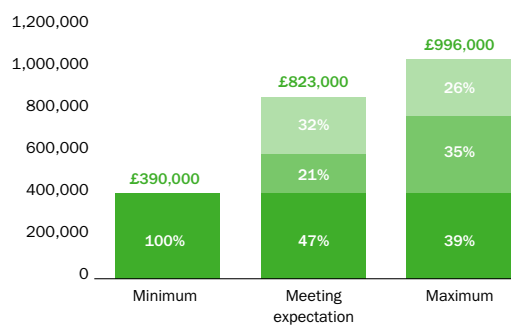
Notes

- Under the PSP, the normal maximum limit of 125% of salary has been shown.
- All-colleague share plans (i.e. the SAYE) have been excluded.
- Any awards made in accordance with the Policy for 2014 under the Co-Investment Plan which Executive Directors hold have been excluded.

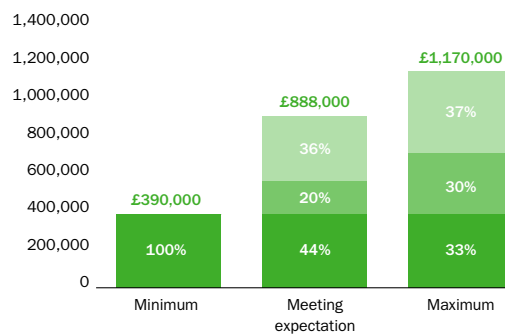
Group Chief Executive Officer – Illustrative example under the previous PSP



Group Chief Financial Officer – Illustrative example under the new RSP



Group Chief Financial Officer – Illustrative example under the previous PSP



■ Fixed pay ■ Annual bonus ■ RSP

■ Fixed pay ■ Annual bonus ■ PSP

Our new Directors Remuneration Policy continued

	Chief Executive	Chief Financial Officer
Base salary	£484,500	£346,800
Benefits	£11,500	£11,500
Pension	£43,605	£31,212
Total fixed pay	£539,605	£389,512

(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 and pay 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, the national living wage, the Apprenticeship levy and the Gender Pay Gap reporting requirements) 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" and "Paws4Thought" surveys, 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

The Committee has consulted extensively with the Company's largest shareholders on the proposed Directors' Remuneration Policy.

We were pleased that all of our majority shareholders were very supportive of our remuneration principles and the proposed design.

We were grateful for the constructive feedback provided throughout the process which was taken on board in our final proposals. The Committee remains committed to ongoing dialogue with the Company's shareholder base.

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 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.

Annual Report on Remuneration

2. Annual Report on Remuneration

(a) Directors' remuneration – report on implementation for the year ended 30 March 2017

This section of the report sets out how the Remuneration Policy (Policy), approved by shareholders at the Company's Annual General Meeting ("AGM") on 9 September 2014 has been applied in the financial year being reported on, and how it will be applied in the coming year. A copy of this current Policy can be found on the Group's website <https://investors.petsathome.com>

The information presented from this section up until the relevant note on page 109 represents the audited section of this report.

(b) Single total figure of remuneration for Executive Directors for the year ended 30 March 2017

The following table sets out the total remuneration for Executive Directors for the year ended 30 March 2017. All payments are in line with the Policy.

Director	Base salary (£)	Benefits (£)	Pension (£)	Annual bonus (£)	Long term incentives (£)	Total (£)
FY17						
Ian Kellett	474,712	11,500	42,724	96,947	36,239 ¹	662,087
Mike Iddon ²	155,615	5,263	14,123	31,456	Nil ³	206,457
Nick Wood ⁴	111,121	2,919	15,656	Nil	Nil	129,696
FY16⁵						
Ian Kellett	394,424	11,721	35,498	240,000	n/a	681,643
Mike Iddon	n/a	n/a	n/a	n/a	n/a	n/a
Nick Wood	446,165	11,721	43,905	262,265	198,168 ⁶	962,224

1 Shares were awarded on 17 March 2014 under the Co-Investment Plan. Based on performance in the period March 2014 to March 2017 the performance conditions for these shares were measured and the Committee determined that 16.8% of the awards would vest. The vested award become exercisable in equal tranches, subject to continued employment, between May 2017 and March 2019. Only the value for a third of the tranche has been shown in the figure for FY17 since only a third can be exercised. The value is based on the share price of 198.19p being the average share price over the last three months of the performance period being the period from 1 January to 30 March 2017.

2 Mike was appointed on 17 October 2016 and his remuneration has been pro-rated from 17 October 2016 to 30 March 2017 including his annual bonus payment.

3 Mike Iddon did not receive a Co-Investment Plan Award in 2014 as this was prior to his joining the Company.

4 Nick resigned as a Director on 4 April 2016, however, he remained with the Group in an advisory role until 1 July 2016. The remuneration shown for FY17 includes payments up to 1 July 2016.

5 FY16 was a 53 week year and so the total single figure for FY16 contains the additional payment over and above the basic remuneration for the 53rd week.

6 Nick's total remuneration in FY16 includes the 19.2% of the total Matching Award that he received under the Co-Investment Plan equal to £198,168 as detailed below.

Base salary – corresponds to the amount received during the relevant financial year.

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.

Long term incentives – corresponds to the amount earned by the Executive Directors in respect of the relevant financial year. Details of how this was calculated are set out below.

Annual Report on Remuneration continued

Annual Bonus

The maximum Annual Bonus opportunity for Executive Directors in respect of FY17 was 100% of base salary.

The targets for the Annual Bonus for the financial year ended 30 March 2017, and the extent to which they were achieved, are as set out below. For FY17, the annual bonus continued to be based on EBITDA (75%) and free cash flow (25%) and measured over a 52 week period.

The achievement of the EBITDA target is calculated on a straight-line basis between Minimum and Maximum EBITDA.

The Committee considered that the targets were 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	£130m/15%	£134.5m/75%	£130.5m/20.4%
Free cash flow¹	£77.5m with a minimum 60% cash conversion/5%	£81.5m with a 67% cash conversion/25%	£64.6m with a 50% cash conversion/Nil

1 Free cash flow is defined as net cash from operating activities, less net cash used in investing activities, interest paid and finance lease commitments. Free cash flow is stated before loans issued, exceptional costs and acquisitions of subsidiaries.

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

Measure	Ian Kellett	Mike Iddon
	% of performance target achieved	% of performance target achieved
EBITDA	27.2%/75%	27.2%/75%
Free cash flow	0%/25%	0%/25%
Total	20.4%/100%	20.4%/100%

Long-term incentives

The following sets out details of the Committee's determination of the performance conditions attaching to the Matching Awards granted under the March 2014 Co-Investment Plan for which the final year of performance was FY17. Awards become capable of exercise in equal one third tranches, subject to continued employment, between May 2017 and March 2019. Separate performance conditions applied to Early Leavers and these are detailed on page 107.

Performance metric	Targets for 2014–2017	Performance against targets
EPS growth (hurdle)	<ul style="list-style-type: none"> 10% of the total award will vest for earnings per share (EPS) growth of 10% per annum, rising to 75% for EPS growth of 17.5% per annum; and The EPS part of the award lapses if the EPS hurdle is not met. 	<ul style="list-style-type: none"> EPS growth of 10.8% of the three-year period was over the hurdle of 10%
Relative TSR	<ul style="list-style-type: none"> 6.25% of the total award will vest for median TSR performance against the Comparator Group¹, rising to 25% for upper quartile TSR performance against the Index; and The TSR part of the award lapses if the TSR hurdle is not met. 	<ul style="list-style-type: none"> Relative TSR performance over three years was below median versus the Comparator Group
Outcome	The Committee determined that 16.8% of the total awards will vest	

1 The Comparator Group is listed below:

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

Early Leavers

Nick Wood tendered his resignation on 4 April 2016 and accordingly, in line with the early leaver provisions of the plan rules, up to 20% of his total Matching Award under the Co-Investment Plan was eligible to vest on his leaving date of 1 July 2016, subject to EPS performance measured up to the end of FY16. Specifically, if EPS growth over the period from the FY14 base year to the end of FY16 (measured over the 52 week period) was:

- Below 10% per annum, none of the total Matching Award would vest;
- 10% p.a., 10% of the total Matching Award would vest;
- Between 10% p.a. and 17.5% p.a., between 10% and 20% of the total Matching Award would vest (on a straight-line basis); and
- Above 17.5% p.a., 20% of the total Matching Award would vest.

Diluted EPS on underlying trading for FY16 was 15.0p based on a profit after tax before exceptional items of £75,518,000 for the 52 week period. As a result, EPS growth over this period was 16.9% p.a. and as a result 19.2% of Nick Wood's Matching Award vested on 1 July 2016.

This equated to 83,264 shares with a value of £198,168 based on the closing share price of 238p on the point of vesting being 1 July 2016. The figure has been included in FY16 since the performance metrics were measured up to 31 March 2016.

(c) Single total figure of remuneration for Non-Executive Directors for the year ended 30 March 2017

The following table sets out the total remuneration for Non-Executive Directors and the Chairman of the Board for the year ended 30 March 2017.

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 2017 (£)	Total single figure 2016 (£) ¹
Tony DeNunzio	200,000	n/a	n/a	n/a	n/a	n/a	200,000	203,846
Dennis Millard	50,000	20,000 ²	n/a	n/a	n/a	n/a	70,000	75,192 ³
Brian Carroll	50,000 ⁴	n/a	n/a	n/a	n/a	n/a	33,846	50,962
Paul Coby	50,000	n/a	n/a	n/a	n/a	n/a	50,000	50,962
Tessa Green	50,000	n/a	n/a	n/a	n/a	10,000	60,000	61,154
Amy Stirling	50,000	n/a	n/a	10,000	n/a	n/a	60,000	61,154
Paul Moody	50,000	n/a	10,000	n/a	n/a	n/a	60,000	57,308 ⁵
Nicolas Gheysens	Nil	n/a	n/a	n/a	n/a	n/a	Nil	n/a

Notes

- 1 FY16 was a 53 week year and so the total single figure for FY16 contains the additional payment over and above the basic fees for the 53rd week.
- 2 The additional fee paid to Dennis Millard is in respect to his position as Deputy Chairman of the Board.
- 3 The total figure includes the fee paid to Dennis Millard as Chairman of the Remuneration Committee for the period from 27 March 2015 until his resignation on 9 September 2015.
- 4 Brian Carroll resigned on 2 December 2016.
- 5 The total figure includes the fee paid to Paul Moody as Chairman of the Remuneration Committee for the period from his appointment on 9 September 2015 until the year ended 31 March 2016.
- 6 Nicolas Gheysen was appointed to the Board on 2 December 2016 to replace Brian Carroll as KKR's nominated director on the Board. As Nicolas is representing KKR, it has been agreed that he will not receive any Directors' fees in respect of his appointment.

(d) Scheme interests awarded during the financial year

In 2016, Executive Directors received PSP and CSOP awards in line with the Policy as follows:

Executive Director	Date of award	Number of shares awarded under the PSP	Grant price of PSP awards	Number of shares awarded under the CSOP	Grant price of CSOP awards	% of salary for total awards	Performance period end date
Ian Kellett	9 June 2016	217,077	Nil cost awards	11,551	259.7p	125%	28 March 2019
Mike Iddon	29 November 2016	185,620	Nil cost awards	14,097	212.8p	125%	28 March 2019

Annual Report on Remuneration continued

All awards are made as performance shares based on a percentage of salary and the value is divided by the closing share price the day before the grants, being 259.7p for the award on 9 June 2016 and 212.8p for the award on 29 November 2016.

The awards were made subject to the satisfaction of the following targets measured over a period of three financial years (FY17-FY19):

- 10% of the total award will vest for EPS growth of 5% per annum, rising to 75% for EPS growth of 12.5% per annum; and
- 6.25% of the total award will vest for median TSR performance against the FTSE 350 UK General Retail Index, rising to 25% for upper quartile TSR performance against the Index.

The EPS part of the awards lapses if the EPS hurdle is not met. The TSR part of the award lapses if the TSR hurdle is not met.

In accordance with the Policy, the first £30,000 of the award made is under the CSOP with the remainder up to 125% of salary being made under the PSP.

(e) Payments for loss of office

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

Leaving arrangements for Nick Wood

Nick Wood resigned from the Board with effect from 4 April 2016. To ensure a smooth transition and provide support to the new CEO, he remained with the Group in an advisory role until 1 July 2016. Nick did not receive a termination payment.

During the period of his notice that he worked full-time, Nick received his salary and contractual benefits up to his date of termination, being 1 July 2016. He did not receive any further salary and contractual benefits for the period of his 12 month notice that remained after 1 July 2016 and he did not receive any Annual Bonus for FY17.

All payments made to him in respect of FY17 are reported in the single figure of remuneration.

Nick's Matching Award under the Co-Investment Plan was treated in line with the early leaver provisions of the plan rules. Under these, time pro-rating was applied such that a maximum of 20% of Nick's Matching Award was eligible to vest, subject to the satisfaction of the EPS performance targets at the end of FY16. As set out on page 107, performance against these targets as at the end of FY16 was such that 19.2% of the total award vested on Nick's leaving the Company's service.

(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.

Executive Directors are subject to a shareholding requirement of 200% of base salary, which should be built up over a period of five years. A similar policy applies to the Executive Management Team. 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)	Number of shares			Shares owned outright at 31 March 2016
		Shares owned outright at 30 March 2017	Interests in share incentive schemes, awarded without performance conditions at 30 March 2017	Interests in share incentive schemes, awarded subject to performance conditions at 30 March 2017	
Ian Kellett	1543%	4,047,056	10,341	283,483 ²	4,047,056
Mike Iddon	24%	45,996		199,717	Nil
Tony DeNunzio	–	3,158,026	–	–	3,158,026
Dennis Millard	–	30,000	–	–	16,327
Paul Coby	–	4,082	–	–	4,082
Tessa Green	–	40,816	–	–	40,816
Amy Stirling	–	16,327	–	–	16,327
Paul Moody	–	27,470	–	–	27,470
Nicolas Gheysens	–	Nil	–	–	Nil

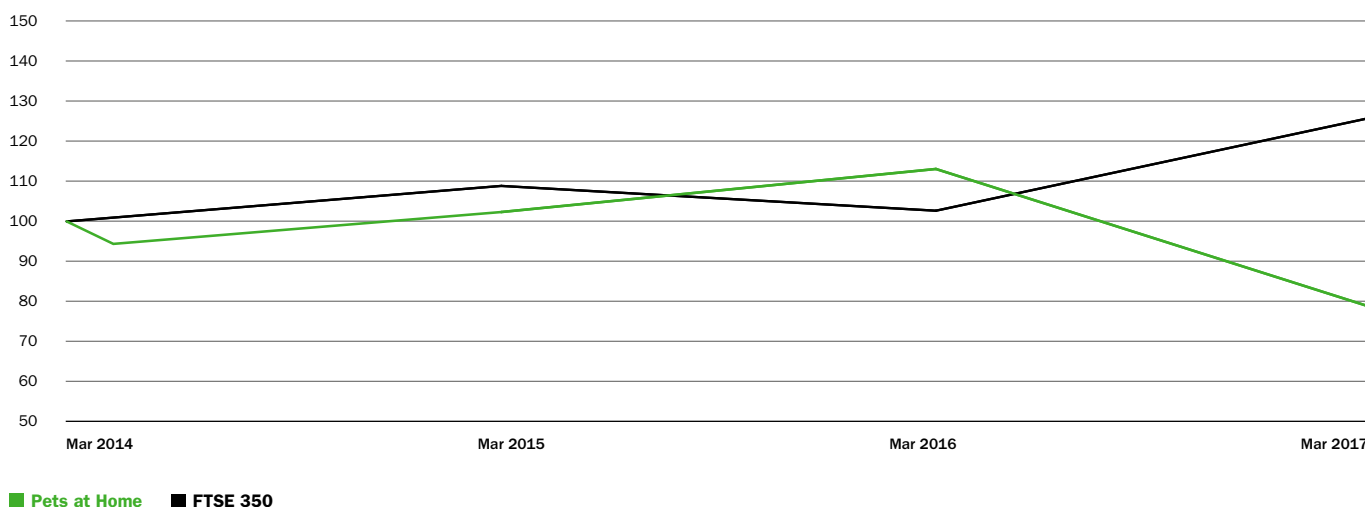
1 For the purposes of determining the target shareholding achieved, we have used the individual's salary, the closing share price as at 30 March 2017 (181 pence) and the shares owned outright at the same date.

