

Home

OF ALL THINGS PET



Pets at Home is the UK's leading pet care company

Strategy and performance

Delivering our strategy supports growth across like-for-like revenues, space rollout and margins.

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Grow like-for-like revenues



Grow retail and services space



Grow margins



Corporate Social Responsibility Strategy



Online Annual Report 2018
investors.petsathome.com/ar2018

Responsibility

investors.petsathome.com/responsibility



Strategic report

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The year in review

Financial highlights

Revenue (£m)

£898.9m +7.8%

2018	898.9
2017	834.2
2016	777.8

Gross margin (%)

51.7% -249bps

2018	51.7
2017	54.2
2016	54.5

Operational highlights



Better value for customers

Like-for-like revenue growth of 5.0% in the Merchandise business has been significantly accelerated by our new pricing initiatives, accessories innovation and puppy product relaunch



Even more available in store

Launching online Order-In-Store and flea product subscription plans has given our colleagues the ability to offer more products and services to customers in-store

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Underlying basic earnings per share (pence)¹

13.5p -11.2%

2018	13.5
2017	15.3
2016	15.1

FY18 statutory basic earnings per share were 12.6p.

Dividend per share (pence)

7.5p

2018	7.5
2017	7.5
2016	7.5



Improved website experience

Customers are having a faster and smoother online experience with a revamped checkout process, which has helped increase our omnichannel revenue¹ growth to 75.1%



More veterinary services in even more locations

We have seen our veterinary business growing ahead of the market, achieved through our new First Opinion practice openings, healthcare plans, and space extensions to our Specialist Referral Centres

¹ Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 169.





Home OF ALL THINGS PET



Our commitment is to make sure pets and their owners get the very best advice, care and products. Happy and healthy pets are our priority



Home OF ALL THINGS PET

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Home OF VALUE AND CONVENIENCE

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Home OF VETERINARY EXCELLENCE

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Home OF DOING THE RIGHT THING

→ Page 38

Everything your pet needs for a happy and healthy life



Standalone vet practices



Veterinary Specialist Referral Centres



Business model

→ Page 12

Services

We provide veterinary services through our network of First Opinion practices and 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 highly 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.

Services revenue (£m)



First Opinion practices

Our network of First Opinion small animal veterinary practices operates in conjunction with our Joint Venture Partners. This arrangement, operating mainly under the Vets4Pets brand, offers clinical freedom to veterinary surgeons, supported by our business expertise. Practices are located within Pets at Home stores and in standalone locations.

461

First Opinion practices

Specialist Referral Centres

Our specialist centres represent the cutting edge of veterinary care. They provide medicine and surgery for the most complex cases, including orthopaedic surgery, neurosurgery, oncology and state of the art diagnostic imaging.

4

Referral centres



The Groom Room

Our dog and cat grooming salons, located predominantly in stores.

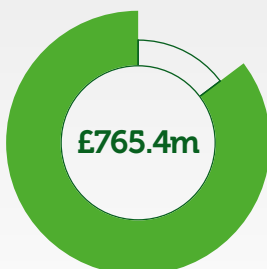
309

Grooming salons

Merchandise

Pet products are available both online or from our stores, where our well-trained colleagues provide advice on areas such as pet nutrition and the set-up of home aquaria.

Merchandise revenue (£m)



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.

11,700

products in our extended online range



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

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

A woman with long brown hair tied back, wearing a red sleeveless top, is holding a small beagle puppy. She is looking down at the puppy with a gentle smile. The puppy is looking towards the camera. The background is a plain, light grey color.

Home OF ALL THINGS PET

As a new puppy owner there's a lot to think about, it's a big responsibility – we're here to give customers the very best for their puppy across Pets at Home products, Vets4Pets practices and the Groom Room



VIP puppy club

Creating a positive experience with customers as they welcome their new puppy can ensure we are seen as more than just a shop. Our aim is to make sure customers can also benefit from our vet practices and grooming salons as their dog grows and matures, not just the initial puppy shop.

Every new puppy owner is greeted with a VIP welcome in our stores, along with the 'Little Book of Puppy', which is filled with advice, as well as vouchers to help with that first puppy shop.

By joining the VIP puppy club, we can offer customers 10% off their first puppy product shop, a free bag of food with a nutrition consultation, their first month for free with a flea product subscription, 50% discount on their first puppy groom and even a free nurse check at one of our vet practices.

Being part of the VIP puppy club also means that customers will receive regular emails packed with tips, advice and product offers that are tailored to their needs.



'Best Start in Life' veterinary healthcare plan

Our puppy healthcare plans are offered by our in-store and standalone vet practices and include everything they'll need from a veterinary perspective to grow up happy and healthy. The plan includes; a first vaccination course, microchip, three months worth of flea and worm treatment, a 10% neutering discount, a bag of food and four weeks Petplan insurance.

Over **60,000**

puppies have joined the VIP puppy club

Only **£85**

for the 'Best Start in Life' veterinary puppy plan



Brand new puppy product range

Puppies need the best food, accessories and toys, which is why we relaunched our entire puppy product range during the year. New branding, designs, products and a bigger range of food and treats. We want to make Pets at Home the first destination for every new puppy owners' first shop.





Home OF VALUE AND CONVENIENCE



We have invested to deliver great value, whenever and however customers choose to shop with us



Prices repositioned in key product areas

During the year we repositioned our pricing in key product areas to better reflect what is important to customers. Having tested our pricing strategy in a pilot study, we understood that we needed to focus on very specific areas rather than take a blanket approach.

We began with the Switch & Save campaign, which highlights the value in our private label Advanced Nutrition foods. We have followed this with price reductions in branded food lines and pet essentials. This move to everyday lower prices removed price as a barrier for our customers, allowing us to maximise all the unique attributes of Pets at Home that competitors don't have. The reduction in promotional activity also delivered operational savings in stores.



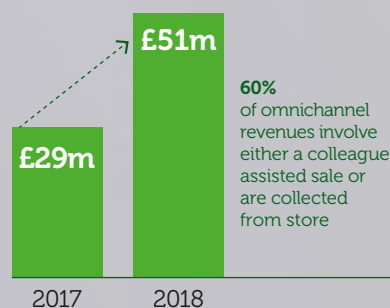
Digital investment provides easy access to our online offer

The introduction of Order-In-Store, an addition to the services available through our proprietary iPad platform, PetPad, allows colleagues to advise and sell from our extended online range. This initiative makes our full range of food and accessories available in every store and has proven popular with both customers and colleagues, delivering additional sales.

We have also improved the online experience for customers, by redesigning our mobile checkout, making it much easier to buy using a smartphone or tablet. This has driven an increase in conversion, encouraging us to make similar improvements to our PC checkout.

Our successful subscription service has also been expanded to offer additional flea treatments in convenient individual pipettes delivered to customers at the right time to administer a single preventative dose to their pet dog or cat.

Increase in omnichannel revenue



75.1%

Omnichannel revenue¹ growth, driven by new initiatives

¹ Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 169.



Home OF VETERINARY EXCELLENCE



Our preferred model is to work in partnership, providing clinical freedom for vets to do what they judge to be in the best interest of their clients and patients



Creating Joint Venture partnerships

In our First Opinion practices we provide opportunities for entrepreneurial vets to partner with us to establish their own business. Our Joint Venture Partnership model is a framework within which vets have complete clinical freedom, supported by our experienced business professionals and a proven business model under the umbrella of the brand, Vets4Pets.

Clinical freedom means that vets use their professional judgement to decide on the most appropriate treatment for their patient. Our role is to leverage the scale of the Group, providing business advice, services and administrative support.



Expanding our specialist network

Specialist centres are much larger than First Opinion practices and are invested with state of the art facilities and technology, which enable specialist vets to deal with the most complex cases that are referred to them. Reflecting our preference to work in partnership, we have developed a shared ownership model for these specialist centres, whereby the Group becomes the majority shareholder and clinicians have an opportunity to own a share in the future growth of the business.



Having acquired four Specialist Referral Centres, our aim is to achieve national coverage in this premium segment of the veterinary market.

In addition, we continue to invest in our existing specialist centres. Recent investments include the establishment of a Feline Hyperthyroid Clinic at Anderson Moores Veterinary Specialists in Hampshire, making it one of only a handful of veterinary centres in the south of England to provide a state of the art radioactive iodine treatment for geriatric cats. This “gold standard treatment” attracts none of the risks associated with a surgical thyroidectomy and has a cure rate of approximately 95%.

The UK pet market is growing and we have taken share



We are the UK's largest pet care business



The UK pet market

UK market by sector 2017¹

Grooming
£252m

Veterinary³
£2.3bn



Food²
£2.5bn

Accessories²
£850m

Online market is

12%

of total products market

1 Source: Pets at Home data, UK marketing reports, OC&C 2017.

2 Includes online spend from pet products.

3 Veterinary includes First Opinion and Specialist Referrals market.

Pet market has shown resilient growth

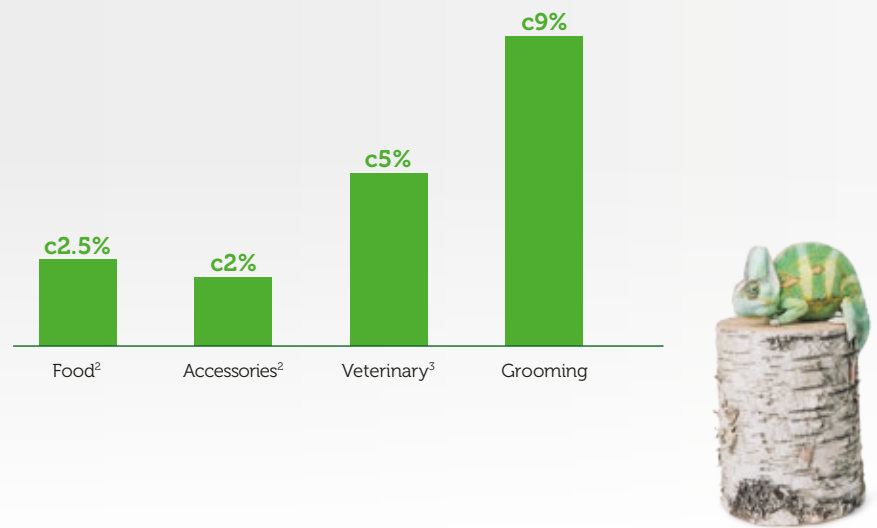
Market growth dynamics

- A stable UK dog and cat population.
- Increasing numbers of specialist pedigree and mixed breed dogs, whose owners spend more on products and care.
- Humanisation of pets is increasing the desire for a wider range of products and services.
- Shift to higher quality foods driven by the health benefits to pets.
- Advances in veterinary care, supported by growing insurance coverage.
- Continued transition of sales to the online market.

Our approach

- Frequent innovation and range change in pet products.
- New brands and range extensions in higher quality pet foods.
- Rollout of new vet practices and grooming salons.

Market growth during 2017¹



Pets at Home growing market share

Key trends

- Pets at Home is growing market share across all areas.
- In the pet products market, share growth is being experienced by omnichannel retailers and online businesses who have scale.
- In the veterinary market, corporate owners are growing their share through consolidation.

Our actions

- Growing share in pet products through improved pricing, innovation and omnichannel investments.
- Growing share in the vet market through new practice rollout and delivering excellent clinical service to clients.

Market share in 2017¹



¹ Source: Pets at Home data, UK marketing reports, OC&C 2017.

² Includes online spend from pet products.

³ Veterinary includes First Opinion and Specialist Referrals market.

Delivering the ultimate pet care experience

Specialist capabilities



Everything a pet needs

We're not just a pet shop, we're a pet care business. We can give pet owners access to products, vet care, grooming, nutrition advice and pet experts, all from Pets at Home.

58%

of stores have a vet practice and a grooming salon



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.

>90%

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.

41%

of Merchandise revenues are private label



Responsibility at the heart of our business

Behaving responsibly is integral to how our business operates. Our approach is based on doing the right thing for pets, for people and for the planet.

34%

reduction in energy consumption

At a glance

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Revenue generating activities

Value creation



For pets

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

CSR

→ Page 38

For customers

- The ultimate specialist pet care experience
- Value for money, new and different products, pet services and advice

Home of all things pet

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For colleagues

- Sector leading retention rates
- Externally accredited training schemes

CSR

→ Page 38

For the Group

- Returns to shareholders through optimal allocation of cash resources

KPIs

→ Page 20



//
The Group has made excellent headway in repositioning our retail business in a challenging environment and in growing our successful vet business. I am confident that under the leadership of Peter Pritchard, we will make further progress in the years ahead."

Tony DeNunzio
Non-Executive Chairman

I am pleased to report a year of good progress for the Group. This has been achieved against a retail environment that remains competitive, with cost pressures from the introduction of the National Living Wage and less favourable foreign exchange rates.

The UK pet market has a track record of resilience in more difficult economic times and, uniquely, Pets at Home is able to provide everything a pet owner needs for their pet to live a happy, healthy and safe life. Our Group strategy is centred around providing pets and their owners with the very best advice, care and products.

In the second half of the previous financial year, we noted a change in customer behaviour in our retail business, in response to which we recognised the need to deliver better pricing. This involved a move away from promotional offers and vouchers, and towards a simpler, more competitive approach. We are pleased with the results we have seen from these initiatives and our plan remains to target price investment into those product areas that we believe drive shopper frequency and loyalty.

We have also invested in our digital capability, with successful initiatives like Order-In-Store and subscription services.

In the veterinary market, our First Opinion practices, Vets4Pets, already represent a strong and fast growing proportion of Group revenues.

We have also seen good performance from our four Specialist Referral Centres, where we are gradually adding capacity and introducing new treatment specialisms to accelerate growth.

Overall we generated revenue growth of 7.8%, to £898.9m, within which like-for-like sales¹ grew 5.5%. Underlying profit before tax¹ declined to £84.5m in the year, primarily due to the repositioning of our retail business. The Board proposes an ordinary dividend of 7.5p per share.

Management

I am delighted to welcome Peter Pritchard as Group Chief Executive Officer. Peter joined Pets at Home in 2011 as Commercial Director and moved to the role of CEO of Retail in 2015. In that time he has overseen the establishment of our sourcing office in China, the launch of the VIP club, the development of our digital strategy, and more recently, the repositioning of our Merchandise business.

Peter's appointment follows Ian Kellett's decision to resign after 12 years with Pets at Home. During that time, Ian made a significant contribution, first as Chief Financial Officer, and most recently as Group Chief Executive Officer. He played a leading role in the transformation of Pets at Home from its retail roots into the much wider services and omnichannel business it is today. I would like to thank Ian for the contribution he has made over his long tenure with the business.

¹ Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 169.

I am also pleased to welcome two new Non-Executive Directors to the Board. Sharon Flood joined the Board in July 2017 and is Chair of our Audit and Risk Committee. Stanislas (Stan) Laurent also joined the Board in July 2017. Sharon and Stan replaced Amy Stirling and Paul Coby, both of whom stood down from the Board in order to fulfil commitments in their full time roles. Nicolas Gheysens stood down from the Board in November 2017. I would like to thank Amy, Paul and Nicolas for their contribution to the Board.

At the end of the financial year Sally Hopson resigned as CEO of our Vet Group. She is succeeded by Andrei Balta, formerly Chief Operating Officer of the Vet Group. Andrei has great strategic and operational skills and worked with Sally to deliver many of the most significant developments in our Vet Group in recent years, including our move into the market for Specialist Referrals. I'd like to thank Sally for the contribution she has made to both our retail and vet businesses.

Colleagues

As a specialist retailer it is the knowledge and commitment of our colleagues, at all levels and across all disciplines, that creates the special bond we share with our customers – a love of pets. Again this year, I want to thank colleagues for their hard work and commitment.

Outlook

While the year ahead will undoubtedly pose new challenges, the Board is confident we have the right strategy, with an experienced leadership team that is committed to delivering further success in the year ahead. We look forward to the future with confidence.



Tony DeNunzio
Non-Executive Chairman
22 May 2018

Introducing new members of our Board and Executive team



Peter Pritchard
Group Chief Executive Officer

Peter joined Pets at Home in 2011 as Commercial Director and in 2016 was appointed CEO of Retail. He has worked in retail for 30 years in various senior management and commercial roles at Asda, Sainsbury's, Iceland, Marks and Spencer and Wilkinson Hardware Stores. Peter has been responsible for the launch of a number of successful retail initiatives and will provide strong leadership to the Group.



Sharon Flood
Independent Non-Executive Director

Sharon brings impeccable retail and financial credentials to the Board, having worked with Kingfisher, John Lewis and more recently as Chair 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. She chairs the Audit and Risk Committee.



Stanislas Laurent
Independent Non-Executive Director

Stanislas was formerly President and CEO of Photobox and COO of AOL Europe. He is currently a partner with Highland Europe. His entrepreneurial background and understanding of the digital online space in consumer facing businesses adds significant value as we expand our omnichannel capabilities.



Andrei Balta
CEO, Vet Group

Andrei joined Pets at Home in 2011 as Director of Group Strategy and moved to the veterinary business in 2013, firstly as Commercial Director and subsequently as Chief Operating Officer. Prior to Pets at Home, Andrei was a management consultant at Bain & Company for seven years.

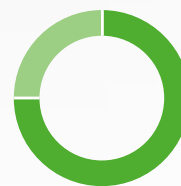
Membership of the Board



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

Gender breakdown

Board of Directors



Male	75%
Female	25%

// I'm proud and excited to be taking over as CEO. The value of our business is much greater than being a retailer or a vet care provider. It's the way we can give pet owners a breadth of products, grooming, vet care and other services. Combined with the way we can serve them through stores, the website and our pet professionals, the colleagues and vets who genuinely care about customers and their pets.

Our plans to reposition retail are working, more customers are coming back to shop with us, and we are committed to returning the business to profit growth. But it hasn't been easy. We took decisive action, threw passion and energy into it, and delivered targeted pricing changes to give customers the products that mattered most to them, with the service and value they expect from us. Our product innovation this year has been the best I can remember and the investment we made in the development of a subscription service is bringing some excellent results, as is Order-In-Store, which brings our full online range to every store in the business.

The veterinary services market is a very attractive space in which we can grow. We have a profitable business delivering strong returns, achieved largely through our preference to work in partnership with vets who share in the success of their practice. The shortage of qualified vets in the UK remains an industry wide problem, so we have chosen to slow our practice



rollout to be sure we open practices in quality locations for the best vet partners. With slower rollout we can, and need to, focus more on strategies to accelerate growth in our existing practices, where we know there is still huge potential. About 84%¹ of our First Opinion practices are relatively young and whilst they require more funding from us over the next four to five years, the long term prize for us and our vet partners is substantial.

We have a bright future. Year one of our three-year strategy has delivered, and as a business we are on a stronger competitive footing to return to sustainable profit growth. But the job isn't done yet. As our new CEO, my plan has a bigger focus on digital, tapping into the vast potential of our customer and pet data, and taking action to ensure our vet business reaches its potential. Our market has a track record of resilience in a downturn and as we adapt to a changing environment, we will emphasise the things that make Pets at Home unique and best placed to serve the UK's pet loving owners."

Peter Pritchard
Group Chief Executive Officer

Strategic update

Drivers of our like-for-like growth Home of all things pet

Our biggest competitive asset is the ability to give pet owners the full breadth of pet care; customers who shop across retail, grooming and vet have around three times the spend of those who are just retail customers.

Puppy owners are an opportunity to develop a relationship at one of the most important milestones – the first

puppy shop. With that in mind, we gave a complete overhaul to our range and also launched the VIP Puppy Club. By joining the club, customers receive 10% off their first puppy product shop, a free bag of Advanced Nutrition food, their first month for free with a flea product subscription, a free puppy groom and a free vet nurse check. We have seen some great results from our initiative, with a 25% spending increase by Puppy Club customers.

Home of value and convenience

During the year, we invested c£13m in pricing to deliver better value for our customers. We have taken a targeted approach, which began with a campaign that lowered prices and highlighted the value in our private label Advanced Nutrition. This was followed by price adjustments across branded Advanced Nutrition, more food categories and pet essentials. We are confident this is driving a positive reaction with customers, having seen such a strong rebound in Merchandise trade during the year. Advanced Nutrition also performed very well, with 12.7% volume growth and significantly increased private label participation. Looking forward, maintaining a competitive price position will always be part of everyday strategy but this will not be to the same scale as the prior financial year.

Delivering better value for customers is also a priority in our grooming business, where we experienced some slower trading during the year. We are set to launch a trial package in selected salons where, for an annual fee, customers can bring their dog for unlimited bath and brush treatments.

Whilst price has been an important part of our improved trading, it doesn't present the full story. Investing in digital helped deliver omnichannel revenue growth of 75%. The two initiatives driving such strong growth are Order-In-Store and subscription for flea products. We have also improved our website experience with a faster checkout process across mobile, tablet and desktop, and have started to trial repeat order across food products. Looking to the year ahead will see ongoing upgrades to our website look, content and navigation, with more subscription products in our plan.

Home of veterinary excellence

We have a successful veterinary business growing ahead of the market in both First Opinion practices and Specialist Referral Centres. The Vet Group generates cash returns on invested capital² of 24% despite the majority of practices (c84%¹) being relatively young.

We can attribute the strong revenue growth in our First Opinion practices to a number of competitive differences; but also to the drive of our vet partners in the JV model, who share in the success of the practice. Our model provides vets with business services and cashflow support as they grow, in return for management fees.

The revenue progression for practices, and therefore our fee income, has been relatively consistent. In coming years, as our rollout profile swings more to standalone, rather than in-store practices, we may see some variations in revenue performance, although we still expect the standalone practices to deliver strong returns for the Group.

The path to profit growth for some practices is lengthening as a result of the upward pressure on payroll costs. This factor, combined with the large number of young practices in the business, is leading to increased funding requirements from Pets at Home in the form of working capital operating loans. We expect the overall funding level to

continue to grow for the next four to five years, after which we expect to see the balance decline, and are comfortable this is mainly a feature of the immaturity of our estate.

With a long term view of growing our practices to maturity, the prize remains: for us in the mature profits from a mainly fixed cost business, and for our vet partners in the form of dividends and the capital value of their practice. We currently have 87 such practices that have fully repaid all debts and we are focusing more on strategies to accelerate growth in our existing practices, to ensure we can deliver the inherent potential of the business.

Retail space evolution and vet practice rollout

With a total of 448 superstores, our store estate is nearing its optimum size. In the coming year we will open only a small number of stores in carefully selected areas, in up to five new locations. At the same time, we will continue to rollout grooming salons amongst the existing store estate and expect to open 10-20.

In our veterinary business we opened a net number of 25 new practices to bring our total to 461. We also transformed more practices to give them extra consulting space, or longer opening hours, so that we have ten 'super surgeries' and six practices opening 24/7. The challenging supply of veterinarians has long been a feature of the UK market and was exacerbated after the Brexit vote (around 30% of vets in the UK are thought to be EU domiciled). In addition, our practice rollout has always been heavily weighted towards the end of our financial year, which has placed an excessive burden on the business and we are taking an active decision to spread this profile more evenly through the year. The supply of veterinarians is unlikely to change in the short term and our priority is to open practices in quality locations for the best vet partners. We expect to open 20-25 practices in the year ahead and have already opened four in the new financial year to date.

Strategic evolution and outlook in the year ahead

The pet care market remains resilient, with growth in pet products estimated at c2% in 2017, and veterinary services at c5%. We again grew our market share in the vet segment and are pleased to say that following our price repositioning work in retail, we have won back share in the food and accessories markets.³

FY19 will be the second of our three-year financial transition back to sustainable profit growth, and following our progress in FY18, we are determined to achieve our plan. In the coming financial year we are targeting like-for-like revenue growth ahead of the market in both Retail and our Vet Group, and a transition back to low single digit underlying Group profit² growth. We remain a cash generative business with a priority to invest in our core capabilities, particularly our Vet Group.

Delivering the financial plan does not require adhering to our historical strategic priorities of growing like-for-like, space and margins. Our strategy should evolve with the market and competitive changes, our challenges and our ambitions. Our immediate priorities are to address the few remaining areas of our price repositioning programme and take action to ensure the vet business can deliver on its potential. But in the coming months, we will evolve our longer term strategic plan to become the best pet care business in the world; a bigger focus on digital, data, more services and changing the shape of our stores in an ongoing environment of channel shift.



Peter Pritchard

Group Chief Executive Officer
22 May 2018

¹ Refers to vet practices younger than 10 years.

² Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 169.

³ Market information sourced using internal data and UK pet market reports, OCGC 2017.

Delivering our strategy



Our mission:

To be the best pet shop in the world



The PawPrint:

Pets Before Profit

World class shopping

Friendly experts

At the heart of every community

Always new and exciting

The best vets and groomers

A truly amazing place to work

Delivery of our strategy across the PawPrint supports growth in like-for-like revenues, space rollout and margins, as well as putting responsibility at the heart of our business.



Grow like-for-like revenues

Multiple opportunities to improve our offer to customers and deliver resilient growth.



Grow retail and services space

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



Grow margins

Focus on strategies that will deliver long term operating margin improvement.



CSR strategy

Put responsibility at the heart of our business.

Key performance indicators

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Innovation

Evolve our food range 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 online experience and convenient delivery and collection options.

Services

Develop our vet, grooming and advisory services, which create more reasons for customers to visit us.

Loyalty

Grow the VIP club and personalise our approach to 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

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New stores & services

Open selected 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.

Vet business growth

As well as in-store practices, open practices in standalone locations.

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

Read more

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Vet services

Focus on the growth of our veterinary services, 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

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For pets

Ensure we maintain our number one value, Pets Before Profit.

For people

Be a great place to work.

For the planet

Efficiently use and respect resources.

Read more

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Grow like-for-like revenues



Highlights of 2018

Value

- Invested significantly in price points across retail, particularly in food.
- Moved to a simpler and consistent pricing approach, away from promotional offers and vouchers.

Omnichannel

- Launched 'Order-In-Store', where colleagues can order from our extended online range.
- Expanded our popular subscription service to offer additional flea prevention products.
- Developed a faster online checkout process for mobile device users.

Innovation

- Relunched our puppy product range, with a new look and feel.
- Launched new lines, with fresh designs, across dog bedding, leads and collars.

Private brands

- Repositioned private label dog Advanced Nutrition pricing so it is now amongst the best value in the UK.
- Launched an extension to our private label science dog food range, AVA, with breed specific diets.

Services

- Grew new client registrations in our First Opinion vet practices through our TV and online Vets4Pets advertising, extended opening hours in existing practices, and educated clients on the importance of care plans for their pets.
- Added extra space to our Specialist Referral Centres to give them extra consulting and treatment areas.
- Introduced better value grooming packages in our salons.

Future plans

As we look to the year ahead we continue with the remainder of our price repositioning programme in the retail business. Omnichannel, the digital space and our website will also be core areas of investment, as we adapt to customers' changing shopping habits. In our veterinary business, our growth initiatives will focus on delivering the highest levels of clinical care, convenient opening hours, capacity extensions, and educating customers on the importance of proactive healthcare.

We expect our strategic initiatives to deliver like-for-like revenue growth ahead of the market across both retail products and veterinary services.

Key Performance Indicators

Like-for-like¹ growth

Performance in 2018

Group like-for-like growth significantly improved as a result of our pricing, online, and innovation initiatives in the Merchandise business. Our Services business yet again delivered a consistently high level of like-for-like growth, primarily driven through our vet business.

Key risks associated

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

Group like-for-like growth¹

5.5%

2018	5.5
2017	1.5
2016	2.2

Services like-for-like growth¹

8.5%

2018	8.5
2017	7.9
2016	10.4

Merchandise like-for-like growth¹

5.0%

2018	5.0
2017	0.8
2016	1.5



¹ Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 169.

Private label participation

Performance in 2018
Our aim during the year was to increase the participation of private label products in the business. Whilst a steady participation is the outcome from a percentage of revenue perspective, participation has increased as a proportion of our volumes, which is a reflection of our price reduction initiatives over the year.

Key risks associated

- Our people
- Supply chain/sourcing
- Competition

Private label participation in Merchandise revenues

41%

2018	41
2017	41
2016	42



Product refreshment

Performance in 2018
We changed around 2,500 products in the year, and whilst this was a lower number than the prior year, our focus was on achieving more significant innovation and change, in fewer areas. This delivered highly successful range relaunches in areas like dog accessories.

Key risks associated

- Our people
- Supply chain/sourcing

Products refreshed and changed

31%

2018	31
2017	39
2016	40



VIP club

Performance in 2018
We again grew the number of Very Important Pet loyalty club members, and also increased the swipe rate of the card at store tills, which reflects a higher proportion of shoppers opting to be part of our loyal customer following.

Key risks associated

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

Active VIP club members

3.9m

2018	3.9
2017	3.7
2016	3.4

VIP card swipe rate in-store²

70%

2018	70
2017	68
2016	64

² Average swipe rate of the card at store tills over latest quarterly period.

Store colleague retention

Performance in 2018
In line with our aim, we broadly maintained our colleague retention rate during the year, which is underpinned by our benefits, education and training, and engagement we have with colleagues through the business.

Key risks associated

- Brand and reputation
- Our people
- Competition
- Services and store expansion

Store colleague retention

76%

2018	76
2017	78
2016	79



Grow retail and services space



Highlights of 2018

Stores

- Opened 13 superstores (net), bringing our total store numbers to 448.
- Took the decision to discontinue our trial of Barkers for dogs stores.

Vet practices

- Opened 25 vet First Opinion practices (net), bringing our total numbers to 461 practices.

Grooming salons

- Opened 27 grooming salons (net), bringing our total numbers to 309 salons.

Future plans

In the coming year we will open up to five new stores. At the same time, we will continue to rollout grooming salons amongst the existing store estate and expect to open 10-20. In our veterinary business, we expect to open 20-25 First Opinion practices in the year ahead. Our aim remains to acquire or open more veterinary Specialist Referral Centres.

Key Performance Indicators

Stores

Performance in 2018

We opened 13 superstores (net), slightly ahead of our target of ten.

Key risks associated

- Services and store expansion
- Competition
- Brand and reputation
- Our people
- Liquidity and credit risk

Pets at Home superstores

448

2018	448
2017	442
2016	419

Vet practices and referral centres

Performance in 2018

We opened 25 practices (net), below our target of 40-50, where the shortage of qualified vets in the UK continues to be an industry wide challenge. We did not open any further referral centres during the year.

Key risks associated

- Services and store expansion
- Competition
- Brand and reputation
- Our people
- Liquidity and credit risk

First Opinion vet practices

461

2018	461
2017	436
2016	388

Veterinary Specialist Referral Centres

4

2018	4
2017	4
2016	2

Grooming salons

Performance in 2018

We opened 27 salons, in line with our target of 20-30.

Key risks associated

- Services and store expansion
- Competition
- Brand and reputation
- Our people
- Liquidity and credit risk

Grooming salons

309

2018	309
2017	290
2016	240

Grow margins



Highlights of 2018

Services

- Services revenues grew to 14.9% of the Group, up from 14.1% in the prior year.

Private brands

- Increased our participation of private brands within Advanced Nutrition, and kept participation broadly similar in other areas of the business.

Future plans

Delivering the maturity of our veterinary business is key to supporting operating margins in the Group. Our activities will focus on driving revenue growth in First Opinion practices and supporting them as they grow, as well as opening new practices.

We will expand our private label food business further and encourage customers to purchase our brands, ensuring they receive the most appropriate products for their pet.

Key Performance Indicators

Gross margin

Performance in 2018

Group gross margin declined, driven primarily by our price investment in the Merchandise business, which more than offset the increase in Services gross margin.

Key risks associated

- Brand and reputation
- Competition
- Supply chain/sourcing
- Treasury and financial risk
- Services and store expansion

Group gross margin

51.7%

2018	51.7
2017	54.2
2016	54.5

Services gross margin

34.1%

2018	34.1
2017	33.3
2016	33.0

Merchandise gross margin

54.8%

2018	54.8
2017	57.6
2016	57.0

EBITDA margin¹

Performance in 2018

We maintained good operating cost control, aided by our simplicity initiatives in stores and the cost savings delivered by our energy saving programme, which helped to offset part of the gross margin dilution.

Key risks associated

- Brand and reputation
- Competition
- Supply chain/sourcing
- Treasury and financial risk
- Services and store expansion

Group underlying EBITDA margin¹

13.7%

2018	13.7
2017	15.6
2016	16.0

¹ Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 169.



// We have successfully completed the first of our three year financial transition back to sustainable profit growth and remain confident in our plan."