2 The figure includes all of the 54,855 matching awards that vested at the end of the vesting period on 30 March 2017. 18,285 are exercisable in the first tranche.

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. The chart below shows performance from that date until the end of FY17. This disclosure will be expanded in subsequent years in line with the regulations.



■ Pets at Home ■ FTSE 350

Annual Report on Remuneration continued

CEO		2013/14 ¹	2014/2015	2015/2016	2016/2017
CEO single figure of remuneration	Ian Kellett ²	–	–	–	662,087
	Nick Wood ³	19,460	790,461	962,224 ⁴	129,696
Annual bonus pay-out (as % of maximum opportunity)	Ian Kellett	–	–	–	20.4%
	Nick Wood	73%	75%	60%	–
Long term incentive vesting (as % of maximum opportunity)	Ian Kellett	–	–	–	16.8%
	Nick Wood	n/a	n/a	96% ⁴	–

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

2 Ian Kellett was appointed on 4 April 2016.

3 Nick Wood resigned as an Executive Director on 4 April 2016, however, he continued in the business until 1 July 2016. His payment in FY17 relates to the period from 1 April 2016 to 1 July 2016.

4 Under the early leaver provisions of the plan rules, Nick Wood received 19.2% of his total Matching Award under the Co-Investment Plan, as shown in the single figure table. Given that this included time pro rating, with performance against the performance conditions being at 96% of maximum, the latter is shown here and the value of £198,168 of the Matching Awards (as calculated under paragraph b above) is included in the single figure of remuneration.

(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 FY16 to FY17	% change in bonus earned FY16 to FY17	% change in benefits FY16 to FY17
Chief Executive	6.4%	-63%	No change
All colleagues¹	2.0%	-36%	No change

1 All colleague information is presented by comparing the average colleague information in FY16 to the average colleague information in FY17.

(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.

	FY17 £m	FY16 £m
EBITDA¹	130.5	127.4
Returned to shareholders:		
Dividend	39.9	27.9
Payments to colleagues:		
Wages and salaries	161.1	143.6

1 The Committee considers that EBITDA is an important KPI for the Company and provides shareholders with additional context as to how the business has performed financially in the last two years. The figures for FY16 are based on a 53 week period to 31 March 2016 and the figures for FY17 are based on a 52 week period to 26 March 2015.

(k) Dilution limits

In accordance with the IA Guidelines, the Company can satisfy awards under its colleague share plans with new issue shares up to maximum of 10% of its issued share capital in a rolling ten year period and within this 10% limit, the Company can only issue 5% of its issued share capital to satisfy awards under discretionary plans (i.e. the CSOP, PSP and new RSP).

(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 102 of the Policy.

3. Statement of implementation for FY18

This section provides an overview of how the Committee is proposing to implement our Policy in FY18.

Base salary

Base salaries were reviewed with effect from 31 March 2017 and the salaries of the Group CEO and Group CFO were increased by 2% which mirrors the increase generally awarded to colleagues in the Group.

Executive Director	Base salary
Chief Executive Officer	£484,500
Chief Financial Officer	£346,800

Benefits

The Committee sets benefits in line with the policy set out on page 95 of the Appendix. There are no changes proposed to the benefit framework in FY18.

Pensions

Despite the change in pension policy to permit contributions up to 15% of base salary, there is no increase proposed to salary supplement levels for the Executive Directors in FY18. The table below shows salary supplements for FY18.

Executive Director	% of salary
Ian Kellett	9%
Mike Iddon	9%

Annual bonus

The maximum annual bonus opportunity for Executive Directors in respect of FY18 will remain at 100% of base salary.

The annual bonus framework will be in line with that presented in the policy table on page 96. As highlighted in the Chairman's letter, during the year the Committee reviewed the annual bonus framework for FY17, with a view to ensuring that it remains appropriate for the business.

The Committee considers that it is appropriate at this time to retain the framework that was put in place for FY17, so for FY18 the annual bonus will continue to be based on EBITDA (75%) and free cash flow (25%). The achievement of the EBITDA target for the Executive Team will continue to be calculated on a straight-line basis between minimum and maximum EBITDA.

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.

As for FY17, the annual bonus will be subject to malus and 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.

Long term incentive awards

It is proposed that awards under the RSP will be made in FY18 at 75% of salary for Executive Directors in line with the new Remuneration Policy.

Sharesave

The Company intends to operate the Sharesave scheme again for FY18. The maximum monthly savings will be retained at £500 per month. Executive Directors are eligible to participate.

Non-Executive Director remuneration

The fees paid to the Non-Executive Directors have been reviewed and they will remain at the same level for FY18. The table below shows the Non-Executive Director fee structure for FY18:

	FY18
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

During the year, the Committee received independent advice on executive remuneration matters from Willis Towers Watson (WTW).

WTW is a member of the Remuneration Consultants Group and, as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK. The Committee has reviewed the advice provided by WTW during the year and is comfortable that it has been objective and independent. Total fees received by WTW in relation to the remuneration advice provided to the Committee during FY17 amounted to £58,034 based on the required time commitment.

During FY17 the Committee also received support from Travers Smith LLP on the terms of the discretionary and all colleague share plans.

Annual Report on Remuneration continued

Committee membership and meetings

The Directors listed below in the table served on the Committee during the year. The Committee met five times during FY17 and the Committee members' attendance is also shown in the table below.

Member	Period From	To	Meetings attended
Paul Moody (Chairman)	1 April 2016	To date	4
Dennis Millard	1 April 2016	To date	4
Tessa Green	1 April 2016	To date	4
Amy Stirling	1 April 2016	To date	4

The individuals listed in the table to the right, 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
Paul Coby	Non-Executive Director
Ian Kellett	Group CEO
Nicolas Gheysens	Non-Executive Director
Louise Stonier	Chief People and Legal Officer and Group Company Secretary
Peter Pritchard	CEO of Retail

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 FY17 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 14 September 2016, the total number of shares in issue with voting rights was 500,000,000. The resolution to approve the Directors' Remuneration Report received the following votes from shareholders:

	Votes for ¹	% ²	Votes against	%	Votes total	% of isc ³	Votes withheld ⁴
Ordinary Resolutions							
2 To approve the Directors' Remuneration Report for the year ended 31 March 2016	407,247,776	99.81	761,607	0.19	408,009,383	81.60	1,006,716

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 92, our Policy and our Directors' Remuneration Report will be subject to a binding and an advisory vote at our AGM to be held on 11 July 2017.

On behalf of the Board



Paul Moody

Chairman of the Remuneration Committee
24 May 2017

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 30 March 2017 set out on pages 117 to 178. 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 30 March 2017 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;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- 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.

Overview	
Materiality: Group financial statements as a whole	£3.75m (2016:£3.5m) 3.9% of profit before tax (2016: 3.8%)
Coverage	99% (2016: 99%) of profit before tax
Risks of material misstatement	vs 2016
Recurring risks	Carrying value of goodwill < >
	Carrying value of inventory < >

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, in decreasing order of audit significance, were as follows (unchanged from 2016):

	The Risk	Our response
<p>Carrying value of goodwill</p> <p>£979.8m; 2016: £964.9m</p> <p>Refer to page 83 (Audit Committee Report), page 127 (accounting policy) and page 143 (financial disclosures).</p>	<p>Forecast based valuation</p> <p>Goodwill is a significant item within the Group's balance sheet; the valuation of which is sensitive to changes in key assumptions.</p> <p>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.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Control design: Evaluating the Group's budgeting procedures and methodology upon which the forecasts are based; • Our sector experience: Using our own valuation specialist to assist us in evaluating the discount rate used by the Group; • Benchmarking assumptions: Comparing assumptions and methodologies used by the Group to externally derived data as well as our own assessment, using knowledge of the company and sector, of key inputs such as projected economic growth, cost inflation and discount rates; • Sensitivity analysis: Performing break-even analysis to understand the sensitivity of the conclusions reached to changes in assumptions; • Comparing valuations: Comparing the sum of projected cash flows and book value to the Group's market capitalisation to assess the reasonableness of those cash flows; and • Assessing transparency: Evaluating the adequacy of the Group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions.
<p>Carrying value of inventory</p> <p>£56.4m; 2016: £52.5m</p> <p>Refer to page 83 (Audit Committee Report), page 128 (accounting policy) and page 144 (financial disclosures).</p>	<p>Subjective estimate</p> <p>The Group has significant levels of inventory and estimates are made in the valuation 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, but which could impact the saleability of inventory.</p> <p>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 making the product available for sale, which can lead to obsolete inventory.</p> <p>Given the level of judgement and estimation involved carrying value of inventory is considered to be a key audit risk.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Control design: Evaluating the Group's controls designed to identify slow moving and obsolete inventories; • Our sector experience: Assessing the appropriateness of the Group's inventory provisioning policies based on our understanding of the business, the industry and the accuracy of previous provisioning estimates; and • Tests of detail: Comparing the cost of inventory lines and average sales price in the six weeks to 30 March 2017 to highlight negative margin lines and comparing the value to the Group's calculation for provision at the year-end date. A comparison, by product, of inventory levels to sales data to assess whether slow moving and obsolete inventories had been appropriately identified and provided for by the Group based on the provisioning policy.

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 £3.75m (2016: £3.5m), determined with reference to a benchmark of Group profit before taxation, of which it represents 3.9% (2015: 3.8%).

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £180,000 (2016: £175,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

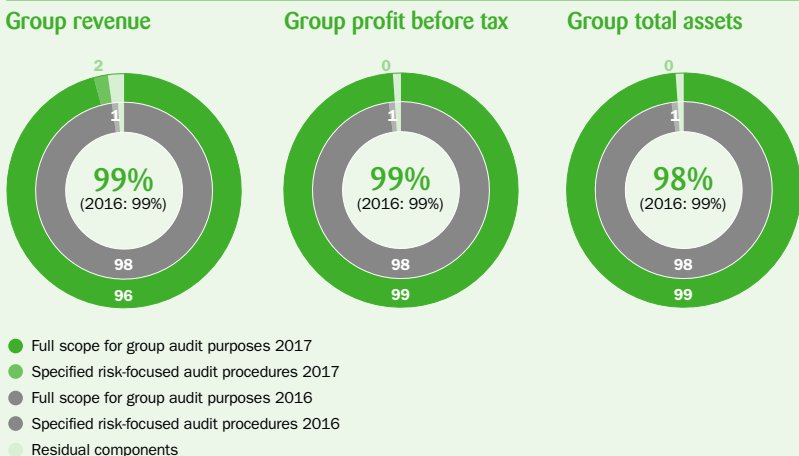
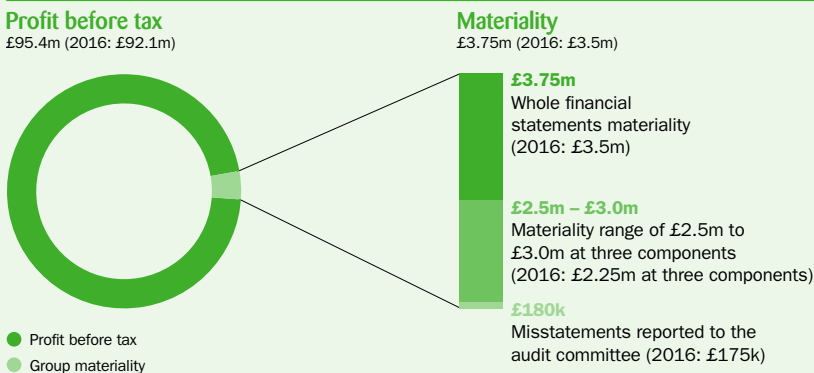
We performed audits for group reporting purposes at 3 (2016: 3) of the Group's 9 (2016: 7) reporting components, and a review of financial information, including enquiry, at one more component of a veterinary referrals centre acquired within the year. The latter was not individually significant enough to require an audit for group reporting purposes, but we performed a review of financial information due to the acquisition having been made in the year.

The level of coverage from audits for group reporting purposes and review of the veterinary specialist referral component are illustrated below.

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

The audits of components for group reporting purposes were performed by both the group audit team and component auditors and the review was performed by component auditors. The group team instructed the component auditors as to the significant areas to be covered, which included the relevant risks of material misstatement detailed above, and set out the information required to be reported back to the group audit team. The group audit team approved the component materiality range of £2.5m to £3.0m (2016: £2.25m), having regard to the mix of size and risk profile of the businesses within the Group.

Telephone conferences and meetings were held with component auditors that were not physically visited in order to assess the audit risk and strategy. At these meetings, the findings reported to the group team were discussed in more detail, and any further work required by the group team was then performed by the component auditor.



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

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

In our opinion:

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Directors' statement of viability on page 79, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three years to 31 March 2020; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. 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 position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

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

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

Under the Listing Rules we are required to review:

- the Directors' statements, set out on pages 79 and 125, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 74 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

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

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 81, 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.

Nicola Quayle (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor Chartered Accountant

1 St Peter's Square
Manchester
M2 3AE

24 May 2017

Consolidated income statement

	Note	52 week period ended 30 March 2017			53 week period ended 31 March 2016		
		Underlying trading £000	Exceptional items (note 3) £000	Total £000	Underlying trading £000	Exceptional items (note 8) £000	Total £000
Revenue	2	834,169	–	834,169	793,126	–	793,126
Cost of sales		(382,287)	–	(382,287)	(360,702)	–	(360,702)
Gross profit		451,882	–	451,882	432,424	–	432,424
Selling and distribution expenses		(296,012)	–	(296,012)	(279,293)	–	(279,293)
Administrative expenses	3	(54,950)	(996)	(55,946)	(50,868)	(835)	(51,703)
Operating profit	2,3	100,920	(996)	99,924	102,263	(835)	101,428
Financial income	6	760	–	760	668	–	668
Financial expense	7	(5,300)	–	(5,300)	(5,628)	(4,326)	(9,954)
Net financing expense		(4,540)	–	(4,540)	(4,960)	(4,326)	(9,286)
Profit before tax		96,380	(996)	95,384	97,303	(5,161)	92,142
Taxation	8	(20,061)	41	(20,020)	(20,224)	865	(19,359)
Profit for the period		76,319	(955)	75,364	77,079	(4,296)	72,783

All activities relate to continuing operations.

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

	Note	52 week period ended 30 March 2017	53 week period ended 31 March 2016
Equity holders of the parent – after exceptional items – basic	5	15.1p	14.6p
Equity holders of the parent – after exceptional items – diluted	5	15.0p	14.5p

Dividends paid and proposed are disclosed in note 9.

The notes on pages 125 to 178 form an integral part of these financial statements.

Consolidated statement of comprehensive income

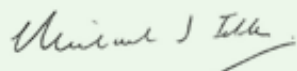
	Note	52 week period ended 30 March 2017 £000	53 week period ended 31 March 2016 £000
Profit for the period		75,364	72,783
Other comprehensive income			
<i>Items that are or may be recycled subsequently into profit or loss:</i>			
Foreign exchange translation differences	21	(26)	(5)
Cash flow hedges – reclassified to profit and loss	21	(330)	(1,064)
Effective portion of changes in fair value of cash flow hedges	21	1,862	(536)
Other comprehensive income for the period, before income tax		1,506	(1,605)
Income tax on other comprehensive income	14,21	(297)	320
Other comprehensive income for the period, net of income tax		1,209	(1,285)
Total comprehensive income for the period		76,573	71,498

The notes on pages 125 to 178 form an integral part of these financial statements.