Mike Iddon
Group Chief Financial Officer

Financial highlights

Financials		FY17	FY18	Change
Revenue	Revenue split (£m)			
	Food	395.1	421.9	6.8%
	Accessories	321.6	343.5	6.8%
	Total Merchandise	716.7	765.4	6.8%
	Services & Other ²	117.5	133.5	13.7%
	Total Group	834.2	898.9	7.8%
	Like-for-like growth ¹	1.5%	5.5%	
	Merchandise LFL ¹	0.8%	5.0%	
	Services & Other LFL ¹	7.9%	8.5%	
	Revenue mix (% of total revenues)			
	Merchandise	85.9%	85.1%	(79) bps
	Services & Other	14.1%	14.9%	79 bps
Gross margin	Merchandise gross margin	57.6%	54.8%	(285) bps
	Services & other gross margin	33.3%	34.1%	78 bps
	Total gross margin	54.2%	51.7%	(249) bps
EBITDA	Underlying EBITDA ^{1,3} (£m)	130.5	123.3	(5.6)%
	Underlying EBITDA margin ^{1,3}	15.6%	13.7%	(194) bps
Other income statement	Underlying PBT ^{1,3} (£m)	96.4	84.5	(12.3)%
	Statutory PBT (£m)	95.4	79.6	(16.6)%
	Underlying basic EPS ^{1,3} (p)	15.3	13.5	(11.2)%
	Statutory basic EPS	15.1	12.6	(16.6)%
	Dividend (p)	7.5	7.5	0%
Cashflow & leverage	Free cashflow ¹ (£m)	64.6	55.8	(13.6)%
	CROIC ¹	20.6%	19.4%	(89) bps
	Leverage (ND/underlying EBITDA) ¹	1.2x	1.1x	

The FY18 audited period represents the 52 weeks to 29 March 2018.
The audited comparative period represents 52 weeks to 30 March 2017.

- 1 Alternative Performance Measures (APMs) are defined & reconciled to IFRS, where possible, on page 169.
- 2 Includes veterinary Joint Venture fees & other veterinary income, Specialist Referrals revenue, grooming salon revenue, revenue from live pet sales & insurance.
- 3 Non-underlying items in FY18 includes £2.7m associated with the closure of Barkers, £1.6m accounting charge for the acquisition of minority stakes owned by vet partners in Specialist Referral Centres, and £0.6m of other expenses. Non-underlying items in FY17 includes £1.0m of expenses for the disposal of Farm Away Limited, the Group's equestrian retailing business.

Sales and revenue

Group revenue grew by 7.8% to £898.9m (FY17: £834.2m) and Group like-for-like revenues¹ (LFL) grew 5.5%.

Merchandise revenue, which includes food and accessories, grew by 6.8% to £765.4m (FY17: £716.7m), with LFL revenue¹ of 5.0%. This reflects particularly strong performance from our omnichannel business, which grew its revenues by 75.1% to £51.4m, but also from store sales, which grew by 3.9%. Food revenue grew by 6.8% to £421.9m (FY17: £395.1m), with strength across all areas of dog and cat food, including Advanced Nutrition, where revenue grew by 6.0% to £189.8m (FY17: £179.1m).

Accessories revenue grew by 6.8% to £343.5m (FY17: £321.6m), where dog accessories and toys were a core driver, alongside subscription plans in licensed flea prevention products.

Services revenue grew by 13.7% to £133.5m (FY17: £117.5m), with LFL revenues¹ of 8.5%. We saw good growth across our Vet Group in both Specialist Referral Centres and also the First Opinion business, where practice income increased by 16.1% to £53.1m (FY17: £45.8m). Also within Services, our grooming salons experienced slower growth than in prior periods, and we also saw some weakness in trade from declining pet sales, which is an ongoing trend.

Gross margin

Group gross margin declined by 249 bps to 51.7% (FY17: 54.2%).

Gross margin within Merchandise was 54.8%, a reduction of 285 bps over the prior year (FY17: 57.6%), in line with our plans. This mainly reflects our price repositioning activities of c£13m, a foreign currency impact of £5.7m from the movement in USD versus GBP and the growth of our omnichannel business, which has a greater mix of food product versus higher margin accessories.

Gross margin within Services increased by 78 bps to 34.1% (FY17: 33.3%). We saw expansion in the underlying gross margin of veterinary First Opinion practices and Specialist Referral Centres, but at an overall level, the First Opinion business saw a decline in gross margin due to a £5.0m increase in the provision held for practice operating loans. We also experienced a significant improvement in the margin of pet sales in store, which reflects our activities to improve and simplify the care and welfare routines. This benefit is expected to be a one-off feature of FY18.

Underlying EBITDA¹ and operating costs

Underlying EBITDA¹ was £123.3m (FY17: £130.5m), with a margin of 13.7% (FY17: 15.6%).

Selling and distribution (S&D) expenses of £309.5m decreased as a percentage of Group revenue, to 34.4% (FY17: 35.5%). Within this, we saw £2.5m in cost savings as a result of our energy saving programme, and occupation costs (rent, service charges and other costs) again declined as a percentage of sales as we benefit from the rent paid by vet practices in our stores, which contributed £11.7m (FY17: £10.7m). Colleague costs also declined as a percentage of sales, particularly in relation to stores, where we have reduced payroll hours by streamlining non customer facing activities.

Underlying administration expenses of £66.3m were 7.4% of revenue (FY17: 6.6%), where we are seeing growth in Vet Group operating costs, alongside our investment in business systems and omnichannel.

Non-underlying costs totalled £4.9m. Of this, £2.7m relates to the closure of our trial Barkers stores and the associated lease commitments and write down of fixed assets. In addition, £1.6m of non-underlying costs were recognised in relation to the ownership structures and accounting treatment of the veterinary Specialist Referral Centres (see detailed note below on page 27). There were also £0.6m of M&A related expenses, for transactions that were not completed.

Depreciation and amortisation, which is contained within our total operating costs, increased to £34.5m (FY17 £29.6m).

7.8%¹

Group revenue growth

51.7%

Group gross margin

5.5%¹

Group like-for-like revenue (LFL) growth

£123.3m¹

Underlying EBITDA

¹ Alternative Performance Measures (APMs) are defined and reconciled to IFRS information, where possible, on page 169.

Chief Financial Officer's review continued

Underlying finance expense

Underlying net finance expense¹ for the year was £4.3m (FY17: £4.5m).

Taxation, trading profit & EPS

Underlying pre tax profit¹ was £84.5m (FY17: £96.4m) and statutory pre tax profit was £79.6m (FY17: £95.4m).

Underlying total tax expense¹ for the period was £17.0m, a rate of 20% on underlying pre tax profit¹.

Underlying profit for the period¹, after tax, was £67.5m (FY17: £76.3m) and underlying basic earnings per share¹ were 13.5 pence (FY17: 15.3 pence). Statutory basic earnings per share were 12.6 pence (FY17: 15.1 pence).

Working capital¹ and funding for vet practices

The cash movement in trading working capital¹ for FY18 was an inflow of £9.4m. This was comprised of a £4.1m increase in inventory, offset by a £3.9m decrease in receivables and a £9.6m increase in payables.

We increased our working capital support to First Opinion veterinary practices with £14.8m in operating loans. This created an overall increase in Group receivables of £10.9m and overall Group cash working capital outflow of £5.4m.

Operating loans represent cash funding we choose to provide to Joint Venture First Opinion veterinary practices, to assist with their working capital requirements and underpin their growth

to maturity. The gross value of operating loans at the end of the financial year was £38.0m (FY17: £23.2m), against which a provision of £8.3m is held (FY17: £3.3m). The increased provision reflects both the longer maturity curves for practices as well as an improvement in methodology used to assess the operating loan balance. A provision has been applied to all outstanding practice loan balances, which we believe is more appropriate considering the growing size of our First Opinion business.

Capital investment

Capital investment was £40.7m (FY17: £44.5m), where £12.8m is represented by the refurbishment and retrofit of services into our existing store estate (FY17 £16.8m) and new store capital investment totalled £7.3m (FY17: £6.4m). Investment in business systems totalled £10.0m (FY17: £7.2m), and £2.3m was part of the energy savings programme to fit LED lighting and smart energy management systems in our store estate (FY17: £5.8m). Cash capital expenditure was £41.6m (FY17: £40.9m).

Cashflow and capital structure

Free cash flow (FCF) after interest, tax and before acquisitions¹ was £55.8m (FY17: £64.6m), representing a cash conversion rate of 45% (FY17: 49%). The decline in FCF when compared with the prior year is driven by our price investments in the Merchandise business, increased working capital requirements and the purchase of shares to satisfy colleague stock option schemes.

Free cashflow ¹ (£m)	FY17	FY18
Cash EBITDA ^{1,4}	133.0	127.2
Working capital ¹	(2.4)	(5.4)
Operating loans provision movement	0.1	5.0
Tax	(19.3)	(19.1)
Interest cost	(4.2)	(3.9)
Capital expenditure	(42.6)	(44.0)
Purchase of shares for colleague stock options	0.0	(4.0)
Reported free cashflow	64.6	55.8

⁴ Defined as underlying EBITDA plus IFRS 2 share based payment charges.

The Group's net debt position at the end of period was £135.2m, which represents a leverage ratio¹ of 1.1x underlying EBITDA.

£m	FY17	FY18
Opening net debt	(162.0)	153.7
Free cashflow ¹	64.6	55.8
Ordinary dividends paid	(39.9)	(37.3)
Acquisitions	(14.8)	0.0
Other	(1.6)	0.0
Closing net debt	(153.7)	(135.2)
Leverage (ND/underlying EBITDA ¹)	1.2x	1.1x

Our capital structure and allocation policy remains as previously stated, with a priority to invest in areas that will expand the Group and deliver appropriate returns, particularly within our veterinary business. It is our intention to maintain a prudent approach to balance sheet management in the current economic environment, but retain some flexibility to increase leverage to an appropriate level in the

£84.5m¹

Underlying profit before tax

7.5p

Recommended final dividend of 7.5 pence per share

£79.6m

Statutory pre tax profit

¹ Alternative Performance Measures (APMs) are defined & reconciled to IFRS, where possible, on page 169.

event that suitable investment or acquisition opportunities arise. 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.

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 2018 financial year, equal to the prior year.

The final dividend will be proposed by the Directors at the 2018 AGM and is in addition to the interim dividend of 2.5 pence per share, paid to shareholders on 12 January 2018. The ex-dividend date will be 14 June 2018 and, if approved at the Company's forthcoming AGM, it will be paid on 17 July 2018 to those shareholders on the register at the close of business on 15 June 2018.

Foreign exchange outlook

The Group purchases products from Asia to a value of around US\$65m each year. Our policy is to use a mix of foreign exchange forward contracts to hedge our USD requirement for the next 12 months and up to 50% of the following six months. The movement in hedged contract rates for FY18, which were at an average rate of 1.30 USD:GBP, created a £5.7m adverse cost to the Group. The majority of our hedging requirement for FY19 is in place, at an average rate of 1.34 USD:GBP, which is expected to have a positive financial impact of around c£1m.

£m	Retail	Vet Group	Central costs	Total Group
LFL revenue growth ¹	4.6%	15.0%		5.5%
Revenue	804.9	94.1		898.9
Gross margin	52.2%	47.1%		51.7%
Underlying EBITDA ¹	97.3 ⁵	31.9 ⁶	(5.8)	123.3
Underlying EBIT ¹	65.1 ⁵	29.6 ⁶	(5.8)	88.8

⁵ Non-underlying items: £2.7m associated with the closure of Barkers.

⁶ Non-underlying items: £1.6m accounting charge for the acquisition of minority stakes owned by vet partners in Specialist Referral Centres, and £0.6m of other expenses.

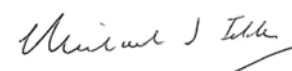
Accounting treatment of veterinary Specialist Referral Centres

Three of our four 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). Pets at Home has an option to buy the SVP shares in the future, with the value of these shares related to profit performance targets. The accounting treatment of such an option is therefore structured as a forward contract. Within the income statement, the discounted future value of the SVP's shares is recognised as an expense over the period to which the option can be exercised, and recognised as a non-underlying expense. We continue to expect this charge to be £1.5-2m for FY19.

New financial reporting disclosure

In FY19 our financial reporting will change to two segments that better represent the size of the respective businesses and our internal reporting structures: Retail (includes products purchased online and in-store, pet sales and grooming services) and Vet Group (includes our First Opinion practices both in-store and online, and Specialist Referral veterinary centres).

In order to familiarise readers of the accounts, and provide a basis for comparability, we show a pro-forma unaudited segmentation for the 52 weeks to 29 March 2018.



Mike Iddon
Chief Financial Officer
22 May 2018

£40.7m¹

Capital investment

£(135.2)m

Group's net debt position

£55.8m¹

Free cash flow

¹ Alternative Performance Measures (APMs) are defined & reconciled to IFRS, where possible, on page 169.

Merchandise

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 brand



Merchandise revenue

£765.4m
+6.8%

Revenue split (%)



Revenue split		Growth
Food	£421.9m	+6.8%
Accessories	£343.5m	+6.8%



Our Merchandise segment comprises food and accessories for a wide range of popular pets.



Food

We provide a wide range of pet foods for dogs, cats, small mammals, fish, reptiles and birds. With revenues of £421.9m, pet food is the largest part of our business and represents 55% of our Merchandise revenues.

We aim to provide customers with a full spectrum of dietary choices to suit their pet and their pocket, from grocery brands, to our comprehensive range of Advanced Nutrition diets, which are a more considered purchase offering significant health benefits to dogs and cats. Our 'bridging' ranges, which sit between grocery brands and Advanced Nutrition and help customers make a step up to a better diet for their pets, have been a particular success in the past year.

Pets at Home own label and our private label brands, such as Wainwright's and AVA, account for 31% of our total food revenues. Private labels give us a great opportunity to highlight the value of Advanced Nutrition diets, where we recently lowered prices, and subsequently extended our price investment to branded ranges.

As a result of these initiatives, we have driven strong volume growth in Advanced Nutrition, up 12.7%, and increased participation of private label brands in the category.

We have also continued to develop our range of pet treats. A broader range of natural products includes freeze-dried meat and fish. Items that mirror trends in human food continue to be popular, including our ranges of celebration products, formulated specifically for pets.

Accessories

Accessories revenues increased 6.8% to £343.5m and account for 45% of our Merchandise revenues. Our accessories ranges are displayed by pet type, particularly dogs, cats, small mammals, fish, birds and reptiles. These include collars, leads and harnesses, bedding, housing, feeding, health & hygiene, travel, training and enrichment.



Innovation is critical to growth in this category, particularly in our own label brands. We have made a significant investment in the creation of a broad range specifically aimed at puppies, with incentives to encourage puppy owners to experience our veterinary and grooming services. The introduction of harnesses, including a range specifically designed for small dogs, has driven growth in the collars and leads category. We have seen growth from a new range of cooling products for dogs.

Integrating online with stores

Our in-store ranges are supported by an expanded offer of 11,700 products available online. 'Order-In-Store' provides colleagues with the opportunity to advise customers and place orders from the expanded range while the customer is still in the store. We have also developed a subscription platform which 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.

Services

Services & Other

- First Opinion veterinary practices
- Specialist Referral veterinary centres
- Grooming salons
- Insurance
- Pets

Our Services brands



Services revenue

£133.5m

+13.7%

Revenue split (%)



Revenue split		Growth
First Opinion Joint Venture fee income	£53.1m	+16.1%
Other services	£80.4m	+12.1%

Our Services segment comprises First Opinion practices and Specialist Referral Centres, grooming salons and pet insurance, in addition to sales of pets.



Veterinary practices

We operate the largest branded network of First Opinion veterinary practices in the UK, with 461 practices operating mainly under the Vets4Pets brand name. Two thirds of these practices are located in Pets at Home stores, with the remainder in standalone locations. We also operate four Specialist Referral Centres around the UK which handle the most complex veterinary cases.

First Opinion Division

Our preferred model has always been to build value through shared ownership. We operate the only large-scale Joint Venture veterinary services business in the UK in which practices, which are all established as individual small businesses, are funded by a small investment 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, with further funding provided by Pets at Home over time if needed. The Group receives a percentage of the income of the practice in return for the business services we provide. A service rental 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 from our vet partner pipeline.

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.

Specialist Division

Specialist Referral Centres are considerably larger 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 Specialist Referrals, which not only allows the centre's vets or 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

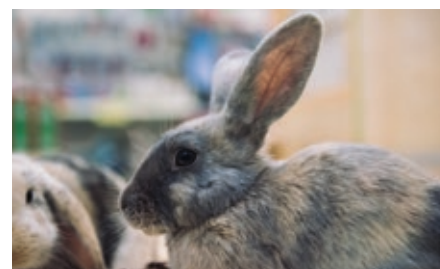
The pet grooming market in the UK is highly fragmented. With 309 pet grooming salons in Pets at Home stores, The Groom Room is the largest branded chain of pet grooming salons in the UK. Groom Rooms are separated from the main store by fully glazed partition walls, affording customers an excellent view of our highly trained colleagues at work. In addition to having a strong, national brand, our grooming operation relies on having highly trained colleagues as stylists in every salon to deliver a full range of grooming services.

Pet insurance

We recognise the importance of pet insurance as a key underpin of our veterinary business. Across the Group we continue to work with Petplan, the UK's most trusted provider of pet insurance products.

Pets

We invest in a dedicated team of experts, headed by an experienced vet, to provide fully for the welfare needs of the fish, small mammals and reptiles available for sale in our stores. Only fully trained colleagues are permitted to sell pets and they must be confident that the pet's welfare needs will be met fully in its new home before a sale can conclude.



Effective risk management

Our risk management framework

Like all businesses, we face risks and uncertainties that could impact the delivery of the Group's long term strategy. These range from operational risks in our day-to-day operations; strategic risks due to execution of our strategy; and external risks emerging from our sector, the competitive market environment, and any change in political or regulatory frameworks. The Board is responsible for the level and type of the principal risks that we are willing to take and has carried out a robust assessment of those risks, including those that would threaten our business model, future performance, solvency or liquidity (please see page 67).

We have an effective risk management framework that helps us identify, appropriately monitor and manage risks to within appetite, whilst taking advantage of opportunities as they are presented. This allows us to deliver our strategy effectively and protect value for our stakeholders.



The key roles and delegated responsibilities:

Executive Management Team

Collectively responsible for managing risk.

The Executive Management Team is responsible for closely managing the most significant risks.

Key risks are allocated to a Executive Management Team member for oversight and ultimate ownership.

Receives regular risk updates and reports from assurance teams.

Audit and Risk Committee

Assists the Board fulfil its corporate governance and oversees responsibilities in relation to financial reporting, internal controls and the risk management framework.

Provides oversight and challenge to the assessment of principal risks.

Reviews internal financial controls and the risk management framework and assesses their effectiveness in mitigating Group level risks and advises the Executive Management Team on risk appetite.

Reviews and oversees the Group risk register – reviews detailed risk reports at each sitting with supplementary reporting from the management team on specific key risks.

Conducts regular deep dives into key risk areas with relevant Directors to understand the nature of the risks and adequacy of the mitigations and controls that are in place.

Internal Audit

Gives objective assurance to the Board and Audit and Risk Committee on the effectiveness of the risk management framework.

Holds meetings with risk owners across the business four times per year.

Updates the individual risk registers, including actions and progress made, assesses risk ratings and documents the controls in place that help mitigate each risk.

Shares risk management information and best practice across the Group.

Recommends improvements and corrective actions.



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

IDENTIFY

- Key risks are identified in each business.
- Strategic risks are reviewed by the Board.
- Annual horizon scanning exercise with senior management.

ASSESS

- Risk appetite set by the Board for all principal risks.
- Standardised scoring methodology used across the Group to aid escalation and consolidation of risks.

MANAGE

- Each principal risk is owned by a member of the Executive Management Team.
- Controls and mitigation plans are in place to manage risk to within appetite.

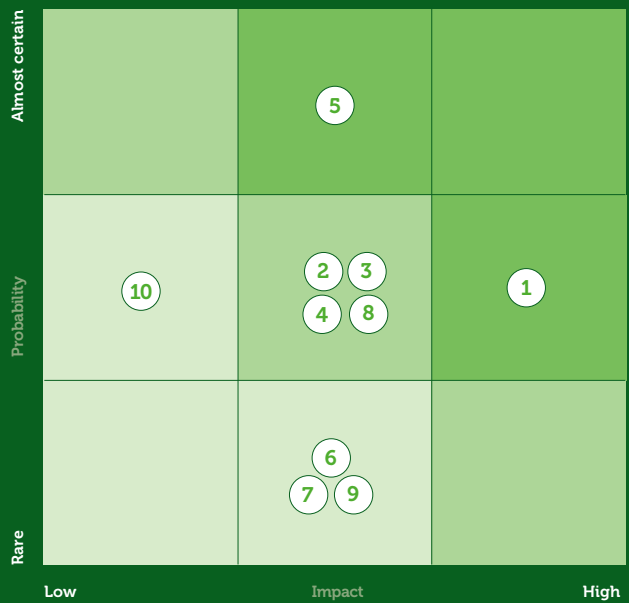
MONITORING

- Assurance gathered from across the three lines of defence to assess the effectiveness of the controls.
- Internal Audit inform the Board, the Executive Management Team and the Audit and Risk Committee on how effectively risks are being managed.

REPORTING

- Audit and Risk Committee and the Executive Management Team review risks four times per year.
- The Group's principal risks are reviewed and agreed by the Board.

Principal risk rating matrix



- | | |
|--|------------------------------|
| 1. Brand and reputation | 6. Supply chain and sourcing |
| 2. Competition | 7. Liquidity and credit |
| 3. Services and stores expansion | 8. Treasury and finance |
| 4. Our people | 9. Regulatory and compliance |
| 5. Business systems and information security | 10. Extreme weather |

Pets Before Profit and Health and Safety Committees

Assist the Executive Management Team in managing the risks of pet welfare, health, safety and security. Ensure robust risk management procedures in their area of responsibility are implemented and complied with.

Assess the measurement of risk and compliance with Group policies and applicable regulations.

Recommend appropriate policies and procedures to the Executive Management Team.

Ensure that appropriate insurance is in place over property and other assets.

Hold meetings quarterly with stakeholders from across the Group.

Update the Executive Management Team on key performance indicators across the Group.

Colleagues

Manage our day-to-day risks.

Identify and assess day-to-day risks in their area of responsibility.

Ensure procedures are implemented and complied with.

Communicate significant risks via reporting processes to the senior management team.

For further details about key roles and responsibilities within our governance structure, please see the Governance report on page 48.

Brexit

The Board has reviewed the risks and opportunities that may arise as a result of Brexit. Whilst the longer term effects remain unclear, we continue to monitor developments closely. We are starting to see an impact in the following areas and have mitigation plans in place:

- Our people
- Supply chain and sourcing
- Treasury and finance

Please see the risk management section on pages 34 to 37 for further detail.

Risks and uncertainties

The table below summarises the assessment of our principal risks and how we seek to mitigate them.

Strategic priorities



Grow like-for-like



Grow retail and services space



Grow margins



Corporate Social Responsibility Strategy

Brand and reputation

Description and impact

The Group's number one value is Pets Before Profit, and pet welfare is its highest priority.

The Group also recognises the need to protect its brand and reputation. Failure to do so could result in loss of trust and confidence by both customers and colleagues.

Mitigation

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.

As a retailer of small pets the highest possible welfare standards must be maintained at all times. We have rigorous processes in place to ensure this across all our stores, including in-store adoption centres, and with our pet suppliers. All are assessed regularly against a comprehensive set of welfare standards by vets, third party assessors and an animal welfare organisation. We also have a highly visible field operations team in respect of in-store pets and grooming, where trained colleagues are focused on maintaining the highest pet welfare standards.

Examples of where we prioritise pet welfare include our decision to suspend the sale and adoption of rabbits over Easter and instead provide workshops to educate about the responsibilities of pet ownership. Also, at Christmas we encourage customers to buy the relevant housing, accessories and food but to take gift vouchers rather than pets. This allows new owners the chance to visit one of our stores after Christmas to learn about the welfare needs of their pet before taking it home.

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.

The Group also deals with customers' pets on a daily basis through its veterinary practices. The veterinary practices have a clear set of operational protocols, which are subject to the professional standards mandated by the Royal College of Veterinary Surgeons. To support the practices we have a clinical development team who are all veterinary surgeons. They conduct clinical excellence audits focusing on the quality of care to ensure a high standard of clinical practice is maintained.

Strategic priorities

Outlook

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

Risk appetite

Low High

Change on prior year

Risk profile

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 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

In response to a change in shopping habits of our customers we initiated targeted pricing changes at the start of 2017 beginning with private label Advanced Nutrition foods. We have followed this with price reductions in branded food lines and pet essentials. Overall, we have seen good initial results, particularly in Food and Advanced Nutrition, where increased sales volumes offset the price reductions, leading to overall revenue growth in those categories. Our plan remains to target price investment into product areas that we believe drive shopper frequency and loyalty, not simply reducing prices across the entire range.

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

We continue to evolve our proposition through the addition of vets and groomers into our existing store estate whilst continuing to innovate with the regular introduction of new and exclusive products into our food and accessory ranges.

As a specialist retailer, the delivery of friendly expertise through our highly engaged/trained store colleagues is a key element of our proposition and we continue to invest to ensure our service standards are continually improved. We have invested in two major initiatives. Order-In-Store allows colleagues in every store to advise and sell from our extended online range, while Subscription services deliver flea treatments in convenient individual pipettes to customers at the right time to administer a single preventative dose to their pet dog or cat. In the medium term we intend to extend our Subscription initiative in further product areas.

As part of our investment in the digital shopping experience we have redesigned our mobile checkout process to make it more convenient and deliver a better experience for customers shopping with Pets at Home while on the move. Further investment is planned in our digital engagement with customers. The VIP (Very Important Pet) club was launched in November 2012 and has been very successful – attracting 3.9m 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.

Strategic priorities

Outlook

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. We have seen an expansion of the pet offer among discounters.

Risk appetite

Low High

Change on prior year

Risk profile

Services and Stores expansion

Description and impact

A key part of the Group's growth strategy is to increase the growth in its in-store and standalone veterinary practices, Groom Room salons and to increase the number of stores, whilst maintaining our existing estate. If we are unable to deliver the number of sites necessary to fulfil the services and stores expansion laid out in our strategy our expected financial performance could be adversely impacted.

Mitigation

The business maintains a pipeline of Joint Venture partner opportunities to deliver its plans for new First Opinion vet practices. We have a plan to expand our specialist vet division to achieve national coverage of Specialist Referral Centres. We also maintain a regular review of our store portfolio to maximise the potential from our retail estate. This enables the Board to monitor progress in delivering our growth strategy. Our store rollout is mostly complete so our attention will be more focused upon how we can ensure our full services offer is accommodated amongst the existing estate. Our store estate is entirely leased which gives us great flexibility. As leases come up for expiry or contain a break, we will assess our portfolio on a case by case basis before deciding whether to renew the lease, or to close or relocate a unit. We have the ability, with smaller footprint stores, to utilise mezzanine space to deploy vet and Groom Room services, maximising the opportunity to offer a full range of service in our retail stores. Any proposed new veterinary practice, grooming salon or store investment has to deliver an appropriate financial return after taking into account any financial impact on the existing store portfolio.

Before we are able to open a new First Opinion veterinary practice we need to recruit a Joint Venture partner with the ability to both fund their investment into the Joint Venture and to provide the personal guarantee to the bank providing the third party financing to the Joint Venture practice. We continue to investigate opportunities for new store formats, including the trial of a convenience store within a Tesco superstore.

Strategic priorities

Outlook

Our strategy is to cautiously grow our estate in priority locations and to optimise the existing store estate with services. Store space vacancy levels are starting to increase with retailer administrations and consolidation of existing retail space, providing further opportunities for our future store rollout.

Risk appetite

Low  High

Change on prior year



Risk profile



Our people

Description and impact

As a specialist retailer and services group, retaining highly trained and engaged colleagues is fundamental to delivering outstanding customer service, which is a key element of our proposition and drives our continued success and the delivery of our future growth. Our growth plans and future success are also at risk if we do not recruit and retain high calibre, talented senior management. A significant number of colleagues in certain areas of our business are EU nationals. Brexit may result in changes to UK immigration policy which increases the risk around the availability, recruitment and retention of these individuals.

Mitigation

Our colleagues are the foundations on which we have built our success. We recognise that their knowledge and passion are at the heart of the relationships we build with our customers and their pets. We continue to ensure that we are attracting diverse talent by updating our recruitment process, including our recruitment website, policies and procedures, with the aim of being able to attract diverse candidates with the requisite skillset. By driving continued investment in progressive training and learning programmes across the business we ensure that we are developing and retaining our talent.

Our Remuneration Policy, as set out on pages 85 to 94, is designed to ensure executives of the necessary calibre are attracted and retained and that through our Restricted Share Plan, colleagues across the business can share in our success. Similarly, we continually review the remuneration and benefits packages for our colleagues to make sure they are appropriately rewarded for the substantial contribution they make to our growth and success. We continue to communicate these benefits and the value they bring to colleagues to ensure they are taking advantage of them. We also closely monitor colleague engagement and retention rates.

Listening to our colleagues is critical to our business so we are launching a new listening survey, which will help to identify issues, and further embed our culture and values, whilst providing benchmarking data with other companies in our sector. Succession plans are in place for key roles which are regularly reviewed by the Board and senior management. We continue to review the impact of Brexit and the possible change to UK immigration policy which may impact the availability, recruitment and retention of colleagues in both our Vet Group and distribution centres. We have employed long term strategies to mitigate the expected impact, including operating flexible recruitment and retention initiatives across the Group, launching international experienced and graduate recruitment programmes for veterinary surgeons, whilst reviewing opportunities in non-EU vet recruitment markets. We are working closely with professional bodies including the Royal College of Veterinary Surgeons and the British Veterinary Association and support them in their calls on Government to formally recognise the shortages of veterinary surgeons across all disciplines, particularly in light of restrictions on free movement for EU nationals following Brexit.

Strategic priorities

Outlook

The ongoing Brexit negotiations may impact 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.

Risk appetite

Low  High

Change on prior year



Risk profile



Risks and uncertainties continued

Strategic priorities



Grow like-for-like



Grow retail and services space



Grow margins



Corporate Social Responsibility Strategy

Business systems and information security

Description and impact

The need to maintain core business systems and mitigate against security risk whilst supporting the Group's growth plans and delivering cost efficiency remains paramount again this year.

With the arrival of GDPR, there comes a significant increase in the level of scrutiny organisations are being placed under regarding the management and use of personal data. With this comes additional cost linked to the evaluation and remediation of associated risks (data, people and infrastructure). Our ability to balance these challenging demands is key to ensuring that the business is able to maintain target growth levels and be secure from data security breach and legal challenge.

Mitigation

To ensure the stability of our IT systems whilst supporting sustained business growth, we are developing operational monitoring capabilities to assess performance and capacity of the live systems. This will enable a proactive stance to be taken regarding the visibility and management of issues prior to their manifesting at customer touch points. In addition we are working with our suppliers where appropriate, looking at opportunities to move to managed services and cloud based solutions. A recent example of this includes the migration of the Retail platform into a hosted environment as part of a managed service, simplifying our hosting and support arrangements. This also aligns with our Disaster Recovery strategy to exit our Stoke backup site by 2020, moving disaster recovery (DR) capability into the cloud, and further increasing the already distributed nature of our architecture. We have conducted network and web infrastructure DR tests, with Retail platform testing to follow once the move to the hosted environment is complete.

The Information Security programme has already delivered Group wide training and awareness campaigns, educating colleagues to the risks associated with data and physical security. In addition, IT Security policies have been revised for re-issue to the wider Group. A significant programme of work remains ongoing to deliver a range of security enhancements, to include secure email and device encryption, revised IT standards and procedures, enhanced asset management, user authentication and vulnerability scanning amongst others. GDPR drives the requirement to ensure that personal data is protected at all times, and this has formed the key principle in the design of our data centric strategy bringing customer and other data together across the Group. The selection of a cloud based platform enables us to anonymise certain data to allow full analysis whilst reducing the risk of customer data being exposed. The solution also allows us to link customer information more easily, enabling full trace back to core operational systems that the customer has been identified in so that we can better update information and remove/archive where appropriate.

Strategic priorities



Outlook

Systems stability continues to improve with the move to cloud based solutions and managed service provision.

Greater focus on operational stability and performance over the coming year will enable a more proactive stance in the mitigation of performance, capacity and stability issues with the creation of teams focused on these aspects. Disaster Recovery testing will be conducted at the point of change, ensuring ongoing coverage. Big data will enable greater insight into customer behaviour and retail opportunity in an environment which ensures GDPR compliance.

Risk appetite

Low High

Change on prior year



Risk profile



Supply chain and sourcing

Description and impact

During the financial year, approximately US\$65m 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. We have two national distribution centres covering the north and south of the UK respectively. A disaster at one of these may result in a significant interruption to the supply of stock for a large number of stores and in the fulfilment of internet orders.

The impact of Brexit on our overseas supply chain remains unknown 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.

Mitigation

Having Pets at Home colleagues on the ground in the Far East working collaboratively with suppliers enables us to monitor closely compliance with the Group's Code of Ethics and Business Conduct policy, and our Supplier Quality Manual. In addition, an independent third party undertakes unannounced visits to further monitor compliance with Group policies.

We have made significant investments in both our sourcing strategy and our quality and food technical function, in terms of people, processes, testing and reporting, to ensure we have the capability to meet the future ambitions of the business. Business continuity plans are in place for the distribution centres which have been tested. They help us mitigate the impact of a disaster by enabling us to service all stores and orders for a priority range of SKUs from a single distribution centre whilst we source a second facility and recover full product supply. We will continue to monitor Brexit developments closely and respond to any impact on our supply chain proportionately. Exposure to foreign currency movements is mitigated through our hedging strategy; see the Treasury and financial risk.

Strategic priorities



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.

Risk appetite

Low High

Change on prior year



Risk profile



Liquidity and credit **Strategic priorities** 

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. 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 also provides additional financial support to First Opinion practices to support their working capital requirements and growth in clinical capacity. This investment is a particular feature of the Joint Venture operating model and in making this investment the Group considers its total returns across all practices on a portfolio basis. We have established a provision to reflect the assessment of extended investments being repaid over different lengths of time, with different risks of return, to provide for any potential shortfall. The Group has 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 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 macro-economic changes in the short to medium term that may affect this risk area although the outcome of the evolving relationship that the United Kingdom has with the EU may have some bearing.

Risk appetite



Change on prior year



Risk rating before mitigation



Treasury and finance **Strategic priorities** 

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 political and macro-economic environment has increased currency pressures and we may see this continue for some time. 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 142. 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.

Risk appetite



Change on prior year



Risk profile



Regulatory and compliance **Strategic priorities**  

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, national minimum wage, national living wage, modern slavery, bribery, data protection, carbon emission and gender pay gap information reporting. Failure to comply with these obligations may result in financial or reputational damage.

Mitigation

We actively monitor both regulatory developments in the UK and Europe and compliance with our existing obligations where 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 and are audited against adhering to relevant regulations, such as Modern Slavery Act 2015, the Bribery Act 2010, the Data Protection Act 1998, and from 25 May 2018, the General Data Protection Regulation (GDPR), along with our mandatory standards as outlined in our Quality Manual. In response to GDPR we have a steering committee with executive sponsorship which is supported by defined working groups to ensure our GDPR compliance plan is actioned. The Animal Welfare (Licensing of Activities Involving Animals (England) Regulations 2018 were laid before Parliament in Feb 2018 and come into force in Oct 2018. This updated legislation follows an extensive consultation which began in December 2015. We supported the changes proposed to improve pet welfare and engaged proactively in the consultation and with ministers and officials directly. Having demonstrated our expertise and commitment to high welfare standards, we were able to play a leading role in the development of the detailed guidelines that underpin the new regulations and form the basis of future licensing inspections by local authorities.

Outlook

We welcome the Government's recent proposals around animal establishments licensing which comes into force in October 2018. We continue to monitor these and other regulatory developments across the UK and Europe and will plan accordingly.

Risk appetite



Change on prior year



Risk profile



Extreme weather **Strategic priorities** 

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.

Risk appetite



Change on prior year



Risk profile





Home OF DOING THE RIGHT THING



We celebrate the love of pets so we believe that we have a responsibility to do the right thing...

For pets

We are a pet care specialist and it is a love of pets that forms the unique bond we share with our colleagues and our customers and clients. Nothing is more important to us than the welfare of pets and we have Pets Before Profit as one of our core values. As well as the care we take of our own pets, the product ranges we offer and the services we provide are all carefully designed to keep pets happy, healthy and safe.



More information

➔ Page 40

For people

Our customers and clients look to us to provide the expert advice they seek, whether in our stores and grooming salons or in our veterinary practices. So it is really important that we develop, retain and reward talented colleagues in every facet of our business and look after their wellbeing. We also believe it is important that we take our expertise out into the community to share our understanding of the benefits of pet ownership and the responsibility it entails.

More information

➔ Page 44

For the planet

We understand that we have a responsibility to use natural resources wisely. So, while we have to provide a safe and comfortable environment for our colleagues, customers and pets, we have plans in place that address consumption, covering areas like energy, fuel and packaging. At the same time we aim to reduce waste and harmful emissions from our activities.

More information

➔ Page 46



Responsibility online

investors.petsathome.com/responsibility



Doing the right thing FOR PETS



Home of pet welfare

As our core belief is Pets Before Profit, nothing is more important to us than keeping pets happy, healthy and safe.

To ensure our policies and practices provide the best possible welfare standards for the pets in our stores we maintain 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.

We also have a dedicated field team 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.

During the year we implemented a number of changes to improve welfare standards further.

In our aquatics section we have removed the gravel from the tank floor and reduced the ornamentation.

This not only makes the fish more visible so our trained aquatics colleagues can identify potential problems more easily, it also makes it easier to maintain the water quality which is less stressful for the fish. We have also reduced the number of fish species stocked, focusing on the most popular varieties. This has allowed us to concentrate our efforts to improve the sourcing and transport of our fish. We have also introduced 'fish points', a simple way to help customers understand the correlation between the volume of a particular tank and the number of fish it can safely support.

With small mammals it is essential that they have access to clean, fresh water throughout the day. Cleansing traditional water bottles can be difficult and risks spreading disease if it is not done thoroughly so we investigated ways that this risk could be minimised. Working with suppliers we now have bottled mineral water delivered to stores so our pets have access to fresh spring water every day. The used bottles are collected to be recycled, further minimising the risk of contamination.

A lifetime of care for pets

We have created a range of Health Plans that make essential routine veterinary treatments more convenient and more affordable to help pet owners do the right thing for their pets. The main focus of our care plans is preventative healthcare for dogs, cats and rabbits, including vaccinations, flea and worm treatments and regular health checks. To help pet owners we send timely reminders when boosters or treatments are due, resulting in pets visiting vets more frequently for the care they need to keep them healthy. We offer different plans tailored to different life stages and have developed what we believe to be the first care plan that goes beyond preventative healthcare to focus on chronic diseases, Care4Life. Care4Life is a bespoke plan for dogs or cats with lifelong conditions including diabetes, osteoarthritis and heart disease.

We have also entered into a partnership with Battersea Dogs and Cats Home to provide all their rehomed dogs and cats with vouchers for a free veterinary consultation at one of our practices and a free Vac4Life care plan. Our nationwide practice network means that all pets rehomed by Battersea can remain fully vaccinated throughout their life and receive a free annual health check.



Understanding pet nutrition

We take great care to ensure the pets in our stores receive the best possible diet. A variety of fresh vegetables every day, different types of hay – nothing is too much trouble. So when research was published which highlighted issues with rabbit muesli, we took steps to replace muesli with nuggets. We no longer sell rabbit muesli.

Being a pet specialist, customers turn to us for advice and it's important we can address their questions specifically in relation to their individual pet and their personal experience. This is what sets us apart from supermarkets, discounters and online retailers, all of which sell pet food. So we have colleagues in every store who are specifically trained in pet nutrition and who undertake a programme of continuous personal development to keep their knowledge up to date.



Our belief is that pets deserve the best possible diet. Our ranges of food for dogs and cats are particularly extensive, providing customers with choice that will suit every pet and budget – from grocery products, to breed specific formulations and Advanced Nutrition ranges.

We have found that, mirroring trends in human nutrition, customers are increasingly interested to understand more about what makes up their pet's diet so they can make more informed choices. To address this need we undertook extensive research during

the year ahead of launching our 'recipes' campaign to highlight initially what goes into dry dog food and explain some of the terms used in labelling.

More information about what's in the recipe for a wide range of dry dog foods can be found on our website www.petsathome.com/shop/en/pets/recipe



Educating new pet owners

As pet owners ourselves, we recognise the joy that a new pet brings. For children in particular the prospect of owning a new pet can be particularly thrilling, so to make them aware of the responsibility that comes with pet ownership, we offer a programme of workshop events which we call "My Pet Pals". These workshops cover aquatics, small mammals and reptiles. Because of the association of bunnies with Easter, over the Easter holiday we focus our workshops on the care of rabbits. In addition we suspend the sale and adoption of rabbits over the Easter weekend.

45,550

people registered to attend one of our Easter workshops in 2018

We provide a wide range of pet information leaflets free in every store. These 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.

Before we sell any pet, colleagues must first check that customers are aware of their responsibilities in relation to the welfare needs of that pet. PetPads, our proprietary iPad application, guide colleagues to ensure that all the information that is pertinent to a particular type of pet is covered. Customers sign electronically to record that this has been done before the sale can progress. All colleagues are empowered to refuse the sale of a pet if they have concerns that its welfare needs may not be properly met in its new home.





Giving pets a second chance of happiness

We go to great lengths to find the right home for every pet and the right pet for every customer. However, often through no fault of their own, for some pets it isn't always possible for them to enjoy a permanent loving home and for these pets, rescue and rehoming centres offer a second chance of happiness.

Pets at Home established the charity Support Adoption For Pets in 2006 to provide vital support for pets in need. We provide rehoming centres for the charity in our stores where colleagues care for smaller pets. In addition the charity provides grant funding to external organisations to help with capital projects and running costs, subject to Trustee approval.

This year more than £4.4m was raised for Support Adoption For Pets. The biggest fundraising event in the year is the annual Santa Paws Appeal, where customers are invited to donate 50p to buy a Christmas dinner for a pet in rescue. Through the hard work of our store colleagues and the generosity of our customers we raised £1.4m which was split between Support Adoption

For Pets and locally partnered rescues who support our in-store fundraising efforts.

During the year Support Adoption For Pets made its largest ever grant of £100,000 to Hope Rescue in South Wales. This transformational grant enabled the development of a state of the art isolation block, providing facilities to rehome an additional 300 stray dogs every year, and improve the welfare of 800 dogs in their care. A video of this transformation is available on the Support Adoption For Pets website www.supportadoptionforpets.co.uk

Through our VIP loyalty scheme we also provide 'lifelines' which enable animal charities nominated by customers to purchase food and accessories from local stores. This year £2.2m worth of lifelines were donated to support the rehoming of pets.

We continue to support the rehoming of pets through Dogs Trust with donations of Wainwright's dog food. This year £475,450 worth of food was donated.

More than

£4.4m

was raised for Support Adoption For Pets this year

£100,000

grant to Hope Rescue in South Wales

£2.2m

worth of lifelines were donated to support the rehoming of pets

£475,450

worth of Wainwright's dog food was donated to Dogs Trust



Doing the right thing FOR PEOPLE

Valuing our colleagues as individuals

We engage with and value our colleagues as whole people, not simply as employees. This is reflected in our approach to reward and benefits, where we recognise the importance of work-life balance and in our approach to wellbeing.

Our colleagues represent a very broad spectrum – from specialist veterinary surgeons to client care advisors, from experts in marine and freshwater biology to store colleagues – all are different and all are uniquely talented. Recognising this diversity, we structure our approach to wellbeing in four dimensions – physical, mental, financial and nutritional.

Recognising the pressures on people working in the veterinary profession we prioritise the wellbeing of our veterinary colleagues, with a focus on mental health awareness. We have partnered with the Retail Trust and Port of Call to offer services for colleagues who need support, advice or guidance in times of difficulty. Port of Call specifically support people affected

by addiction. We provide 'Mind Matters' mental health awareness training with full day courses available for our practice colleagues to attend. The course was designed with the Royal College of Veterinary Surgeons to help individuals understand their own mental health and to identify and manage mental health in the workplace.

In our Retail business we will also focus on mental health and wellbeing. Managers have asked for support in dealing with colleagues' mental health challenges to enable us to better support those colleagues. We want to create a culture where mental health is not a subject that people shy away from. We have partnered with MIND and have signed their pledge 'Time to Change' to help us educate managers so we can offer the right support at the right time and experiences can be safely shared.

Occupational Health Advisors have been appointed to help with appropriate support, guidance and intervention for our colleagues with health concerns, including mental health.

Supporting local communities

As part of our rewards and benefits package all colleagues are able to take a charity leave day every year. This year colleagues from our Vet Group Support Office in Swindon volunteered to work with seven local organisations while colleagues from our Distribution Centres raised more than £9,000 in support of a range of charities.

Colleagues in the Vet Group also nominate a Charity of the Year which they work to support. This year Medical Detection Dogs have benefited from our fundraising, which included a book sale, children's party and sponsored cycle ride and raised around £8,000.

Proceeds from the sales of single-use carrier bags in stores have enabled Pets as Therapy to pilot a number of schemes to provide outreach and companionship to people living in isolation and they are now working to expand these services. Dogs for Good have also been able to expand their animal assisted intervention services which aid families with a child with autism to integrate a dog into their routine, helping to reduce stress for both the child and the family.

Working with the Alzheimer's Society we have launched a campaign to enrol colleagues as 'dementia friends' to improve their awareness and understanding of how they can help people who are living with dementia.



Diversity – gender pay gap

We want every colleague to see Pets at Home as a place where they can make the most of all of the opportunities we offer and where talent is the only determining factor in their success. So we welcomed the UK Government's requirement to publish gender pay gap information. Our Retail division is the only Group entity to fall within the parameters set by the government.

Our median gender pay gap is 9.7%. In common with many retailers, women make up the majority of our colleagues and across 75% of our colleagues we are encouraged to see the gender pay gap is either less than 1% or is favourable to women. In the highest paid quartile, where men outnumber women, our gender pay gap is less than the UK average.

The report also sets out a range of actions we are taking to help close the gap, including overhauling our recruitment website and guidelines to make sure that we are showcasing the diverse and flexible opportunities we offer, making sure we are putting in place clear career pathways and making sure that the benefits we offer support a healthy work-life balance.

Our full gender pay gap report is available at investors.petsathome.com/responsibility

Helping colleagues to develop their full potential

Across the Group we are passionate about offering opportunities to colleagues who seek to develop their skills. Our well established 'Steps' programme has been updated to provide retail colleagues with the most up-to-date and relevant training in retail operations, pet welfare and pet nutrition as well as qualifications that allow colleagues to serve customers with certain licensed medicines.

Apprenticeships fit perfectly with our ethos and can be invested in colleagues of any age, experience level or qualifications.

Within our veterinary practices we offer Veterinary Nurse apprenticeships for both internal colleagues and as an opportunity to recruit new talent. We have partnered with colleges that offer the best value and method of delivery to ensure that we can offer these apprenticeships to colleagues in every one of our practices.

In addition, we are creating a bespoke apprenticeship programme for our client care advisors to ensure that they can provide our clients with the best possible experience through their knowledge, passion and expertise.

Dick White Referrals, one of our specialist veterinary referral centres, has invested in its training academy with an experienced team of Registered Veterinary Nurses. Here students become proficient in the areas of veterinary care that are crucial to the smooth running of a practice. The Dick White Academy has been accredited as a training provider for Veterinary Nurses (level 3 diploma) and Veterinary Care Assistants (level 2 qualification) which supports the growth of talent across the veterinary profession.

In our Groom Room salons we offer apprenticeships to new colleagues looking to develop a career in pet grooming. Upon completion our grooming apprentices are promoted to an available position of Stylist.

Together with the Institute of Apprenticeships and other like-minded employers we are working to secure a new pathway dedicated to dog grooming. Within our Support Offices and Distribution Centres we offer apprenticeships in leadership, human resources, finance, customer service, software development, data analysis, recruitment marketing, supply chain and warehousing.



Supporting our vet partners in delivering clinical excellence

We operate a Joint Venture model in our First Opinion veterinary practices which allows our veterinary partners to focus on their clinical practice while we provide the business services needed to run an efficient business.

We support individual vets having the freedom to make medical and surgical decisions, including the procedures they carry out and the products they use within their practices. We have the utmost respect for their professional knowledge and expertise.

While clinical freedom is a central tenet of our veterinary business, having unified Vets4Pets branding across most of our practice estate has led us to develop an innovative approach to clinical governance, helping vet partners aspire to common standards of clinical excellence.

We have introduced the new role of Clinical Development Manager (CDM) to provide Quality Assurance, promote clinical excellence and best practice, and support our practices with clinical audits, coaching and support. Experienced veterinary surgeons have been recruited into these regional, field-based roles. We have developed the Aspiring to Clinical Excellence (ACE) programme based on similar schemes operating in medical

organisations as well as professional requirements from the Royal College of Veterinary Surgeons and the Veterinary Medicines Directorate. Our CDMs are conducting ACE audits in every First Opinion practice across the Group. These audits review 20 critical areas of practice process and policy and will be updated regularly to drive continual improvement.

Sadly, bereavement is an inevitable factor of pet ownership and an everyday occurrence in veterinary practice. We have developed a unique suite of resources to support practices in providing bereavement services to clients in a sensitive and compassionate manner.

Doing the right thing FOR THE PLANET

Protecting the UK's biosecurity

Recognising the importance of educating customers about their responsibilities in relation to invasive non-native species, our fish bags carry a message asking customers not to release fish or aquarium plants into the wild as this can be harmful for both the fish and our natural environment. This message is being extended across our range of tanks and accessories. If a customer is no longer able to look after their fish, we ask them to contact their nearest Pets at Home store where we have trained colleagues who will do their best to help. During the year we were pleased to host a visit to one of our stores, together with the Ornamental Aquatic Trade Association, to discuss this important issue with the Parliamentary Under Secretary of State responsible for these matters.

Delivering the goods

Trading from 448 locations around the country we rely on an efficient transport network and a well-invested fleet to keep our stores replenished and to recycle our waste. Our entire fleet of delivery vehicles is compliant with Euro 6 vehicle emission standards which, with nitrogen oxides (NOX) emissions of 0.4 grams per kilowatt hour of energy, represent a significant advancement over NOX limits of 2.0 grams per kilowatt hour of energy from the Euro 5 standard. For our fleet this delivers a saving of more than 28,000kg NOX compared to equivalent emissions from a Euro 5 fleet, with falls also in emissions of both hydrocarbons and particulates.

In addition, we track the number of km travelled for every 1,000 cases delivered which we believe represents a good indicator of scheduling efficiency. Over the past year we have achieved an improvement of 7% in our scheduling efficiency.

Saving water

We recognise that water is a precious natural resource and we are looking to further develop our approach to water management. To help us better understand how water is used in a typical store we have installed water sub meters and data loggers in some of our stores in Scotland. Analysis of these data will help us to identify areas of highest water use and target these with programmes to reduce consumption. With the water market in England opening up to competition we have tendered for a single supply contract for our sites in England. Whilst this is a fairly new market we expect this to drive further water saving activity over coming years.

Minimising the impact of packaging

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. We are applying these principles to all packaging materials and plastics used in our stores.

Having retendered our waste contract in 2016 we have continued to achieve 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 continually seek ways to increase the volume of waste that is recycled every year.



Minimising our carbon footprint

We continue to reduce our carbon footprint. Electricity remains our largest source of emissions and is the focus of our reduction efforts. We continue to target other areas to reduce emissions, particularly our logistics fleet.

Becoming carbon neutral in gas and electricity use

During the year we successfully completed our programme to install LED lighting and Building Energy Management Systems across our store estate. This programme helped to reduce our energy consumption by 34% with improvements to pet welfare.

Since October 2017 we have become carbon neutral in relation to our use of natural gas and electricity across all of our stores, veterinary practices, distribution centres and support offices. To achieve this, we are now sourcing green renewable electricity and purchasing Gold Standard carbon offsets equal to the volume of natural gas we use across the estate to heat our stores and vet practices.

The full year carbon saving is significant. As our electricity is now carbon neutral, we expect to reduce CO₂ emissions from electricity consumption by more than 30,000 tonnes per year. For each tonne of CO₂ emitted from the gas used to heat our premises, we now also purchase one gold standard UN-backed carbon offset. Purchasing carbon offsets supports families and communities in some of the poorest countries in the world. For example, one project we are supporting in Kenya provides families with a new cooking stove. These new stoves are more efficient than open fires and significantly reduce the harmful air pollution to which young children are exposed. These projects support UN sustainable development goals.



One project we are supporting in Kenya provides families with a new cooking stove.

Total carbon footprint

	Tonnes CO ₂ e emissions		2016/17
	2017/18 (Location-based)	2017/18 (Market-based)	
Scope 1	9,649	9,649	9,619
Scope 2	21,584	9,974	28,840
Scope 3	5,799	5,799	6,620
Total	37,031	25,422	45,079
tCO ₂ e per £m revenue	41.20	28.28	54.04
Inclusion of 1,200 carbon offsets	35,831	24,222	

- **Methodology:** We have applied the UK Government's 2017 Conversion Factors for Company Reporting and GHG Protocol standards in order to quantify and report our greenhouse gas emissions.
- **Methodology:** An operational control approach has been used to define the reporting process. A financial control approach was used for previous years.
- **Boundary:** Pets at Home leases a small number of company cars, emissions from these had previously been reported in error as Scope 3 emissions in previous years. From this reporting year these emissions will be reported correctly as Scope 1 emissions.
- **Additional inclusions:** This is the first year that we have included the emissions from our stand-alone vet practices and referral centres. The impact of these is de minimis.
- **Exclusions:** Due to technical issues with data collection, fugitive emissions from air conditioning and refrigeration are not reported although these are considered minimal.
- **Estimation:** Forecasted energy consumption used for budgeting purposes has been applied in the occasional instance where estimation was required.
- **Independent verification:** Our 2018 Scope 1, 2 and 3 emissions are verified to a limited level of assurance by Ramboll Environment & Health Limited using the ISO 14064-3 standard. A link to the verification statement is available on the Pets at Home website.
- **Normalisation:** We have chosen to report gross Scope 1 and 2 emissions in tonnes of CO₂e per £m revenue as this is a common metric used in corporate greenhouse gas reporting.
- **Market-based criteria:** Since October 2017 we have procured 100% renewable electricity backed by REGOs and assessed for conformance with GHG Protocol Scope 2 Quality Criteria. An emission factor of zero has therefore been applied since that date to calculate our Scope 2 market-based figure, whilst a location-based factor was used to calculate Scope 3 emissions from transmission and distribution losses.
- **Carbon offsets:** We work with ClimateCare to offset our Scope 1 GHG emissions (equivalent to the emissions from the natural gas used in our buildings) through best practice Gold Standard emissions reduction projects, which both cut carbon and improve lives. Our support for the distribution of clean cook stoves, through the Paradigm Healthy Cookstoves and Water Treatment Project, is cutting indoor air pollution and waterborne disease, as well as tackling climate change. The notice of retirement be found here: https://products.markit.com/br-reg/public/index.jsp?name=pets%20at%20home&entity=retirement&entity_domain=Markit,GoldStandard

Clear and consistent governance framework



The Board aims to achieve the highest standards of corporate governance.”

Tony DeNunzio
Non-Executive Chairman

Chairman's introduction

On behalf of the Board, I am pleased to present our Corporate Governance Report for the financial year ended 29 March 2018. 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. The Group is committed to promoting high standards of corporate governance to ensure that the Group is managed with integrity and transparency. This has been reflected in the activities that we have undertaken throughout the year.

Principal governance activities during the financial year

In November 2017, Ian Kellett notified me of his intention to step down as Group Chief Executive Officer. Ian's resignation as a Director took effect on 27 March 2018 although he will remain employed by the Group until 31 May 2018. Ian joined Pets at Home in April 2006 as Chief Financial Officer and moved to the role of Group Chief Executive Officer in April 2016. As part of the Board's succession plan, we are delighted that Peter Pritchard, CEO of the Retail Group, has succeeded Ian as Group Chief Executive Officer. Peter joined Pets at Home in 2011 as Commercial Director and moved to the role of CEO of Retail in 2015. During his time with the Group, Peter has overseen the establishment of our sourcing office in China, the launch of the VIP club, the

development of our omnichannel strategy, and more recently, the repositioning of our Merchandising business.

In November 2017, Nicolas Gheysens also resigned from the Board. Nicolas had been appointed to the Board as the nominated representative of the Company's then Principal Shareholder, KKR My Best Friend Limited, an affiliate of Kohlberg Kravis Roberts & Co. L.P. KKR My Best Friend Limited determined at that time not to replace Nicolas on the Board as it was otherwise entitled to do under the terms of the Relationship Agreement entered into with the Company.

During the financial period Amy Stirling and Paul Coby stepped down from the Board with effect from the close of the Annual General Meeting on 11 July 2017 in order to fulfil commitments in their full time roles. Amy was succeeded by Sharon Flood, Chair of ST Du Pont S.A, the Paris based luxury goods company and Audit Chair at Crest Nicholson plc and Network Rail. Paul was replaced by Stanislas Laurent who was appointed on 25 May 2017. Stanislas was formerly President and CEO of Photobox and COO of AOL Europe. Sharon has been appointed as Chair of the Audit and Risk Committee and is a member of the Remuneration Committee and the Nomination and Governance Committee. Stanislas is a member of the Audit and Risk Committee, Nomination and Governance Committee, Corporate Social Responsibility Committee and Pets Before Profit Committee.

More recently Tessa Green confirmed that she will step down from the Board with effect from close of the Annual General Meeting on 12 July 2018. Tessa has been a Director of Pets at Home since 2014 and during that time has been Chair of the Corporate Social Responsibility Committee and the Pets Before Profit Committee. I would like to thank Tessa for her valuable contribution to the business and convey the Group's best wishes to her going forward. Tessa will be succeeded by Professor Susan Dawson, Dean of the Institute of Veterinary Science at the University of Liverpool and council member of the Royal College of Veterinary Surgeons. Professor Dawson will Chair the Pets Before Profit and

Corporate Social Responsibility Committees and brings valuable veterinary services sector experience to the Board.

During the year, further elements of our succession plan were implemented, with Andrei Balta being appointed into the role of CEO of the Vet Group following Sally Hopson's resignation on 23 March 2018. Andrei joined Pets at Home in 2011 as Director of Group Strategy and moved to the veterinary business in 2013, firstly as Commercial Director and subsequently as Chief Operating Officer. Prior to Pets at Home, Andrei was a management consultant at Bain & Company for seven years.

We progressed the actions that were highlighted from the 2017 internal Board evaluation which emphasised the need to further increase the Board's focus on talent and succession planning particularly below Board and Executive Management Team level. To support this work, the Board commissioned a review of the Group's banding structure in order to develop clearer career pathways for colleagues and the Group's People strategy has been revised to provide for a greater emphasis on colleague development and talent retention. The Non-Executive Directors continued to spend time with the leadership teams outside of formal meetings to gain a deeper insight into key rising talent throughout the organisation.

The following pages set out our governance processes within the Group. 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.

I look forward to meeting shareholders at our next Annual General Meeting which will be held on 12 July 2018 at 11.00 a.m. at the Hallmark Hotel, Stanley Rd, Handforth, Wilmslow, Cheshire, SK9 3LD.

Tony DeNunzio
Chairman, Pets at Home Group Plc
21 May 2018

Statement of Compliance with the UK Corporate Governance Code

The following Governance Report outlines how the Board has applied the main principals of good governance as required by the UK Corporate Governance Code published in April 2016 (Code), the Disclosure Guidance 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.

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 55 to 57.

Board Committees



Audit and Risk Committee

Due consideration of laws and regulations, framework of controls, the provisions of the Code and the requirements of the Listing Rules.

Members

Sharon Flood (Chair)
Dennis Millard
Paul Moody
Stanislas Laurent



Nomination and Corporate Governance Committee

Oversight of Board composition and succession planning.

Members

Tony DeNunzio (Chair)
Dennis Millard
Tessa Green
Paul Moody
Sharon Flood
Stanislas Laurent



Remuneration Committee

Assists the Board in determining responsibilities on Directors' remuneration.

Members

Paul Moody (Chair)
Dennis Millard
Tessa Green
Sharon Flood



Pets Before Profit Committee

Oversight on pet welfare and achieving strategy on responsible pet retailing.

Members

Tessa Green (Chair)
Tony DeNunzio
Dennis Millard
Stanislas Laurent



Corporate Social Responsibility Committee

Oversight on strategy for responsible retailing including engagement, sourcing, community and the environment.

Members

Tessa Green (Chair)
Tony DeNunzio
Dennis Millard
Stanislas Laurent

Executive Management Team

Investment Committee

- Ensures the Group's new store, veterinary surgery and Specialist Referral Centre investment process is managed effectively.

Health and Safety Committee

- Oversees Group Health and Safety matters.

Executive Management Team and Retail and Vet Group Executive Management Teams

- Executive Management Team (as detailed on page 61) leads on strategy and its execution; and
- Retail and Vet Group Executive Management Teams implement strategy set by the Executive Management Team in their respective divisions.

Governance Report

The Governance Report for FY18 covers the following areas:

Leadership

Read more

→ Page 50

Effectiveness of the Board

Read more

→ Page 52

Board Committees

Read more

→ Page 55

Relations with the Company's shareholders and the Annual General Meeting

Read more

→ Page 58

Leadership

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, Executive Management Team 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 corporate governance matters;

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.

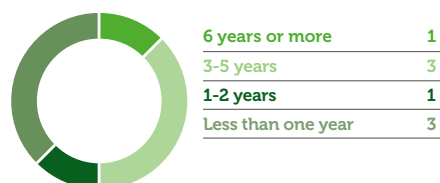
Board composition

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 directors' judgement.

Board composition

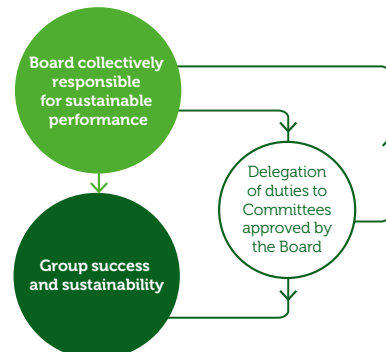
Board tenure



Membership of the Board



Role of the Board and delegating duties



The Board currently consists of five Independent Non-Executive Directors and one Non-Executive Chairman. The Directors' biographies are contained on pages 60 to 61. 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 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 conjunction with the Group Chief Executive Officer and 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.
Non-Executive Directors	<ul style="list-style-type: none"> • Provide constructive challenge to the Executive Management Team; • Help develop proposals on strategy; • Scrutinise management's performance in meeting agreed goals and objectives; • Monitor performance reports; • Satisfying themselves on the integrity of financial information and that controls and risk management systems are robust and defensible; and • Determining 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 observer	<ul style="list-style-type: none"> • The CEO of the Vet Group is a Board observer; • Right to receive notice of, attend and speak at Board meetings; and • No entitlement to vote on any matter requiring a resolution of the Board.

Appointment of Directors by the Principal Shareholder

Pursuant to the terms of the Relationship Agreement with the Principal Shareholder, KKR My Best Friend Limited, an affiliate of Kohlberg Kravis Roberts & Co. L.P., had, during the financial period, the ability to appoint:

- two Non-Executive Directors to the Board for so long as the Principal Shareholder (and/or any of its associates, when taken together) held 20% or more of the voting rights attaching to the Company's Ordinary Shares; or
- one Non-Executive Director for so long as it (and/or any of its associates, when taken together) held 10% or more but less than 20% of the voting rights attaching to the Company's Ordinary Shares.

Although Tony DeNunzio had not been appointed as a Director by the Principal Shareholder, the Principal Shareholder had agreed that for so long as it had the right to appoint two Directors to the Board and Tony DeNunzio was a Director, the Principal Shareholder would not exercise its right to appoint a second Director to the Board. The Principal Shareholder also had the right to appoint one Board observer for so long as it held voting rights over more than 10% of the Company's shares. The Principal Shareholder had appointed Nicolas Gheysens as a Non-Executive Director and to be its nominated representative on the Board.

In November 2017, Nicolas Gheysens resigned from the Board and the Principal Shareholder determined at that time not to exercise its rights under the Relationship Agreement entered into with the Company to replace Nicolas' position on the Board.

For further details of the Relationship Agreement and confirmation of compliance with the provisions set out in the Relationship Agreement, see page 70 of the Directors' Report. On 29 January 2018, the Principal Shareholder divested of its remaining stake in the Company and reduced its shareholding in the Company to nil. The Relationship Agreement has accordingly terminated.

Effectiveness of the Board

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 Management Team and advisors. The induction includes visits to the Group's stores, veterinary surgeries, distribution centres, Specialist Referral Centres 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

In November 2017, Ian Kellett notified the Chairman of his intention to step down as Group Chief Executive Officer. Ian's resignation as a Director took effect on 27 April 2018 although he will remain employed by the Group until 31 May 2018. Ian's resignation required the Group to implement its succession plan and Peter Pritchard, CEO of the Retail Group, succeeded Ian as Group Chief Executive Officer with effect from 27 April 2018.