Consolidated balance sheet

	Note	At 30 March 2017 £000	At 31 March 2016 £000
Non-current assets			
Property, plant and equipment	11	128,835	114,746
Intangible assets	12	990,266	973,549
Other non-current assets	15	16,990	10,161
		1,136,091	1,098,456
Current assets			
Inventories	13	56,420	52,476
Other financial assets	15	1,863	1,947
Trade and other receivables	16	69,567	59,028
Cash and cash equivalents	17	56,345	39,998
		184,195	153,449
Total assets		1,320,286	1,251,905
Current liabilities			
Trade and other payables	19	(165,887)	(150,445)
Corporation tax		(10,609)	(9,695)
Provisions	20	(492)	(436)
Other financial liabilities	15	(1,509)	(1,318)
		(178,497)	(161,894)
Non-current liabilities			
Other interest-bearing loans and borrowings	18	(209,296)	(201,091)
Other payables	19	(35,028)	(33,165)
Provisions	20	(1,394)	(1,387)
Other financial liabilities	15	(8,023)	(5,999)
Deferred tax liabilities	14	(5,404)	(4,885)
		(259,145)	(246,527)
Total liabilities		(437,642)	(408,421)
Net assets		882,644	843,484
Equity attributable to equity holders of the parent			
Ordinary share capital	21	5,000	5,000
Consolidation reserve		(372,026)	(372,026)
Merger reserve		113,321	113,321
Translation reserve		(31)	(5)
Cash flow hedging reserve		806	(429)
Retained earnings		1,135,574	1,097,623
Total equity		882,644	843,484

On behalf of the Board:



Mike Iddon
Group Chief Financial Officer
Company number: 08885072

The notes on pages 125 to 178 form an integral part of these financial statements.

Consolidated statement of changes in equity as at 30 March 2017

	Share capital £000	Consolidation reserve £000	Merger reserve £000	Cash flow hedging reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 31 March 2016	5,000	(372,026)	113,321	(429)	(5)	1,097,623	843,484
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	75,364	75,364
Other comprehensive income (note 21)	-	-	-	1,235	(26)	-	1,209
Total comprehensive income for the period	-	-	-	1,235	(26)	75,364	76,573
Transactions with owners, recorded directly in equity							
Equity dividends paid	-	-	-	-	-	(39,850)	(39,850)
Share based payment transactions	-	-	-	-	-	2,437	2,437
Total contributions by and distributions to owners	-	-	-	-	-	(37,413)	(37,413)
Balance at 30 March 2017	5,000	(372,026)	113,321	806	(31)	1,135,574	882,644

Consolidated statement of changes in equity as at 31 March 2016

	Share capital £000	Consolidation reserve £000	Merger reserve £000	Cash flow hedging reserve £000	Translation reserve £000	Retained earnings £000	Total equity £000
Balance at 26 March 2015	5,000	(372,026)	113,321	851	–	1,049,729	796,875
Total comprehensive income for the period							
Profit for the period	–	–	–	–	–	72,783	72,783
Other comprehensive income (note 21)	–	–	–	(1,280)	(5)	–	(1,285)
Total comprehensive income for the period	–	–	–	(1,280)	(5)	72,783	71,498
Transactions with owners, recorded directly in equity							
Equity dividend paid	–	–	–	–	–	(27,894)	(27,894)
Share based payment transactions	–	–	–	–	–	3,005	3,005
Total contributions by and distributions to owners	–	–	–	–	–	(24,889)	(24,889)
Balance at 31 March 2016	5,000	(372,026)	113,321	(429)	(5)	1,097,623	843,484

Consolidated statement of cash flows

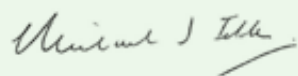
	52 week period ended 30 March 2017 £000	53 week period ended 31 March 2016 £000
Cash flows from operating activities		
Profit for the period	75,364	72,783
<i>Adjustments for:</i>		
Depreciation and amortisation	29,621	25,106
Financial income	(760)	(668)
Financial expense	5,300	9,954
Loss on disposal of subsidiary	690	–
Profit on disposal of property, plant & equipment	(176)	–
Share based payment charges	2,437	3,005
Taxation	20,020	19,359
	132,496	129,539
Increase in trade and other receivables	(8,863)	(6,784)
Increase in inventories	(4,979)	(3,627)
Increase in trade and other payables	11,469	7,021
Increase/(decrease) in provisions	63	(248)
	130,186	125,901
Tax paid	(19,299)	(14,823)
Net cash flow from operating activities	110,887	111,078
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	1,830	3,082
Disposal of subsidiary, net of cash disposed	677	–
Interest received	722	413
Investment in other financial assets	(3,420)	(1,010)
Loans issued	(2,247)	(1,674)
Loans repaid	500	–
Acquisition of subsidiary, net of cash acquired	(14,831)	(8,113)
Acquisition of property, plant and equipment and other intangible assets	(40,896)	(36,804)
Net cash used in investing activities	(57,665)	(44,106)
Cash flows from financing activities		
Equity dividends paid	(39,850)	(27,894)
Proceeds from new loan	8,000	202,000
Repayment of borrowings	–	(325,000)
Loan repayment on acquisition	–	(1,808)
Finance lease obligations	(109)	(28)
Issue costs	–	(1,225)
Interest paid	(4,916)	(5,985)
Net cash used in financing activities	(36,875)	(159,940)
Net Increase/(decrease) in cash and cash equivalents	16,347	(92,968)
Cash and cash equivalents at beginning of period	39,998	132,966
Cash and cash equivalents at end of period	56,345	39,998

The notes on pages 125 to 178 form an integral part of these financial statements.

Company balance sheet

	Note	At 30 March 2017 £000	At 31 March 2016 £000
Non-current assets			
Investments in subsidiaries	28	936,179	936,179
Other non-current	15	521	–
		936,700	936,179
Current assets			
Trade and other receivables	16	576,795	580,493
Cash and cash equivalents	17	1	1
Deferred tax asset	14	112	342
		576,908	580,836
Total assets		1,513,608	1,517,015
Current liabilities			
Trade and other payables	19	(207,887)	(175,738)
Other financial liabilities	15	(1,112)	(843)
		(208,999)	(176,581)
Non-current liabilities			
Other interest-bearing loans and borrowings	18	(209,296)	(201,091)
Other financial liability	15	–	(866)
Total liabilities		(418,295)	(378,538)
Net assets		1,095,313	1,138,477
Equity attributable to equity holders of the parent			
Ordinary share capital	21	5,000	5,000
Merger reserve		113,321	113,321
Cash flow hedging reserve		(479)	(1,368)
Retained earnings		977,471	1,021,524
Total equity		1,095,313	1,138,477

On behalf of the Board:



Mike Iddon
Group Chief Financial Officer

Company statement of changes in equity as at 30 March 2017

	Share capital £000	Merger reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 31 March 2016	5,000	113,321	(1,368)	1,021,524	1,138,477
Total comprehensive income for the period					
Loss for the period	-	-	-	(6,640)	(6,640)
Other comprehensive income	-	-	889	-	889
Total comprehensive income for the period	-	-	889	(6,640)	(5,751)
Transactions with owners, recorded directly in equity					
Equity dividends paid	-	-	-	(39,850)	(39,850)
Share based payment transactions	-	-	-	2,437	2,437
Balance at 30 March 2017	5,000	113,321	(479)	977,471	1,095,313

Company statement of changes in equity as at 31 March 2016

	Share capital £000	Merger reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 26 March 2015	5,000	113,321	(362)	1,058,494	1,176,453
Total comprehensive income for the period					
Loss for the period	-	-	-	(12,081)	(12,081)
Other comprehensive income	-	-	(1,006)	-	(1,006)
Total comprehensive income for the period	-	-	(1,006)	(12,081)	(13,087)
Transactions with owners, recorded directly in equity					
Equity dividends paid	-	-	-	(27,894)	(27,894)
Share based payment transactions	-	-	-	3,005	3,005
Balance at 31 March 2016	5,000	113,321	(1,368)	1,021,524	1,138,477

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 ended 30 March 2017 was £6.6m (loss for the 53 week period ended 31 March 2016: £12.1m).

Company statement of cash flows

	52 week period ended 30 March 2017 £000	53 week period ended 31 March 2016 £000
Cash flows from operating activities		
Loss for the period	(6,640)	(12,081)
Financial expense	5,113	5,622
Share based payment charges	2,437	3,005
	910	(3,454)
Decrease/(increase) in trade and other receivables	3,699	(17,840)
Increase in trade and other payables	32,354	179,035
Net cash flow from operating activities	36,963	157,741
Cash flows from financing activities		
Equity dividends paid	(39,850)	(27,894)
Proceeds from new loan	8,000	202,000
Repayment of borrowings	–	(325,000)
Interest paid	(5,113)	(5,622)
Issue costs	–	(1,225)
Net cash used in financing activities	(36,963)	(157,741)
Net decrease in cash and cash equivalents	–	–
Cash and cash equivalents at beginning of period	1	1
Cash and cash equivalents at end of period	1	1

Notes (forming part of the financial statements)

Pets at Home Group Plc (the Company) is a company incorporated in the United Kingdom and its registered office is Epsom Avenue, Stanley Green, Handforth, Cheshire, SK9 3RN.

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.

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 22 to the financial statements includes 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 Company is well placed to manage its business risks successfully and therefore have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

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 profits, losses, or any surplus on winding up or disposal of the veterinary practices, and as such no participatory interest is recognised.

The investments have been equity accounted for in the Group's financial statements in accordance with IAS 28.10. As the Group's shares are non-participatory, and therefore the Group does not share in any profits, losses or other distribution of value from the joint venture Company, the fair value of the investment on initial recognition does not change, subject to impairment.

The Group's category of shareholding in the veterinary practices entitle the Group to charge management fees for support services provided. For further details see note 15.

Notes (forming part of the financial statements) continued

1 Accounting policies (continued)

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.

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.

Contingent consideration

Contingent consideration on acquisition of a subsidiary is valued at fair value at the time of acquisition. Any subsequent change in fair value is recognised in profit or loss.

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
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 Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Customer lists are amortised on a straight line basis over 10 years.

Software

Software is stated at cost less accumulated amortisation.

Amortisation is charged to the income statement on a straight-line basis between two and seven years.

Notes (forming part of the financial statements) continued

1 Accounting policies (continued)

1.12 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. If contingent consideration is payable and is dependent on future employment, it is recognised as an expense over the relevant period as a cost of continuing employment.

A combined put and call option over non-controlling interests is recognised at fair value at the acquisition date and included within the valuation of goodwill. Subsequent changes to fair value are recognised in profit or loss.

Where a combined written put and call option exists over a non-controlling interest, and the conditions of the agreement provide the Group with present access to the benefits of the ownership of the non-controlling interest, then the acquisition is deemed to reflect 100% ownership and no non-controlling interest is recognised. A liability is recorded for the expected future acquisition of the non-controlling interest, and is recognised as part of the fair value of the consideration.

Where the written put and call option has an embedded valuation mechanism to reward and retain key individuals employed by the acquired business, who are also non-controlling shareholders, then the expected increase in the financial liability is charged to the Income Statement as employment costs evenly over the option period.

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 IFRS)

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

1.13 Acquisitions and disposals of non-controlling interests

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

1.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average cost 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.

Provision is made against specific inventory lines where market conditions identify an issue in recovering the full cost of that SKU (Stock Keeping Unit). The provision focuses on the age of inventory and applies a progressive provision against the gross inventory as the line continues to age. Where necessary further specific provision is made against inventory lines, when the ageing of provision is not deemed sufficient to carry the inventory at net realisable value.

To the extent that the ageing profile of gross inventory as calculated by this provision methodology results in a material provision, it will be disclosed as an estimate that may have an impact on subsequent periods. To the extent this is material, it will be disclosed in note 1.22.

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 ("CGU's"). 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.

Notes (forming part of the financial statements) continued

1 Accounting policies (continued)

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, brand match vouchers, coupons 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 for store sales and at point of despatch for online orders.

Gift vouchers and cards

Revenue from the sale of gift vouchers and cards is recognised at the time the voucher is redeemed.

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. The points have no value to the customer.

Subscription services

Revenue for subscription services is recognised at the point of despatch of each incremental order.

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) 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, promotional income and rebate income received from suppliers, including costs to deliver administrative support 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.

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 largest of which being override income and promotional income discussed below. 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 to cost of sales and, to the extent that the rebate relates to unsold stock purchases, as a reduction in the cost of inventory.

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.

Given the presence of the joint business plans, historic recoverability of accrued balances, and amounts are typically agreed with suppliers prior to recognition, supplier income is not considered to be an area of significant estimation that could impact on the following financial year.

Supplier income comprises:

Override income

Override 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 when contractual milestones have been met.
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.

Promotional income

Promotional income relates to supplier funded rebates specific to promotional activity run in agreement between the Group and our suppliers. Rebates are agreed at an individual inventory article level for agreed periods of time and are systemically calculated based on article sales information. No estimation is applied in calculating the promotional income receivable.

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.

Given the presence of the joint business plans, historic recoverability of accrued balances, and amounts are agreed with suppliers prior to recognition, supplier income is not considered to be an area of significant estimation that could impact on the following financial year.

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 payment is established. Foreign currency gains and losses are reported on a net basis.

Notes (forming part of the financial statements) continued

1 Accounting policies (continued)

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 14 Regulatory Deferral Accounts-Not yet endorsed.
- 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).
- Annual Improvements to IFRSs – 2012-2014 Cycle (EU effective date 1 January 2016).
- Investment entities: Applying the Consolidation Exception – Amendments to IFRS 10, IFRS 12 and IAS 28 (European Union effective date 1 January 2016).
- Disclosure Initiative – Amendments to IAS 1 (European Union effective date 1 January 2017).

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.

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 (CGU) 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.

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, specialist vet referral services 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 other individual segments. To increase transparency, the Group has decided to include an additional voluntary disclosure analysing revenue within the reportable segment.

	52 week period ended 30 March 2017 £000	53 week period ended 31 March 2016 £000
Revenue		
Food	395,121	390,041
Accessories	321,550	320,162
Services and other	117,498	82,923
	834,169	793,126

The 'services and other' category includes revenue from management fees for first opinion veterinary surgeries, veterinary referral centres, grooming services, 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. This can be reconciled to statutory operating profit as follows:

	52 week period ended 30 March 2017 £000	53 week period ended 31 March 2016 £000
Operating profit	99,924	101,428
Exceptional items	996	835
Underlying operating profit before exceptional items	100,920	102,263
Depreciation and amortisation	29,621	25,106
Underlying EBITDA (before exceptional items)	130,541	127,369

Notes (forming part of the financial statements) continued

3 Expenses and auditor's remuneration

Included in operating profit are the following:

	52 week period ended 30 March 2017 £000	53 week period ended 31 March 2016 £000
Exceptional operating expenses (see below)	996	835
Depreciation of tangible fixed assets	25,690	21,915
Amortisation of intangible assets	3,931	3,191
<i>Rentals under operating leases:</i>		
Hire of plant and machinery	4,484	3,886
Property	73,002	70,405
Rental income from third party sublets	(828)	(1,033)
Rental income from related parties	(6,277)	(5,367)
Profit on disposal of fixed assets	(176)	–
Share based payment charges	2,437	3,005

During the period Pets at Home Group Plc disposed of its 100% holding in its subsidiary Farm-Away Ltd. The exceptional items in the period to 30 March 2017 represent costs incurred in relation to the disposal as follows:

	£000
Consideration received	(740)
Net assets disposed of	1,430
Loss on disposal of net assets	690
Costs borne by the Group	306
	996

The costs include legal and professional fees, redundancy costs and property costs.