As noted above, in November 2017, Nicolas Gheysens also resigned from the Board. Nicolas had been appointed to the Board as the nominated representative of the Company's then Principal Shareholder, KKR My Best Friend Limited, an affiliate of Kohlberg Kravis Roberts & Co. L.P. KKR My Best Friend Limited determined at that time not to exercise its rights under the Relationship Agreement entered into with the Company to replace Nicolas' position on the Board.

During the financial period Amy Stirling and Paul Coby stepped down from the Board with effect from the close of the Annual General Meeting on 11 July 2017 in order to fulfil commitments in their full time roles. Amy was succeeded by Sharon Flood whilst Paul was replaced

by Stanislas Laurent. Sharon has been appointed as Chair of the Audit and Risk Committee and is a member of the Remuneration Committee and the Nomination and Governance Committee. Stanislas is a member of the Audit and Risk Committee, Nomination and Governance Committee, Corporate Social Responsibility Committee and Pets Before Profit Committee.

More recently Tessa Green confirmed that she will step down from the Board with effect from the close of the Annual General Meeting on 12 July 2018. Tessa has been a Director of Pets at Home since 2014 and during that time has been Chair of the Corporate Social Responsibility Committee and the Pets Before Profit Committee. I would like to thank Tessa for her valuable contribution to the business and convey the Group's best wishes to her going forward. Tessa will be succeeded by Professor Susan Dawson, Dean of the Institute of Veterinary Science at the University of Liverpool and council member of the Royal College of Veterinary Surgeons. Professor Dawson will Chair the Pets Before Profit and Corporate Social Responsibility Committees.

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 Directors' Remuneration Report on pages 91 to 93. The service agreements and letters of appointment are available for inspection at the Company's registered office during normal business hours.

At each Annual General Meeting 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

Male	6 (75%)
Female	2 (25%)

Executive Management Team

Male	3 (75%)
Female	1 (25%)

Retail Group Executive Management Team

Male	6 (67%)
Female	3 (33%)

Vet Group Executive Management Team

Male	2 (50%)
Female	2 (50%)

Group

Male	3,466 (26%)
Female	9,950 (74%)

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 Sharon Flood, are female together with the Chief People and Legal Officer and Company Secretary, Louise Stonier. These appointments were made entirely on merit, and not on the basis of gender, the appointees being by far the strongest candidates for the positions with their skill sets and overall experience fitting the objective role description approved by the Board at the outset of the recruitment process.

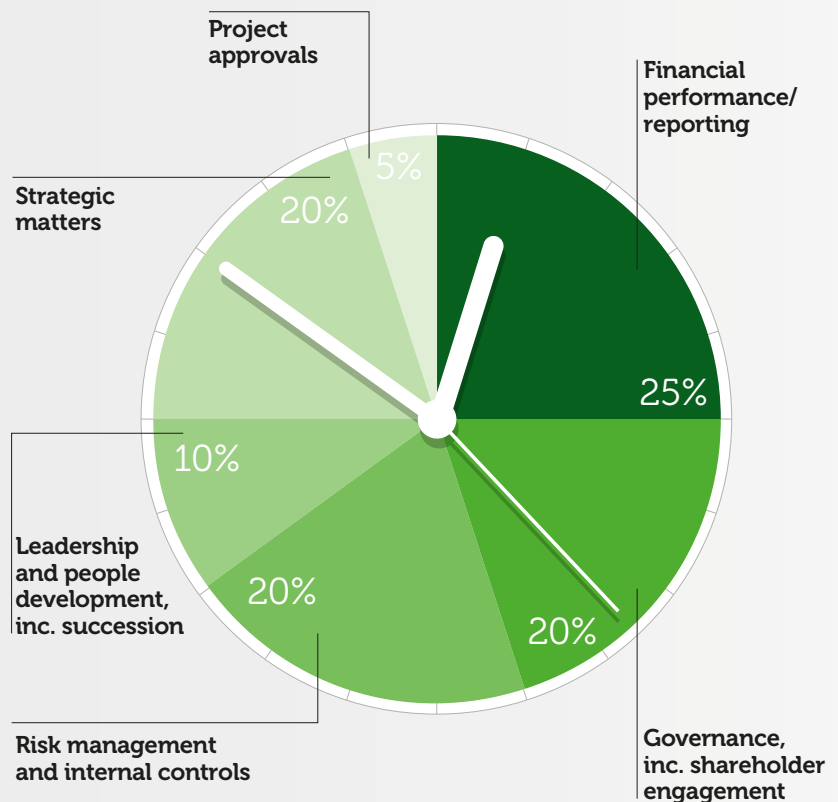
This policy applies equally to all appointments in the Company including in respect of the Retail Group Executive Management Team where Lisa Miao is

2018 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;
- Job levelling and banding across the Group;
- 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



Board meetings and attendance

Number of meetings attended

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

	Board	Remuneration Committee	Audit & Risk Committee	Nomination & Corporate Governance Committee	Corporate Social Responsibility Committee	Pets Before Profit Committee
Number of meetings¹	9	3	4	2	2	3
Director²						
Tony DeNunzio (Chairman)	9/9	n/a	n/a	2/2	2/2	3/3
Dennis Millard (Deputy Chairman)	9/9	3/3	4/4	2/2	2/2	3/3
Ian Kellett	8/9	n/a	n/a	n/a	n/a	n/a
Mike Iddon	9/9	n/a	n/a	n/a	n/a	n/a
Tessa Green	9/9	3/3	n/a	1/2	2/2	3/3
Paul Moody	8/9	2/3	4/4	2/2	n/a	n/a
Sharon Flood ³	6/9	2/3	3/4	2/2	n/a	n/a
Stanislas Laurent ⁴	7/9	n/a	3/4	2/2	1/2	3/3
Amy Stirling ⁵	2/9	1/3	1/4	0/2	n/a	n/a
Paul Coby ⁶	2/9	0/3	1/4	0/2	1/2	0/3
Nicolas Gheysens ⁷	6/9	n/a	n/a	1/2	n/a	n/a

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 Sharon Flood was appointed as a Non-Executive Director on 25 May 2017.

4 Stanislas Laurent was appointed as a Non-Executive Director on 25 May 2017.

5 Amy Stirling resigned as a Non-Executive Director with effect from 11 July 2017.

6 Paul Coby resigned as a Non-Executive Director with effect from 11 July 2017.

7 Nicolas Gheysens resigned as a Non-Executive Director with effect from 28 November 2017.

appointed Commercial Director and Suzie Williams as Business Systems Director and the Vet Group Executive Management Team, where Fiona Briault and Julie Ross are appointed as respectively Director for People, Operations and Partnerships and Commercial Director. We were delighted to see Julie Ross appointed into this role in this last financial year.

Board meetings and attendance

In this financial year, the Board met formally nine times, plus attended an 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 in consultation with the Board and Executive Management Team.

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 Management Team, which monitors the achievements against 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 the year are revised and reviewed monthly.

Members of the Retail Group Executive Management Team and Vet Group Executive Management Team are also invited to present at Board meetings from time to time so that Non-Executive

Directors keep abreast of developments in the Group. For the Board, these meetings are an opportunity to meet colleagues below the level of the Executive Management Team and for colleagues asked to present, this is a valuable part of their career development.

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 Director of Investor Relations, covering broker reports and the output of meetings with significant shareholders.

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 the Investment Committee and Health and Safety Committee which comprises 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 Company Secretary and are published on the Group's website <https://investors.petsathome.com/investors/governance/our-committees>

Key objectives and responsibilities of the Board Committees

	Key objectives	Main responsibilities/duties
Audit and Risk Committee	<ul style="list-style-type: none"> to assist the Board 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; and 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; and 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; and 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; and 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; and 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 Mike Iddon and its other members are Andrei Balta 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 nine times a year and otherwise as may be required. Duties of the Investment Committee include reviewing and considering all proposals presented for the acquisition of new stores, stand-alone First Opinion veterinary surgeries, Specialist Referral Centres, support offices, distribution centres and any other type of property for which occupation is proposed for use by a member of the Group; approving all material variations and works of a capital nature proposed to be carried out to any property in which the Group has a right of occupation; approving all material variations to proposed property and stand-alone surgery acquisitions; periodically reviewing proposed changes to the reporting and presentation of property 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.

Executive Management Team, Retail Group and Vet Group Executive Management Teams

In addition to the Board, the Group has the Executive Management Team as detailed in the Governance Report on page 61. Supporting the Executive Management Team is an appointed divisional executive management team for both the Retail Group and the Vet Group for which roles are clearly defined. The Retail Group Executive Management Team and the Vet Group Executive Management Team support the Executive Management Team in the implementation of strategy across their respective divisions.

Health and safety

Health and safety is a key priority for the Board and senior management and is an item for review and discussion at each Board meeting. The Board has established a health and safety committee that meets at least on a quarterly basis and is chaired by the Chief People and Legal 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 three health and safety assessors.

Further details of the work of the health and safety committee are contained on pages 68 to 69 of the Directors' Report.

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 33 to 37 of the Strategic Report. The Board delegates to the Executive Management 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 33 to 37 of the Strategic Report and page 75 of the Audit and 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 November 2018 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 business plan and budget cycle, again culminating in formal review and approval by the Board on 26 April 2018.
- 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 Financial Officer, has reviewed and approved investments in respect of the acquisition and fit-out of new stores, and new standalone and in store veterinary practices and for Specialist Referral Centres.
- There is an Internal Audit department in place that has its scope agreed with the Audit and Risk Committee and has reported at each Audit and Risk Committee meeting 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 these are prioritised based on risk. Further details of the areas covered in the internal audit reports can be found in the Audit and Risk Committee Report on page 75.
- 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 reflects 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 and Risk Committee Report on page 72.

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 is responsible for ensuring the Company maintains a satisfactory dialogue with shareholders. The Board believes it is important to explain business developments and financial results to the Company's shareholders and to understand any shareholder concerns. We 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 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 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. In addition, the Company arranges visits to its stores and other operations for analysts and shareholders and this year held a capital markets day in order to explain aspects of business performance and strategy. This last financial year also saw the Company undertake an extensive consultation process with major shareholders in connection with the Group's review, development and ultimate adoption, at the 2017 Annual General Meeting, of its current Directors' Remuneration Policy.

All of the Non-Executive Directors are available to meet with major shareholders, if they wish to raise issues separately from the arrangements as described above.

All Directors will be available at the Annual General Meeting to meet with shareholders and answer their questions.

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.

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 FY17. 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 the response which 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/responsibility/policies-and-procedures/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 and 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 Directors, its other Persons Discharging Managerial Responsibility 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

The effectiveness of the Board is important to the success of the Group, and the Board's annual evaluation provides a useful opportunity for the Directors to reflect on their collective and individual effectiveness and consider changes.

Process and focus

The Board evaluation for 2018 was carried out internally using an online questionnaire. The online questionnaire was prepared by the Company Secretary. The questionnaire asked questions to assess performance in a range of areas including Board strategy, leadership and culture and sought to gauge the extent of perceived progress of the Board and the Board Committees in the areas of development identified in the Board evaluation undertaken in 2017. Due to the changes to the Board during the financial period and in preparation for Peter Pritchard stepping up to the role of Group Chief Executive Officer, the evaluation also focused on Board composition and expertise and Board dynamics.

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:

- redefining the relationship between the Board and the Executive Management Team following a period of management change;
- succession and talent management and development below Board and Executive Management Team level;
- visibility and depth of the People strategy and Company culture;
- presentation and understanding of the Group's digital and business systems strategy; and
- re-visiting the roles and terms of reference for the Pets Before Profits and Corporate Social Responsibility Committees.

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. The Senior Independent Director and the Non-Executive Directors also met to discuss the performance of the Chairman without the Executive Directors or Chairman being present.

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

Board and Executive management

Board of Directors



Tony DeNunzio CBE
Non-Executive Chairman

Appointment to the Board
2014

Committees
Nomination and Corporate Governance, Pets Before Profit, Corporate Social Responsibility

Current roles

- Deputy Chairman and Senior Independent Director at Dixons Carphone Plc
- Non-Executive Director of PrimaPrix SL.
- Senior Adviser to Kohlberg, Kravis, Roberts & Co. L.P.

Past roles

- Non-Executive Chairman of Maxeda
- Non-Executive Director of Alliance Boots GmbH
- President and Chief Executive Officer of Asda
- 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 Non-Executive Chairman and Senior Independent Non-Executive Director

Appointment to the Board
2014

Committees
Nomination and Corporate Governance, Audit and Risk, Remuneration, Pets Before Profit, Corporate Social Responsibility

Current roles

- Non-Executive Chairman of Halfords Group Plc
- Senior Independent Chairman of Superdry plc

Past roles

- Senior Independent Director of Debenhams Plc
- Chairman of Connect Group Plc
- Senior Independent Director of Premier Farnell Plc
- Senior Independent Director of Xchanging Plc
- Non-Executive Director of Exel plc

Brings to the Board

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

Pets

- Nandi
- Boris



Sharon Flood
Independent Non-Executive Director

Appointment to the Board
2017

Committees
Nomination and Corporate Governance, Audit and Risk, Remuneration

Current roles

- Chair of ST Du Pont S.A.
- Chair of Audit Committee at Network Rail
- Chair of Audit Committee at Crest Nicholson
- Chair of Finance at Science Museum Group

Past roles

- Group CFO at Sun European
- Finance Director at John Lewis Department Stores
- Chair of Audit at Shelter

Brings to the Board

Retail, finance and public company experience. Sharon is also a Chartered Accountant.

Pets

- Casie



Stanislas Laurent
Independent Non-Executive Director

Appointment to the Board
2017

Committees
Nomination and Corporate Governance, Audit and Risk, Pets Before Profit, Corporate Social Responsibility

Current roles

- Partner at Highland Europe

Past roles

- President and CEO of Photobox
- COO of AOL Europe

Brings to the Board

Entrepreneurial background with digital and technology experience.



Paul Moody
Independent Non-Executive Director

Appointment to the Board
2014

Committees
Audit and Risk, Remuneration, Nomination and Corporate Governance

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

Brings to the Board

Deep consumer goods and public company experience.

Group Executive Management Team



Tessa Green
Independent
Non-Executive Director

Appointment to the Board
2014

Committees
Remuneration, Nomination
and Corporate Governance,
Pets Before Profit, Corporate
Social Responsibility

Current roles

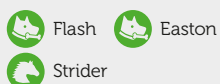
- Chair of Moorfields Eye Hospital NHS Foundation Trust
- Trustee of the Royal Foundation of the Duke and Duchess of Cambridge and Prince Harry
- Member of Advisory Board of Healthcare U.K.
- Member of Bupa Medical Advisory Panel
- Member of Bupa Association
- Director of UCL Partners

Past roles

- Chair of the Royal Marsden NHS Foundation Trust
- Trustee of The Institute of Cancer Research
- Trustee of the Royal Botanical Gardens, Kew

Brings to the Board
Considerable background in healthcare and not-for-profit/charitable sectors.

Pets



Peter Pritchard
Group Chief Executive
Officer

Appointment to the Board
2018

Current roles

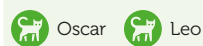
- Group Chief Executive Officer of Pets at Home
- Trustee of Community Integrated Care

Past roles

- Joined Pets at Home as Commercial Director in 2011 and became CEO of the Retail business in 2016
- Senior commercial and management roles at Asda, Sainsbury's, Iceland, Marks and Spencer and Wilkinson Hardware Stores

Brings to the Board
Significant retail background and long term operational experience across Pets at Home.

Pets



Mike Iddon
Group Chief
Financial Officer

Appointment to the Board
2016

Current roles

- Chief Financial Officer since 2016

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.



Louise Stonier
Chief People and
Legal Officer and
Company Secretary

Current roles

- Chief People and Legal Officer and Company Secretary of Pets at Home Group since 2017
- Chair and Trustee of the charity Support Adoption For Pets

Past roles

- Joined Pets at Home as Legal Director and Company Secretary in 2004
- 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 people expertise.

Pets



Andrei Balta
Chief Executive Officer
Vet Group

Current roles

- CEO of the Pets at Home Vet Group since 2018

Past roles

- Joined Pets at Home as Group Strategy Director in 2011 and moved to the Vet Group in 2013
- Management Consultant at Bain & Company

Brings to the Board
Strategic advisory background and operational experience at Pets at Home.

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 2016 (Code), the Disclosure Guidance and Transparency Rules and the Listing Rules of the Financial Conduct Authority.

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 table below.

Statutory information	Section heading	Page number
Amendment of the Articles	Directors' Report	66
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	Board of Directors	60–61
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Statutory information	Section heading	Page number
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Viability Statement	Directors' Report	67
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Disclosures required under Listing Rule 9.8.4R

In accordance with Listing Rule 9.8.4C, the information required to be disclosed in the Annual Report under Listing Rule 9.8.4R is disclosed on the following pages of this Annual Report:

Disclosure	Page number
Long term incentive schemes	92
Significant contracts	69
Dividend Waivers	Note 9 to the consolidated financial statements

Principal activities

The principal activity of the Group is that of a specialist omnichannel 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 centres and pet grooming salons. 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 5 the innovation carried out by the Group in relation to product and service development. In addition, the Group also funds a number of research projects and during this financial year we have continued to co-fund a Doctor of Philosophy (PhD) at Exeter University which is looking at how to identify and reduce the stress factors in ornamental aquarium fish. The PhD was 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, working together on a combined PhD looking at stress caused during transportation of fish from source right through into the Group's stores. This project complements and builds on the Group's first PhD project with Exeter University, and combined with the Exeter University project will give the Group an in-depth knowledge and understanding which can be used to further increase the welfare of fish in the Group's stores.

Colleague involvement

The Group places significant emphasis on colleague engagement at all levels, in particular through its regular listening surveys. 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 Corporate Social Responsibility Report on page 45. Details of the Group's colleague share plans are contained in the Directors' Remuneration Report on page 84.

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 role. We are committed to ensuring equality of opportunity for all colleagues. We aim to ensure that no colleague, potential colleague, customer, visitor or contractor will receive less favourable treatment on the grounds of:

- Sex
- Race
- Pregnancy and maternity
- Ethnic origin
- Nationality
- Disability
- Age
- Religious beliefs
- Sexual orientation or following gender reassignment
- Marital status
- 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 in the event that any colleague becomes 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.

In common with many retailers, this year we published our Gender Pay Gap report for our Retail Group on 28 March 2018. Further information on our Gender Pay Gap report is contained in the Directors' Remuneration Report on page 84. Our Gender Pay Gap report can be found at <https://investors.petsathome.com/responsibility/policies-and-procedures/gender-pay-gap-report>.

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	24 May 2017 (re-appointed)	n/a
Dennis Millard	24 May 2017 (re-appointed)	n/a
Tessa Green	24 May 2017 (re-appointed)	Resigned on 22 May 2018 but was a director during the financial period
Paul Moody	24 May 2017 (re-appointed)	n/a
Mike Iddon	17 October 2017	n/a
Sharon Flood	11 July 2017	n/a
Stanislas Laurent	11 July 2017	n/a
Ian Kellett	11 February 2014	27 April 2018
Nicolas Gheysens	2 December 2016	28 November 2018
Paul Coby	18 February 2014	11 July 2017
Amy Sterling	18 February 2014	11 July 2017

Ian Kellett resigned from his position as Group Chief Executive Officer on 28 November 2017 although his resignation did not take effect until after the end of the financial year on 27 April 2018. Ian's employment with the Group will terminate on 31 May 2018. Ian was succeeded by Peter Pritchard.

On 28 November 2018, Nicolas Gheysens also resigned from the Board. Nicolas had been appointed to the Board as the nominated representative of the Company's then Principal Shareholder, KKR My Best Friend Limited, an affiliate of Kohlberg Kravis Roberts & Co. L.P. KKR My Best Friend Limited determined at that time not to exercise its rights under the relationship agreement entered into with the Company to replace Nicolas' position on the Board.

During the financial period Amy Stirling and Paul Coby stepped down from the Board with effect from the close of the Annual General Meeting on 11 July 2017 in order to fulfil commitments in their full time roles. Amy was succeeded by Sharon Flood and Paul was replaced by Stanislas Laurent.

On 21 May 2018, after the end of the financial period, Tessa Green notified the Board of her intention to resign from the Board with effect from 12 July 2018. Tessa Green will be replaced by Professor Susan Dawson.

Appointment and removal of Directors

The appointment and replacement of Directors of the Company is governed by the Articles.

Appointment of Directors: A Director may be appointed by the Company by an ordinary resolution of the Company's shareholders or by the Board. The Board or any Committee authorised by the Board may from time to time appoint one or more Directors to hold any employment or executive office for such period and on such terms as they may determine and may also revoke or terminate any such appointment. A Director appointed by the Board holds office only until the next Annual General Meeting of the Company and is then eligible for re-appointment.

Annual re-election of Directors: All Directors stand for re-election on an annual basis in line with the recommendations of the Code.

Removal of Directors: A Director may be removed by the Company in certain circumstances set out in the Articles or by a special resolution of the Company's shareholders.

Vacation of office: The office of a Director shall be vacated if (amongst other circumstances): (i) he is prohibited by law from being a Director; (ii) he resigns; (iii) his resignation is requested by all of the other Directors; (iv) he is or has been suffering from mental or physical ill health and the Board resolves that his office be vacated; (v) he is absent without the permission of the Board from meetings of the Board (whether or not an alternate Director appointed by him attends) for six consecutive months and the Board resolves that his office is vacated; (vi) he becomes bankrupt; (vii) he ceases to be a Director by virtue of the Companies Act; or (viii) he is removed from office pursuant to the Articles.

Powers of the Directors

Subject to the Articles, the Companies Act, any directions given by the Company by special resolution of the Company's shareholders 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.

Directors' interests

Information relating to the Directors' interests in, and options over, Ordinary Shares in the capital of the Company are shown in the Directors' Remuneration Report on page 97. Since the end of the financial year and the date of this Directors' Report, following the termination of Ian Kellett's employment with the Company on 31 May 2018, options in respect of a total aggregate number of 476,461 ordinary shares will lapse. In addition, Mike Iddon received an award of 193,067 share options under the Pets at Home Group plc Restriction Stock Plan.

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 as and when they arise. The Board reviews and, where considered appropriate, approves situational conflicts of interest that were reported to it by Directors and a register of those situational conflicts is maintained by the Company. The register is reviewed by the Board on an ongoing basis.

Compensation for loss of office

The Company does not have any agreements with any Director or colleague that would provide compensation for loss of office or employment (whether through resignation, redundancy or otherwise) resulting from a takeover bid except that it should be noted that provisions of the Company's share schemes may cause options and awards granted to Directors or colleagues under such schemes to vest on a takeover. For further information on the change of control provisions in the Company's share schemes refer to the Directors' Remuneration Report on page 92.

Directors' insurance and indemnities

The Company maintains directors' and officers' liability insurance cover for its Directors and officers (and those of other Group companies) as permitted under the Articles and the Companies Act. Such insurance policies were renewed during the period and remain in force as at the date of this Annual Report. Each Director and officer of the Company also has the benefit of a qualifying indemnity, as defined by section 236 of the Companies Act, and as permitted by the Articles. An indemnity deed is entered into by a Director at the time of his or her appointment to the Board. Prospectus liability insurance remains in force which provides cover for liabilities incurred by certain Directors in the performance of their duties in connection with the issue of the Company's prospectus dated 28 February 2014 in relation to the Company's Initial Public Offering and Listing.

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

Share capital

The issued share capital of the Company as at 29 March 2018 was 500,000,000 Ordinary Shares of 1 pence each. As at 21 May 2018, being the latest practicable date prior to the date of this Annual Report, the issued share capital of the Company remained 500,000,000 Ordinary Shares of 1 pence each. Further information regarding the Company's issued share capital can be found on page 140 of the Group's financial statements.

There have been no movements in the Company's issued share capital in the 2018 financial period.

Details of colleague share schemes are provided in note 22 to the Group's financial statements.

Voting rights

All members who hold Ordinary Shares are entitled to attend and vote at the Annual General Meeting. On a show of hands at a general meeting every member present in person shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every Ordinary Share held. No shareholder holds Ordinary Shares carrying special rights relating to the control of the Company and the Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on voting rights.

Powers for the Company to issue or buy back its shares

Powers for the Company to issue shares: The Directors were granted authority at the previous Annual General Meeting on 11 July 2017, to allot shares in the Company under two separate resolutions: (i) up to one-third of the Company's issued share capital; and (ii) up to two-thirds of the Company's issued share capital in connection with a rights issue. These authorities apply until the end of the Annual General Meeting to be held on 12 July 2018 (or, if earlier, until the close of business on 11 October 2018). During the period, the Directors did not use their power to issue shares under the authorities, but did satisfy options and awards under the Company's option and incentive schemes.

The Directors were also granted authority at the previous Annual General Meeting on 11 July 2017 to disapply pre-emption rights. This resolution (which is in accordance with the guidance issued by the Pre-Emption Group (the "PEG Principles")) sought the authority to disapply pre-emption rights over 5% of the Company's issued ordinary share capital. A further authority was also granted to disapply pre-emption rights in respect of an additional 5% for financing a transaction which the Directors determine to be an acquisition or other capital investment as allowed by the PEG Principles. During the period, the Directors did not use their power to issue shares under the authorities, but did satisfy options and awards under the Company's option and incentive schemes.

The Company will, consistent with the 2017 Annual General Meeting, seek to renew these powers at the 2018 Annual General Meeting.

Powers for the Company to buy back its shares: The Company was authorised by its shareholders on 11 July 2017, at the 2017 Annual General Meeting, to purchase in the market up to 10% of its issued Ordinary Shares (excluding any treasury shares), subject to certain conditions laid out in the authorising resolution. This standard authority is renewable annually and the Directors will seek to renew this authority at the 2018 Annual General Meeting to be held on 12 July 2018. The Directors did not exercise their authority to buy back any shares during the financial period.

Restrictions on transfer of Ordinary Shares

The Company's shares are freely transferable, save as set out below.

The transferor of a share is deemed to remain the holder until the transferee's name is entered in the register. The Board can decline to register any transfer of any share which is not a fully paid share. The Company does not currently have any partially paid shares. The Board may also decline to register a transfer of a certificated share unless the instrument of transfer: (A) is duly stamped or certified or otherwise shown to be exempt from stamp duty and is accompanied by the relevant share certificate; (B) is in respect of only one class of share; and (C) if to joint transferees, is in favour of not more than four such transferees. Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the CREST Regulations (as defined in the Articles) and where, in the case of a transfer to joint holders, the number of joint holders to whom the uncertificated share is to be transferred exceeds four.

Certain restrictions are also imposed by laws and regulations (such as the Market Abuse Regulation) and pursuant to the Company's share dealing code whereby certain Directors and Persons Discharging Managerial Responsibility and restricted colleagues require clearance to deal in the Company's securities.

Significant shareholdings

Information provided to the Company pursuant to the Disclosure Guidance and Transparency Rules is published on a Regulatory Information Service and on the Company's website. As at 29 March 2018, the following information had been received, in accordance with DTR5.1.2R, from holders of notifiable interests in the Company's issued share capital. These figures represent the number of shares and percentages held as at the date of notification to the Company. It should be noted that these holdings may have changed since notified to the Company however, notification of any change is not required until the next applicable threshold is crossed.

Name of shareholder	Number of Ordinary Shares as at 29.03.18	Percentage of issued share capital (%)	Nature of holding (direct/indirect)
Schroders plc	78,010,918	15.60	Indirect
Old Mutual	75,162,963	15.03	Indirect
Canada Pension Plan Investment	50,095,670	10.02	Direct
Nordea 1 SICAV	24,816,413	4.96	Direct
Norges Bank	19,904,631	3.98	Direct
Portland Hill Asset Management Limited	15,059,316	3.01	Indirect

No changes have been disclosed in accordance with Disclosure Guidance and Transparency Rule 5.1.2R in the period between 29 March 2018 and 21 May 2018 (being not more than one

month prior to the date of the Notice of Annual General Meeting), except as set out in the table below:

Name of shareholder	Number of Ordinary Shares as at 29.03.18	Percentage of issued share capital (%)	Nature of holding (direct/indirect)
Morgan Stanley	16,071,814	3.21	Direct/Indirect
Norges Bank	20,579,420	4.12	Direct
Schroders plc	64,234,925	12.85	Indirect

Significant related party transactions

Save for the Relationship Agreement further described on page 70 of this Directors' Report, there are no contracts of significance during the financial period between the Company or any Group company and: (1) a Director of the Company; (2) a close member of a Director's family; or (3) a controlling shareholder of the Company.

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 non-underlying items was £67,542,000 (FY17: £75,364,000). The results are discussed in greater detail in the financial review on pages 24 to 27.

A final dividend of 5 pence per ordinary share (FY17: 5 pence per ordinary share) will be recommended to the Company's shareholders in respect of the 2018 financial year. The final dividend will be proposed by the Directors at the 2018 Annual General Meeting on 12 July 2018 in respect of the financial year ended 29 March 2018 to add to an interim dividend of 2.5 pence per ordinary share paid on 12 January 2018 (FY17: 2.5 pence per ordinary share).

The Directors' proposed final dividend of 5 pence per ordinary share takes the total dividend payable in respect of the 2018 financial year to 7.5 pence per ordinary share. The ex-dividend date will be 14 June 2018 and, subject to shareholder approval being obtained at the 2018 Annual General Meeting, the final dividend of 5 pence per ordinary share will be paid to shareholders on the register at the close of business on 15 June 2018.

Political donations

The Group made no political donations and incurred no political expenditure during the year (FY17: 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 is potentially very broad in nature and, as with 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. 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 operations for FY18 were 48 days (FY17: 47 days).

Post balance sheet events

On 27 April 2018, Peter Pritchard was appointed Group Chief Executive Officer, succeeding Ian Kellett who notified the Board of his intention to resign in November 2017. Peter joined Pets at Home in 2011 as Commercial Director and moved to the CEO of Retail in 2015. Ian Kellett will remain employed with the Group until 31 May 2018, following which his employment will terminate.

On 22 May 2018, Tessa Green confirmed that she will step down from the Board with effect from the close of the Annual General Meeting on 12 July 2018. Tessa has been a Director of Pets at Home since 2014 and during that time has been Chair of the Corporate Social Responsibility Committee and the Pets Before Profit Committee. Tessa will be succeeded by Professor Susan Dawson, Dean of the Institute of Veterinary Science at the University of Liverpool and council member of the Royal College of Veterinary Surgeons. Professor Dawson will Chair the Pets Before Profit and Corporate Social Responsibility Committees.

Going concern

On the basis of current financial projections and facilities available, the Directors are satisfied that the Group is well placed to manage its business risks successfully and therefore have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of 12 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 (Strategic Plan) containing financial projections 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 Strategic Plan is reviewed each year by the Board as part of the strategy review process. Once approved by the Board, the Strategic 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 Strategic Plan. The Directors have considered a combination of risks and uncertainties and the mitigating controls operated by the Group as detailed on pages 32 to 37 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 Group has assumed that it is able to refinance the existing Senior Finance Bank Loans at a similar level to the existing facilities which expire in April 2020. Further to this, the Board have 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 and 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 our modern slavery statement published in April 2016, 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 the 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 was 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.

As set out in last year's modern slavery statement, 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.

The Pets at Home Group Plc Board of Directors approved this statement at a meeting of the Board on 11 July 2017.

Health and Safety

We are committed to providing a safe and healthy environment for all of our colleagues, customers, third party contractors and pets. We actively encourage a positive Health and Safety culture throughout our stores, distribution centres, First Opinion practices, Specialist Referral Centres and support offices.

The Group recognises its responsibility for Health and Safety and we have robust control measures in place to minimise the risk of incidents. Each year we host a Health and Safety week in October with the aim of promoting good Health and Safety practice across the Group. The Group re-launches its Health and Safety Policy Statement during Health and Safety week and the policy is reviewed and signed off by the Group Chief Executive Officer.

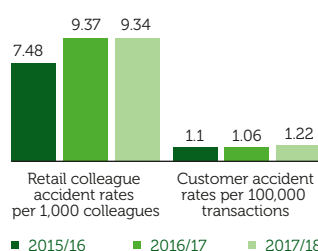
The Group has incorporated a Health and Safety Committee which is chaired by the Chief People and Legal Officer and is attended by representatives of each business unit. The Health and Safety Committee meets four times a year and discusses various Health and Safety related issues as well as undertaking deep dive projects throughout the year. The Group's distribution centres also host their own Health and Safety Committee meetings seven times per year.

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

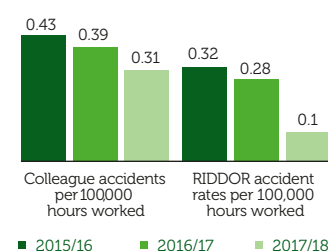
We continue to benchmark Group Accident Rates which also includes accidents which have taken place in our Joint Venture First Opinion veterinary practices and Specialist Referral Centres. We record all incidents (including non-work related injuries) and report all accidents in accordance with the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations (RIDDOR). We also classify all incidents where we are aware the customer intends to go to hospital as RIDDOR reportable. This does result in some over reporting by the Group under RIDDOR.

During the financial year, total accidents across the Group increased proportionate to our store, practice and colleague growth. There was a decrease of 0.03 in the Colleague Accident Rate from 9.37 per 1,000 colleagues to 9.34 accidents per 1,000 colleagues, and an increase in Customer Accidents from 1.06 per 100,000 transactions to 1.22 per 100,000 transactions. The number of RIDDOR reportable accidents decreased from 0.33 to 0.26 in our stores, First Opinion practices and Specialist Referral Centres. In our distribution centres, there was a decrease of 0.08 accidents per 100,000 hours worked, and a 0.18 decrease in RIDDOR reportable accidents.

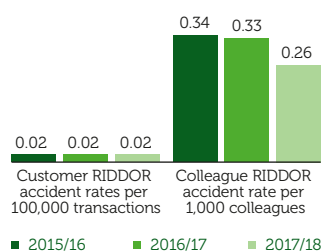
Accident rates – stores/practices



Distribution accident rates



Group RIDDOR rates



For the third year running, our two distribution centres applied for the British Safety Council's International Safety Award, both achieving Merits.

We achieved 100% completion of First Opinion practice annual audits within the Vet Group, and 100% compliance for Area Manager audits within the Retail Group.

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

Target FY17/18	Achievements	Target FY18/19
Achieve a 5% reduction in colleague accident rates per 1,000 colleagues and a reduction in RIDDOR reportable accidents.	Achieved reduction in RIDDOR rates, colleague accident rate per 1,000 colleagues decreased by 0.34.	Achieve a 5% reduction in colleague accident rates per 1,000 colleagues and a reduction in RIDDOR reportable accidents.
Re-apply for the Safety awards and aim to achieve a merit or distinction for both distribution centres.	Awarded Merit for both distribution centres.	Re-apply for the Safety awards and aim to achieve a merits or distinctions for both distribution centres.
Review and improve Risk Assessment key areas throughout year in retail and our distribution centres and launch annual review during Health and Safety week.	Achieved. Risk Assessments are reviewed annually for launch during Health and Safety week to target key risk areas and raise Safety awareness.	Improve how we recognise and reduce risk and improve the working environment for all colleagues by providing safe equipment, storage and premises and relaunch our clean as you go policy in relation to storage and slips and trips risk.
Improve support and assistance to Area and Store Managers by introducing specific Health and Safety checks, undertaking store visits and targeting Health and Safety to simplify paperwork and processes so that they add value to our safety management systems.	Implemented safety checks and simplification of paperwork and processes launched into business during Health and Safety week.	Review and improve involvement in Safety at all levels, improving communications and colleague awareness and promote and encourage personal ownership of Safety with colleagues taking ownership of our policies.
Undertake review of Material Handling Equipment operations and training.	Reviewed and developed Material Handling Equipment management safety systems/policies and Risk Assessments.	Material Handling Equipment management training to be completed and daily Material Handling Equipment observations and coaching to be introduced.

Branches outside of the UK

The Company has no branches outside of the UK.

Change of control

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:

- On 14 April 2015, the Group entered into an Amendment and Restatement Agreement relating to a senior facilities agreement dated 18 February 2014 with a total facility amount of £260m (Senior Facilities Agreement). The Senior Facilities Agreement expires in 2020. The Senior Facilities Agreement contains customary prepayment, cancellation and default provisions including, if required by a lender, mandatory prepayment of all utilisations provided by that lender upon the sale of all or substantially all of the business and assets of the Group or a change of control.
- The Company's subsidiary, Companion Care (Services) Ltd (CCSL), is a party to a facilities agreement dated 21 March 2018 for total commitments of £42m (Lloyds Facility). The Lloyds Facility provides funding for the Group's Joint Venture First Opinion practices. Pursuant to the terms of the Lloyds Facility, CCSL provides a guarantee in respect of a certain fixed proportion of the outstanding facility loans provided to the Joint Venture practices which borrow under the facility. The Lloyds Facility contains customary prepayment, cancellation and default provisions including in the event of a change of control (direct or indirect) of CCSL.
- The Company's subsidiary, Companion Care (Services) Ltd (CCSL), is a party to a facilities agreement dated 21 March 2018 for total commitments of £20,000,000 (HSBC Facility). The HSBC Facility provides funding for the Group's Joint Venture First Opinion practices. Pursuant to the terms of the HSBC Facility, CCSL provides a guarantee in respect of a certain fixed proportion of the outstanding facility loans provided to the Joint Venture practices. The HSBC Facility contains customary prepayment, cancellation and default provisions including in the event of a change of control (direct or indirect) of CCSL. For these purposes "control" means the power to: (a) cast or control more than 90% of the votes that may be cast at a general meeting of CCSL; (b) appoint or remove all or a majority of the directors of CCSL; (c) give directions with respect to the operating and financial policies of CCSL with which the directors are obliged to comply; or (d) hold beneficially (directly or indirectly) at least 90% of the issued share capital of CCSL.

Compliance with the terms of the Relationship Agreement (including any Independence Provisions)

On 28 February 2014, and in connection with its Listing, the Company entered into the Relationship Agreement with KKR My Best Friend Limited (Principal Shareholder). The Relationship Agreement regulated the relationship between the Company and the Principal Shareholder. Pursuant to the terms of the Relationship Agreement, the Principal Shareholder had certain rights (amongst others) to: (A) representation on the Board and Nomination and Corporate Governance Committee; (B) appoint observers to the Remuneration, Audit and Risk and the Pets Before Profit and CSR Committees; and (C) certain anti-dilution rights. Such rights were subject to the Principal Shareholder maintaining a certain minimum level of shareholding. On 29 January 2018, the Principal Shareholder divested of its remaining stake in the Company and reduced its shareholding in the Company to nil. The Relationship Agreement has accordingly terminated.

Whilst in effect, the Relationship Agreement complied with the requirements of the Listing Rules, including Listing Rule 9.2.2AR(2)(a) and Listing Rule 6.1.4DR.

In accordance with the requirements of LR 9.8.4(14), the Board confirms that the Company complied with its obligations under the Relationship Agreement, including in respect of the independence provisions set out in such agreement at all times since it was entered into, including during the financial period under review, and, so far as the Company is aware, KKR My Best Friend Limited and its associates complied with the provisions of the Relationship Agreement, including the independence provisions set out in such agreement, at all times since it was entered into, including during the financial period under review.

Directors' information to auditors

In accordance with section 418 of the Companies Act, each Director who held office at the date of the approval of this Directors' Report (whose names and functions are listed in the Board of Directors on pages 60–61) confirms that, so far as he or she is aware, there is no relevant audit information of which the Group's auditor is unaware, and that each Director has taken all of the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Independent auditors

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 (the Order). KPMG LLP was re-appointed as auditor of the Company at the 2017 Annual General Meeting.

The Company's auditor, KPMG LLP, has indicated their willingness to continue their role as the Company's auditor. Resolutions concerning the re-appointment of KPMG LLP as auditor of the Company and to authorise the Directors to determine their remuneration will be proposed at the 2018 Annual General Meeting as set out in the Notice of Annual General Meeting. For further information on the re-appointment of the auditors, refer to page 75 of the Audit and Risk Committee Report.

Approval of Annual Report

The Strategic Report, Corporate Governance Statement and the Governance Report were approved by the Board on 21 May 2018.

This Directors' Report was approved by the Board on 21 May 2018 and signed on its behalf by:



Louise Stonier

Chief People and Legal Officer
and Company Secretary
21 May 2018

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 complies with that law and those regulations.

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

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

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report/Directors' Report includes a fair review of the development and performance of the business and the position of the 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:



Peter Pritchard
Group Chief Executive Officer
21 May 2018

Audit and Risk Committee Report



Sharon Flood
Chair of the
Audit and Risk Committee

Who is on the Audit and Risk Committee?

Member	No. of meetings
Sharon Flood (Chair) (appointed 11 July 2017)	3/4
Amy Stirling (former Chair) (resigned 11 July 2017)	1/4
Dennis Millard	4/4
Paul Coby (resigned 11 July 2017)	1/4
Paul Moody	4/4
Stanislas Laurent (appointed 11 July 2017)	3/4

What we did in 2018

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.	✔
Continued to broaden our focus on the Group's control environment including the consideration of the adequacy of controls to support our high growth Vet Group.	✔
Reviewed and challenged the Group's preparation for compliance with forthcoming General Data Protection Regulation (GDPR) legislation.	✔
Reviewed and challenged the effectiveness of the Group's Internal Audit function including appointing an in-house internal auditor to work alongside our co-source model to meet the requirements of the Internal Audit Plan.	✔
Reviewed the processes in relation to providing extended financial support to First Opinion practices and the recoverability of those loans. We have also considered whether the level of practice indebtedness infers additional control to the Group of a First Opinion vet practice and whether this challenges the existing accounting for a practice.	✔

What we will do in 2019

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.
Continue to focus on the control environment of the Group, including pet welfare across our operations (Retail, Grooming, Vet including Specialist Division and our breeding partners) and the controls and processes relating to the management and release of key IT projects.
We will continue to monitor the effectiveness of the Group's Internal Audit function and whistleblowing procedures. We will agree an Internal Audit strategy for 2019 and beyond, defining ways of working as well as specific projects.
We will review the approach and judgements made in applying forthcoming financial reporting standards, including Revenue Recognition and Leases.
We will continue to monitor the level of financial support provided to our First Opinion vet practices and keep under review any activity that might change existing accounting practices.

Introduction

This is my first report as Chair of the Audit and Risk Committee, having joined the Board in July 2017. I am pleased to report that the Committee has had a very busy year assisting the Board in fulfilling its responsibilities to protect the interests of 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, 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, tailoring our internal audit and risk review efforts towards the Group's strategic priorities.

In addition to our regular agenda, this year we have considered accounting for forthcoming changes in accounting standards (notably Leasing and Revenue Recognition), proposed amendments to the Group's Treasury policy in relation to foreign exchange and have also monitored the Group's compliance levels with forthcoming General Data Protection Regulation (GDPR) legislation.

Committee membership

The Audit and 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 60 and 61.

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 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.

Audit and Risk Committee meetings



The Committee met on four occasions during the 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:

Meeting	Financial reporting	Risk management/ internal control	Internal Audit	External audit
<div style="border: 1px solid green; padding: 2px; display: inline-block;"> May 2017 </div>	<ul style="list-style-type: none"> Review of the Annual Report and Accounts for year ended 30 March 2017 Review of Goodwill impairment review Review of recognition of supplier income Consideration of the Group's longer term viability and going concern 	<ul style="list-style-type: none"> Review development of the Corporate Risk Register Review of risk register specific to Joint Venture companies Review of IT controls Review of Information Security 	<ul style="list-style-type: none"> Review and approval of Internal Audit Plan for the year Review reports on: <ul style="list-style-type: none"> – Overrider payments – Customer data security – Joint Venture company support 	<ul style="list-style-type: none"> Report on Annual Financial Statements and external audit Final evaluation of external auditor for year ended 30 March 2017
<div style="border: 1px solid green; padding: 2px; display: inline-block;"> Sept 2017 </div>	<ul style="list-style-type: none"> Planning for new standards on Revenue Recognition and Lease accounting Planning for Reporting on Payment practices Review of emerging tax reporting requirements 	<ul style="list-style-type: none"> Review development of the Corporate Risk Register Review of the Retail Loss Prevention plan 	<ul style="list-style-type: none"> Review reports on progress of Internal Audit Plan Review reports on: <ul style="list-style-type: none"> – Retail VAT processes – GDPR preparation – Processing colleagues' expenses – Vet Group clinical governance processes – Financial System access controls 	<ul style="list-style-type: none"> Process to assess external auditor Review feedback from Executive Management on external auditor effectiveness from the prior year
<div style="border: 1px solid green; padding: 2px; display: inline-block;"> Nov 2017 </div>	<ul style="list-style-type: none"> Review of the Interim Financial Statements 	<ul style="list-style-type: none"> Review development of the Corporate Risk Register Review of Information Security 	<ul style="list-style-type: none"> Review reports on progress of Internal Audit Plan Review reports on: <ul style="list-style-type: none"> – Transport office – GDPR preparation 	<ul style="list-style-type: none"> Report on Review of Interim Financial Statements
<div style="border: 1px solid green; padding: 2px; display: inline-block;"> Jan 2018 </div>	<ul style="list-style-type: none"> Planning for new standards on Revenue Recognition and Lease accounting Planning for Reporting on Payment practices 	<ul style="list-style-type: none"> Review development of the Corporate Risk Register Review of Treasury policy GDPR preparation 	<ul style="list-style-type: none"> Review reports on progress of Internal Audit Plan Review reports on: <ul style="list-style-type: none"> – Cash and Banking processes – Joint Venture Partner selection/recruitment and support Consideration of FY19 Internal Audit Plan 	<ul style="list-style-type: none"> Review of external audit strategy for the year ended 29 March 2018. Process to assess external auditor – issue of questionnaire

Audit and Risk Committee Report continued

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 and comparing the Group's value in use to its market capitalisation.</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 11 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 assess 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 and that the level of provisioning is appropriate.
Carrying value of operating loans	<p>The business provides additional financial support to First Opinion practices depending on the circumstance of each practice. This may include more recent openings to underpin their growth and support their working capital requirements and growth in clinical capacity.</p> <p>This investment is a particular feature of the JV operating model in comparison to an "owned" network where overperformance from stronger units compensates any underperformance. In making this investment the Group does so after consideration of its total returns across all practices on a portfolio basis.</p> <p>The return of this additional investment can be over an extended period due to each individual circumstance.</p> <p>Management have established clear Joint Venture partner selection criteria and provide a range of commercial support and advice to enable practices to grow their revenues, maximise margin, reduce costs and generate cash.</p> <p>Management have established a provision across all practices which reflects, on a portfolio basis, an assessment of extended investments being repaid over different lengths of time with different risks of return against these time periods and provides for potential shortfalls.</p>	<p>The Committee reviewed internal audit reports on partner selection and support provided to Joint Venture companies.</p> <p>The Committee reviewed management's judgement, as informed by independent analysis and review, in assessing the required level of provisioning applied to practices and the forecast recovery of operating loans provided.</p> <p>The Committee is satisfied that the carrying values of operating loan balances are appropriate.</p> <p>The Committee reviewed management's assessment of whether the level of an individual practice's indebtedness to the Group, particularly those with high levels of indebtedness, implies that the Group has the practical ability to control the Joint Venture, which would result in the requirement to consolidate. The Committee reviewed management's judgement over the terms of the Joint Venture agreement and management's practical ability to control the activities of the practice, including barriers to the Group's ability to exercise this practical control and potential barriers to the Joint Venture Partner exercising their own control over the activities of the practice. The Committee is satisfied that on the balance of evidence from the Group's experience as shareholder and lender to the practices, it does not currently have the ability to exercise control over those practices to which operating loans are advanced.</p>

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 34 to 37.

Following a review of the detailed considerations set out above by the Committee and 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 67 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 32. The Group's key risks and uncertainties are set out on pages 34 to 37.

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 and personal data and considered risks specific to the Retail and Vet Group operations.

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 attends 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"> Review of Vet Group clinical governance policies and processes Review of selection process for Joint Venture partners Override payments
Regulatory and compliance	<ul style="list-style-type: none"> VAT compliance processes Review of expenses policy and processing
Liquidity and credit risk	<ul style="list-style-type: none"> Cash settlement processes for retail operation
Business systems and information security	<ul style="list-style-type: none"> Review of Financial System access controls Review of GDPR readiness Customer data security at third parties
Treasury and financial risk	<ul style="list-style-type: none"> Joint Venture partner support and business development

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 auditors' 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. Following the conclusion of the prior year audit, 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. The Group has a policy in relation to the provision on non-audit services that is aligned with the 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 policy was last reviewed in the year ended 30 March 2017.

Audit and non-audit fees paid to KPMG in the year were £271,000 and an analysis is presented in note 3 to the consolidated financial statements on page 127. Non-audit fees represent 15% 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 12 July 2018.



Sharon Flood

Chairman
Audit and Risk Committee
21 May 2018

Nomination and Corporate Governance Committee Report



Tony DeNunzio
Chairman of the
Nomination and Corporate
Governance Committee

Who is on the Nomination and Corporate Governance Committee?

There were two formal Committee meetings held in the financial year and members' attendance was as shown in the table below. The Company Secretary acts as secretary to the Nomination and Corporate Governance Committee.

Member	No. of meetings
Tony DeNunzio (Chair)	2/2
Dennis Millard	2/2
Paul Moody	2/2
Tessa Green	2/2
Sharon Flood	2/2
Stanislas Laurent	2/2
Amy Stirling (resigned 11 July 2017)	0/2
Paul Coby (resigned 11 July 2017)	0/2

What we did in 2018

Recommended that Peter Pritchard be appointed as Group Chief Executive Officer following Ian Kellett's resignation from the Board.	✔
Recommended that Andrei Balta be appointed as CEO of the Vet Group.	✔
Reviewed the talent and succession plans for the Executive Management Team and the Retail and Vet Group Executive Management Teams.	✔
Assessed Board composition and how it may be enhanced.	✔
Conducted and reviewed the Board evaluation and effectiveness survey.	✔
Reviewed the independence of the Non-Executive Directors.	✔
Reviewed and considered Directors' conflicts of interest.	✔
Reviewed the time commitment and length of service of the Non-Executive Directors.	✔

What we will do in 2019

Support Peter Pritchard in his transition to the role as Group Chief Executive Officer and in establishing a strong Executive Management Team around him.
Continue to assess Board composition and how it may be enhanced.
Implement further reviews and assessment of succession planning and development plans particularly in relation to the Executive Management Team and the Retail and Vet Group Executive Management Teams.
Review the Board's diversity policy and recommend any changes in that policy to the Board.

Introduction

The Nomination and Corporate Governance 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 Retail and Vet Group Executive Management Teams, 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 full terms of reference for the Nomination and Corporate Governance Committee can be found on the Company's website.

Committee membership

The UK Corporate Governance Code recommends that a majority of the members of a nomination committee should be Independent Non-Executive Directors. The Nomination and Corporate Governance Committee is chaired by myself, Tony DeNunzio, and its other members are Dennis Millard, Paul Moody, Tessa Green, Sharon Flood and Stanislas Laurent (each of whom is an Independent Non-Executive Director). The Nomination and Corporate Governance Committee meets not less than once a year.

The following Directors served on the Nomination and Corporate Governance Committee during the financial year:

Member	Period from:	To:
Tony DeNunzio (Chair)	18 February 2014	To date
Dennis Millard	18 February 2014	To date
Paul Moody	25 March 2014	To date
Tessa Green	18 February 2014	To date
Sharon Flood	25 May 2017	To date
Stanislas Laurent	25 May 2017	To date
Amy Stirling	18 February 2014	11 July 2017
Paul Coby	18 February 2014	11 July 2017

There were two formal Committee meetings held in the financial year and members' attendance was as shown in the table above.

How the Nomination and Corporate Governance Committee discharged its responsibilities in FY18

Board appointments and resignations

In November 2017, Ian Kellett notified me of his intention to step down as Chief Executive Officer. Ian's resignation took effect on 27 April 2018. Ian joined Pets at Home in April 2006 as Chief Financial Officer and moved to the role of Group Chief Executive Officer in April 2016. Ian's resignation required the Group to implement its succession plan and Peter Pritchard, CEO of the Retail Group, succeeded Ian as Group Chief Executive Officer with effect from 27 April 2018. Peter joined Pets at Home in 2011 as Commercial Director and moved to the role of CEO of Retail in 2015. During his time with the Group, Peter has overseen the establishment of our sourcing office in China, the launch of the VIP club, the development of our omnichannel strategy, and more recently, the repositioning of our Merchandise business. The Committee will do all it can to support Peter in his new role.

In November 2017, I also accepted Nicolas Gheysens resignation from the Board. Nicolas had been appointed to the Board as the nominated representative of the Company's then principal shareholder, KKR My Best Friend Limited, an affiliate of Kohlberg Kravis Roberts & Co. L.P.. KKR My Best Friend Limited determined at that time not to replace Nicolas on the Board as it was otherwise entitled to do under the terms of the Relationship Agreement entered into with the Company.

As indicated in my report last year, during the financial period Amy Stirling and Paul Coby stepped down from the Board with effect from the close of the Annual General Meeting on 11 July 2017 in order to fulfil commitments in their full time roles. Amy was succeeded by Sharon Flood, Chair of ST Du Pont S.A, the Paris based luxury goods company and Audit Chair at Crest Nicholson plc and Network Rail. Paul was replaced by Stanislas Laurent who was appointed on 25 May 2017. Stanislas was formerly President and CEO of Photobox and COO of AOL Europe.

Sharon has been appointed as Chair of the Audit and Risk Committee and is a member of the Remuneration Committee and the Nomination and Governance Committee. Stanislas is a member of the Audit and Risk Committee, Nomination and Governance Committee, Corporate Social Responsibility Committee and Pets Before Profit Committee.

More recently Tessa Green confirmed that she will step down from the Board with effect from close of the Annual General Meeting on 12 July 2018. Tessa has been a Director of Pets at Home since 2014 and during that time has been Chair of the Corporate Social Responsibility Committee and the Pets Before Profit Committee. I would like to thank Tessa for her valuable contribution to the business and convey the Group's best wishes to her going forward. Tessa will be succeeded by Professor Susan Dawson, Dean of the Institute of Veterinary Science at the University of Liverpool and council member

of the Royal College of Veterinary Surgeons. Professor Dawson will Chair the Pets Before Profit and Corporate Social Responsibility Committees and brings valuable veterinary services sector expertise to the Board.

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, in the last two financial years, the Committee has increased its focus on talent development, retention and succession below Board and Executive Management Team level. This work has involved 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.

As a result of this work, I was delighted to see that the Committee was able to recommend to the Board that Andrei Balta be promoted into the role of CEO of the Vet Group following Sally Hopson's resignation on 23 March 2018. Andrei joined Pets at Home in 2011 as Director of Group Strategy and moved to the Vet Group in 2013, firstly as Commercial Director and subsequently as Chief Operating Officer. Prior to Pets at Home, Andrei was a management consultant at Bain & Company for seven years.

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 continue to be a focus of the Committee for the next financial year.

Job levelling and banding

To support the work which the Committee is undertaking on talent development, retention and succession below Board and Executive Management Team level, the Board engaged Willis Towers Watson to undertake a review of the Group's banding structure. The work has involved reviewing the Group's colleague banding structure across the organisation in order to determine changes which will create clearer career and development paths for all colleagues. The Board under the guidance of the Remuneration Committee will oversee the implementation of these changes over the current financial year.

Board evaluation and effectiveness

As with the Board evaluation for FY17, this year, we carried out an internal Board evaluation that included the completion of a focused online questionnaire that re-considered the priority areas highlighted in the FY17 external evaluation in order to determine progress made. In light of changes to the Board since the Company's previous evaluation process, Board composition and expertise and Board dynamics were also an area of focus. As part of the evaluation, I also held discussions with each Board member. The Board considered the output from the review in April 2018 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 pages 58 to 59 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 52 and 53 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 Corporate Governance Code. The Board's view on independence is contained on page 50 of the Governance Report.

For further information on Board composition, diversity and independence, see the Governance Report on pages 50 to 51.

I will be available at the Annual General Meeting to answer any questions on the work of the Nomination and Corporate Governance Committee.



Tony DeNunzio

Chairman

Nomination and Corporate Governance Committee

21 May 2018

Corporate Social Responsibility and Pets Before Profit Committees Report



Tessa Green
Chair of the Corporate Social
Responsibility and Pets
Before Profit Committees

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

Member	No. of meetings
Tessa Green (Chair)	5/5
Dennis Millard	5/5
Paul Coby (resigned 11 July 2017)	1/5
Stanislas Laurent (appointed 25 May 2017)	4/5
Tony DeNunzio	5/5

What we did in 2018 – Corporate Social Responsibility

Reviewed progress of energy saving initiatives ahead of completing store rollout of LED lighting/BEMS technology.	✓
Reviewed the Group's technical capabilities and quality assurance process in relation to pet food.	✓
Reviewed and challenged the Group's plans to provide veterinary outreach to people living with pets in insecure accommodation.	✓
Continued to keep the reporting of CSR activity and progress under review in both the Annual Report and online.	✓

What we did in 2018 – Pets Before Profit

Reviewed in-store daily pet care routines, including provision of fresh fruit and vegetables and bottled spring water.	✓
Reviewed the spread of RHD2 virus and the Company's response to the care of its rabbits and its breeders.	✓
Reviewed the outcome of pet audits in stores.	✓
Reviewed the Vet Group's plans in relation to clinical governance in both First Opinion and specialist veterinary practices.	✓
Reviewed impact assessments in relation to DEFRA's proposed legislation and guidance for animal activities licensing.	✓

What we will do in 2019

Continue to ensure delivery of the best possible pet welfare standards across the Group.
Continue to review the Group's sustainability strategies, with a particular focus on energy and climate change, waste reduction and consumption of natural resources.
Monitor the Group's progress in relation to mental health.
Review the Group's sourcing policies.

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 regularly review the Group's policies and procedures in relation to pet welfare in its retail business and supply chain, and the development of its clinical governance framework in the veterinary services business. The Committees also review all other elements of the Group's CSR strategy, including energy and climate change, waste, natural resources and its policies in relation to people.

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.

Committee membership

The CSR Committee, which meets twice a year, is chaired by Tessa Green and its other members are Tony DeNunzio, Dennis Millard and Stanislas Laurent. The Pets Before Profit Committee, which meets three times a year, is also chaired by Tessa Green with Tony DeNunzio, Dennis Millard and Stanislas Laurent as its members, however, acknowledging the importance of pets to the Group, all Board members are required to attend Pets Before Profit Committee meetings, along with Board observers.

Focus and approach

As our veterinary services business has continued to grow rapidly, it is no longer appropriate to think about our wider responsibilities in retail-centric terms such as 'sourcing' and 'supply chains'. So we have reviewed and updated how we address corporate social responsibility based around the concept of 'doing the right thing'. Doing the right thing for pets, for people and for the planet will form the basis of how we approach our responsibilities holistically and how we report our impacts and progress. This change has resonated well with colleagues across the business as it also reflects many of our values.

Highlights

I am particularly pleased with the progress that has been made in a number of key areas over the past year:

- We continue to improve the welfare of our pets. This year we have made significant improvements to our aquatics sections and to the supply of fish. We have also improved the fruit and vegetables and the fresh water we provide to our small mammals (see page 40).
- Over Easter we again suspended the sale and adoption of rabbits to reduce the pressure for impulse purchasing and offered rabbit workshops instead. These are fun and engaging and play an important educational role, emphasising the responsibilities that come with pet ownership (see page 42).
- Our people teams have developed wellbeing programmes that are relevant to both our retail colleagues and our veterinary professionals. In the current year there will be a particular emphasis on mental health and wellbeing across the Group (see page 44).
- We welcomed the Parliamentary Under Secretary of State for Rural Affairs and Biosecurity to one of our stores to share the progress we have made to educate customers about their responsibilities in relation to invasive non-native species (see page 46).
- Colleagues in our Vet Group have made excellent progress in the development of programmes that help our veterinary colleagues develop their clinical skills and practice to a consistent standard across all our practices (see page 45).
- Our store colleagues helped to raise £4.3m to support the rehoming of pets. In the month of December alone, they raised a staggering £1.4m in conjunction with the charity Support Adoption For Pets, to help with this vital work. This facilitated a transformational grant of £100,000 from Support Adoption For Pets, its largest ever single award, to Hope Rescue in South Wales (see page 43).



Tessa Green

Chair
Corporate Social Responsibility
and Pets Before Profit Committees
21 May 2018

Some of the charities receiving grants from Support Adoption For Pets this year

RSPCA Northamptonshire – £15,000

This donation funded the purchase of a new animal ambulance. It is one of 17 vehicles Support Adoption For Pets has funded during the year, from small animal ambulances like this one, to a 3.5 tonne horse transporter.

Horse Sense Wirral – £10,000

To help with vet bills and to fund the purchase of a paddock sweeper and an industrial washing machine. Twelve rescues have received grants to purchase equipment from washing machines right through to tractors.

Animal Care Lancaster – £45,000

Having received a grant, this charity was able to upgrade their dog isolation block and outside pens. Over the year eight rescues have been able to improve their dog accommodation.

Maesteg Animal Welfare Society, Bridgend – £6,450

This grant helped with the building of a cat pen and contributed towards the cost of a neutering programme for unowned cats.

Cats Protection – £60,000

Having received this grant Cats Protection was able to extend their work on a national cat census to an additional four regions. This funding is specifically for neutering and vet-related costs and making a positive contribution to cat welfare. Stray cats that are 'friendly' will be neutered and vet checked in readiness for rehoming. Those which are unlikely to make good pets will be neutered, vaccinated, treated for fleas and worms, and returned. Over the year 47 rescues were supported with vet bills, trap neuter release schemes and public neutering programmes.

Directors' Remuneration Report



Paul Moody
Chairman of the
Remuneration Committee

Who is on the Remuneration Committee?

Member	No. of meetings
Paul Moody (Chairman)	2/3
Dennis Millard	3/3
Amy Stirling	1/1
Tessa Green	3/3
Sharon Flood	2/2

What we did in 2018

Approved share awards under the new LTIP to all colleagues;	✓
Agreed the annual bonus targets for the Group Executive Management Team for FY18 and measured performance against them;	✓
Reviewed the gender pay gap analysis results and agreed the actions for starting to address the issues identified;	✓
Considered and recommended the remuneration package for the new Group Chief Executive Officer;	✓
Discussed and reviewed attainment against the performance conditions for the Group's LTIPs due to vest during the period;	✓
Reviewed the wider remuneration structure for all colleagues; and	✓
Reviewed the terms of reference of the Committee.	✓

What we will do in 2019

Approve share awards under the LTIP to all eligible colleagues;
Agree the annual bonus targets for the Executive Management Team for FY19 and measure performance against them;
Continue to engage with shareholders on our Remuneration Policy;
Implement the revised remuneration structure for the wider colleague population; and
Continue to monitor changes in corporate governance and respond accordingly.

Introduction

On behalf of the Remuneration Committee (Committee), I am pleased to present our Directors' Remuneration Report for FY18. The Annual Report on Remuneration will be subject to an advisory vote at our 2018 Annual General Meeting (AGM).

Policy review and ongoing shareholder consultation

At the AGM in July last year we were delighted that our shareholders approved both our new Remuneration Policy (Policy) and our new Long Term Incentive Plan (LTIP), with 85.16% and 84.42% of votes in favour, respectively. We recognise the importance of the consultation we had with shareholders and the valuable feedback we received from them, as we shaped our proposals. As a consequence, and especially given there has been some change to our shareholder base since last year, we have proactively reached out to all new shareholders to explain the rationale behind our approach to executive remuneration. We are committed to ongoing dialogue with all our shareholders and we will always listen actively to their thoughts and share any feedback and subsequent Committee response where appropriate.

Remuneration in respect of FY18

Results for FY18

At the end of FY17, as detailed on page 14 in the Chairman's Statement, we repositioned the Merchandise business by investing in value for the customer, so giving ourselves a stronger platform from which to deliver sustainable, profitable growth in future years. We are seeing the benefits of this repositioning coming through in the exceptionally strong performance in our retail division for FY18, with more customers coming back to shop with us and the development of our subscription service bringing in some excellent results. Our veterinary business is already a profitable business, delivering strong returns. We have chosen to slow our practice rollout, but this is to ensure that we open practices in the right locations with the right vet partners and, in parallel, we can focus on accelerating growth in our existing practices.

FY18 saw:

- The £13m price investment in Merchandise remaining on track and delivering positive results faster than expected, with FY18 like-for-like growth of 5.0% and market share gains in food and accessories.
- Omnichannel revenues of £51.4m grew at 75.1%, ahead of the online pet market and key competitors.
- Total incomes from the First Opinion Joint Venture vet practices up 16.1% to £53.1m and double digit revenue growth in Specialist Referral Centres.
- Net openings completed: 13 superstores, 25 vet practices and 27 grooming salons. Closed seven Barkers stores.
- Total dividend payable of 7.5 pence per share, maintained at the prior year level.

Annual bonus outcomes

Targets for the annual bonus for FY18 were set by the Committee to reflect the repositioning of the business and were based on EBITDA (75%) and free cash flow (25%). In determining the payouts under the annual bonus plan for the Executive Directors, the Committee has been mindful not only of the formulaic outcome against the targets set, but also of the overall performance of the business, how management have delivered against the change in strategy and our shareholders' experience over the period.