Exceptional items in operating profit in the 53 week period ended 31 March 2016 of £835,000 represent costs incurred in relation to the acquisitions completed during the period and subsequent to the period end.

Auditor's remuneration

	52 week period ended 30 March 2017 £000	53 week period ended 31 March 2016 £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	200	163
Review of interim financial statements	31	35
Taxation compliance services	–	20
Other tax advisory services	–	3
All other services	5	–
	246	231

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 30 March 2017 Number	53 week period ended 31 March 2016 Number
Sales and distribution	6,152	5,008
Administration	659	466
	6,811	5,474

The aggregate payroll costs of these persons were as follows:

	52 week period ended 30 March 2017 £000	53 week period ended 31 March 2016 £000
Wages and salaries	161,118	143,553
Social security costs	13,337	11,044
Contributions to defined pension contribution plans	7,069	4,294
	181,524	158,891

Remuneration of Directors and Executive Management Team

	52 week period ended 30 March 2017 £000	53 week period ended 31 March 2016 £000
Executive Directors' emoluments including social security costs	1,411	1,367
Non-Executive Directors' emoluments including social security costs	534	550
Executive Directors' amounts receivable under share options	–	218
Executive Directors' pension contributions	73	79
Total Directors' remuneration	2,018	2,214
Executive Management Team emoluments including social security costs	3,165	3,465
Executive Management Team pension contributions	161	166
Total Executive Management Team remuneration	3,326	3,631

Included in pension contributions payable to Executive Directors of £73,000 (2016: £79,000) is £nil (2016: £33,000) of contributions that the Group made to a money purchase scheme in relation to the qualifying services of one Executive Director.

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

Notes (forming part of the financial statements) continued

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 30 March 2017		53 week period ended 31 March 2016	
	Underlying trading	After exceptional items	Underlying trading	After exceptional items
Profit attributable to equity shareholders of the parent (£000s)	76,319	75,364	77,079	72,783
Basic weighted average number of shares	500,000,000	500,000,000	500,000,000	500,000,000
Dilutive potential ordinary shares	4,032,406	4,032,406	2,048,984	2,048,984
Diluted weighted average number of shares	504,032,406	504,032,406	502,048,984	502,048,984
Basic earnings per share	15.3p	15.1p	15.4p	14.6p
Diluted earnings per share	15.1p	15.0p	15.4p	14.5p

6 Finance income

	52 week period ended 30 March 2017 £000	53 week period ended 31 March 2016 £000
Interest receivable	760	401
Other finance income	–	267
Total finance income	760	668

7 Finance expense

	52 week period ended 30 March 2017 £000	53 week period ended 31 March 2016 £000
Bank loans at effective interest rate	5,113	5,628
Other interest expense	187	–
<i>Total underlying finance expense</i>	5,300	5,628
Exceptional amortisation costs	–	4,326
<i>Total exceptional finance expense</i>	–	4,326
Total finance expense	5,300	9,954

Exceptional finance expenses in the 53 week period ended 31 March 2016 related to £4,326,000 of accelerated amortisation following the repayment of the senior bank facility of £325,000,000 in the period.

8 Taxation

Recognised in the income statement

	52 week period ended 30 March 2017 £000	53 week period ended 31 March 2016 £000
Current tax expense		
Current period	20,953	19,441
Adjustments in respect of prior periods	(964)	(294)
Current tax expense	19,989	19,147
Deferred tax expense		
Origination and reversal of temporary differences	(907)	155
Impact of difference between deferred and current tax rates	45	(263)
Adjustments in respect of prior periods	893	320
Deferred tax expense	31	212
Total tax expense	20,020	19,359

The UK corporation tax standard rate for the period was 20% (2016: 20%). The March 2015 budget announced that the UK corporation tax rate will further reduce to 19% (effective from 1 April 2017). The March 2016 budget announced a further reduction in the corporation tax rate to 17% from 1 April 2020. The deferred tax liability has been calculated based on the rate of 19% which is the rate at which items are expected to reverse.

Deferred tax recognised in comprehensive income

	52 week period ended 30 March 2017 £000	53 week period ended 31 March 2016 £000
Effective portion of changes in fair value of cash flow hedges	297	(320)

Reconciliation of effective tax rate

	52 week period ended 30 March 2017			53 week period ended 31 March 2016		
	Underlying trading £000	Exceptional items £000	Total £000	Underlying trading £000	Exceptional items £000	Total £000
Profit for the period	76,319	(955)	75,364	77,079	(4,296)	72,783
Total tax expense	20,061	(41)	20,020	20,224	(865)	19,359
Profit excluding taxation	96,380	(996)	95,384	97,303	(5,161)	92,142
Tax using the UK corporation tax rate for the period of 20% (53 week period ended 31 March 2016: 20%)	19,276	(199)	19,077	19,460	(1,032)	18,428
Impact of change in tax rate on deferred tax balances	45	-	45	(263)	-	(263)
Depreciation on expenditure not eligible for tax relief	706	-	706	862	-	862
Expenditure not eligible for tax relief	105	158	263	139	167	306
Adjustments in respect of prior periods	(71)	-	(71)	26	-	26
Total tax expense	20,061	(41)	20,020	20,224	(865)	19,359

The UK corporation tax standard rate for the 52 week period ended 30 March 2017 was 20% (53 week period ended 31 March 2016: 20%). The effective tax rate before exceptional items for the 53 week period ended 31 March 2016 was 21%. The principal reason for the difference in rate relates to the non-deductibility of depreciation charged on certain items of capital expenditure.

Notes (forming part of the financial statements) continued

9 Dividends paid and proposed

	Group and Company	
	52 week period ended 30 March 2017 £000	53 week period ended 31 March 2016 £000
<i>Declared and paid during the period</i>		
Final dividend of 5.5p per share (2016: 3.6p per share)	27,396	17,932
Interim dividend of 2.5p per share (2016: 2p per share)	12,454	9,962
<i>Proposed for approval by shareholders at the AGM</i>		
Final dividend of 5.0p per share (2016: 5.5p per share)	24,912	27,394

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 relation to the period ended 31 March 2016 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: Computershare Nominees (Channel Islands) Limited (holding at 30 March 2017: 1,319,091 shares, holding at 31 March 2016: 1,466,540 shares) and Wealth Nominees Limited (holding at 30 March 2017: 434,056 shares, holding at 31 March 2016: 434,056 shares).

10 Business combinations

Subsidiaries acquired

	Principal activity	Date of acquisition	Proportion of voting equity instruments acquired	Cash consideration transferred £000
Dick White Referrals Limited	Veterinary referral centre	28 April 2016	76%	13,839
Eye-Vet Limited	Veterinary referral centre	05 April 2016	90%	1,350

Acquisition of Dick White Referrals Limited

On 28 April 2016 the Group acquired 76% of the total share capital of Dick White Referrals Limited in exchange for cash and contingent consideration. The remaining share capital of Dick White Referrals Limited is held by non-controlling interests.

A put and call option, written into the Articles of Association, allows the non-controlling shareholders to require sale of their shares to the Group at an agreed pricing method linked to future earnings performance at certain points in the future. The Articles also contain provision for the Group to buy the non-controlling shares under the same pricing mechanism at certain times.

As a consequence the put and call option has been treated as a forward contract and, as a result, the financial statements are prepared on the basis that the Group owns 100% of the total share capital of Dick White Referrals Limited. No non-controlling interest is recognised. The put and call option is treated as a forward contract measured at fair value reflecting the Group's best estimate of future settlement, linked to forecasted future earnings performance.

Consideration transferred

	Dick White Referrals Limited £000
Cash	13,839
Forward contract	3,951
Total consideration	17,790

Acquisition related costs amounting to £228,000 have been excluded from the consideration transferred and were recognised as an expense in the profit and loss account in the prior year, within the 'administrative expenses' exceptional line item.

Assets acquired and liabilities recognised at the date of acquisition

The provisional amounts recognised in respect of identifiable assets and liabilities relating to the acquisition are as follows:

	Carrying amounts £000	Accounting policy adjustments £000	Fair value adjustments £000	Assets and liabilities acquired £000
Current assets				
Cash and cash equivalents	604	–	–	604
Trade and other receivables	1,637	–	–	1,637
Inventories	238	–	–	238
Non-current assets				
Intangible asset-customer list	–	–	771	771
Tangible fixed assets	2,920	–	–	2,920
Current liabilities				
Trade and other payables	(2,176)	–	–	(2,176)
Deferred tax liabilities	(150)	–	–	(150)
Non-current liabilities				
Other financial liabilities	(439)	–	–	(439)
	2,634	–	771	3,405

Provisional goodwill arising on acquisition

	Dick White Referrals Limited £000
Cash consideration	13,839
Forward contract	3,951
Less: fair value of net assets acquired	(3,405)
Goodwill arising on acquisition	14,385

The key assets acquired are the expertise and skills of the surgeons within the business; these represent the assembled workforce which does not meet the definition of an intangible asset. The cost of the combination also included a control premium, effectively including amounts in relation to the benefits of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Consideration has been given to other intangibles that are recognisable under IFRS 3 Business Combinations. No brand name has been recognised due to the specialist nature of the services provided meaning that repeat referral is not expected and the company name is not recognisable to the general public. No favourable leases or patents were owned by the company at the time of acquisition. A customer list intangible asset of £771,000 for the on-site laboratory has been identified and recognised separately from goodwill at fair value.

None of the goodwill identified on these acquisitions is expected to be deductible for tax purposes. The goodwill is deemed to be provisional as it is considered that further information could come to light that could affect the fair value of net assets acquired.

Net cash outflow on acquisition of subsidiary

	Dick White Referrals Limited £000
Cash consideration	13,839
Less: cash and cash equivalents acquired	(604)
Total cash paid	13,235

Impact of acquisition on the results of the Group

Included in the operating profit for the period ended 30 March 2017 is £1,367,000 attributable to the additional business generated by Dick White Referrals Limited. Revenue for the period ended 30 March 2017 includes £13,039,000 in respect of Dick White Referrals Limited.

Had the business combination been effected at 1 April 2016, the revenue for the Group from continuing operations would have been £835,109,000 and the operating profit for the period from continuing operations would have been £99,941,000.

Notes (forming part of the financial statements) continued

10 Business combinations (continued)

Acquisition of Eye-Vet Limited

On 5 April 2016, the Group acquired 90% of the total share capital of Eye-Vet Limited in exchange for cash and contingent consideration. The remaining share capital of Eye-Vet Limited is held by non-controlling interests.

A put and call option, written into the Articles of Association, allows the non-controlling shareholders to require sale of their shares to the Group at an agreed pricing method linked to future earnings performance at certain points in the future. The Articles also contain provision for the Group to buy the non-controlling shares under the same pricing mechanism at certain times.

As a consequence the put and call option has been treated as a forward contract and, as a result, the financial statements are prepared on the basis that the Group owns 100% of the total share capital of Eye-Vet Limited. No non-controlling interest is recognised. The put and call option is treated as a forward contract measured at fair value reflecting the Group's best estimate of future settlement, linked to forecasted future earnings performance.

Consideration transferred

	Eye-Vet Limited £000
Cash	1,350
Forward contract	142
Total consideration	1,492

Acquisition related costs amounting to £95,000 have been excluded from the consideration transferred and were recognised as an expense in the profit and loss account in the prior year, within the 'administrative expenses' exceptional line item.

Assets acquired and liabilities recognised at the date of acquisition

The provisional amounts recognised in respect of identifiable assets and liabilities relating to the acquisition are as follows:

	Carrying amounts £000	Accounting policy adjustments £000	Fair value adjustments £000	Assets and liabilities acquired £000
Current assets				
Cash and cash equivalents	49	–	–	49
Trade and other receivables	297	–	–	297
Inventories	38	–	–	38
Non-current assets				
Tangible fixed assets	133	–	–	133
Current liabilities				
Trade and other payables	(186)	–	–	(186)
Deferred tax liabilities	(25)	–	–	(25)
	306	–	–	306

Provisional goodwill arising on acquisition

	Eye-Vet Limited £000
Cash consideration	1,350
Forward contract	142
Less: fair value of net assets acquired	(306)
Goodwill arising on acquisition	1,186

The key assets acquired are the expertise and skills of the surgeons within the business; these represent the assembled workforce which does not meet the definition of an intangible asset. The cost of the combination also included a control premium, effectively including amounts in relation to the benefits of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do meet the recognition criteria for identifiable intangible assets.

Consideration has been given to other intangibles that are recognisable under IFRS 3 Business Combinations. No brand name has been recognised due to the specialist nature of the services provided meaning that repeat referral is not expected and the company name is not recognisable to the general public. No favourable leases or patents were owned by the company at the time of acquisition.

None of the goodwill identified on these acquisitions is expected to be deductible for tax purposes. The goodwill is deemed to be provisional as it is considered that further information could come to light that could affect the fair value of net assets acquired.

Net cash outflow on acquisition of subsidiary

	Eye-Vet Limited £000
Cash consideration	1,350
Less: cash and cash equivalents acquired	(49)
Total cash paid	1,301

Impact of acquisition on the results of the Group

Included in the operating profit for the period ended 30 March 2017 is £131,000 attributable to the additional business generated by Eye-Vet Limited. Revenue for the period ended 30 March 2017 includes £1,509,000 in respect of Eye-Vet Limited.

Eye-Vet was acquired at the start of the period and therefore the revenue and operating profit of the Group are fully reflective of the revenue and operating profit of Eye-Vet.

Anderson Moores Veterinary Specialists Ltd

The put and call liability in relation to the acquisition of Anderson Moores Ltd was overstated by £1,651,000 in the initial acquisition accounting. This is considered immaterial but has been corrected in the current year – a decrease in the associated goodwill of £1,651,000 and an equal decrease in the liability.

Notes (forming part of the financial statements) continued

11 Property, plant and equipment

	Freehold property £000	Short leasehold property £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost				
Balance at 31 March 2016	2,517	41,174	155,235	198,926
Additions	–	5,645	32,898	38,543
Assets acquired on acquisition	–	1,991	1,062	3,053
Disposals	–	(90)	(5,570)	(5,660)
Balance at 30 March 2017	2,517	48,720	183,625	234,862
Depreciation				
Balance at 31 March 2016	158	12,608	71,414	84,180
Depreciation charge for the period	40	2,938	22,712	25,690
Disposals	–	(77)	(3,766)	(3,843)
Balance at 30 March 2017	198	15,469	90,360	106,027
Net book value				
At 31 March 2016	2,359	28,566	83,821	114,746
At 30 March 2017	2,319	33,251	93,265	128,835
<hr/>				
	Freehold property £000	Short leasehold property £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost				
Balance at 26 March 2015	2,508	35,225	127,579	165,312
Additions	44	6,097	28,031	34,172
Assets acquired on acquisition	1,435	577	669	2,681
Disposals	(1,470)	(725)	(1,044)	(3,239)
Balance at 31 March 2016	2,517	41,174	155,235	198,926
Depreciation				
Balance at 26 March 2015	118	9,978	52,326	62,422
Depreciation charge for the period	71	2,684	19,160	21,915
Disposals	(31)	(54)	(72)	(157)
Balance at 31 March 2016	158	12,608	71,414	84,180
Net book value				
At 26 March 2015	2,390	25,247	75,253	102,890
At 31 March 2016	2,359	28,566	83,821	114,746

12 Intangible assets

	Goodwill £000	Customer list £000	Software £000	Total £000
Cost				
Balance at 31 March 2016	965,925	–	19,133	985,058
Additions	–	–	5,957	5,957
Assets acquired on acquisition	13,920	771	–	14,691
Disposals	–	–	(174)	(174)
Balance at 30 March 2017	979,845	771	24,916	1,005,532
Amortisation				
Balance at 31 March 2016	–	–	11,509	11,509
Amortisation charge for the period	–	71	3,860	3,931
Disposals	–	–	(174)	(174)
Balance at 30 March 2017	–	71	15,195	15,266
Net book value				
At 31 March 2016	965,925	–	7,624	973,549
At 30 March 2017	979,845	700	9,721	990,266

	Goodwill £000	Software £000	Total £000
Cost			
Balance at 26 March 2015	952,032	11,798	963,830
Additions	–	7,335	7,335
Assets acquired on acquisition	13,893	–	13,893
Balance at 31 March 2016	965,925	19,133	985,058
Amortisation			
Balance at 26 March 2015	–	8,318	8,318
Amortisation charge for the period	–	3,191	3,191
Balance at 31 March 2016	–	11,509	11,509
Net book value			
At 26 March 2015	952,032	3,480	955,512
At 31 March 2016	965,925	7,624	973,549

Amortisation and impairment charge

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

Impairment testing

Cash generating units ('CGUs') within the Group are considered to be the body of stores including vets' practices, specialist referral centres 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 30 March 2017 £000	At 31 March 2016 £000
Pets at Home Group	979,845	965,925

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 30 March 2017	At 31 March 2016
Period on which management approved forecasts are based (years)	3	3
Growth rate applied beyond approved forecast period	2%	3%
Discount rate (pre-tax)	10%	10%

Notes (forming part of the financial statements) continued

12 Intangible assets (continued)

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 post-tax cash flow projection based on a three year plan approved by the Board. The plan is adjusted to remove the contribution from and costs associated with new stores and veterinary practices.

The key assumptions in the business plan are like-for-like sales growth, gross and operating profit margins. The forecast assumptions reflect continual innovation and our deep understanding of our customers. 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 three year period based on inflationary increases.

The total recoverable amount in respect of goodwill for the CGU group as assessed by the Directors 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.

A number of sensitivities have been applied to the assumptions in reaching this conclusion including:

- Reduction in growth rate applied beyond forecast period by 160 bps
- Increasing the discount rate by 200 bps
- Decreasing the sales growth assumption in the forecast period by 300 bps in combination with an increase in the discount rate of 20 bps and a reduction in the long term growth rate by 50 bps

None of the above would result in an impairment.

Disposal of Farm-Away Ltd.

During the period the Group disposed of Farm-Away Ltd and its subsidiary Ride-Away (York) Ltd. There has been no allocation of goodwill under IAS 36 as part of the disposal accounting as the assets of Farm-Away Ltd did not form a CGU against which the carrying value of assets is monitored. No partial disposal of goodwill has been recognised as the future cash flows against which the carrying value of assets are measured against are not impacted by the disposal of the subsidiary companies.

13 Inventories

	At 30 March 2017 £000	At 31 March 2016 £000
Finished goods	56,420	52,476

The cost of inventories recognised as an expense and included in 'cost of sales' is £315,002,000 (period ended 31 March 2016: £314,064,000).

Inventory expensed to cost of sales includes the cost of the SKUs (Stock Keeping Unit) sold, supplier income, stock wastage and foreign exchange variances. The prior year disclosure has been updated to be consistent.

At 30 March 2017 the inventory provision amounted to £1.9m (31 March 2016: £2.0m). The inventory provision is calculated by reference to the age of the stock keeping unit. The provision percentages applied in calculating the provision are as follows:

- Discontinued stock greater than 365 days: 100%
- Current stock greater than 365 days with a use by date: 50%
- Current stock within 180 and 365 days with a use by date: 25%
- Greater than 180 days with no use by date: 25%

In addition, a provision is held to account for store stock losses during the period since which the SKU was last counted.

The value of inventory against which an ageing provision is held is £4,623,000 (2016: £4,455,000).

In the 52 week period ended 30 March 2017, the value of inventory written off to the income statement amounted to £7.8m (53 week period ended 31 March 2016: £8.3m).

14 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	At 30 March 2017			At 31 March 2016		
	Assets £000	Liabilities £000	Total £000	Assets £000	Liabilities £000	Total £000
Property, plant and equipment	-	(1,684)	(1,684)	-	(1,202)	(1,202)
Inventories	-	-	-	-	-	-
Financial assets	211	(400)	(189)	365	-	365
Financial liabilities	-	-	-	-	(258)	(258)
Other short term timing differences	1,990	(5,521)	(3,531)	1,349	(5,139)	(3,790)
Net tax assets/(liabilities)	2,201	(7,605)	(5,404)	1,714	(6,599)	(4,885)

Movement in deferred tax during the period

	30 March 2017 £000	Liability acquired on acquisition £000	Recognised in income £000	Recognised in equity £000	30 March 2017 £000
Property, plant and equipment	(1,203)	(181)	(300)	-	(1,684)
Inventories	-	-	-	-	-
Net financial assets	107	-	-	(297)	(190)
Other short term timing differences	(3,789)	(10)	269	-	(3,530)
	(4,885)	(191)	(31)	(297)	(5,404)

Movement in deferred tax during the period

	30 March 2016 £000	Liability acquired on acquisition £000	Recognised in income £000	Recognised in equity £000	31 March 2016 £000
Property, plant and equipment	(1,545)	(183)	525	-	(1,203)
Inventories	-	-	-	-	-
Net financial assets	(213)	-	-	320	107
Other short term timing differences	(3,052)	-	(737)	-	(3,789)
	(4,810)	(183)	(212)	320	(4,885)

Company

	31 March 2016 £000	Recognised in income £000	Recognised in equity £000	30 March 2017 £000
Financial assets	342	(169)	(61)	112

The rate used to calculate deferred tax assets and liabilities has been disclosed in note 8.

Notes (forming part of the financial statements) continued

15 Other financial assets and liabilities

	Group		Company	
	At 30 March 2017 £000	At 31 March 2016 £000	At 30 March 2017 £000	At 31 March 2016 £000
Non-current assets				
Loans to joint venture veterinary practices	12,054	8,734	–	–
Investments in joint ventures	397	297	–	–
Loans to other related parties	3,416	1,018	–	–
Other receivables	490	–	–	–
Other investments	112	112	–	–
Interest rate swaps	521	–	521	–
	16,990	10,161	521	–

Loans to joint venture veterinary practices

Loans to joint venture veterinary practices include £12,054,000 (2016: £8,734,000) loans provided to joint venture veterinary practice companies trading under the Companion Care and Vets4Pets brands, in which the Group's share interest is non-participatory. These loans represent a long term investment in the joint venture, supporting their initial set up and working capital, and are held at fair value and classified as an available for sale financial asset. Under the terms of the loans provided to veterinary companies trading under the Companion Care and Vets4Pets brands the loans attract varying interest rates between 2% and 3%. There is no set date for repayment of the loans due to the Group. The loans are held at fair value. The fair value is calculated by discounting the future cash flows associated with the loan including interest cash flows.

Investments in Joint Ventures

Investments represent £397,000 (2016: £297,000) of the "B" share capital in joint veterinary practice companies. These investments are equity accounted for at fair value. The share capital of the veterinary practice companies is split equally into 'A' ordinary shares (held by Joint Venture Partners) and 'B' ordinary shares (held by the Group). Any operational decisions require the agreement of the Joint Venture Partner.

Under the terms of the agreements the Group, ('B' shareholder) is 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 shareholders.

The agreements entitle the Group to receive income in relation to support services offered in such areas as clinical development, promotion and methods of operation as well as service activities including accountancy, legal and property.

Loans to other related parties

Loans to related parties represent loan balances to joint venture partnership businesses and shared venture partners. These loans are unsecured, typically for five to seven years and attract an interest rate of LIBOR plus 2.8%. The loans are accounted for as loans and receivables and as such are recognised at amortised cost. The loans are typically to support capacity expansion.

The comparative note has been restated to provide clarity to the users of the financial statements by further disaggregating balances.

	Group		Company	
	At 30 March 2017 £000	At 31 March 2016 £000	At 30 March 2017 £000	At 31 March 2016 £000
Current assets				
Fuel forward contracts	106	–	–	–
Forward exchange contracts	1,757	1,290	–	–
Loans to related parties	–	657	–	–
	1,863	1,947	–	–

	Group		Company	
	At 30 March 2017 £000	At 31 March 2016 £000	At 30 March 2017 £000	At 31 March 2016 £000
Current liabilities				
Fuel forward contracts	-	(116)	-	-
Other financial liability	-	(296)	-	-
Forward exchange contracts	(278)	-	-	-
Finance lease liability	(119)	(63)	-	-
Interest rate swaps	(1,112)	(843)	(1,112)	(843)
	(1,509)	(1,318)	(1,112)	(843)

	Group		Company	
	At 30 March 2017 £000	At 31 March 2016 £000	At 30 March 2017 £000	At 31 March 2016 £000
Non-current liabilities				
Other financial liability	(7,884)	(5,117)	-	-
Finance lease liability	(139)	(16)	-	-
Interest rate swaps	-	(866)	-	(866)
	(8,023)	(5,999)	-	(866)

The non-current other financial liability includes the fair value of the put and call option over the non-controlling interests in subsidiary undertakings and contingent consideration in relation to acquisitions. For further detail see note 10.

16 Trade and other receivables

	Group		Company	
	At 30 March 2017 £000	At 31 March 2016 £000	At 30 March 2017 £000	At 31 March 2016 £000
Trade receivables	13,975	13,826	-	-
Amounts owed by related parties	24,273	16,283	-	-
Other receivables	7,617	5,622	-	-
Amounts owed by Group undertakings	-	-	576,795	580,493
Prepayments	17,111	16,677	-	-
Accrued income	6,591	5,963	-	-
Loans to related parties	-	657	-	-
	69,567	59,028	576,795	580,493

All balances are included within current assets.

Amounts owed by joint venture practices

These represent initial surgery opening costs, trading balances and working capital loans owed by related party veterinary practices to the Group. Further details are provided in note 27.

Accrued income

Accrued income represents fees to joint venture veterinary practices, referral centre fees and income from suppliers that has not yet been invoiced.

17 Cash and cash equivalents

	Group		Company	
	At 30 March 2017 £000	At 31 March 2016 £000	At 30 March 2017 £000	At 31 March 2016 £000
Cash and cash equivalents	56,345	39,998	1	1

Notes (forming part of the financial statements) continued

18 Other interest-bearing loans and borrowings

	Group		Company	
	At 30 March 2017 £000	At 31 March 2016 £000	At 30 March 2017 £000	At 31 March 2016 £000
Non-current liabilities				
Secured bank loans	209,296	201,091	209,296	201,091
Total liabilities				
Secured bank loans	209,296	201,091	209,296	201,091

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
				at 30 March 2017 £000	at 30 March 2017 £000	at 31 March 2016 £000	at 31 March 2016 £000
Senior Finance Bank Loans	GBP	LIBOR +1.25%	2020	210,000	209,296	202,000	201,091

In April 2015, the Group's Senior Financing Facilities were amended, with the introduction of a further revolving credit facility (RCF) with a total facility amount of £260m. As part of the amendment, £325m of the Group's term loans under the previous terms of the Senior Financing Facilities were repaid via drawings under the Group's RCF along with cash from the Group's existing resources. The amended RCF expires in April 2020 and is reviewed each period. Interest is charged at LIBOR plus a margin based on leverage (net debt: EBITDA). Face value represents the principal value of the Senior Finance Bank Loans. The bank loan is secured against the various tangible, intangible and monetary assets of the Group (excluding investments in joint ventures and hedging agreements).

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 30 March 2017 the Group had a revolving credit facility of £260m with a drawn amount of £210m.

The analysis of repayments on the loans is as follows:

	At 30 March 2017 £000	At 31 March 2016 £000
Within one year or repayable on demand	–	–
Between one and two years	–	–
Between two and five years	210,000	202,000
	210,000	202,000

The combined loans at 30 March 2017 and 31 March 2016 are held by the Company.

Analysis of changes in net debt

	At 31 March 2016 £000	Cash flow £000	Non-cash movement £000	At 30 March 2017 £000
Cash and cash equivalents	39,998	16,347	–	56,345
Debt due within one year at face value	–	–	–	–
Debt due after one year at face value	(202,000)	(8,000)	–	(210,000)
Net debt	(162,002)	8,347	–	(153,655)

19 Trade and other payables

	Group		Company	
	At 30 March 2017 £000	At 31 March 2016 £000	At 30 March 2017 £000	At 31 March 2016 £000
Current				
Trade payables	98,680	79,779	-	-
Accruals	44,115	46,160	275	187
Amounts owed to related parties	1,427	5,932	-	-
Deferred income	4,186	4,486	-	-
Other payables including tax & social security	17,479	14,088	-	-
Amounts owed to group undertakings	-	-	207,612	175,551
	165,887	150,445	207,887	175,738
Non-current				
Deferred income	35,028	33,165	-	-

The non-current payables represent deferred income in respect of store leases where incentives are spread over the life of the lease.

20 Provisions

	Dilapidation provision £000	Closed stores provision £000	Total £000
Balance at 31 March 2016	650	1,173	1,823
Provisions made during the period	32	294	326
Provisions used during the period	(39)	(224)	(263)
Balance at 30 March 2017	643	1,243	1,886

	At 30 March 2017 £000	At 31 March 2016 £000
Current	492	436
Non-current	1,394	1,387
	1,886	1,823

The closed stores provision relates to the rent and rates payable on sublet or vacant stores. A provision is made where the rent receivable on the properties is less than the rent payable, or where management consider there to be a risk on the sublet. The timing of the utilisation of these provisions is variable dependent upon the lease expiry dates of the properties concerned, which vary between 10 and 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.

In estimating the required provision an assumption is made on the average length to provide for. In the event that this assumption was to increase by one year, then the provision would increase by £230,000. The provision is discounted at a rate of 7%, being the estimated average implicit lease rate. A decrease in this rate of 100 bps would increase the provision by £33,000.

The Company did not hold any provisions at 30 March 2017 or 31 March 2016.

Notes (forming part of the financial statements) continued

21 Capital and reserves

Share capital Group

	Share capital Number	Share capital £000
At 26 March 2015	500,000,000	5,000
At 31 March 2016	500,000,000	5,000
At 30 March 2017	500,000,000	5,000

Company

	Share capital 30 March 2017 £000
At beginning of period	5,000
On issue at period end	5,000

	Share capital 31 March 2016 £000
At beginning of period	5,000
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.

Translation reserve

The translation reserve comprises all foreign exchange differences arising since 21 November 2011, the date of incorporation of Pets at Home Asia Ltd where the functional currency differs from that of the rest of the Group.

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Other comprehensive income**30 March 2017**

	Translation reserve £000	Cash flow hedging reserve £000	Total other comprehensive income £000
Other comprehensive income	(26)	–	(26)
Cash flow hedges – reclassified to profit and loss	–	(330)	(330)
Effective portion of changes in fair value of cash flow hedges	–	1,862	1,862
Deferred tax on changes in fair value of cash flow hedges	–	(297)	(297)
Total other comprehensive income	(26)	1,235	1,209

31 March 2016

	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	–	(1,064)	(1,064)
Effective portion of changes in fair value of cash flow hedges	–	(536)	(536)
Deferred tax on changes in fair value of cash flow hedges	–	320	320
Total other comprehensive income	(5)	(1,280)	(1,285)

22 Financial instruments**Financial risk management**

The 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 Group Treasury function 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 Group Treasury function 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

Notes (forming part of the financial statements) continued

22 Financial instruments (continued)

Market risk

(i) Foreign currency risk

The Group sources a significant level of purchases in foreign currency, in excess of US \$50 million each financial year, and monitors its foreign currency requirements through short, medium and long term cash flow forecasting. The value of purchases in US dollars continues to increase each year and the risk management policy has evolved with this increased risk.