- The EBITDA outcome at £123.3m resulted in that portion of the annual bonus paying out at 49.8% of base salary versus a maximum of 75%. This shortfall against the maximum reflected the performance of the veterinary business in FY18.
- The business delivered well against the stretching free cash flow targets, with a cash conversion rate of 48%. The free cash flow portion of the bonus therefore paid out at maximum (equal to 25% of base salary).
- In total, the overall bonus payout was 74.8% of base salary, versus a maximum opportunity of 100% of base salary. Full details can be found on page 96 of our Annual Report on Remuneration.
- Whilst under the terms of the approved Policy, notwithstanding his resignation, Ian remained eligible for an annual bonus for the performance year. However, in view of the shareholder experience throughout the performance period and to ensure consistency of treatment with other colleagues who resigned during the financial year but received no bonus, Ian Kellett agreed that it was appropriate to waive his bonus.

Share incentive plans

Restricted Stock Plan (RSP)

- The first awards under our newly approved RSP were made in July 2017, the first tranche of which will not vest until 2020.
- We intend to make a further grant of awards after our preliminary results in June 2018, with the same vesting schedule and underpin as last year.
- Full details of the awards made in 2017 are contained in the Remuneration Report on page 97.

Co investment Plan

- The second tranche of Matching Shares under the 2014 Co-Investment plan were released in March 2018
- Further details can be found on page 97 of the Annual Report on Remuneration.

Remuneration in respect of FY19

FY19 salary review

The Committee reviewed the salary level of Mike Iddon and concluded that he would receive an increase of 2% in line with increases made to other colleagues. This increase took effect from 30 March 2018. Ian Kellett received no increase to his base salary as he had resigned.

FY19 bonus targets

The Committee has been reviewing the performance measures for the annual bonus plan and agreed to replace the profit measure, previously EBITDA, with PBT. PBT has become a key externally reported business measure for us, and its use as a bonus measure will enable management's control and use of capital to be reflected in any bonus payment and will be very transparent for our shareholders. PBT will still make up 75% of the bonus (as EBITDA did), recognising the importance of profit delivery, with free cash flow remaining as the other performance measure at 25%. The Committee has adopted a rigorous approach to setting bonus targets for FY19, calibrating proposals against a range of data points, and feels confident that these targets are appropriately stretching. Further details of this approach can be found on page 99 of our Annual Report on Remuneration. Full details of the targets for FY19 and outcomes against them will be reported in the FY19 Annual Report on Remuneration.

Peter Pritchard's remuneration

As previously disclosed, when Peter took up the position of CEO on 27 April 2018, he received a base salary of £494,200. His maximum bonus opportunity for FY19 will be 100% of base salary and he will be eligible to receive an award under the RSP of 75% of base salary. Under the Policy Peter is required to build up his shareholding in the Group to 200% of his base salary. However, as at 29 March 2018, he already had a shareholding of 1039% of his then base salary at a share price of 169p, so comfortably exceeding the requirement.

Our colleagues

During this year, we have revitalised our approach to listening and engaging with our colleagues. We have set up new direct listening sessions with our Group Executive Management Team and have changed our colleague engagement survey so we can improve the feedback from our colleagues on what they feel about our business. We were delighted to hear that we had been ranked 5th in the UK's Best Workplaces, large company category, and the only retailer to make it into the top 10. This is a great tribute to the hard work and dedication of all our colleagues.

Widespread share ownership is a key part of our engagement and culture and the majority of our colleagues hold shares either through our Sharesave plan, our previous share plans or the new RSP. All eligible colleagues received an award under the new RSP in July last year and they will do so again at the time of the next award. We also had a further offering of the Company's Sharesave plan in September 2017 and our first Sharesave award, made in 2014, vested in December 2017. In June, this year, colleagues' (excluding the Executive Directors) second discretionary awards under the CSOP/PSP Plans will also vest.

We published our Gender Pay Gap report on 28 March this year. In common with many retailers, women make up the majority of our colleagues. Across our stores we were encouraged to see that our average gender pay gap is less than 0.5%, however, we do have an overall gender pay gap of 17.9% for which there are three main reasons:

- a higher proportion of women in our lower paid roles;
- the large number of women we have in part time roles; and
- fewer women in senior leadership positions.

One of our core values is that we "get better everyday"; we are committed to making the changes necessary to ensure that we develop the skills and experience in our already very talented female colleagues so that more women have the potential to occupy senior leadership positions. Our Gender Pay Gap report can be found at <https://investors.petsathome.com/responsibility/policies-and-procedures/gender-pay-gap-report>, where we detail the initiatives and plans that we have committed to.

Board changes

Following Ian Kellett's resignation as CEO, the Board was delighted to be able to appoint Peter Pritchard to succeed Ian. The ability to appoint an internal successor to ensure a smooth transition recognises the strength of our talent development and succession planning.

Lastly I would like to thank Amy Stirling for her service to the Committee and as a Non-Executive Director. Sharon Flood joined the Committee on her appointment to the Board at the AGM last year.

As ever, we would welcome any feedback or comments on this report. The Committee remains committed to paying for performance and ensuring that the interests of the Executive Directors are aligned with those of our shareholders.

Yours faithfully



Paul Moody

Chairman of the Remuneration Committee
21 May 2018

Remuneration principles

The objectives of our Directors' Remuneration Policy are:

Strategy	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> To simplify and therefore enhance perceived value of awards and thereby reduce flight risk.
Shareholders	<ul style="list-style-type: none"> To deliver better value to shareholders for their reward spend by: <ul style="list-style-type: none"> – 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 incentivises senior colleagues to increase focus on long term, sustainable performance.

1. Directors' Remuneration Policy

a) Policy report

The following section on pages 86 to 88 sets out our Directors' 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), which was approved by shareholders at the Company's AGM in July 2017. The Policy is intended to remain in force for up to three years.

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 are aligned to the strategy and are simple to communicate to participants and shareholders.

A significant portion of the package is performance related via the annual bonus plan and the LTIP, which requires achievement of a TSR underpin before it vests. 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 95 of this report.

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 88).

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 pages 99 and 100 of this report.

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, or 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 88 of this report.

Pay element – Variable pay

Annual bonus

Purpose and link to strategy

To incentivise the delivery of our business plan on an annual basis. To reward performance against key performance indicators which are critical to the delivery of our business strategy.

Operation

- 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.

Maximum opportunity

The maximum bonus opportunity is 100% of base salary.

Performance measures

- Each year, the Committee determines the measures and weightings within the following parameters:
 - 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.

The performance metrics for the annual bonus for the Executive Directors are set out on page 99 of this report.

Long Term Incentive Plan¹

Purpose and link to strategy

- 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

Operation

- 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 has been achieved.
- Subject to the achievement of the TSR underpin at year three and continued employment:
 - 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 provisions apply to these awards in circumstances as set out on page 92 of this report.
- Change of control provisions apply as set out on page 92 of this report.
- Leaver provisions apply as set out on page 92 of this report.

Maximum opportunity

The maximum value of restricted shares that may be awarded in respect of any financial year is 75% of salary.

Performance measures

- 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.

Our Directors' Remuneration Policy continued

SAYE ¹			
Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
<ul style="list-style-type: none"> An all-colleague plan, which encourages long term shareholding and aligns 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>

Chairman and Non-Executive Directors' Remuneration Policy			
Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
<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. <p>Fees are typically reviewed annually.</p> <p>Expenses incurred in the performance of Non-Executive duties for the Company may be reimbursed or paid for directly by the Company, as appropriate, including any tax due on the benefits.</p>	<p>Current fee levels can be found on page 100.</p> <p>Fees are set at a level which is considered appropriate to attract and retain the calibre of individual required by the Company.</p> <p>The Company's Articles of Association provide that the total aggregate remuneration paid to the Non-Executive Chairman and the NEDs will be within the limits set by shareholders.</p>	<p>N/A.</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.

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 previous remuneration policy approved by the Company's shareholders in September 2014.

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.

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.

Our Directors' Remuneration Policy continued

(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 not to 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 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.

(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. In principle, it is the Committee's policy that there should be no element of reward for failure. The Committee's approach when considering payments in the event of a loss of office is to take account of the individual circumstances, including the reason for the loss of office, Company and individual performance, contractual obligations of both parties as well as share plan and pension scheme rules.

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

Area	Policy 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. The service contract for Peter Pritchard provides for a notice period of 12 months from the Company and six months from the individual. <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.

Our Directors' Remuneration Policy continued

Area	Policy and operation
Long term incentives	<p>The treatment of unvested long term incentive awards is governed by the rules of the relevant incentive plan.</p> <p>CIP</p> <ul style="list-style-type: none"> Treatment under the CIP is dependent on the period elapsed since the IPO. <ol style="list-style-type: none"> Within the first 24 months following Admission <ul style="list-style-type: none"> Where an individual with a six month notice period voluntarily resigns less than 18 months following the date of Admission, they will forfeit their Invested Shares and their Matching Awards. This period ended on 17 March 2016. Between 24 months and 36 months following Admission <ul style="list-style-type: none"> Where an individual with a six month notice period voluntarily resigns between 18 months and 30 months following the date of Admission (and completes at least two years' service by working his notice period or being put on garden leave, or would have done so but is given PILON), they will retain their Invested Shares and may retain a portion of their Matching Award subject to achievement of performance targets measured over the first two years of the performance period. This period ended on 17 March 2017. On or after 36 months following Admission <ul style="list-style-type: none"> Where an individual with a six month notice period voluntarily resigns on or after 30 months following the date of Admission (and completes at least three years' service by working his notice period or being put on garden leave, or would have done so but is given PILON), they will retain their Invested Shares and, if a good leaver (as defined 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. Any participant who is dismissed for reasons of fraud or negligence will forfeit their Invested Shares and Matching Awards in full. <p>CSOP, PSP, RSP and SAYE</p> <ul style="list-style-type: none"> Under the CSOP, PSP and RSP, the default position is for both vested (to the extent not yet exercised) and unvested awards to lapse upon a loss of office event. Where an individual is determined to be a "good leaver" (which includes for reasons of death, illness, injury, disability, retirement, sale or transfer out of the Group or any other reason at the discretion of the Committee) the Committee may allow vested awards (to the extent not yet exercised) to be retained and unvested awards to subsist until the relevant vesting date, subject to satisfaction of the performance conditions/financial underpin and pro-rated for time served. Alternatively, the Committee may, at its discretion, allow unvested awards to vest at an earlier date, having regard to the achievement of performance conditions/financial underpin to that date and the period of time that has passed since the date of grant. The Committee may choose to apply no reduction in the amount vesting if it is considered appropriate given the particular circumstances. Under the SAYE, the default position is for unvested awards to lapse upon a loss of office event. Where an individual is determined to be a "good leaver" in accordance with HMRC regulations (which include for reasons of death) unvested awards may vest pro-rata by reference to the period of time that has elapsed since the date of the grant and up to six months following the leaver event (12 months in the case of death).
Change in control	<ul style="list-style-type: none"> The Committee's policy is that service contracts should not provide for additional compensation on severance as a result of a change in control. Under the 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. 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.
Malus and clawback	<p>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 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; any material breach of a participant's terms and conditions of employment; and/or any material violation of Company policy, rules of regulation. Malus and clawback will continue to apply to any bonus payments or awards retained by leavers and/or on a change of control.

External appointments

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

Chairman and Non-Executive Directors

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

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

Provision	Policy
Period	<ul style="list-style-type: none"> Initially appointed for a period of three years, subject to annual review and notice. In line with the UK Code, all Directors will seek annual re-appointment by shareholders at the AGM.
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 100.
Expiry of current term	<ul style="list-style-type: none"> See page 64 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 Handforth on 12 July 2018.

(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.

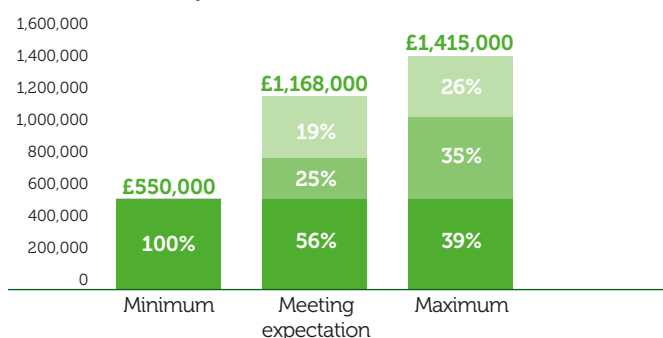
The charts on the right provide illustrative values of the remuneration package for Executive Directors under three assumed performance scenarios.

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

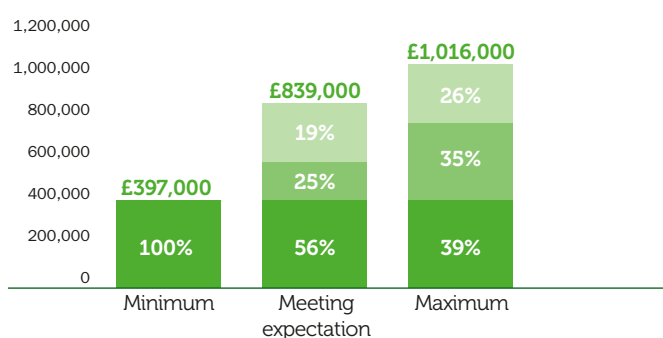
Scenario	Assumptions
Fixed pay	
All performance scenarios	<ul style="list-style-type: none"> Consists of total fixed pay, including base salary, benefits and pension <ul style="list-style-type: none"> Base salary – salary effective as at 30 March 2018 Benefits – amount estimated to be received by each Executive Director in FY19 Pension – salary supplement effective as at 30 March 2018.
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)

- 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.

Group Chief Executive Officer – Illustrative example under the RSP



Group Chief Financial Officer – Illustrative example under the RSP



■ Fixed pay ■ Annual bonus ■ RSP

Our Directors' Remuneration Policy continued

	Chief Executive	Chief Financial Officer
Base salary	£494,200	£353,700
Benefits	£11,500	£11,500
Pension	£44,478	£31,833
Total fixed pay	£550,178	£397,033

(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 the principal 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 our colleague listening groups and engagement 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 consulted extensively with the Company's largest shareholders on the proposed changes to the Directors' Remuneration Policy last year and we were pleased that all of our majority shareholders were very supportive of our remuneration principles and the proposed design.

The Committee remains committed to ongoing dialogue with the Company's shareholder base and has offered the opportunity for dialogue with the major new shareholders who have joined the Company's shareholder base in the last 12 months.

We will continue to monitor shareholder views when evaluating and setting ongoing remuneration strategy, and we are committed 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.

2. Annual Report on Remuneration

(a) Directors' remuneration – report on implementation for the year ended 29 March 2018

This section of the report sets out how the Policy, approved by shareholders at the Company's Annual General Meeting (AGM) on 11 July 2017, 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 investors.petsathome.com

The information presented from this section up until the relevant note on page 97 represents the audited section of this report.

(b) Single total figure of remuneration for Executive Directors for the year ended 29 March 2018

The following table sets out the total remuneration for Executive Directors for the year ended 29 March 2018. All payments are in line with the Policy.

Director	Base salary (£)	Benefits (£)	Pension (£)	Annual bonus (£)	Long term incentives ¹ (£)	Total (£)
FY18						
Ian Kellett	484,500	11,500	43,605	Nil ²	36,348	575,953
Mike Iddon	346,800	11,500	31,212	259,330	Nil ³	648,842
FY17						
Ian Kellett	474,712	11,500	42,724	96,947	36,239	662,087
Mike Iddon	155,615	5,263	14,123	31,456	Nil ⁴	206,457
Nick Wood ⁵	111,121	2,919	15,656	Nil	Nil	129,696

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 becomes exercisable in equal tranches, subject to continued employment, between May 2017 and March 2019. The first tranche of shares was released when the award vested in March 2017. The value for FY17 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. The second tranche of shares was released on 17 March 2018. The value is based on the share price of 178.3p being the share price on 16 March 2018, being the last working day before the shares were released.

2 Ian Kellett waived his bonus for FY18.

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

4 Mike Iddon 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.

5 Nick Wood 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.

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 bonus

Whilst Peter Pritchard was not an Executive Director for FY18, his bonus payout for the last financial year is included for completeness.

- The maximum annual bonus opportunity for Executive Directors and Peter Pritchard in respect of FY18 was 100% of base salary.
- For FY18, the annual bonus was based on EBITDA (75%) and free cash flow (25%):
 - the EBITDA performance measure was set at a Group level for Ian Kellett and Mike Iddon and at a retail level for Peter Pritchard.
 - the free cash flow measure was set at a Group level for all three and is defined as net cash from operating activities, less net cash used in investing activities, interest paid and finance lease commitments and is stated before loans issued, non-underlying costs and acquisitions of subsidiaries.
- Measurement was over a 52 week period.

Annual Report on Remuneration continued

The tables below show the targets and achieved payout levels:

Peter Pritchard

Performance measures	% Base salary	Minimum	Maximum	Achieved	
				£m	%
Retail EBITDA	75%	£81.5m	£87.5m	£87.47m	74.7%
Group free cash flow	25%	£53.0m	£57.0m	£59.8m	25.0%

Ian Kellett and Mike Iddon

Performance measures	% Base salary	Minimum	Maximum	Achieved	
				£m	%
Group EBITDA	75%	£120.7m	£129.4m	£123.3m	49.8%
Group free cash flow	25%	£53.0m	£57.0m	£59.8m	25.0%

Following a rigorous target setting process the Committee was confident that the targets stated above were stretching and required individuals to deliver performance which significantly exceeded business expectations in order to achieve full pay-out. This is evident in the bonus payout for Peter Pritchard, where Retail EBITDA achievement was just short of the maximum stretch level of performance. For Ian Kellett and Mike Iddon, the shortfall in the payout against the Group EBITDA performance measure reflects the performance of the veterinary business in FY18.

Notwithstanding the formulaic outturn of his bonus, in view of shareholder experience throughout the performance period and to ensure consistency of treatment with other colleagues who resigned during the financial year but received no bonus, Ian Kellett agreed that it was appropriate to waive his bonus.

Long term incentives

The Committee determined in May 2017, and reported in the last Remuneration Report, the vesting level of the performance conditions attached to the Matching Awards granted under the March 2014 Co-Investment Plan for which the final year of performance was FY17. The Committee determined that 16.8% of the total awards had vested. The second tranche of Matching Shares was released on 17 March 2018.

(c) Single total figure of remuneration for Non-Executive Directors for the year ended 29 March 2018

The following table sets out the total remuneration for Non-Executive Directors and the Chairman of the Board for the year ended 29 March 2018.

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 2018 (£)	Total single figure 2017 (£)
Tony DeNunzio	200,000	n/a	n/a	n/a	n/a	n/a	200,000	200,000
Dennis Millard	50,000	20,000 ¹	n/a	n/a	n/a	n/a	70,000	70,000
Paul Coby ²	13,846	n/a	n/a	n/a	n/a	n/a	13,846	50,000
Tessa Green	50,000	n/a	n/a	n/a	n/a	10,000	60,000	61,154
Amy Stirling ³	14,038	n/a	n/a	1,462	n/a	n/a	15,500	61,154
Paul Moody	50,000	n/a	10,000	n/a	n/a	n/a	60,000	60,000
Nicolas Gheysens ⁴	Nil	n/a	n/a	n/a	n/a	n/a	Nil	n/a
Stanislas Laurent ⁵	41,651	n/a	n/a	n/a	n/a	n/a	41,651	n/a
Sharon Flood ⁶	42,500	n/a	n/a	5,424	n/a	n/a	47,924	n/a

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

2 Paul Coby resigned from the Board on 10 July 2017.

3 Amy Stirling stepped down as Chair of the Audit Committee on 23 May 2017 and resigned from the Board on 11 July 2017.

4 Nicolas Gheysens was appointed to the Board on 2 December 2016 as KKR's nominated director on the Board. As Nicolas was representing KKR, it was agreed that he would not receive any Directors' fees in respect of his appointment. He resigned from the Board on 28 November 2017.

5 Stanislas Laurent was appointed to the Board on 25 May 2017.

6 Sharon Flood was appointed to the Board on 25 May 2017 and took over as Chair of the Audit Committee on 11 July 2017.

(d) Scheme interests awarded during the financial year

In 2017, Executive Directors received RSP awards in line with the Policy as follows:

Executive Director	Date of award	Number of shares awarded under the RSP	Grant price of RSP awards	% of salary for total awards	Performance period end date
Ian Kellett	25 July 2017	229,548	Nil cost awards	75%	27 March 2020
Mike Iddon	25 July 2017	164,308	Nil cost awards	75%	27 March 2020

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 158.3p.

The awards were made subject to the satisfaction of the achievement of the TSR underpin at the end of the performance period of the three financial years (FY18-FY20). An absolute TSR greater than the average TSR measured over the three months before the start of the performance period must be achieved for the awards to vest. In accordance with the Policy, 50% of the awards will vest after three years and 25% of the award will vest in each of years four and five.

(e) Payments for loss of office

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

Leaving arrangements for Ian Kellett

Ian Kellett resigned from the Board with effect from 26 April 2018. To ensure a smooth transition and provide support to the new CEO, he has worked his notice period and will leave the Group on 31 May 2018. Ian will not receive a termination payment, as he has resigned. During the period of his notice, Ian will receive his salary and contractual benefits up to his date of termination on 31 May 2018. Notwithstanding the formulaic outturn of his bonus, in view of shareholder experience throughout the performance period and to ensure consistency of treatment with other colleagues who resigned during the financial year but received no bonus, Ian Kellett agreed that it was appropriate to waive his bonus.

Ian's third tranche of Matching Award under the Co-Investment Plan will lapse in line with the early leaver provisions of the plan rules. His 2016 PSP and CSOP awards and 2017 RSP awards will also lapse in line with the early leaver provisions.

(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 2017
		Shares owned outright at 29 March 2018	Interests in share incentive schemes, awarded without performance conditions at 29 March 2018	
Ian Kellett	1,414%	4,053,484	0	4,047,056
Mike Iddon	37%	76,329	0	45,996
Tony DeNunzio	–	3,313,026	–	3,158,026
Dennis Millard	–	30,000	–	30,000
Tessa Green	–	40,816	–	40,816
Paul Moody	–	27,470	–	27,470
Stanislas Laurent	–	30,000	–	–
Sharon Flood	–	60,088	–	–

1 For the purposes of determining the target shareholding achieved, we have used the individual's salary and the closing share price (169 pence) as at 29 March 2018 and the shares owned outright at the same date.

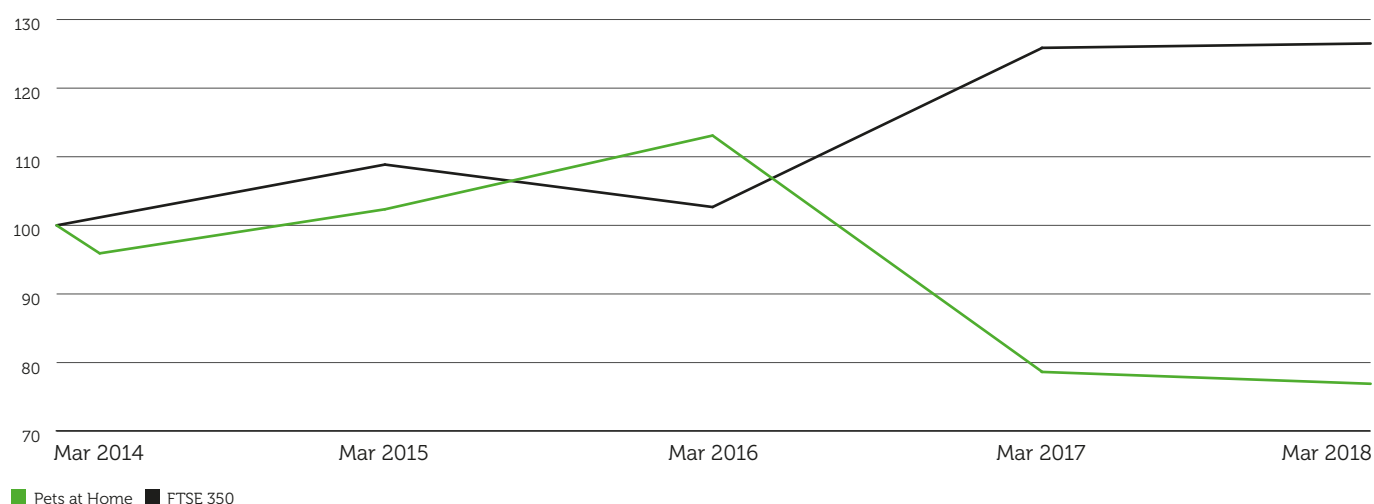
2 The figure includes all the second and third tranche of Matching Awards that vested at the end of the vesting period on 30 March 2017. 18,285 are exercisable in the second tranche.

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

Annual Report on Remuneration continued

(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 FY18. This disclosure will be expanded in subsequent years in line with the regulations.



CEO		2013/2014 ¹	2014/2015	2015/2016	2016/2017	2017/2018
CEO single figure of remuneration	Ian Kellett ²	–	–	–	662,087	575,953
	Nick Wood ³	19,460	790,461	962,224 ⁴	129,696	n/a
Annual bonus pay-out (as % of maximum opportunity)	Ian Kellett	–	–	–	20.4%	n/a ⁵
	Nick Wood	73%	75%	60%	–	n/a
Long term incentive vesting (as % of maximum opportunity)	Ian Kellett	–	–	–	16.8%	n/a ⁶
	Nick Wood	n/a	n/a	96% ⁴	–	n/a

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.

5 Ian Kellett waived his bonus for FY18.

(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 FY17 to FY18	% change in bonus earned FY17 to FY18	% change in benefits FY17 to FY18
Chief Executive	2.0%	n/a ¹	No change
All colleagues²	2.0%	56.7%	No change

1 Ian Kellett waived his bonus for FY18.

2 All colleague information is presented by comparing the average colleague information in FY17 to the average colleague information in FY18.

(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.

	FY18 £m	FY17 £m
EBITDA¹	123.3	130.5
Returned to shareholders:		
Dividend	37.3	39.9
Payments to colleagues:		
Wages and salaries	181.0	161.1

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.

(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 RSP). As at 29 March 2018, the Company's dilution position was 2.6% for all plans and 1.9% for the executive plans.

(l) External appointments

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

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

(m) Non-Executive Directors – letters of appointment

A summary of the Non-Executive Directors' letters of appointment is contained on page 93 of the Policy.

3. Statement of implementation for FY19

This section provides an overview of how the Committee is proposing to implement our Policy in FY19.

Base salary

Base salaries were reviewed with effect from 30 March 2018 and the salary of the Group CFO was increased by 2% which mirrors the increase generally awarded to colleagues in the Group. The Group CEO's salary was not increased as he had resigned.

Executive Director	Base salary
Chief Executive Officer	£484,500
Chief Financial Officer	£353,700

Benefits

The Committee sets benefits in line with the policy set out on page 86 of the Appendix. There are no changes proposed to the benefit framework in FY19.

Pensions

Despite the ability in the policy to permit contributions up to 15% of base salary, there is no increase proposed to salary supplement levels for the Executive Directors in FY19. The table below shows salary supplements for FY19.

Executive Director	% of salary
Ian Kellett	9%
Mike Iddon	9%

Annual bonus

The maximum annual bonus opportunity for Executive Directors in respect of FY19 will remain at 100% of base salary.

The annual bonus framework will be in line with that presented in the policy table on page 87. As highlighted in the Chairman's letter, during the year the Committee reviewed the annual bonus framework for FY19, with a view to ensuring that it remains appropriate for the business. It was decided, following this review, to replace EBITDA with PBT as the profit measure within the annual bonus plan. Historically EBITDA has been used as the profit measure for bonus purposes, reflecting the focus on EBITDA in our internal business unit reporting and as a key external measure. The change to PBT will enable closer scrutiny of management's control and use of capex. PBT will make up 75% of the annual bonus (the same as for EBITDA), with free cash flow the remaining 25%. The Committee adopted a rigorous approach to setting the bonus targets for FY19, discussing the targets at two Committee meetings. In order to satisfy itself that the targets were stretching, the Committee looked at a range of internal and external data points, including historical targets and performance against them, strategic plan targets, analyst consensus and TSR forecast growth for both the FTSE 250 and a select group of retailers.

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

As for FY18, 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.

Annual Report on Remuneration continued

Long term incentive awards

It is proposed that awards under the RSP will be made in FY19 shortly after the preliminary results announcement at 75% of salary for Executive Directors in line with the Policy.

Sharesave

The Company intends to operate the Sharesave scheme again for FY19. 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 FY19. The table below shows the Non-Executive Director fee structure for FY19:

	FY19
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.

Peter Pritchard's remuneration as CEO

Peter Pritchard took over as CEO from Ian Kellett on 27 April 2018. His base salary on appointment is £494,200. This base salary is below other typical salaries for comparable roles and the Committee may over time approve salary increases higher than the broader colleague population, subject to Peter's performance in the role and in order to ensure that Peter's base salary is competitive. Peter, as CEO, will have a maximum bonus opportunity of 100% of base salary and an RSP award of 75% of base salary. His pension and other benefits on appointment are in line with the Policy.

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 FY18 amounted to £38,200 (£58,034 FY17) based on the required time commitment.

During FY18 the Committee also received support from Travers Smith LLP on the terms of the discretionary and all-colleague share plans.

Committee membership and meetings

The Directors listed below in the table served on the Committee during the year. The Committee met three times during FY18 and the Committee members' attendance is also shown in the table below.

Member	Period from	To	Meetings attended
Paul Moody (Chairman)	1 April 2017	To date	2
Dennis Millard	1 April 2017	To date	3
Tessa Green	1 April 2017	To date	3
Amy Stirling	1 April 2017	11 July 2017	1
Sharon Flood	11 July 2017	To date	2

The individuals listed in the table below, none of whom were Committee members, attended at least part of a meeting by invitation during the year.

Attendee	Position
Tony DeNunzio	Chairman of the Board
Ian Kellett	Group CEO
Louise Stonier	Chief People and Legal Officer and Group Company Secretary
Peter Pritchard	CEO of Retail
Stanislas Laurent	Non-Executive Director

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

Governance

The Board and the Committee consider that, throughout FY18 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 11 July 2017, 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 30 March 2017	382,375,480	98.87	4,350,053	1.12	386,725,533	77.35	3,266,171
3 To approve the Directors' Remuneration Policy	329,361,414	85.16	57,363,515	14.83	386,724,929	77.34	3,266,775
4 To approve the Pets at Home Group Plc Restricted Stock Plan (the "RSP")	328,903,767	84.42	60,679,437	15.58	389,583,204	77.92	26,057

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 82, our Directors' Remuneration Report will be subject to an advisory vote at our AGM to be held on 12 July 2018.

On behalf of the Board



Paul Moody

Chairman of the Remuneration Committee
21 May 2018

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

1. Our opinion is unmodified

We have audited the financial statements of Pets at Home Group plc ("the Company") for the period ended 29 March 2018 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company balance sheet, the Consolidated and Company statement of changes in equity, the Consolidated and Company statement of cash flows, and the related notes, including the accounting policies in note 1.