At 30 March 2017, the Group's policy is to hedge between 75% and 95% of the forecast 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 forecast 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:

30 March 2017

	Euro £000	US Dollar £000	HKD £000	Total £000
Cash and cash equivalents	6	567	2	575
Trade payables	(576)	(4,930)	–	(5,506)
Forward exchange contracts	31	1,448	–	1,479
Balance sheet exposure	(539)	(2,914)	2	(3,452)

31 March 2016

	Euro £000	US Dollar £000	HKD £000	Total £000
Cash and cash equivalents	4	–	2	6
Trade payables	(516)	(2,229)	–	(2,745)
Forward exchange contracts	118	1,172	–	1,290
Balance sheet exposure	(394)	(1,057)	2	(1,449)

Sensitivity analysis

A 5% weakening of the following currencies against the pound sterling at the period end date in both years would have increased/(decreased) profit or loss or equity by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant.

	Equity		Profit or loss	
	30 March 2017 £000	31 March 2016 £000	30 March 2017 £000	31 March 2016 £000
US Dollar	(72)	(59)	218	111
Euro	(2)	(6)	28	26

A 5% strengthening of the above currencies against the pound sterling in any period would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(ii) Interest rate risk**Cash flow and fair value interest rate risk**

The Group's interest rate risk arises from long term borrowings. As at 30 March 2017 the Group had a senior facility with a face value totalling £210.0m. The Group's borrowings as at 30 March 2017 incur interest at a rate of 1.25% plus LIBOR at current leverage, which exposes the Group to cash flow interest rate risk. The analysis of loan repayments is detailed in note 18.

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 Group has entered into two fixed rate interest rate swap agreements over a total of £152.8m of the senior facility borrowings at the balance sheet date at a blended fixed rate of 0.99%. One swap expires on 30 March 2018. The other swap has been taken out over £142.1m of the borrowings to cover the year commencing 30 March 2018 at a fixed rate of 0.183%. The hedges are structured to hedge at least 70% of the forecast outstanding debt for the next year.

Profile

At the balance sheet date the interest rate profile of the Group's interest-bearing financial instruments was:

	Group		Company	
	Book value At 30 March 2017 £000	Book value At 31 March 2016 £000	Book value At 30 March 2017 £000	Book value At 31 March 2016 £000
Fixed rate instruments				
Financial liabilities	152,096	149,091	152,096	149,091
Variable rate instruments				
Financial liabilities	57,200	52,000	57,200	52,000
Total financial liabilities	209,296	201,091	209,296	201,091

All borrowings bear a variable rate of interest based on LIBOR. Group policy is to hedge at least 70% of the loan to ensure a fixed rate of interest. 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 instruments 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 the comparative period.

	At 30 March 2017 £000	At 31 March 2016 £000
Equity		
Increase	761	745
Decrease	(761)	(745)
Profit or loss		
Increase	286	260
Decrease	(286)	(260)

Notes (forming part of the financial statements) continued

22 Financial instruments (continued)

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 hold an acceptable risk rating by independent parties.

The Group has in place certain guarantees over the bank loans taken out by a number of veterinary practice companies in which it holds an investment. Further details of these guarantees are disclosed in note 26. The performance of the veterinary practice companies is reviewed on an ongoing basis.

Exposure to credit risk

The Group's maximum exposure to credit risk, being the carrying amount of financial assets, is summarised in the table within the fair values section below.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Management prepares and monitors rolling forecasts of the Group's cash balances based on expected cash flows to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without risking damage to the Group's reputation. Covenants are monitored on a regular basis to ensure there is no risk or breach which would lead to an 'Event of Default' and compliance certificates are issued as required to the syndicate agent.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

Group

30 March 2017

	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities						
Bank loans (note 18)	209,296	210,000	–	–	210,000	–
Trade payables (note 19)	98,680	98,680	98,680	–	–	–
Finance lease liabilities	258	258	119	119	20	–
Other financial liabilities	7,885	7,885	–	–	7,885	–
Derivative financial liabilities						
<i>Forward exchange contracts used for hedging:</i>						
Outflow (note 15)	278	278	278	–	–	–
<i>Interest rate swaps used for hedging:</i>						
Outflow (note 15)	1,112	1,112	–	1,112	–	–
<i>Fuel forward contracts:</i>						
Outflow (note 15)	–	–	–	–	–	–
	317,509	318,213	99,077	1,231	217,905	–

The following are the contractual maturities of financial liabilities, including estimated interest payments:

Group

31 March 2016

	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities						
Bank loans (note 18)	201,091	202,000	–	–	202,000	–
Trade payables (note 19)	79,779	79,779	79,779	–	–	–
Finance lease liabilities	79	79	63	16	–	–
Other financial liabilities	5,413	5,724	296	–	5,428	–
Derivative financial liabilities						
<i>Forward exchange contracts used for hedging:</i>						
Outflow (note 15)	–	–	–	–	–	–
<i>Interest rate swaps used for hedging:</i>						
Outflow (note 15)	1,709	1,709	843	866	–	–
<i>Fuel forward contracts:</i>						
Outflow (note 15)	116	116	116	–	–	–
	288,187	289,407	81,097	882	207,428	–

Company

30 March 2017

	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities						
Bank loans (note 18)	209,296	210,000	–	–	210,000	–
Derivative financial liabilities						
Interest rate swaps (note 15)	1,112	1,112	–	1,112	–	–
	210,408	211,112	–	1,112	210,000	–

31 March 2016

	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Non-derivative financial liabilities						
Bank loans (note 15)	201,091	202,000	–	–	202,000	–
Derivative financial liabilities						
Interest rate swaps (note 15)	1,709	1,709	843	866	–	–
	202,800	203,709	843	866	202,000	–

Notes (forming part of the financial statements) continued

22 Financial instruments (continued)

Liquidity risk and cash flow hedges

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

30 March 2017

	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
<i>Interest rate swaps:</i>						
Assets (note 15)	521	521	–	521	–	–
Liabilities (note 15)	(1,112)	(1,112)	(1,112)	–	–	–
<i>Forward exchange contracts:</i>						
Assets (note 15)	1,757	1,757	1,757	–	–	–
Liabilities (note 15)	(278)	(278)	(278)	–	–	–
<i>Fuel forward contracts:</i>						
Assets (note 15)	106	106	106	–	–	–
	994	994	473	521	–	–

Group

31 March 2016

	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
<i>Interest rate swaps:</i>						
Assets (note 15)	–	–	–	–	–	–
Liabilities (note 15)	(1,709)	(1,709)	(843)	(866)	–	–
<i>Forward exchange contracts:</i>						
Assets (note 15)	1,340	1,340	1,340	–	–	–
Liabilities (note 15)	(50)	(50)	(50)	–	–	–
<i>Fuel forward contracts:</i>						
Liabilities (note 15)	(116)	(116)	(116)	–	–	–
	(535)	(535)	331	(866)	–	–

Company**30 March 2017**

	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
<i>Interest rate swaps:</i>						
Assets (note 15)	521	521	-	521	-	-
Liabilities (note 15)	(1,112)	(1,112)	(1,112)	-	-	-
	(591)	(591)	(1,112)	521	-	-

31 March 2016

	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
<i>Interest rate swaps:</i>						
Liabilities (note 15)	(1,709)	(1,709)	(843)	(866)	-	-
	(1,709)	(1,709)	(843)	(866)	-	-

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 their 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.

Contingent consideration

Contingent consideration on acquisition of a subsidiary is valued at fair value at the time of acquisition. Any subsequent changes in fair values are recognised in profit or loss.

Put and call options over non-controlling interests

Put and call options over non-controlling interests are recognised at fair value at the acquisition date and included within the valuation of goodwill. Subsequent changes to fair value are recognised in profit or loss.

Notes (forming part of the financial statements) continued

22 Financial instruments (continued)

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:

	30 March 2017		31 March 2016	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial assets held for trading (including all derivatives)				
Forward exchange contracts (note 15)	1,757	1,757	1,290	1,290
Interest rate swaps (note 15)	521	521	–	–
Fuel forward contracts (note 15)	106	106	–	–
Available for sale financial assets				
Investment in non-equity share capital and loans (note 15)	12,563	12,563	9,143	9,143
Total financial assets at fair value through profit or loss	14,947	14,947	10,433	10,433
Loans and receivables				
Cash and cash equivalents (note 17)	56,345	56,345	39,998	39,998
Trade and other receivables (note 16)	45,865	45,865	35,731	35,731
Loans to related parties	3,906	3,906	657	657
Total loans and receivables	106,116	106,116	76,386	76,386
Total financial assets	121,063	121,063	86,819	86,819
Financial liabilities (including all derivatives)				
Interest rate swaps (note 15)	(1,112)	(1,112)	(1,710)	(1,710)
Forward exchange contracts (note 15)	(278)	(278)	–	–
Fuel forward contracts (note 15)	–	–	(116)	(116)
Finance lease liabilities	(258)	(258)	–	–
Other financial liabilities	(7,884)	(7,884)	(5,413)	(5,413)
Total financial liabilities at fair value through profit or loss	(9,532)	(9,532)	(7,239)	(7,239)
Financial liabilities measured at amortised cost				
Other interest-bearing loans and borrowings (note 18)	(209,296)	(209,296)	(201,091)	(201,091)
Trade payables (note 19)	(98,680)	(98,680)	(79,779)	(79,779)
Total financial liabilities measured at amortised cost	(307,976)	(307,976)	(280,870)	(280,870)
Total financial liabilities	(317,508)	(317,508)	(288,109)	(288,109)
Total financial instruments	(196,445)	(196,445)	(201,290)	(201,290)

Company

	30 March 2017		31 March 2016	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Loans and receivables				
Cash and cash equivalents (note 17)	1	1	1	1
Trade and other receivables (note 16)	576,795	576,795	580,493	580,493
Total loans and receivables	576,796	576,796	580,494	580,494
Total financial assets	576,796	576,796	580,494	580,494
Financial liabilities held for trading (including all derivatives)				
Interest rate swaps (note 15)	(591)	(591)	(1,709)	(1,709)
Total financial assets at fair value through profit or loss	(591)	(591)	(1,709)	(1,709)
Financial liabilities measured at amortised cost				
Other interest-bearing loans and borrowings (note 18)	(209,296)	(209,296)	(201,091)	(201,091)
Trade and other payables (note 19)	(207,612)	(207,612)	(175,738)	(175,738)
	(416,908)	(416,908)	(376,829)	(376,829)
Total financial liabilities	(417,499)	(417,499)	(378,538)	(378,538)
Total financial instruments	159,297	159,297	201,956	201,956

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**30 March 2017**

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Available for sale financial assets				
Investments	-	-	12,563	12,563
Derivative financial assets				
Interest rate swaps	-	521	-	521
Fuel forward contracts	-	106	-	106
Forward rate contracts	-	1,757	-	1,757
Derivative financial liabilities				
Interest rate swaps	-	(1,112)	-	(1,112)
Forward rate contracts	-	(278)	-	(278)
Other financial liabilities				
	-	-	(7,854)	(7,854)

Notes (forming part of the financial statements) continued

22 Financial instruments (continued)

31 March 2016

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Available for sale financial assets				
Investments	–	–	9,143	9,143
Derivative financial assets				
Forward rate contracts	–	1,290	–	1,290
Derivative financial liabilities				
Interest rate swaps	–	(1,709)	–	(1,709)
Fuel forward contracts	–	(116)	–	(116)
Other financial liabilities	–	–	(5,413)	(5,413)

Financial instruments that are within level 3 of the hierarchy are investments and other financial liabilities. Valuation techniques for the investments are disclosed within note 15. The other financial liability includes the fair values of the put and call options over the non-controlling interests of subsidiary undertakings and contingent consideration in relation to acquisitions. The fair values represent the best estimate of amounts payable based on future earnings performance discounted to present value.

A reconciliation of the level 3 hierarchy of financial instruments has been provided below:

	Other financial liabilities £000	Investments £000	Total £000
Balance at 31 March 2016	(5,413)	9,143	3,730
Additions	–	3,420	3,420
Arising on acquisition	(2,442)	–	(2,442)
Balance at 30 March 2017	(7,855)	12,563	4,708

	Other financial liabilities £000	Investments £000	Total £000
Balance at 26 March 2015	–	8,133	8,133
Additions	–	1,010	1,010
Arising on acquisition	(5,413)	–	(5,413)
Balance at 30 March 2017	(5,413)	9,143	3,730

Sensitivity analysis

A change of 100 basis points in interest rates at the period end date would have decreased profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the comparative period.

	At 30 March 2017 £000	At 31 March 2016 £000
Profit or loss		
Decrease	59	–

Company

30 March 2017

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial liabilities				
Interest rate swaps	–	(591)	–	(591)

31 March 2016

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial liabilities				
Interest rate swaps	–	(1,709)	–	(1,709)

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 Group.

The funding requirements of the Group are met by the utilisation of external borrowings together with available cash, as detailed in note 18.

A key objective of the Group's capital management is to maintain compliance with the covenants set out in the Senior Financing Facilities and to maintain a comfortable level of headroom over and above these requirements.

Management have continued to measure and monitor covenant compliance throughout the period and the Group has complied with the requirements set.

23 Share based payments

At 30 March 2017, 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 vested 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 were selected to participate in the CIP.

(b) Type of awards

Colleagues were invited to participate in the CIP by making an 'investment' or 'pledge' of their own shares (the "Co-Invest Shares"), which could 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 1 times their annual salary.

Notes (forming part of the financial statements) continued

23 Share based payments (continued)

(d) Performance, vesting and performance adjustment

The Matching Awards granted on 17 March 2014 vested 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 was 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, ended on 30 March 2017). If the CAGR in the Company's EPS was 10%, then 10% of the total Matching Award would vest. If the CAGR in the Company's EPS was 17.5% or more, then 75% of the total Matching Award would vest. Vesting is on a straight-line basis between these two points. For the avoidance of doubt, if the CAGR in EPS was less than 10% over the Performance Period then the amount of the Matching Award which would vest under this EPS performance condition would be nil.
- 25% of the total Matching Award was subject to the Company's total shareholder return ("TSR") as compared to a comparator group made up of a selected group of retail companies over the Performance Period. Vesting of 6.25% of the total Matching Award would occur for median performance. Vesting of the maximum 25% of the total Matching Award would occur for upper quartile performance or above. Vesting would occur on a straight-line basis between these two points. If the Company's TSR performance over the Performance Period was below median, then the amount of the Matching Award which would vest under this TSR performance condition would be nil.
- To the extent vested as to performance, Matching Awards became 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 is 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 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. The exercise price is therefore fixed at grant date.

(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.

Part II of the CSOP provides for the grant of unapproved options. This enables options to be granted under the same terms as Part I of the CSOP but without complying with the particular requirements of the legislation applicable to tax approved CSOP Schemes. The provisions of the CSOP that do not apply under Part II include the £30,000 limit and the need to seek HMRC approval for the scheme and subsequent amendments (as applicable).

3 PSP

On 25 February 2014 the Company adopted the PSP. Awards under the PSP were made on 17 March 2014 and annually thereafter 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 were 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 was 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 are 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. In September each year, the Company issues 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 is £500 per month. The Executive Directors have elected to participate in the Sharesave, along with 30% of eligible colleagues.

The options were granted in September 2014, September 2015 and October 2016, and in normal circumstances they are not exercisable until completion of a three year savings period, beginning on 1 December each year, and will then be exercisable for a period of six months following completion of the relevant savings period.

(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.

Notes (forming part of the financial statements) continued

23 Share based payments (continued)

(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 three years. The maximum amount which an employee is permitted to contribute under SAYE contracts is £500 per month. 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.

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. The expected life is the average expected period to exercise, which has been taken as three years. The risk free rate of return is the yield on zero-coupon UK government bonds with a life equal to this expected life.