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 29 March 2018 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the shareholders on 10 February 2014. The period of total uninterrupted engagement is for the 5 financial years ended 29 March 2018. Prior to that we were also auditor to the group's previous parent company, but which, being unlisted, was not a public-interest entity. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview

Materiality: £3.75m (2017: £3.75m)
Group financial statements as a whole 4.4% (2017: 3.9%) of normalised Group profit before tax

Coverage 99% (2017: 99%) of Group profit before tax

Risks of material misstatement vs 2017

Recurring risks	Recurring risk:	
	Carrying value of Group goodwill and parent Company's investments in subsidiaries	<>
	New: Provision for operating loans to joint venture practices	^
	Recurring risk: Carrying value of inventory	<>

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

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

	The risk	Our response
<p>Carrying value of the Group goodwill and the parent Company's investments in subsidiaries</p> <p>Goodwill: £979.8m; 2017: £979.8m</p> <p>Investments: £936.2m; 2017: £936.2m</p> <p>Refer to page 74 (Audit Committee Report), page 118 (accounting policy) and pages 132 to 134 (financial disclosures).</p>	<p>Forecast based valuation</p> <p>Goodwill in the Group and parent's investments in subsidiaries are significant and have indicators of impairment due to the decrease in market capitalisation during the year.</p> <p>The estimated recoverable amount of these balances is subjective due to the inherent uncertainty involved in forecasting and discounting future cash flows, which form the basis of the Group's value in use calculation.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Historical comparison: Assessing the reasonableness of the Group's budgets by considering the historical accuracy of previous forecasts; • Benchmarking assumptions: Using our own valuation specialist, comparing the Group's assumptions to externally derived data in relation to discount rate; • Our sector experience: Assessing whether key assumptions such as projected economic growth and cost inflation reflect our knowledge of the business and industry, including known or probable changes in the business environment; • Sensitivity analysis: Performing break-even analysis on the key assumptions above; • Assessing transparency: Assessing whether the Group's disclosures about the impairment test appropriately reflected the risks inherent in the valuation of goodwill and investments in subsidiaries. <p>Our results</p> <ul style="list-style-type: none"> • We found the Group's assessment of the carrying value of goodwill and the Company's investments in subsidiaries to be acceptable. (2017: acceptable).
<p>Operating loans to joint venture practices</p> <p>£38.0m; 2017: £23.2m</p> <p>Refer to page 74 (Audit Committee Report), page 120 (accounting policy) and page 134 (financial disclosures).</p>	<p>Subjective estimate</p> <p>The level of operating loans extended to the Group's joint venture vet practices has increased during the year, partly as a result of new openings but also as a result of increased loan amounts to existing practices. A significant proportion of these loans are not forecast to be recouped for a number of years which results in a risk over recoverability of the balances.</p> <p>The level of provision regarding the operating loans involves judgement over a number of assumptions around the allocation of practices to risk bands upon which the provision is based and appropriate level of provision within each risk band. There is a risk that the assumptions and judgements underpinning the provision are not appropriate, and as a result risk that the provision is materially under or over stated.</p> <p>Accounting treatment</p> <p>At some practices the increased financial reliance on, for example, indebtedness to the Group might, in practice, alter the otherwise balanced power of the Group and the joint venture partner vets. A practical shift of balance in favour of the Group would make the practice in question a subsidiary and hence require consolidation.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Control design: Evaluating the controls in place over the provision evaluation and calculation; • Benchmarking assumptions: Challenging key assumptions used, in particular the basis of the categories practices are allocated to, the proportion of loan value recoverable, recovery probability, and change in maturity profile based on our knowledge of the business; • Sensitivity analysis: Performing sensitivity analysis on the key assumptions above; • Accounting analysis: We assessed, with reference to accounting standards, evidence of the exercise of the powers of the Group and the vets in practice at certain indebted practices to consider whether, on balance, the level of indebtedness was a barrier to the vets exercising their formal powers. <p>Our results</p> <ul style="list-style-type: none"> • We found the Group's assessment of the level of loss provision and the carrying value of the operating loans to be acceptable. • We found the accounting treatment for the practices to be acceptable.
<p>Carrying value of inventory</p> <p>£60.9m; 2017: £56.4m</p> <p>Refer to page 74 (Audit Committee Report), page 125 (accounting policy) and page 157 (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, which could impact the saleability of inventory.</p> <p>There is a recoverability risk associated with new product launches and judgement required in forecasting demand 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"> • 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; • Tests of detail: Comparing the cost of inventory lines and average sales price in the six weeks to 29 March 2018 to highlight negative margin lines and assess whether the Group's provision at the year-end date in relation to low and negative margin inventories includes these lines, and is therefore appropriate; • Tests of detail: Examining current selling prices for a sample of inventory lines to assess negative margin lines have been appropriately identified and included in the Group's provision at the year end; and • Tests of detail: Comparing, by product, for a sample of inventory lines, inventory levels to sales data in the twelve weeks to 29 March 2018 to assess whether slow moving and obsolete inventories had been appropriately identified and provided for by the Group based on the provisioning policy. <p>Our results</p> <ul style="list-style-type: none"> • We found the Group's assessment of the carrying value of inventory to be acceptable (2017: acceptable).

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

Materiality for the Group financial statements as a whole was set at £3.75m (2017: £3.75m), determined with reference to a benchmark of Group profit before tax normalised for items relating to store closures, aborted acquisitions and an increase in the fair value of put and call options over non-controlling interests of three subsidiaries, of which it represents 4.4% (2017: Group profit before tax normalised for costs incurred in relation to the disposal of a subsidiary; of which it represented 3.9%).

Materiality for the parent Company financial statements as a whole was set at £3.0m (2017: £3.0m), determined with reference to a benchmark of Company total assets, of which it represents 0.2% (2017: 0.2%).

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £180,000 (2017: £180,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

The work on 1 of the 9 components (2017: 2 of the 9 components) was performed by component auditors and the rest, including the audit of the parent Company, was performed by the Group team. The Group team performed procedures on the items excluded from group profit before tax.

Of the Group's 9 (2017: 9) reporting components, we subjected 3 (2017: 3) to full scope audits for Group purposes and 0 (2017: 1) to specified risk-focused audit procedures. In the prior year, the latter was not individually financially significant enough to require a full scope audit for Group purposes, but did present specific individual risks that needed to be addressed in the prior year.

The components within the scope of our work accounted for the percentages illustrated opposite.

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 (2017: £2.5m to £3.0m), 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.

Normalised Group profit before tax

£84.5m (2017: £96.4m)



Group Materiality

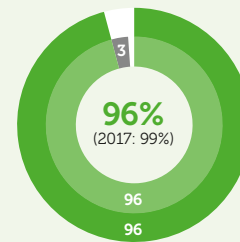
£3.75m (2017: £3.75m)

£3.75m
Whole financial statements materiality (2017: £3.75m)

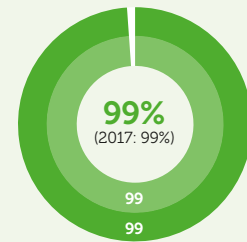
£3.0m
Range of materiality at three components (£2.5m to £3.0m) (2017: £2.5m to £3.0m)

£180k
Misstatements reported to the Audit and Risk Committee (2017: £180k)

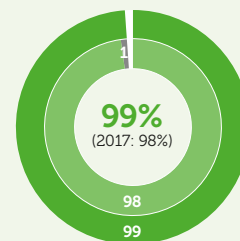
Group revenue



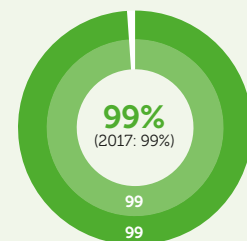
Group profit before tax



Group total assets



Group profit tax, excluding non-underlying items



- Full scope for Group audit purposes 2018
- Full scope for Group audit purposes 2017
- Specified risk-focused audit procedures 2017
- Residual components

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

4. We have nothing to report on going concern

We are required to report to you if:

- we have anything material to add or draw attention to in relation to the directors' statement in note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group and Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements; or
- the related statement under the Listing Rules set out on page 63 is materially inconsistent with our audit knowledge.

We have nothing to report in these respects.

5. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic Report and Directors' Report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer term viability

Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- the directors' confirmation within the viability statement on page 67 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency and liquidity;

- the Principal Risks disclosures describing these risks and explaining how they are being managed and mitigated; and
- the directors' explanation in the viability statement of how they have assessed the prospects of the Group, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Under the Listing Rules we are required to review the viability statement. We have nothing to report in this respect.

Corporate governance disclosures

We are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our financial statements 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 section of the annual report describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We are required to report to you if the Corporate Governance Statement does not properly disclose a departure from the eleven provisions of the UK Corporate Governance Code specified by the Listing Rules for our review.

We have nothing to report in these respects.

6. We have nothing to report on the other matters on which we are required to report by exception

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.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 71, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience and through discussion with the directors and other management (as required by auditing standards).

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition we considered the impact of laws and regulations in the specific area of the national minimum wage legislation. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level, with a request to report on any indications of non-compliance with relevant laws and regulations (irregularities) in these areas, or other areas directly identified by the component team.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations (irregularities), as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Nicola Quayle (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor Chartered Accountants

1 St Peter's Square
Manchester
M2 3AE

22 May 2018

Consolidated income statement

	52 week period ended 29 March 2018			52 week period ended 30 March 2017			
	Note	Underlying trading £000	Non-underlying items (note 3) £000	Total £000	Underlying trading £000	Non-underlying items (note 3) £000	Total £000
Revenue	2	898,924	–	898,924	834,169	–	834,169
Cost of sales		(434,316)	–	(434,316)	(382,287)	–	(382,287)
Gross profit		464,608	–	464,608	451,882	–	451,882
Selling and distribution expenses		(309,482)	–	(309,482)	(296,012)	–	(296,012)
Administrative expenses	3	(66,323)	(4,929)	(71,252)	(54,950)	(996)	(55,946)
Operating profit	2,3	88,803	(4,929)	83,874	100,920	(996)	99,924
Financial income	6	685	–	685	760	–	760
Financial expense	7	(4,963)	–	(4,963)	(5,300)	–	(5,300)
Net financing expense		(4,278)	–	(4,278)	(4,540)	–	(4,540)
Profit before tax		84,525	(4,929)	79,596	96,380	(996)	95,384
Taxation	8	(16,983)	201	(16,782)	(20,061)	41	(20,020)
Profit for the period		67,542	(4,728)	62,814	76,319	(955)	75,364

All activities relate to continuing operations.

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

	Note	52 week period ended 29 March 2018	52 week period ended 30 March 2017
Equity holders of the parent – basic	5	12.6p	15.1p
Equity holders of the parent– diluted	5	12.5p	15.0p

Dividends paid and proposed are disclosed in note 9.

The notes on pages 115 to 168 form an integral part of these financial statements.

Consolidated statement of comprehensive income

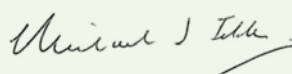
	Note	52 week period ended 29 March 2018 £000	52 week period ended 30 March 2017 £000
Profit for the period		62,814	75,364
Other comprehensive income			
Items that are or may be recycled subsequently into profit or loss:			
Foreign exchange translation differences	20	71	(26)
Cash flow hedges – reclassified to profit and loss	20	(473)	(330)
Effective portion of changes in fair value of cash flow hedges	20	(1,695)	1,862
Other comprehensive income for the period, before income tax		(2,097)	1,506
Income tax on other comprehensive income	13,20	412	(297)
Other comprehensive income for the period, net of income tax		(1,685)	1,209
Total comprehensive income for the period		61,129	76,573

The notes on pages 115 to 168 form an integral part of these financial statements.

Consolidated balance sheet

	Note	At 29 March 2018 £000	At 31 March 2017 £000
Non-current assets			
Property, plant and equipment	10	129,904	128,835
Intangible assets	11	992,929	990,266
Other non-current assets	14	20,182	16,990
		1,143,015	1,136,091
Current assets			
Inventories	12	60,529	56,420
Other financial assets	14	1,160	1,863
Trade and other receivables	15	74,848	69,567
Cash and cash equivalents	16	59,824	56,345
		196,361	184,195
Total assets		1,339,376	1,320,286
Current liabilities			
Trade and other payables	18	(173,856)	(165,887)
Corporation tax		(8,881)	(10,609)
Provisions	19	(835)	(492)
Other financial liabilities	14	(3,392)	(1,509)
		(186,964)	(178,497)
Non-current liabilities			
Other interest-bearing loans and borrowings	17	(194,519)	(209,296)
Other payables	18	(36,200)	(35,028)
Provisions	19	(2,200)	(1,394)
Other financial liabilities	14	(8,693)	(8,023)
Deferred tax liabilities	13	(4,448)	(5,404)
		(246,060)	(259,145)
Total liabilities		(433,024)	(437,642)
Net assets		906,352	882,644
Equity attributable to equity holders of the parent			
Ordinary share capital	20	5,000	5,000
Consolidation reserve		(372,026)	(372,026)
Merger reserve		113,321	113,321
Translation reserve		40	(31)
Cash flow hedging reserve		(950)	806
Retained earnings		1,160,967	1,135,574
Total equity		906,352	882,644

On behalf of the Board:



Mike Iddon

Group Chief Financial Officer

Company number: 08885072

The notes on pages 115 to 168 form an integral part of these financial statements.

Consolidated statement of changes in equity as at 29 March 2018

	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 30 March 2017	5,000	(372,026)	113,321	806	(31)	1,135,574	882,644
Total comprehensive income for the period							
Profit for the period	–	–	–	–	–	62,814	62,814
Other comprehensive income (note 20)	–	–	–	(1,756)	71	–	(1,685)
Total comprehensive income for the period	–	–	–	(1,756)	71	62,814	61,129
Transactions with owners, recorded directly in equity							
Equity dividends paid	–	–	–	–	–	(37,341)	(37,341)
Share based payment charge	–	–	–	–	–	3,936	3,936
Purchase of own shares	–	–	–	–	–	(4,016)	(4,016)
Total contributions by and distributions to owners	–	–	–	–	–	(37,421)	(37,421)
Balance at 29 March 2018	5,000	(372,026)	113,321	(950)	40	1,160,967	906,352

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 20)	–	–	–	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 charge	–	–	–	–	–	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 cash flows

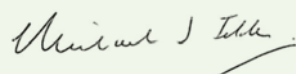
	52 week period ended 29 March 2018 £000	52 week period ended 30 March 2017 £000
Cash flows from operating activities		
Profit for the period	62,814	75,364
Adjustments for:		
Depreciation and amortisation	34,483	29,621
Financial income	(685)	(760)
Financial expense	4,963	5,300
Loss on disposal of subsidiary	–	690
Loss/(profit) on disposal of property, plant and equipment	1,628	(176)
Share based payment charges	3,936	2,437
Taxation	16,782	20,020
	123,921	132,496
Increase in trade and other receivables	(5,976)	(8,863)
Increase in inventories	(4,109)	(4,979)
Increase in trade and other payables	11,794	11,469
Increase in provisions	1,149	63
	126,779	130,186
Tax paid	(19,054)	(19,299)
Net cash flow from operating activities	107,725	110,887
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	814	1,830
Disposal of subsidiary, net of cash disposed	–	677
Interest received	685	722
Investment in other financial assets	(2,146)	(3,420)
Loans issued	(872)	(2,247)
Loans repaid	–	500
Acquisition of subsidiary, net of cash acquired	–	(14,831)
Acquisition of property, plant and equipment and other intangible assets	(41,613)	(40,896)
Net cash used in investing activities	(43,132)	(57,665)
Cash flows from financing activities		
Equity dividends paid	(37,341)	(39,850)
Proceeds from new loan	–	8,000
Repayment of borrowings	(15,000)	–
Purchase of own shares	(4,016)	–
Finance lease obligations	(181)	(109)
Interest paid	(4,576)	(4,916)
Net cash used in financing activities	(61,114)	(36,875)
Net Increase in cash and cash equivalents	3,479	16,347
Cash and cash equivalents at beginning of period	56,345	39,998
Cash and cash equivalents at end of period	59,824	56,345

The notes on pages 115 to 168 form an integral part of these financial statements.

Company balance sheet

	Note	At 29 March 2018 £000	At 30 March 2017 £000
Non-current assets			
Investments in subsidiaries	27	936,179	936,179
Other non-current	14	–	521
		936,179	936,700
Current assets			
Other financial assets	14	926	–
Trade and other receivables	15	576,795	576,795
Cash and cash equivalents	16	1,717	1
Deferred tax asset	13	–	112
		579,438	576,908
Total assets		1,515,617	1,513,608
Current liabilities			
Trade and other payables	18	(269,011)	(207,887)
Other financial liabilities	14	–	(1,112)
		(269,011)	(208,999)
Non-current liabilities			
Other interest-bearing loans and borrowings	17	(194,519)	(209,296)
Deferred tax liability	13	(176)	–
Total liabilities		(463,706)	(418,295)
Net assets		1,051,911	1,095,313
Equity attributable to equity holders of the parent			
Ordinary share capital	20	5,000	5,000
Merger reserve		113,321	113,321
Cash flow hedging reserve		750	(479)
Retained earnings		932,840	977,471
Total equity		1,051,911	1,095,313

On behalf of the Board:



Mike Iddon
Group Chief Financial Officer

Company statement of changes in equity as at 29 March 2018

	Share capital £000	Merger reserve £000	Cash flow hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 30 March 2017	5,000	113,321	(479)	977,471	1,095,313
Total comprehensive income for the period					
Loss for the period	–	–	–	(3,988)	(3,988)
Other comprehensive income	–	–	1,229	–	1,229
Total comprehensive income for the period	–	–	1,229	(3,988)	(2,759)
Transactions with owners, recorded directly in equity					
Equity dividends paid	–	–	–	(37,341)	(37,341)
Share based payment charge	–	–	–	714	714
Share based payments	–	–	–	(4,016)	(4,016)
Total contributions by and distributions to owners	–	–	–	(40,643)	(40,643)
Balance at 29 March 2018	5,000	113,321	750	932,840	1,051,911

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 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 29 March 2018 was £4.0m (loss for the 52 week period ended 30 March 2017 was £6.6m).

Company statement of cash flows

	52 week period ended 29 March 2018 £000	52 week period ended 30 March 2017 £000
Cash flows from operating activities		
Loss for the period	(3,988)	(6,640)
Financial expense	4,773	5,113
Share based payment charges	714	2,437
	1,499	910
Decrease in trade and other receivables	–	3,699
Increase in trade and other payables	61,279	32,354
Net cash flow from operating activities	62,778	36,963
Cash flows from financing activities		
Equity dividends paid	(37,341)	(39,850)
Proceeds from new loan	–	8,000
Repayment of borrowings	(15,000)	–
Interest paid	(4,705)	(5,113)
Issue costs	(4,016)	–
Net cash used in financing activities	(61,062)	(36,963)
Net increase in cash and cash equivalents	1,716	–
Cash and cash equivalents at beginning of period	1	1
Cash and cash equivalents at end of period	1,717	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 21 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 for the next three years.

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 Significant accounting policies (continued)

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.

The Group operates an Employee Benefit Trust (EBT) for the purposes of acquiring shares to fund share awards made to employees. The EBT is deemed to be a subsidiary of the Group as Pets at Home Group Plc is considered to be the ultimate controlling party for accounting purposes. The assets and liabilities of these trusts have been included in the consolidated financial information. The cost of purchasing own shares held by the EBT are accounted for in retained earnings.

Investment in Joint Venture 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 investments are held at cost, 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 notes 14, 15 and 26.

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 (see 1.12).

1 Significant accounting policies (continued)

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 ten 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.

1.12 Investments held at cost

The Company's investments in subsidiaries are held at cost, less impairment. The carrying amounts 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. The recoverable amount 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.

1.13 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 within Non-underlying items.

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 their fair value or at their 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 Significant accounting policies (continued)

1.14 Acquisitions and disposals of non-controlling interests

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

1.15 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 1.23.

1.16 Impairment excluding inventories, and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each period at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units (CGUs). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.17 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

Short term benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share based payments

A number of employees of the Company's subsidiaries (including Directors) receive an element of remuneration in the form of share based payments, whereby employees render services in exchange for shares or rights over shares.

Share based payments are measured at fair value at the date of grant. The fair value of transactions involving the granting of shares is determined by the share price at the date of grant. The fair value of transactions involving the granting of share options is calculated by an external valuer based on a binomial model. In valuing share based payments, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Pets at Home Group Plc (market conditions).

The cost of share based payments is recognised, together with a corresponding increase in equity, on a straight-line basis over the vesting period based on the Company's estimate of how many of the awards will eventually vest. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of a share based payment award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of the modification.

Where a share based payment award is cancelled, it is treated as if it had vested on the date of cancellation and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification to the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Employee Benefit Trust

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the Group accounts. The assets of the EBT are held separately from those of the Company. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Group consolidated statement of comprehensive income.

Investments in the Company's own shares held by the EBT are presented as a deduction from reserves and the number of such shares is deducted from the number of shares in issue when calculating the earnings per share. The trustees of the 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.

1 Significant accounting policies (continued)

1.18 Provisions

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

1.19 Revenue and cost of sales

Revenue represents the total amount receivable for goods and services, net of discounts, brand match vouchers, coupons, returns 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. Rental income received from in-store Joint Venture veterinary practices is netted off against the operating lease rental expenses on those stores.

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.

Non-underlying items

Income or costs are considered by the Directors to be non-underlying as they relate to either an event that is not expected to re-occur in future periods, or the increase in the fair value of put/call liabilities which the Directors consider warrant separate disclosure due to the nature of these arrangements.

Alternative Performance Measures

The Directors measure the performance of the Group based on a range of financial measures, including measures not recognised by EU-adopted IFRS. These alternative performance measures may not be directly comparable with other companies' alternative performance measures and the Directors do not intend these to be a substitute for, or superior to, IFRS measures. Further information can be found in the Glossary on pages 169 to 171.

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 overrider 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, on the basis of the historic recoverability of accrued balances, and as 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:

Overrider income

Overrider 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.

1 Significant accounting policies (continued)

1.20 Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement over the term of the lease as an integral part of the total lease expense.

Financing income and expenses

Financing expenses comprise interest payable 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.

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.

1.21 Taxation

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

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

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

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

1.22 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 15 Revenue from Contract with Customers (effective date 1 January 2018). IFRS 15 will be effective for the Group for the year ending March 2019, and is not expected to have a significant impact on the Group's revenues. The majority of the Group's sales are for standalone products made direct to customers at standard prices either in store or through the website. Estimates are already made of anticipated returns and sales awaiting delivery to the customer.
- IFRS 9 Financial Instruments (effective date 1 January 2018). Provisions held in respect of Joint Venture operating loans will need to be assessed in relation to the 'expected credit loss' rather than the 'incurred loss' mechanism under IAS 39, which is expected to result in an increase to the level of provision required. The change in standard is likely to impact earnings on a non cash basis, the quantum of which is yet to be determined but could be material.

- IFRS 16 Leases (effective date 1 January 2019). IFRS 16 will be effective for the Group for the year ending March 2020 onwards and will significantly affect the presentation of the Group financial statements. All leases with the exception of short term leases will be recognised within the balance sheet with a corresponding liability being the present value of lease payments. IFRS 16 is also expected to have a material impact on key components within the consolidated income statement as operating lease rental charges will be replaced by depreciation and finance costs. At the reporting date, the Group has operating lease commitments of £588m (as disclosed in note 23) on an undiscounted basis. The Group has not yet decided which transition approach to apply.

1.23 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 11.

Joint Venture receivables

The Group provides operating loans and other loans to a number of Joint Venture veterinary practices as detailed in note 26 to cover their cashflow requirements and support their longer term growth. As referred to in note 26, provisions are held in respect of operating loans to Joint Venture practices. Judgement is applied in determining the risk-related criteria to allocate practices into bands, and in estimating an appropriate provision percentage to apply to each band. These judgements are made by management based on their experience and knowledge of the practices. Future financial performance will be affected if actual experience differs to the estimates and assumptions made in determining the provision. The quantum of Joint Venture receivables and provision made against these receivables is included in note 26.

The Group has assessed whether the level of an individual practices' indebtedness to the Group, particularly those with high levels of indebtedness, implies that the Group has the practical ability to control the Joint Venture, which would result in the requirement to consolidate. In making this judgement, the Group reviewed the terms of the Joint Venture agreement and management's practical ability to control the activities of the practice, including barriers to the Group's ability to exercise this practical control and potential barriers to the Joint Venture Partner exercising their own power over the activities of the practice. The Group is satisfied that on the balance of evidence from the Group's experience as shareholder and lender to the practices, it does not currently have the ability to exercise control over those practices to which operating loans are advanced.

Put/call options

The Group recognises put and call options over non-controlling interests in its subsidiary undertakings as a liability in the consolidated balance sheet. The nature of the Group's option agreements are such that there is an element that is a minimum amount, and a growth element to reward and retain key individuals employed by the acquired business, who are also non-controlling shareholders, and which is linked to improvements in the results of the acquired business. The growth element would be forfeited under certain conditions by the NCI, including if they ceased to be employed by the Group.

Upon initial recognition, the minimum amount is recognised as a liability at fair value, which is estimated as the present value of the future exercise price based upon the fair value of the business at acquisition. For the growth element, the expected amount is charged to the income statement as employment costs evenly over the option period within Non-underlying items. The financial liability is valued based on management's best estimate of the future pay out, which is based on the estimated future earnings. The charge is spread evenly over the financial years before the put/call can be exercised for the first time.

1.24 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 29 March 2018 £000	52 week period ended 30 March 2017 £000
Revenue		
Food	421,894	395,121
Accessories	343,508	321,550
Services and Other	133,522	117,498
	898,924	834,169

The 'Services and Other' category includes revenue from management fees for First Opinion veterinary surgeries, veterinary services, 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 Non-underlying items. This can be reconciled to statutory operating profit as follows:

	52 week period ended 29 March 2018 £000	52 week period ended 30 March 2017 £000
Operating profit	83,874	99,924
Non-underlying items	4,929	996
Underlying operating profit before Non-underlying items	88,803	100,920
Depreciation and amortisation	34,483	29,621
Underlying EBITDA	123,286	130,541

3 Expenses and auditor's remuneration

Included in operating profit are the following:

	52 week period ended 29 March 2018 £000	52 week period ended 30 March 2017 £000
Non-underlying operating expenses (see below)	4,929	996
Depreciation of tangible fixed assets	28,280	25,690
Amortisation of intangible assets	6,203	3,931
Rentals under operating leases:		
Hire of plant and machinery	4,387	4,484
Property	75,922	73,002
Rental income from third party sublets	(1,041)	(828)
Rental income from related parties	(7,138)	(6,277)
Profit on disposal of fixed assets	–	(176)
Share based payment charges	3,936	2,437

Non-underlying items in operating profit in the 52 week period ended 29 March 2018 totalled £4,929,000 (52 week period ended 30 March 2017: £996,000). Of this, £2,685,000 relates to the closure of our seven trial Barkers stores and the associated lease commitments including disposal of fixed assets (£1,628,000). Non-underlying operating expenses also includes £1,625,000 in relation to the increase in the fair value of the put and call option over the non-controlling interests in Dick White Referrals Limited, Eye-Vet Limited and Anderson Moores Veterinary Specialists Limited and £619,000 in relation to aborted property and acquisition costs.

Non-underlying items in operating profit in the period ended 30 March 2017 of £966,000 represent costs incurred in relation to the disposal of the Group's 100% holding in Farm-Away Ltd. The costs include legal and professional fees, redundancy costs and property costs.

The costs noted above are considered by the Directors to be non-underlying as they relate to either an event that is not expected to re-occur in future periods (as is the case with the closure of Barkers and disposal of Farm-Away), or the increase in the fair value of put/call liabilities which the Directors consider warrant separate disclosure due to the nature of these arrangements.

Auditor's remuneration

	52 week period ended 29 March 2018 £000	52 week period ended 30 March 2017 £000
Audit of the parent company financial statements	10	10
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	219	200
Review of interim financial statements	32	31
All other services	10	5
	271	246

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 29 March 2018 Number	52 week period ended 30 March 2017 Number
Sales and distribution	6,142	6,152
Administration	559	659
	6,701	6,811

The aggregate payroll costs of these persons were as follows:

	52 week period ended 29 March 2018 £000	52 week period ended 30 March 2017 £000
Wages and salaries	180,952	162,936
Social security costs	15,233	13,337
Contributions to defined pension contribution plans	5,725	5,251
	201,910	181,524

Remuneration of Directors and Executive Management Team

	52 week period ended 29 March 2018 £000	52 week period ended 30 March 2017 £000
Executive Directors' emoluments including social security costs	1,135	1,411
Non-Executive Directors' emoluments including social security costs	495	534
Executive Directors' amounts receivable under share options	31	–
Executive Directors' pension contributions	75	73
Total Directors' remuneration	1,736	2,018
Executive Management Team emoluments including social security costs	2,583	3,165
Executive Directors' Team amounts receivable under share options	64	–
Executive Management Team pension contributions	167	161
Total Executive Management Team remuneration	2,814	3,326

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. Executive Directors' emoluments are also included within the Executive Management Team emoluments disclosed above.

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 29 March 2018		52 week period ended 30 March 2017	
	Underlying trading	After Non- underlying items	Underlying trading	After Non- underlying items
Profit attributable to equity shareholders of the parent (£000s)	67,542	62,814	76,319	75,364
Basic weighted average number of shares	500,000,000	500,000,000	500,000,000	500,000,000
Dilutive potential ordinary shares	3,119,537	3,119,537	4,032,406	4,032,406
Diluted weighted average number of shares	503,119,537	503,119,537	504,032,406	504,032,406
Basic earnings per share	13.5p	12.6p	15.3p	15.1p
Diluted earnings per share	13.4p	12.5p	15.1p	15.0p

6 Finance income

	52 week period ended 29 March 2018 £000	52 week period ended 30 March 2017 £000
Interest receivable	685	760
Total finance income	685	760

7 Finance expense

	52 week period ended 29 March 2018 £000	52 week period ended 30 March 2017 £000
Bank loans at effective interest rate	4,773	5,113
Other interest expense	190	187
Total finance expense	4,963	5,300

Notes (forming part of the financial statements) continued

8 Taxation

Recognised in the income statement

	52 week period ended 29 March 2018 £000	52 week period ended 30 March 2017 £000
Current tax expense		
Current period	17,837	20,953
Adjustments in respect of prior periods	(511)	(964)
Current tax expense	17,326	19,989
Deferred tax expense		
Origination and reversal of temporary differences	(669)	(907)
Impact of difference between deferred and current tax rates	(260)	45
Adjustments in respect of prior periods	385	893
Deferred tax expense	(544)	31
Total tax expense	16,782	20,020

The UK corporation tax standard rate for the period was 19% (2017: 20%). 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 18% which is the blended rate at which items are expected to reverse.

Deferred tax recognised in comprehensive income

	52 week period ended 29 March 2018 £000	52 week period ended 30 March 2017 £000
Effective portion of changes in fair value of cash flow hedges (note 20)	(412)	297

Reconciliation of effective tax rate

	52 week period ended 29 March 2018			52 week period ended 30 March 2017		
	Underlying trading £000	Non-underlying items £000	Total £000	Underlying trading £000	Non-underlying items £000	Total £000
Profit for the period	67,542	(4,728)	62,814	76,319	(955)	75,364
Total tax expense	16,983	(201)	16,782	20,061	(41)	20,020
Profit excluding taxation	84,525	(4,929)	79,596	96,380	(996)	95,384
Tax using the UK corporation tax rate for the period of 19% (52 week period ended 30 March 2017: 20%)	16,060	(937)	15,123	19,276	(199)	19,077
Impact of change in tax rate on deferred tax balances	(260)	–	(260)	45	–	45
Depreciation on expenditure not eligible for tax relief	588	–	588	706	–	706
Expenditure not eligible for tax relief	721	736	1,457	105	158	263
Adjustments in respect of prior periods	(126)	–	(126)	(71)	–	(71)
Total tax expense	16,983	(201)	16,782	20,061	(41)	20,020

The UK corporation tax standard rate for the 52 week period ended 29 March 2018 was 19% (52 week period ended 30 March 2017: 20%). The effective tax rate before Non-underlying items for the 52 week period ended 29 March 2018 was 20%. The principal reason for the difference in rate relates to the non-deductibility of depreciation charged on certain items of capital expenditure.

9 Dividends paid and proposed

	Group and Company	
	52 week period ended 29 March 2018 £000	52 week period ended 30 March 2017 £000
Declared and paid during the period		
Final dividend of 5.5p per share (2017: 5.5p per share)	24,912	27,396
Interim dividend of 2.5p per share (2017: 2.5p per share)	12,429	12,454
Proposed for approval by shareholders at the AGM		
Final dividend of 5.0p per share (2017: 5.0p per share)	24,836	24,912

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 29 March 2018 and 30 March 2017 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 29 March 2018: 3,271,102 shares, holding at 30 March 2017: 1,319,091 shares) and Wealth Nominees Limited (holding at 29 March 2018: nil shares, holding at 30 March 2017: 434,056 shares).

10 Property, plant and equipment

	Freehold property £000	Short leasehold property £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost				
Balance at 30 March 2017	2,517	48,720	183,625	234,862
Additions	–	6,326	25,459	31,785
Disposals	–	(1,331)	(2,216)	(3,547)
Balance at 29 March 2018	2,517	53,715	206,868	263,100
Depreciation				
Balance at 30 March 2017	198	15,469	90,360	106,027
Depreciation charge for the period	40	3,447	24,793	28,280
Disposals	–	(199)	(912)	(1,111)
Balance at 29 March 2018	238	18,717	114,241	133,196
Net book value				
At 30 March 2017	2,319	33,251	93,265	128,835
At 29 March 2018	2,279	34,998	92,627	129,904

Notes (forming part of the financial statements) continued

10 Property, plant and equipment (continued)

	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

11 Intangible assets

	Goodwill £000	Customer list £000	Software £000	Total £000
Cost				
Balance at 30 March 2017	979,845	771	24,916	1,005,532
Additions	–	–	8,872	8,872
Disposals	–	–	(22)	(22)
Balance at 29 March 2018	979,845	771	33,766	1,014,382
Amortisation				
Balance at 30 March 2017	–	71	15,195	15,266
Amortisation charge for the period	–	77	6,126	6,203
Disposals	–	–	(16)	(16)
Balance at 29 March 2018	–	148	21,305	21,453
Net book value				
At 30 March 2017	979,845	700	9,721	990,266
At 29 March 2018	979,845	623	12,461	992,929

	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

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 29 March 2018 £000	At 30 March 2017 £000
Pets at Home Group	979,845	979,845

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 29 March 2018	At 30 March 2017
Period on which management approved forecasts are based (years)	3	3
Growth rate applied beyond approved forecast period	2%	2%
Discount rate (pre-tax)	11%	10%

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.