Options are 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:

	CIP 2015	PSP 2017	PSP 2016	PSP 2015
At grant date				
Share price	£2.45	£2.59	£2.75	£2.45
Exercise price	£0.00	£0.00	£0.00	£0.00
Expected volatility	30%	32%	30%	30%
Option life (years)	3	10	10	10
Expected dividend yield	2.00%	2.00%	2.00%	2.00%
Risk free interest rate	1.07%	0.50%	1.07%	1.07%
Weighted average fair value of options granted	£2.06	£2.06	£2.06	£2.06

	CSOP			SAYE		
	2017	2016	2015	2017	2016	2015
At grant date						
Share price	£2.59	£2.75	£2.31	2.46	£2.88	£1.75
Exercise price	£2.59	£2.75	£2.31	1.97	£2.30	£1.40
Expected volatility	32%	32%	37%	32%	30%	30%
Option life (years)	10	10	10	3	3	3
Expected dividend yield	2.00	2.00%	2.00%	2.00%	2.00%	2.00%
Risk free interest rate	0.50%	2.25%	2.25%	0.20%	1.07%	1.07%
Weighted average fair value of options granted	£0.65	£0.89	£0.75	£0.70	£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	Total 000
Outstanding at start of year	2,454	3,174	4,538	4,147	14,313
Granted	–	2,101	2,118	2,753	6,972
Forfeited	(675)	(1,869)	(325)	(20)	(2,889)
Exercised	(130)	–	–	–	(130)
Lapsed	–	–	–	–	–
Outstanding at end of year	1,649	3,406	6,331	6,880	18,266
Weighted average exercise price	£0.00	£0.00	£2.57	£1.76	

The Group income statement charge recognised in respect of share based payments for the current period is £2,437,000 (2016: £3,005,000).

Notes (forming part of the financial statements) continued

24 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings		Other	
	At 30 March 2017 £000	At 31 March 2016 £000	At 30 March 2017 £000	At 31 March 2016 £000
Less than one year	76,738	73,346	3,607	3,738
Between one and five years	284,115	274,599	4,881	5,171
More than five years	244,079	234,270	263	125
	604,932	582,215	8,751	9,034

Land and buildings relate to the hire of stores and other trading properties under operating leases. No lease is considered individually significant and therefore there are no material contingent rents, renewal or purchase options or lease restrictions within the portfolio.

During the period ended 30 March 2017 £77,486,000 was recognised as an expense in the income statement in respect of operating leases (period ended 31 March 2016: £74,291,000).

The Company does not have any operating leases.

Sublease income

The Group subleases space in a number of stores to joint venture partners, who pay a market rental rate to trade a vet surgery within the store. The Group also 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. See note 3.

	At 30 March 2017 £000	At 31 March 2016 £000
Less than one year	7,490	7,048
Between one and five years	26,681	26,393
More than five years	18,512	20,019
	52,683	53,460

25 Commitments

Capital commitments

At 30 March 2017, the Group is committed to incur capital expenditure of £1,387,000 (31 March 2016: £978,000). Capital commitments predominantly relate to the cost to fit out new Pets at Home stores and investment in new IT systems.

At 30 March 2017, the Group has committed to provide funding to related party joint venture companies of £615,000 (31 March 2016: £972,000) which remains undrawn.

At 30 March 2017, the Group had a commitment to increase the loan funding to joint venture companies of £1,080,000 (31 March 2016: £1,260,000), this increase in funding is written into the joint venture agreements and become payable when certain criteria are met.

26 Contingencies

Veterinary practices

Provisions are maintained by the Group, where necessary, against certain balances held with the veterinary practices. 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 £9,850,000 (31 March 2016: £10,655,000).

The Group is also a guarantor for the lease for veterinary practices that are not located within Pets at Home stores.

27 Related parties

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.

Financial commitments provided to related party veterinary practices for funding are set out in note 25.

The Group provide financial guarantees for bank loans taken out by a number of related party joint venture veterinary practices, these are disclosed in note 26.

The transactions entered into during the period, and the balances outstanding at the end of the period are as follows:

	30 March 2017 £000	31 March 2016 £000
<i>Transactions</i>		
– Fees for services provided to veterinary practices	47,058	38,515
– Rental and other occupancy charges to veterinary practices	10,686	10,171
<i>Balances</i>		
Included within Trade and other receivables (note 16):		
– Funding for new practices	2,435	1,444
– Trading balances	1,998	2,340
– Operating loans		
– Gross value of operating loans	23,176	12,499
– Provision held for operating loans ¹	(3,336)	(3,203)
– Net Operating loans	19,840	9,296
Included within Other financial assets and liabilities (note 15):		
– Loans to joint venture practices	12,054	8,734
– Loans to other related parties (non-current)	3,416	1,018
– Loans to other related parties (current)	–	657
Included within Trade and other payables (note 19):		
– Trading balances ¹	(1,427)	(2,729)

1 The provision held for balances due from veterinary practices was classified within Trade and other payables in the year ended 31 March 2016 being £3,203,000. At 30 March 2017, the provision is held within Trade and other receivables to offset the gross receivable values. The comparative figures in note 16 and 19 have not been restated.

Fees for services provided to related party veterinary practices relate to charges for support services offered in such areas as clinical development, promotion and methods of operation as well as service activities including accountancy, legal and property.

Funding for new practices represents the amounts advanced by the Group to support a with surgery opening costs. The funding is short term and the related party joint venture company draws down their own bank funding to settle these amounts outstanding with the Group shortly after opening.

Trading balances represent costs incurred/income received by the Group in relation to the services provided to the veterinary practices that have yet to be recharged.

Operating loans represent amounts advanced to related party veterinary practices to cover working capital requirements and support their longer term growth. The loans are repayable on demand and do not attract interest. In the 52 week period ended 30 March 2017, the value of balances written off to the income statement amounted to £1,221,000 (period ended 31 March 2016: £nil)

The comparative period has been restated to provide greater analysis of related party transactions with veterinary practices.

Goods and services

KKR Capital Markets Ltd received fees of £nil (period ended 31 March 2016: £500,000), relating to professional services associated with debt financing following the refinancing of the Pets at Home Group in April 2015.

Key management personnel

Details of remuneration paid to key management personnel are set out in note 4.

The comparative period has been restated to more appropriately analyse related party balances.

Notes (forming part of the financial statements) continued

28 Investments in subsidiaries

Company

	Investments in subsidiaries £000
At 30 March 2017 and 31 March 2016	936,179

Registered office address

Pets at Home (Asia) Limited: Units 704 5A, 7/F, Tower B, Manulife Financial Centre, 223-231 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong.

PAH Pty Limited: Herbert Greer & Rundle, Level 21, 385 Bourke Street, Melbourne, VIC 3000, Australia.

Pure Pet Food Ltd: Unit 6, Brookmills Saddleworth Road, Greetland, Halifax, West Yorkshire, England, HX4 8LZ.

The registered office of all the remaining companies in which the Group has an interest in the share capital is Epsom Avenue, Stanley Green, Handforth, Cheshire, SK9 3RN.

Group

Details of the subsidiary undertakings are as follows:

Company	Holding	Country of incorporation	Class of shares held	At 30 March 2017 %	At 31 March 2016 %
Dick White Referrals Limited	Indirect	United Kingdom	Ordinary	76	–
Eye-Vet Limited	Indirect	United Kingdom	Ordinary	90	–
Anderson Moores Veterinary Specialists Ltd	Indirect	United Kingdom	Ordinary	75	75
Brand Development Limited	Indirect	Guernsey	Ordinary	100	100
Companion Care (Services) Limited	Indirect	United Kingdom	Ordinary	100	100
Companion Care Management Services Limited	Indirect	United Kingdom	Ordinary	100	100
Farm-Away Limited	Indirect	United Kingdom	Ordinary	–	100
Les Boues Limited	Indirect	Jersey	Ordinary	100	100
Northwest Surgeons Limited	Indirect	United Kingdom	Ordinary	100	100
PAH Pty Limited	Indirect	Australia	Ordinary	100	100
Pet Investments Limited	Indirect	United Kingdom	Ordinary	100	100
Pets at Home (Asia) Limited	Indirect	Hong Kong	Ordinary	100	100
Pets at Home Financial Services Limited	Indirect	United Kingdom	Ordinary	100	100
Pets at Home Holdings Limited	Indirect	United Kingdom	Ordinary	100	100
Pets at Home Limited	Indirect	United Kingdom	Ordinary	100	100
Pets at Home No.1 Limited	Direct	United Kingdom	Ordinary	100	100
Pets at Home Superstores Limited	Indirect	United Kingdom	Ordinary	100	100
Pets at Home Veterinary Specialist Group Limited	Indirect	United Kingdom	Ordinary	100	100
Pets at Home Vets Group Limited	Indirect	United Kingdom	Ordinary	100	100
Ride-Away (York) Limited	Indirect	United Kingdom	Ordinary	–	100
Vets for Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Vets4Pets GB Limited	Indirect	United Kingdom	Ordinary	100	100
Kestrel Debt Recovery Limited	Indirect	United Kingdom	Ordinary	100	100
Pets at Home (ESOT) Limited	Indirect	United Kingdom	Ordinary	100	100
Pet City Holdings Limited	Indirect	United Kingdom	Ordinary	100	100
Pet City Limited	Indirect	United Kingdom	Ordinary	100	100
Pet City Resources Limited	Indirect	United Kingdom	Ordinary	100	100
Vets 4 Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Vets4Pets (Services) Limited	Indirect	United Kingdom	Ordinary	100	100
Vets4Pets Holdings Limited	Indirect	Guernsey	Ordinary	100	100
Vets4Pets I.P. Limited	Indirect	Guernsey	Ordinary	100	100
Vets4Pets Services Limited	Indirect	United Kingdom	Ordinary	100	100
Vets4Pets UK Limited	Indirect	United Kingdom	Ordinary	100	100
Vets4Pets Limited	Indirect	Guernsey	Ordinary	100	100

Company	Holding	Country of incorporation	Class of shares held	At 30 March 2017 %	At 31 March 2016 %
Vets4Pets Veterinary Group Limited	Indirect	United Kingdom	Ordinary	100	100
Bagshot Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Bath Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Bedlington Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Bishop Auckland Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Bradford Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Burton-On-Trent Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Cambridge Perne Road Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Carmarthen Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Chorley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Colchester Layer Road Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Companion Care (Chester Caldy) Limited	Indirect	United Kingdom	Ordinary	100	100
Companion Care (Ilford) Limited	Indirect	United Kingdom	Ordinary	100	100
Companion Care (Kendal) Limited	Indirect	United Kingdom	Ordinary	100	100
Companion Care (Nottingham) Limited	Indirect	United Kingdom	Ordinary	100	100
Companion Care (Thamesmead) Limited	Indirect	United Kingdom	Ordinary	100	100
Crosby Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Ellesmere Port Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Falkirk Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Haverfordwest Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Kingswood Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Leicester St Georges Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Linlithgow Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Littleover Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Long Eaton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Melton Mowbray Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Mexborough Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Newtownards Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Nottingham Netherfield Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Rhyl Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Ripon Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Salford Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Scunthorpe Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Sheffield Heeley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Stoke-On-Trent Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Sudbury Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Teesside Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Telford Madeley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Warminster Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Bicester Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Bodmin Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Blackburn Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Bracknell Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Bromborough Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Canvey Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Clowne Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Crescent Link Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Daventry Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Feltham Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Great Yarmouth Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Hamilton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Haverhill Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–

Notes (forming part of the financial statements) continued

Company	Holding	Country of incorporation	Class of shares held	At 30 March 2017 %	At 31 March 2016 %
Hemsworth Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Inverness Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Irvine Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Leeds Kirkstall Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Leigh Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Littleover Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Malvern Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Market Harborough Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Musselburgh Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Norwich Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Prestwich Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–
Stocksbridge Vets4pets Limited	Indirect	United Kingdom	Ordinary	100	–
Stoke-on-Trent Vets4pets Limited	Indirect	United Kingdom	Ordinary	100	–
Sunderland South Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	–

The Group holds an indirect interest in the share capital of the following companies:

Company	Holding	Country of incorporation	Class of shares held	At 30 March 2017 %	At 31 March 2016 %
Aberdeen Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Abingdon Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Abtw Limited	Indirect	United Kingdom	Ordinary	50	50
Accrington Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Airdrie Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Alton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Altrincham Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Alsager Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Amesbury Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Andover Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bangor Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bangor Wales Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Barnsley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Barnwood Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Barry Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bearsden Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bedford Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bedminster Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Beeston Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Belfast Stormont Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Beverley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Biggleswade Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bishops Stortford Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bishopston Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bitterne Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Blackheath Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Blackpool Squires Gate Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Blackpool Warbreck Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Blackwood Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bolton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Borehamwood Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bourne Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Bramley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Brighouse Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Bristol Emerson Green Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bristol Imperial Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Bristol Kingswood Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bromsgrove Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Buckingham Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bulwell Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bury St Edmunds Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bury Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Burscough Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Byfleet Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Caerphilly Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Camborne Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Cannock Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Canterbury Sturry Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Cardiff Ely Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Cardiff Road Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50

Notes (forming part of the financial statements) continued

Company	Holding	Country of incorporation	Class of shares held	At 30 March 2017 %	At 31 March 2016 %
Carlisle Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Carrickfergus Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Castleford Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Catterick Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Chadwell Heath Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Cheadle Hulme Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Chester Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Chesterfield Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Cirencester Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Clevedon Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Cleveleys Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Clifton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Clitheroe Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Colne Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Aintree) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Andover) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Ashford) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Ashton) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Aylesbury) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Ayr) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Ballymena) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Banbury) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Barnsley Cortonwood) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Basildon Pippis Hill) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Basildon) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Basingstoke) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Beckton) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Bedford) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Belfast) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Bishopbriggs) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Bletchley) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Bolton) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Bournemouth) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Braintree) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Brentford) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Bridgend) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Bridgwater) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Brislington) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Bristol Filton) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Broadstairs) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Burgess Hill) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Cambridge Beehive) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Cambridge) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Cannock) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Canterbury) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Cardiff) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Charlton) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Chatham) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Chelmsford) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Cheltenham) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Chesterfield) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Chichester) Limited	Indirect	United Kingdom	Ordinary	50	50

Company	Holding	Country of incorporation	Class of shares held	At 30 March 2017 %	At 31 March 2016 %
Companion Care (Chingford) Limited	Indirect	United Kingdom	Ordinary	30	30
Companion Care (Chippenham) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Christchurch) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Colchester) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Corstorphine) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Coventry Walsgrave) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Cramlington) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Crawley) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Crayford) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Croydon) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Derby Kingsway) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Derby) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Dunstable) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Eastbourne) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Ely) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Enfield) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Exeter Marsh) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Exeter) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Falmouth) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Fareham Collingwood) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Fareham) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Farnborough) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Farnham) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Folkestone) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Fort Kinnaird) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Friern Barnet) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Gloucester) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Harlow) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Hatfield) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Hemel Hempstead) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (High Wycombe) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Hove) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Huddersfield) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Huntingdon) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Ipswich Martlesham) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Keighley) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Kidderminster) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Kings Lynn) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Kirkcaldy) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Leicester Beaumont Leys) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Leicester Fosse Park) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Leighton Buzzard) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Linwood) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Lisburn) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Liverpool Penny Lane) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Livingston) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Llantrisant) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Macclesfield) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Maidstone) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Merry Hill) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Milton Keynes) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (New Malden) Limited	Indirect	United Kingdom	Ordinary	50	50

Notes (forming part of the financial statements) continued

Company	Holding	Country of incorporation	Class of shares held	At 30 March 2017 %	At 31 March 2016 %
Companion Care (Newbury) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Newcastle Kingston Park) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Newport) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Northampton Nene Valley) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Norwich Hall Road) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Norwich Longwater) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Norwich) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Oldbury) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Oldham) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Orpington) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Oxford) Limited	Indirect	United Kingdom	Ordinary	50	100
Companion Care (Perth) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Peterborough Bretton) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Peterborough) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Plymouth) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Poole) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Portsmouth) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Preston Capitol) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Pudsey) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Reading) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Redditch) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Redhill) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Romford) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Rotherham) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Rustington) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Salisbury) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Scarborough) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Slough) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Southampton) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Southend-On-Sea) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Speke) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Stevenage) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Stirling) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Stockport) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Stoke Festival Park) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Stratford-Upon-Avon) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Swansea) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Swindon) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Tamworth) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Taunton) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Telford) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Truro) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Tunbridge Wells) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Wakefield) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Weston-Super-Mare) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Winchester) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Widdersh) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Woking) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Woolwell) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Worcester) Limited	Indirect	United Kingdom	Ordinary	50	50
Companion Care (Wrexham Holt Road) Limited	Indirect	United Kingdom	Ordinary	50	50
Corby Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50

Company	Holding	Country of incorporation	Class of shares held	At 30 March 2017 %	At 31 March 2016 %
Craigavon Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Crewe Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Croydon Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Dagenham Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Darlington Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Davidsons Mains Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Denton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Dewsbury Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Doncaster Vets4Pets Limited	Indirect	United Kingdom	Ordinary	60	60
Dorchester Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Dover Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Droitwich Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Drumchapel Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Dudley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Dumbarton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Dunfermline Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Durham Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
East Kilbride South Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Eastleigh Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Eastwood Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Ecclehill Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	75
Epsom Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Evesham Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Filton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Gamston Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Gateshead Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Glasgow Forge Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Goldenhill Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Gosport Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Grantham Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Gravesend Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Greasby Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Greenford Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Grimsby Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Guernsey Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Halesowen Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Halifax Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Harrogate New Park Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Harrogate Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Hartlepool Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Hastings Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Hayling Island Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Hemel Hempstead Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Hendon Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Hereford Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Hertford Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
High Wycombe Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Hinckley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Huddersfield Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Hull Anlaby Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Hull Stoneferry Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Hull Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50

Notes (forming part of the financial statements) continued

Company	Holding	Country of incorporation	Class of shares held	At 30 March 2017 %	At 31 March 2016 %
Ilkeston Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Ipswich Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Kendal Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Kettering Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Kidderminster Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Kilmarnock Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Kirkby in Ashfield Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Lancaster Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Launceston Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Leeds Birstall Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Leeds Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Leigh-On-Sea Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Letchworth Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Lincoln South Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Lisburn Longstone Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Liverpool OS Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Llandudno Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Llanelli Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Llanrumney Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Longton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Loughborough Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Luton Gipsy Lane Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Luton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Lytham Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Maidenhead Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Maidstone Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Maldon Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Mansfield Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Mapperley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Marlborough Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Merthyr Tydfil Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Middlesbrough Cleveland Park Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Middlesbrough Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Middleton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Millhouses Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Morpeth Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
New Milton Vets4pets Limited	Indirect	United Kingdom	Ordinary	50	100
Newbury Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Newcastle-Upon-Tyne Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Newmarket Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Newport Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Newton Abbot Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Newton Mearns Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Newtownabbey Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
North Tyneside Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Northampton Riverside Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Northampton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Nottingham Chilwell Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Oadby Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Old Kent Road Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Oxford Cowley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Paisley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50

Company	Holding	Country of incorporation	Class of shares held	At 30 March 2017 %	At 31 March 2016 %
Penrith Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Pentland Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Peterborough Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Pontypridd Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Poole Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Portsmouth Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Prenton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Prescot Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Preston Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Pure Pet Food Ltd	Indirect	United Kingdom	Ordinary	33	33
Quinton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Rawtenstall Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Rayleigh Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Redditch Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Richmond Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Rochdale Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Rotherham Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Rugby Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Rugby Central Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Ruislip Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Rushden Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Selly Oak Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Sevenoaks Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Sheffield Drakehouse Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Sheffield Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Sheffield Wadsley Bridge Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Sheldon Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Shelfield Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Shrewsbury Meole Brace Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Shrewsbury Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Sidcup Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Sittingbourne Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Solihull Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Somercotes Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
South Shields Quays Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
South Shields Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Southampton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Southend Airport Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Southend-On-Sea Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Southport Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
St Albans Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
St Austell Vets4Pets Limited	Indirect	United Kingdom	Ordinary	95	95
St Helens Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
St Neots Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Stafford Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Stechford Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Stockton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Stourbridge Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Sunderland Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Sutton Coldfield Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Sutton In Ashfield Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Swindon Bridgemead Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50

Notes (forming part of the financial statements) continued

Company	Holding	Country of incorporation	Class of shares held	At 30 March 2017 %	At 31 March 2016 %
Swinton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Sydenham Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Thamesmead Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Thurrock Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Tilehurst Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Torquay Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Trafford Park Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Trowbridge Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Wakefield Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Walkden Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Wallasey Bidston Moss Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Walsall Reedswood Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Waltham Abbey Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Walton on Thames Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Walton Vale Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Warrington Riverside Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Warrington Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Warrington Winnick Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	50
Washington Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Waterlooville Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Watford Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Wellingborough Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
West Bromwich Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
West Drayton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	
Weymouth Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Widnes Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Wigan Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	–
Wimbledon Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Wokingham Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Wolverhampton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Worksop Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Worthing Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Wrexham Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Wsm Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Yate Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Yeovil Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
York Clifton Moor Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
York Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50

Glossary – Alternative Performance Measures

Guidelines on Alternative Performance Measures (APMs) issued by the European Securities and Markets Authority came into effect for all communications released on or after 3 July 2016 for issuers of securities on a regulated market.

In the reporting of financial information, the Directors have adopted various APMs of historical or future financial performance, position or cash flows other than those defined or specified under International Financial Reporting Standards (IFRS).

The Directors measure the performance of the Group based on the following financial measures which are not recognised under EU-adopted IFRS, and consider these to be important measures in evaluating the Group's strategic and financial performance. The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group.

APMs are also used to enhance the comparability of information between reporting periods, by adjusting for non-underlying items, to aid the user in understanding the Group's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive setting purposes and have remained consistent with prior year.

All APMs relate to the current period's results and comparative periods where provided.

53 week prior year comparison

The FY17 audited period represents the 52 weeks to 30 March 2017. The audited comparative period represents 53 weeks to 31 March 2016, but to better reflect the business's underlying performance, the more appropriate comparable period is the 52 weeks to 24 March 2016. On this basis, all commentary in respect of the comparative period is based on the proforma 52 week period to 24 March 2016 unless otherwise stated. In order to calculate the 52 week financials, where applicable, the outcome of the 53rd week has been used as the basis for the adjustment, although in some instances, a degree of judgement has been applied in deriving certain income statement costs in relation to the final week. The full statutory financials, which compare the current financial year to the 53 week prior year, are detailed starting on page 117.

Glossary – Alternative Performance Measures continued

A reconciliation between a 52 week basis and a 53 week statutory basis are included in the reconciliations below:

APM	Definition	Reconciliation			
Cash EBITDA	EBITDA (see below) adjusted for share based payment charge.	Cash EBITDA (£m)	FY16	FY17	Note
		EBITDA	124.7	130.5	
		Share based payment charge	3	2.4	3
		Cash EBITDA	127.7	132.9	
		Impact 53rd week	2.7		
		Cash EBITDA (53 week)	130.4		
CROIC	Cash return on invested capital, represents cash returns divided by the average of gross capital (GCI) invested for the last twelve months. Cash returns represent pre-exceptional operating profit before property rentals and share based payments subject to tax then adjusted for depreciation and amortisation. GCI represents gross property, plant and equipment plus software and other intangibles excluding the goodwill created on the acquisition of the Group by KKR (£906,445,000) plus net working capital, plus capitalised rent multiplied by a factor of 8x.	CROIC	FY16	FY17	Note
		Cash returns:			
		Pre-exceptional operating profit	102.3	100.9	
		Property rental costs	70.4	73.0	3
		Share based payment charges	3.0	2.4	3
			175.7	176.4	
		Tax rate	20%	20%	
		Tax charge on above	(35.1)	(35.3)	
			140.5	141.1	
		Depreciation and amortisation	25.1	29.6	3
		Cash returns	165.6	170.7	
		Gross capital invested (GCI):			
		Gross property, plant and equipment	198.9	234.9	11
		Intangibles	985.1	1,005.5	12
		Less KKR goodwill	(906.4)	(906.5)	
		Net working capital	(50.5)	(52.3)	see definition
		Capitalised operating leases	563.2	584.0	8x
GCI	790.3	864.8			
Average		827.6			
Cash returns/average CGI		20.6%			
EBITDA	Earnings before interest, tax, depreciation and amortisation before the effect of exceptional items in the period. This is a key management incentive metric.	EBITDA (£m)	FY16	FY17	Note
		EBITDA on 52 week basis (unaudited)	124.7	130.5	
		Impact of 53rd week	2.7	–	
		EBITDA	127.4	130.5	
		Depreciation and amortisation	(25.1)	(29.6)	3
		Exceptional items	(0.8)	(1.0)	3
		Statutory operating profit (audited)	101.4	99.9	

APM	Definition	Reconciliation			
Free cash flow	Free cash flow being net cash from operating activities, after tax, less net cash used in investing activities (excluding acquisitions), less interest paid and debt issue costs, and is stated before cash flows for exceptional costs.	Free cash flow (£m)	FY16	FY17	Note
		Free cash flow on 52 week basis (unaudited)	77.8	64.6	
		Impact of 53rd week	(6.2)	–	
		Free cash flow	71.6	64.6	
		Dividends	(27.9)	(39.9)	CFS
		Acquisition of subsidiary	(8.1)	(14.8)	CFS
		Disposal of subsidiary	–	0.7	CFS
		Exceptional items	(0.8)	–	CFS
		Loans issued	(1.7)	(2.2)	CFS
		Loan repayment on acquisition	(1.8)	–	CFS
		Proceeds from new loan	202.0	8.0	CFS
		Repayment of borrowings	(325.0)	–	CFS
		Refinancing costs	(1.2)	–	CFS
	Net (decrease)/increase in cash	(92.9)	16.3		
	<i>CFS = Consolidated Statement of Cash Flows</i>				
Gross profit margin (%)	Gross profit divided by revenue expressed as a percentage	Information provided in the consolidated income statement page 117.			
Like-for-like	'Like-for-like' sales growth comprises total revenue in a financial period compared to revenue achieved in a prior period, for stores, online operations, grooming salons, vet practices and referral centres that have been trading for 52 weeks or more	Not applicable.			
Net debt	Cash and cash equivalents less loans and borrowings	A reconciliation of net debt is provided in note 18.			
Pre-exceptional Basic EPS	Pre-exceptional basic earnings per share (EPS) is based on earnings per share before the impact of certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group, and are excluded by virtue of their size and nature in order to reflect management's view of the performance of the Group.	Pre-exceptional EPS (p)	FY16	FY17	Note
		Pre-exceptional EPS (52 week basis)	15.1	15.3	
		Impact of 53rd week	0.3	–	
		Pre-exceptional EPS (53 week basis)	15.4	15.3	5
		Exceptional items	(0.8)	(0.2)	5
		Earnings per share	14.6	15.1	
Pre-exceptional net finance expense	Pre-exceptional net finance expense is based on the net finance cost of the Group before the impact of certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group, and are excluded by virtue of their size and nature in order to reflect management's view of the performance of the Group.	Pre-exceptional net finance expense (£m)	FY16	FY17	Note
		Pre-exceptional net finance expense (52 week basis)	(4.8)	(4.5)	
		Impact of 53rd week	(0.2)	–	
		Pre-exceptional net finance expense (53 week basis)	(5.0)	–	
		Exceptional items	(4.3)	–	7
		Net finance expense	(9.3)	–	
Pre-exceptional operating profit	Pre-exceptional operating profit is based on operating profit before the impact of certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group, and are excluded by virtue of their size and nature in order to reflect management's view of the performance of the Group.	Pre-exceptional operating profit (£m)	FY16	FY17	Note
		Pre-exceptional operating profit (52 week basis)	100.2	100.9	
		Impact of 53rd week	2.1	–	
		Pre-exceptional operating profit (53 week basis)	102.3	100.9	
		Exceptional items	(0.8)	(0.1)	3
	Operating profit	101.4	99.9		

Glossary – Alternative Performance Measures continued

APM	Definition	Reconciliation				
Pre-exceptional profit before tax	Pre-exceptional profit before tax (PBT) is based on pre-tax profit before the impact of certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group, and are excluded by virtue of their size and nature in order to reflect management's view of the performance of the Group.	Pre-exceptional PBT (£m)	FY16	FY17	Note	
		Pre-exceptional PBT (52 week basis)	95.3	96.4		
		Impact of 53rd week	2.0	–		
		Pre-exceptional PBT (53 week basis)	97.3	96.4		
		Exceptional items	(5.2)	(1.0)	3	
		Pre-exceptional PBT	92.1	95.4		
Pre-exceptional profit after tax	Pre-exceptional profit after tax (PAT) is based on post tax profit before the impact of certain costs or incomes that derive from events or transactions that fall outside the normal activities of the Group, and are excluded by virtue of their size and nature in order to reflect management's view of the performance of the Group.	Pre-exceptional PAT (£m)	FY16	FY17	Note	
		Pre-exceptional PAT (52 week basis)	75.5	76.3		
		Impact of 53rd week	1.6	–		
		Pre-exceptional PAT (53 week basis)	77.1	76.3		
		Exceptional items	(4.3)	(1.0)		
		Pre-exceptional PAT	72.8	75.4		
Underlying total tax expense	Underlying total tax expense is based on the statutory tax expense for the period (being the net of current and deferred tax) before the impact of certain costs of incomes that derive from events or transactions that fall outside the normal activities of the Group, and are excluded by virtue of their size and nature in order to reflect management's view of the performance of the Group.	Underlying total tax expense (£m)	FY16	FY17	Note	
		Underlying tax expense (52 week)	(19.8)	(20.0)		
		Impact of 53rd week	(0.4)	–		
		Underlying tax expense (53 week)	(20.2)	(20.0)		
		Exceptional items	0.9	–	3,8	
		Tax expense	(19.4)	(20.0)		
Working capital	Working capital movement is a measure of the cash required by the business to fund its inventory, receivables and payables. The change year on year reflects the cash in/outflow in relation to changes in the working capital cycle. The change in working capital is a key component of the free cash flow measure of the Group.	Net working capital (£m) Movement	FY16	FY17	Note	
		Net working capital (52 week basis)	5.0	(2.3)		
		Impact of 53rd week	(8.6)			
		Net working capital (53 week basis)	(3.6)	(2.3)		
		Being:				
		Increase in trade and other receivables	(6.8)	(8.9)	CFS	
		Increase in inventories	(3.6)	(5.0)	CFS	
		Increase in trade and other payables	7.0	11.5	CFS	
		Decrease in provisions	(0.2)	0.1	CFS	
		Net working capital	(3.6)	(2.3)		
		<i>CFS = Consolidated Statement of Cash Flows</i>				
		Net working capital	FY16	FY17	Note	
		Debtors	59.0	69.7	16	
Stock	52.5	56.4	13			
Creditors (incl Corporation Tax)	(160.1)	(176.5)	19			
Provisions	(0.4)	(0.5)	20			
Non-current provisions	(1.4)	(1.4)	20			
Net working capital	(50.5)	(52.3)				

Whilst not an alternative performance measure, the following additional measures are presented in the Annual Report and Accounts and compared to a pro-forma comparative, comprising the 52 weeks ended 24 March 2016. The following tables reconcile those measures to the statutory 53 week information:

Revenue (£m)	FY16 Proforma 52 weeks to 24 March 2016	53rd week	FY16 Audited 53 weeks to 31 March 2016	FY17 Audited 52 weeks to 30 March 2017
Revenue split:				
Food	382.5	7.5	390.0	395.1
Accessories	314.0	6.2	320.2	321.6
Total Merchandise	696.5	13.7	710.2	716.7
Services and other	81.3	1.6	82.9	117.5
Group revenue	777.8	15.3	793.1	834.2

Revenue split is disclosed in note 2.

Depreciation and amortisation (£m)	FY16 Proforma 52 weeks to 24 March 2016	53rd week	FY16 Audited 53 weeks to 31 March 2016	FY17 Audited 52 weeks to 30 March 2017
Depreciation and amortisation	(24.6)	(0.5)	(25.1)	(29.6)

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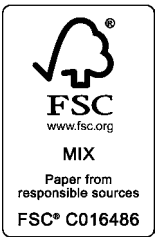
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