11 Intangible assets (continued)

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 recorded in each period.

A number of sensitivities have been applied to the assumptions in reaching this conclusion including:

- Reduction in growth rate applied beyond forecast period by 100 bps
- Increasing the discount rate by 100 bps
- Decreasing the sales growth assumptions in the forecast period in combination with a reduction in gross margin percentage of 50bps.

None of the above would result in an impairment.

12 Inventories

	At 29 March 2018 £000	At 30 March 2017 £000
Finished goods	60,529	56,420

The cost of inventories recognised as an expense and included in 'cost of sales' in the 52 week period ended 29 March 2018 is £355,651,000 (52 week period ended 30 March 2017: £315,002,000).

Inventory expensed to cost of sales includes the cost of the SKUs (Stock Keeping Units) sold, supplier income, stock wastage and foreign exchange variances.

At 29 March 2018 the inventory provision amounted to £2.3m (30 March 2017: £1.9m). The inventory provision is calculated by reference to the age of the SKU. 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 £4.8m (30 March 2017: £4.6m).

In the 52 week period ended 29 March 2018, the value of inventory written off to the income statement amounted to £8.1m (52 week period ended 30 March 2017: £7.8m).

13 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	At 29 March 2018			At 30 March 2017		
	Assets £000	Liabilities £000	Total £000	Assets £000	Liabilities £000	Total £000
Property, plant and equipment	–	(849)	(849)	–	(1,684)	(1,684)
Financial assets	–	(221)	(221)	–	(400)	(400)
Financial liabilities	443	–	443	211	–	211
Other short term timing differences	1,861	(5,682)	(3,821)	1,990	(5,521)	(3,531)
Net tax assets/(liabilities)	2,304	(6,752)	(4,448)	2,201	(7,605)	(5,404)

Movement in deferred tax during the period

	30 March 2017 £000	Recognised in income £000	Recognised in equity £000	29 March 2018 £000
Property, plant and equipment	(1,684)	835	–	(849)
Net financial assets	(190)	–	412	222
Other short term timing differences	(3,530)	(291)	–	(3,821)
	(5,404)	544	412	(4,448)

Movement in deferred tax during the period

	31 March 2016 £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)
Net financial assets	107	–	–	(297)	(190)
Other short term timing differences	(3,789)	(10)	269	–	(3,530)
	(4,885)	(191)	(31)	(297)	(5,404)

Company

Movement in deferred tax during the period

	30 March 2017 £000	Recognised in income £000	Recognised in equity £000	29 March 2018 £000
Net financial assets	112	–	(288)	(176)

The rate used to calculate deferred tax assets and liabilities has been disclosed in note 8.

14 Other financial assets and liabilities

	Group		Company	
	At 29 March 2018 £000	At 30 March 2017 £000	At 29 March 2018 £000	At 30 March 2017 £000
Non-current assets				
Investments in Joint Venture veterinary practices	403	397	–	–
Loans to Joint Venture veterinary practices – initial set up loans	14,194	12,054	–	–
Loans to Joint Venture veterinary practices – other loans	4,539	3,416	–	–
Other investments	112	112	–	–
Other receivables	934	490	–	–
Interest rate swaps	–	521	–	521
	20,182	16,990	–	521

Investments in Joint Venture veterinary practices – initial set up loans

Investments represent £403,000 (30 March 2017: £397,000) of the “B” share capital in joint veterinary practice companies. These investments are accounted for at cost, subject to impairment. 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 Joint Venture veterinary practices

Loans to Joint Venture veterinary practices include £14,194,000 (30 March 2017: £12,054,000) 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.

Loans to Joint Venture veterinary practices – other loans

Loans to related parties of £4,539,000 (30 March 2017: £3,416,000) 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.

	Group		Company	
	At 29 March 2018 £000	At 30 March 2017 £000	At 29 March 2018 £000	At 30 March 2017 £000
Current assets				
Fuel forward contracts	78	106	–	–
Forward exchange contracts	156	1,757	–	–
Interest rate swaps	926	–	926	–
	1,160	1,863	926	–

	Group		Company	
	At 29 March 2018 £000	At 30 March 2017 £000	At 29 March 2018 £000	At 30 March 2017 £000
Current liabilities				
Fuel forward contracts	–	–	–	–
Other financial liability	–	–	–	–
Forward exchange contracts	(2,333)	(278)	–	–
Interest rate swaps	–	(1,112)	–	(1,112)
Other financial liability	(1,000)	–	–	–
Finance lease liability	(59)	(119)	–	–
	(3,392)	(1,509)	–	(1,112)

	Group		Company	
	At 29 March 2018 £000	At 30 March 2017 £000	At 29 March 2018 £000	At 30 March 2017 £000
Non-current liabilities				
Other financial liability	(8,675)	(7,885)	–	–
Finance lease liability	(18)	(138)	–	–
	(8,693)	(8,023)	–	–

The current and non-current other financial liabilities include the fair value of the put and call option over the non-controlling interests in subsidiary undertakings and contingent consideration in relation to the acquisitions of Dick White Referrals Limited, Eye-Vet Limited and Anderson Moores Veterinary Specialists Limited and in the 52 week period ended 30 March 2017. The financial liabilities comprise a minimum amount and a growth element based on estimated future earnings.

Notes (forming part of the financial statements) continued

15 Trade and other receivables

	Group		Company	
	At 29 March 2018 £000	At 30 March 2017 £000	At 29 March 2018 £000	At 30 March 2017 £000
Trade receivables	14,609	13,975	–	–
Amounts owed by Joint Venture veterinary practices – funding, trading and operating loans	31,298	24,273	–	–
Other receivables	7,653	7,617	–	–
Amounts owed by Group undertakings	–	–	576,795	576,795
Prepayments	15,860	17,111	–	–
Accrued income	5,428	6,591	–	–
	74,848	69,567	576,795	576,795

All balances are included within current assets.

Amounts owed by Joint Venture veterinary practices

These represent funding for new practices, trading balances and operating loans owed by Joint Venture veterinary practices to the Group. The balances above are shown net of provisions held for operating loans of £8,308,000 (2017: £3,336,000). The basis for this provision is discussed in note 1.23. A 10% increase in the estimate of loss in the operating loans would lead to an increase in the required provision for operating loans of £3.9m. Whilst these loans are repayable on demand, they are not expected to be recovered in full for a number of years, based on the projected cashflow forecast on a practice by practice basis.

Further details are provided in note 26.

Accrued income

Accrued income represents fees to Joint Venture veterinary practices, referral centre fees and income from suppliers that has not yet been invoiced.

16 Cash and cash equivalents

	Group		Company	
	At 29 March 2018 £000	At 30 March 2017 £000	At 29 March 2018 £000	At 30 March 2017 £000
Cash and cash equivalents	59,824	56,345	1,717	1

17 Other interest-bearing loans and borrowings

	Group		Company	
	At 29 March 2018 £000	At 30 March 2017 £000	At 29 March 2018 £000	At 30 March 2017 £000
Non-current liabilities				
Secured bank loans	194,519	209,296	194,519	209,296
Total liabilities				
Secured bank loans	194,519	209,296	194,519	209,296

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value at	Carrying amount at	Face value at	Carrying amount at
				29 March 2018 £000	29 March 2018 £000	30 March 2017 £000	30 March 2017 £000
Senior Finance Bank Loans	GBP	LIBOR +1.25%	2020	195,000	194,519	210,000	209,296

The Group's Senior Financing Facilities (as amended in April 2015) include a revolving credit facility (RCF) of £260m. The 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 29 March 2018 the Group had a revolving credit facility of £260m with a drawn amount of £195m.

The analysis of repayments on the loans is as follows:

	At 29 March 2018 £000	At 30 March 2017 £000
Within one year or repayable on demand	–	–
Between one and two years	–	–
Between two and five years	195,000	210,000
	195,000	210,000

The combined loans at 29 March 2018 and 30 March 2017 are held by the Company.

Analysis of changes in net debt

	At 30 March 2017 £000	Cash flow £000	Non-cash movement £000	At 29 March 2018 £000
Cash and cash equivalents	56,345	3,479	–	59,824
Debt due within one year at face value	–	–	–	–
Debt due after one year at face value	(210,000)	15,000	–	(195,000)
Net debt	(153,655)	18,479	–	(135,176)

18 Trade and other payables

	Group		Company	
	At 29 March 2018 £000	At 30 March 2017 £000	At 29 March 2018 £000	At 30 March 2017 £000
Current				
Trade payables	106,709	98,680	–	–
Accruals	46,638	44,115	305	275
Amounts owed to Joint Venture veterinary practices	2,951	1,427	–	–
Deferred income	4,063	4,186	–	–
Other payables including tax & social security	13,495	17,479	–	–
Amounts owed to Group undertakings	–	–	268,706	207,612
	173,856	165,887	269,011	207,887
Non-current				
Deferred income	36,200	35,028	–	–

The non-current payables represent deferred income in respect of store leases where incentives are spread over the life of the lease.

Notes (forming part of the financial statements) continued

19 Provisions

	Dilapidation provision £000	Closed stores provision £000	Total £000
Balance at 30 March 2017	643	1,243	1,886
Provisions made during the period	87	1,234	1,321
Provisions used during the period	(63)	(109)	(172)
Balance at 29 March 2018	667	2,368	3,035

	At 29 March 2018 £000	At 30 March 2017 £000
Current	835	492
Non-current	2,200	1,394
	3,035	1,886

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 one and ten 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 £136,000 (30 March 2017: £230,000). The provision is discounted at a rate of 8%, being the estimated average implicit lease rate. A decrease in this rate of 100 bps would increase the provision by £64,000 (30 March 2017: £33,000).

The Company did not hold any provisions at 29 March 2018 or 30 March 2017.

20 Capital and reserves

Share capital Group

	Share capital Number	Share capital £000
At 31 March 2016	500,000,000	5,000
At 30 March 2017	500,000,000	5,000
At 29 March 2018	500,000,000	5,000

Company

	Share capital 29 March 2018 £000
At beginning of period	5,000
On issue at period end	5,000

	Share capital 30 March 2017 £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.

Retained earnings

Included within the Group is Pets at Home Employee Benefit Trust (EBT). The EBT purchases shares to fund the share option schemes. As at 29 March 2018, the Trust held 3,271,102 Ordinary Shares (30 March 2017: 1,319,091) with a cost of £3,587,000 (30 March 2017: £13,260). The market value of these shares as at 29 March 2018 was 169.00 pence per share (30 March 2017: 180.90).

Other comprehensive income

29 March 2018

	Translation reserve £000	Cash flow hedging reserve £000	Total other comprehensive income £000
Other comprehensive income	71	–	71
Cash flow hedges – reclassified to profit and loss	–	(473)	(473)
Effective portion of changes in fair value of cash flow hedges	–	(1,695)	(1,695)
Deferred tax on changes in fair value of cash flow hedges	–	412	412
Total other comprehensive income	71	(1,756)	(1,685)

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

21 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 principles, 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

21 Financial instruments (continued)

Market risk

(i) Foreign currency risk

The Group sources a significant level of purchases in foreign currency, in excess of US\$50m 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 29 March 2018, the Group's policy is to hedge up to 95% of the next 12 months and additionally up to 50% of the following six months out to 18 months forecast foreign exchange transactions, 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:

29 March 2018

	Euro £000	US Dollar £000	HKD £000	Total £000
Cash and cash equivalents	160	1,347	2	1,509
Trade payables	(994)	(7,247)	–	(8,241)
Forward exchange contracts	(24)	(2,153)	–	(2,177)
Balance sheet exposure	(858)	(8,053)	2	(8,909)

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)	(2,915)	2	(3,452)

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	
	29 March 2018 £000	30 March 2017 £000	29 March 2018 £000	30 March 2017 £000
US Dollar	108	(72)	295	218
Euro	1	(2)	42	28

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 29 March 2018 the Group had a senior facility with a face value totalling £195.0m. The Group's borrowings as at 29 March 2018 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 17.

The Pets at Home Group's policy with regard to interest rate risk is to hedge the appropriate level of borrowings by entering into fixed rate agreements. The Group has a fixed rate interest rate swap agreements over a total of £142.1m of the senior facility borrowings at the balance sheet date at a fixed rate of 0.183%, which expires on 30 March 2019. The hedge is 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 29 March 2018 £000	Book value At 30 March 2017 £000	Book value At 29 March 2018 £000	Book value At 30 March 2017 £000
Fixed rate instruments				
Financial liabilities	142,100	152,096	142,100	152,096
Variable rate instruments				
Financial liabilities	52,419	57,200	52,419	57,200
Total financial liabilities	194,519	209,296	194,519	209,296

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 29 March 2018 £000	At 30 March 2017 £000
Equity		
Increase	711	761
Decrease	(711)	(761)
Profit or loss		
Increase	262	286
Decrease	(262)	(286)

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 25. The performance of the veterinary practice companies is reviewed on an ongoing basis.

Exposure to credit risk

The Group's maximum exposure to credit risk, being the carrying amount of financial assets, is summarised in the table within the fair values section overleaf.

Notes (forming part of the financial statements) continued

21 Financial instruments (continued)

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

29 March 2018

	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 17)	194,519	195,000	–	–	195,000	–
Trade payables (note 18)	106,709	106,709	106,709	–	–	–
Finance lease liabilities	77	77	59	18	–	–
Other financial liabilities	9,675	10,038	1,000	–	9,038	–
Derivative financial liabilities						
Forward exchange contracts used for hedging:						
Outflow (note 14)	2,333	2,333	2,333	–	–	–
	313,313	314,157	110,101	18	204,038	–

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 17)	209,296	210,000	–	–	210,000	–
Trade payables (note 18)	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						
Forward exchange contracts used for hedging:						
Outflow (note 14)	278	278	278	–	–	–
Interest rate swaps used for hedging:						
Outflow (note 14)	1,112	1,112	–	1,112	–	–
Fuel forward contracts:						
Outflow (note 14)	–	–	–	–	–	–
	317,509	318,213	99,077	1,231	217,905	–

Company**29 March 2018**

	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 17)	194,519	195,000	–	–	195,000	–
	194,519	195,000	–	–	195,000	–

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 17)	209,296	210,000	–	–	210,000	–
Derivative financial liabilities						
Interest rate swaps (note 14)	1,112	1,112	–	1,112	–	–
	210,408	211,112	–	1,112	210,000	–

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**29 March 2018**

	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Interest rate swaps:						
Assets (note 14)	926	926	926	–	–	–
Forward exchange contracts:						
Assets (note 14)	156	156	156	–	–	–
Liabilities (note 14)	(2,333)	(2,333)	(2,333)	–	–	–
Fuel forward contracts:						
Assets (note 14)	78	78	78	–	–	–
	(1,173)	(1,173)	(1,173)	–	–	–

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
Interest rate swaps:						
Assets (note 14)	521	521	–	521	–	–
Liabilities (note 14)	(1,112)	(1,112)	(1,112)	–	–	–
Forward exchange contracts:						
Assets (note 14)	1,757	1,757	1,757	–	–	–
Liabilities (note 14)	(278)	(278)	(278)	–	–	–
Fuel forward contracts:						
Assets (note 14)	106	106	106	–	–	–
	994	994	473	521	–	–

Notes (forming part of the financial statements) continued

21 Financial instruments (continued)

Company

29 March 2018

	Carrying amount £000	Expected cash flows £000	1 year or less £000	1 to <2 years £000	2 to <5 years £000	5 years and over £000
Interest rate swaps:						
Assets (note 14)	926	926	926	–	–	–
	926	926	926	–	–	–

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
Interest rate swaps:						
Assets (note 14)	521	521	–	521	–	–
Liabilities (note 14)	(1,112)	(1,112)	(1,112)	–	–	–
	(591)	(591)	(1,112)	521	–	–

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 are 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.

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:

	29 March 2018		30 March 2017	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial assets held for trading (including all derivatives)				
Forward exchange contracts (note 14)	156	156	1,757	1,757
Interest rate swaps (note 14)	926	926	521	521
Fuel forward contracts (note 14)	78	78	106	106
Available for sale financial assets				
Investment in non-equity share capital and loans (note 14)	14,709	14,709	12,563	12,563
Total financial assets at fair value through profit or loss	15,869	15,869	14,947	14,947
Loans and receivables				
Cash and cash equivalents (note 16)	59,824	59,824	56,345	56,345
Trade and other receivables (note 15)	53,560	45,064	45,865	45,865
Loans to related parties (note 14)	4,539	4,539	3,416	3,416
Total loans and receivables	117,923	109,427	105,626	105,626
Total financial assets	133,792	125,296	120,573	120,573
Financial liabilities (including all derivatives)				
Interest rate swaps (note 14)	–	–	(1,112)	(1,112)
Forward exchange contracts (note 14)	(2,333)	(2,333)	(278)	(278)
Fuel forward contracts (note 14)	–	–	–	–
Finance lease liabilities	(77)	(77)	(258)	(258)
Other financial liabilities	(9,675)	(9,675)	(7,884)	(7,884)
Total financial liabilities at fair value through profit or loss	(12,085)	(12,085)	(9,532)	(9,532)
Financial liabilities measured at amortised cost				
Other interest-bearing loans and borrowings (note 17)	(194,519)	(194,519)	(209,296)	(209,296)
Trade payables (note 18)	(106,709)	(106,709)	(98,680)	(98,680)
Total financial liabilities measured at amortised cost	(301,228)	(301,228)	(307,976)	(307,976)
Total financial liabilities	(313,313)	(313,313)	(317,508)	(317,508)
Total financial instruments	(179,521)	(188,017)	(196,935)	(196,935)

Notes (forming part of the financial statements) continued

21 Financial instruments (continued)

Company

	29 March 2018		30 March 2017	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Loans and receivables				
Cash and cash equivalents (note 16)	1,717	1,717	1	1
Trade and other receivables (note 15)	576,795	576,795	576,795	576,795
Total loans and receivables	578,512	578,512	576,796	576,796
Total financial assets	578,512	578,512	576,796	576,796
Financial liabilities held for trading (including all derivatives)				
Interest rate swaps (note 14)	–	–	(591)	(591)
Total financial assets at fair value through profit or loss	–	–	(591)	(591)
Financial liabilities measured at amortised cost				
Other interest-bearing loans and borrowings (note 17)	(194,519)	(194,519)	(209,296)	(209,296)
Trade and other payables (note 18)	(268,706)	(268,706)	(207,612)	(207,612)
	(463,225)	(463,225)	(416,908)	(416,908)
Total financial liabilities	(463,225)	(463,225)	(417,499)	(417,499)
Total financial instruments	115,287	115,287	159,297	159,297

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

29 March 2018

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Available for sale financial assets				
Investments	–	–	14,709	14,709
Derivative financial assets				
Interest rate swaps	–	926	–	926
Fuel forward contracts	–	78	–	78
Forward rate contracts	–	–	–	–
Derivative financial liabilities				
Interest rate swaps	–	–	–	–
Forward rate contracts	–	(2,333)	–	(2,333)
Other financial liabilities				
	–	–	(9,675)	(9,675)

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)

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 14. 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 under an agreed valuation model, 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 30 March 2017	(7,885)	12,563	4,678
Additions	–	2,146	2,146
Charged to Non-underlying	(1,625)	–	(1,625)
Unwinding of discount	(165)	–	(165)
Balance at 29 March 2018	(9,675)	14,709	5,034

	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	(2,472)	–	(2,472)
Balance at 30 March 2017	(7,885)	12,563	4,678

Company

The Company had no derivative financial liabilities as at 29 March 2018

30 March 2017

	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Derivative financial liabilities				
Interest rate swaps	–	(591)	–	(591)

21 Financial instruments (continued)

Capital management

The Group's objectives when managing capital, which is deemed to be total equity plus total debt, are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, through the optimisation of the debt and equity balance, and to maintain a strong credit rating and headroom on financial covenants. The Group manages its capital structure and makes appropriate decisions in light of the current economic conditions and strategic objectives of the Group.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Group.

The funding requirements of the Group are met by the utilisation of external borrowings together with available cash, as detailed in note 17.

A key objective of the Group's capital management is to maintain compliance with the covenants set out in the Senior 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.

22 Share based payments

At 29 March 2018, the Group has five 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 pledged Co-Invest Shares with a market value equal to 2.5 times their annual salary. Other senior colleagues who elected to participate in the CIP pledged Co-Invest Shares with a market value equal to a limit specified by the Remuneration Committee, but not exceeding 1 times their annual salary.

(d) Performance, vesting and performance adjustment

The Matching Awards granted on 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.

22 Share based payments (continued)

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 up until 2017 after which no further awards were granted. The awards 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, RSA 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 RSA 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, RSA 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 are granted once a year, 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.

(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 a Non-underlying 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.

22 Share based payments (continued)

5 RSA

On 20 July 2017 the Company adopted the RSA. Awards under the RSA were made on 20 July 2017 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

All colleagues, including the Executive Directors and Senior Executives, are eligible to participate in the RSA, at the discretion of the Remuneration Committee.

(b) Grant of awards

Awards under the RSA 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 RSA 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 RSA 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 RSA and any other discretionary share option scheme of the Company (including the CIP, PSP 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 RSA and any other employee share scheme operated by the Company (including the CIP, CSOP, SAYE and PSP 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 RSA, PSP and the CSOP in any financial year shall not exceed 150% of their annual salary for that year. 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.

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	2018	2017	2016	2015
At grant date							
Share price	£2.59	£2.75	£2.31	£1.97	£2.46	£2.88	£1.75
Exercise price	£2.59	£2.75	£2.31	£1.57	£1.97	£2.30	£1.40
Expected volatility	32%	32%	37%	32%	32%	30%	30%
Option life (years)	10	10	10	3	3	3	3
Expected dividend yield	2.00	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Risk free interest rate	0.50%	2.25%	2.25%	0.20%	0.20%	1.07%	1.07%
Weighted average fair value of options granted	£0.65	£0.89	£0.75	£0.61	£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	RSA 000	Total 000
Outstanding at start of year	1,649	3,406	6,331	6,880	–	18,266
Granted	–	–	–	2,901	3,209	6,110
Forfeited	(736)	(933)	(1,016)	(4,370)	(475)	(7,530)
Exercised	(86)	(25)	(27)	(1,484)	–	(1,622)
Lapsed	–	–	–	–	–	–
Outstanding at end of year	827	2,448	5,288	3,927	2,734	15,224
Weighted average exercise price	£0.00	£0.00	£2.58	£1.65	£0.00	

The Group income statement charge recognised in respect of share based payments for the current period is £3,936,000 (2017: £2,437,000).

23 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings		Other	
	At 29 March 2018 £000	At 30 March 2017 £000	At 29 March 2018 £000	At 30 March 2017 £000
Less than one year	77,808	76,738	3,380	3,607
Between one and five years	281,088	284,115	5,883	4,881
More than five years	228,955	244,079	795	263
	587,851	604,932	10,058	8,751

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.

23 Operating leases (continued)

During the period ended 29 March 2018 £80,309,000 was recognised as an expense in the income statement in respect of operating leases (period ended 30 March 2017: £77,486,000).

The Company does not have any operating leases.

Sublease income

The Group has a number of leases on properties from which it no longer trades. These properties are often sublet to third parties at contracted rates. The income is recognised within selling and distribution expenses in line with the rents payable as set out in the rental agreements. See note 3.

	At 29 March 2018 £000	At 30 March 2017 £000
Less than one year	877	877
Between one and five years	2,879	3,405
More than five years	216	563
	3,972	4,845

24 Commitments

Capital commitments

At 29 March 2018, the Group is committed to incur capital expenditure of £3,561,000 (30 March 2017: £1,387,000). Capital commitments predominantly relate to the cost of investment in new IT systems and to fit out new Pets at Home stores.

At 29 March 2018, the Group has committed to provide funding to related party Joint Venture companies of £360,000 (30 March 2017: £615,000) which remains undrawn.

At 29 March 2018, the Group had a commitment to increase the loan funding to Joint Venture companies of £870,000 (30 March 2017: £1,080,000), this increase in funding is written into the Joint Venture agreements and become payable when certain criteria are met.

25 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 £9,490,000 (30 March 2017: £9,850,000).

The Group is also a guarantor for the lease for veterinary practices that are not located within Pets at Home stores.

26 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 24.

During the period, the Group 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 £9,490,000 (30 March 2017: £9,850,000).

The transactions entered into during the period and the balances outstanding at the end of the period are as follows:

	29 March 2018 £000	30 March 2017 £000
Transactions		
• Fees for services provided to veterinary practices ¹	53,112	45,754
• Rental and other occupancy charges to veterinary practices	11,653	10,686
Total income from veterinary practices	64,765	56,440
Balances		
Included within Trade and other receivables (note 15):		
• Funding for new practices	1,595	2,435
• Trading balances	–	1,998
• Operating loans		
• Gross value of operating loans	38,011	23,176
• Provision held for operating loans	(8,308)	(3,336)
• Net operating loans	29,703	19,840
Included within Other financial assets and liabilities (note 14):		
• Loans to Joint Venture practices – initial set up loans	14,194	12,054
• Loans to other related parties (non-current) – other loans	4,539	3,416
• Loans to other related parties (current)	–	–
Included within Trade and other payables (note 18):		
• Trading balances	(2,951)	(1,427)
Total amounts receivable from veterinary practices (before provisions)	55,388	41,652

¹ The prior year fees for services provided to veterinary practices has been restated to reflect only income directly attributed to services provided to Joint Venture veterinary practices.

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 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 do not attract interest and are repayable on demand, although they are expected to be repaid over a number of years based on the projected cashflow forecast on a practice by practice basis, some over an extended period of years. The balances above are shown net of provisions held for operating loans of £8,308,000 (2017: 3,336,000). The basis for this provision is discussed in note 1.23. In the 52 week period ended 29 March 2018, the value of balances written off to the income statement amounted to £701,000 (period ended 30 March 2017: £1,221,000).

At 29 March 2018, the Group has committed to provide funding to related party Joint Venture companies of £360,000 (30 March 2017: £615,000) which remains undrawn.

At 29 March 2018, the Group had a commitment to increase the loan funding to Joint Venture companies of £870,000 (30 March 2017: £1,080,000); this increase in funding is written into the Joint Venture agreements and becomes payable when certain criteria are met.

The Group is also a guarantor for the lease for veterinary practices that are not located within Pets at Home stores.

Key management personnel

Details of remuneration paid to key management personnel are set out in note 4.

Notes (forming part of the financial statements) continued

27 Investments in subsidiaries

Company

	Investments in subsidiaries £000
At 29 March 2018 and 30 March 2017	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 29 March 2018 %	At 30 March 2017 %
Dick White Referrals Limited	Indirect	United Kingdom	Ordinary	76	76
Eye-Vet Limited	Indirect	United Kingdom	Ordinary	90	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
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
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	50	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
Vets4Pets Veterinary Group Limited	Indirect	United Kingdom	Ordinary	100	100
Sombrero Holdings Limited	Indirect	United Kingdom	Ordinary	100	0
Sombrero Intl Holdings Limited	Indirect	United Kingdom	Ordinary	100	0
Caledonian Veterinary Specialists Limited	Indirect	United Kingdom	Ordinary	100	0

Company	Holding	Country of incorporation	Class of shares held	At 29 March 2018 %	At 30 March 2017 %
Addlestone Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Barnstaple Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Bedlington Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Bishop Auckland Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Blackburn Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Bodmin Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Bolton Central Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Bracknell Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Bradford Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Bridlington Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Bristol Longwell Green Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Bromborough Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Caledonian Veterinary Specialists Limited	Indirect	United Kingdom	Ordinary	100	0
Cambridge Perne Road Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Canvey Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Chorley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Coalville Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Colchester Layer Road Vets4Pets 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 (Slough) Limited	Indirect	United Kingdom	Ordinary	100	50
Coventry Canley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Craigeith Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Crosby Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Cross Hands Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Croydon Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	50
Denbigh Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Dundee Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
East Grinstead Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Ellesmere Port Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Falkirk Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Feltham Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Gillingham Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Great Yarmouth Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Havant Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Hemsworth Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Hexham Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Hucknall Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Inverness Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Kingswood Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Leamington Spa Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Leven Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Lichfield Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Littleover Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Long Eaton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Loughton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Melton Mowbray Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Mexborough Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Newark Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Newbury Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	50
Newhaven Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0

Notes (forming part of the financial statements) continued

27 Investments in subsidiaries (continued)

Company	Holding	Country of incorporation	Class of shares held	At 29 March 2018 %	At 30 March 2017 %
Norwich Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Nottingham Castle Marina Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Poynton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
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
Selby Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Sheffield Heeley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Stocksbridge Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Stoke-On-Trent Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Street Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Teesside Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Telford Madeley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
The Heart Of Dulwich Veterinary Care Limited	Indirect	United Kingdom	Ordinary	100	0
Tiverton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Totton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Uttoxeter Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	0
Warminster Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Warrington Winnick Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
West Drayton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	100
Yeovil Vets4Pets Limited	Indirect	United Kingdom	Ordinary	100	50

The Group holds an indirect interest in the share capital of the following companies:

Company	Holding	Country of incorporation	Class of shares held	At 29 March 2018 %	At 30 March 2017 %
Aberdeen Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Abingdon Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Abtw Limited	Indirect	United Kingdom	Ordinary	50	50
Accrington Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Airdrie Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Alsager 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
Amesbury Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Andover Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bagshot Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
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
Bath Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
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	50
Bicester Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Biggleswade Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bishops Stortford Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50

Company	Holding	Country of incorporation	Class of shares held	At 29 March 2018 %	At 30 March 2017 %
Bishopston Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bitterne Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	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	50
Bonnyrigg Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	0
Borehamwood Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bourne Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bramley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Brighouse Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bristol Emerson Green Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bristol Imperial Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	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
Burscough Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Burton-On-Trent Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Bury St Edmunds Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Bury Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	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	50
Cardiff Ely Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Cardiff Road Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Carlisle Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Carmarthen Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
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 Caldly Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
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
Clowne Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
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

Notes (forming part of the financial statements) continued

27 Investments in subsidiaries (continued)

Company	Holding	Country of incorporation	Class of shares held	At 29 March 2018 %	At 30 March 2017 %
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
Companion Care (Chingford) Limited	Indirect	United Kingdom	Ordinary	50	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

Company	Holding	Country of incorporation	Class of shares held	At 29 March 2018 %	At 30 March 2017 %
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 (Ilford) Limited	Indirect	United Kingdom	Ordinary	50	100
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
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	50
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

Notes (forming part of the financial statements) continued

27 Investments in subsidiaries (continued)

Company	Holding	Country of incorporation	Class of shares held	At 29 March 2018 %	At 30 March 2017 %
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 (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 (Thamesmead) Limited	Indirect	United Kingdom	Ordinary	98	100
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 (Winnersh) 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
Craigavon Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Crescent Link Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Crewe 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
Daventry Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
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	50
Drumchapel Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Dudley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50

Company	Holding	Country of incorporation	Class of shares held	At 29 March 2018 %	At 30 March 2017 %
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
Eccleshill Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Epsom Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	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	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
Hamilton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
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
Haverfordwest Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Haverhill Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Hayling Island Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Hedge End Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	0
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	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
Ilkeston Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Inverurie Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	0
Ipswich Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Irvine Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Kendal Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Kettering Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	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	50

Notes (forming part of the financial statements) continued

27 Investments in subsidiaries (continued)

Company	Holding	Country of incorporation	Class of shares held	At 29 March 2018 %	At 30 March 2017 %
Lancaster Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Larne Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	0
Launceston Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Leeds Birstall Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Leeds Colton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	0
Leeds Kirkstall Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Leeds Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Leicester St Georges Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Leigh Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Leigh-On-Sea Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Letchworth Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Leyland Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	0
Lincoln South Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Linlithgow Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Lisburn Longstone Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Liverpool OS Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	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	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	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
Malvern Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Mansfield Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Mapperley Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Market Harborough Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
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	50
Middleton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Millhouses Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Monmouth Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	0
Morpeth Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Muskelburgh Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
New Milton Vets4pets Limited	Indirect	United Kingdom	Ordinary	50	50
Newcastle-Upon-Tyne Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Newmarket Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Newport Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	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
Newtownards Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
North Tyneside Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Northallerton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	0
Northampton Riverside Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50

Company	Holding	Country of incorporation	Class of shares held	At 29 March 2018 %	At 30 March 2017 %
Northampton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Northwich Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	0
Nottingham Chilwell Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Nottingham Netherfield Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Nuneaton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	0
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
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	50
Poole Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Portishead Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	0
Portsmouth Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Prenton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Prescot Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Preston Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Prestwich Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
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	50
Rayleigh Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Redditch Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Rhyl Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
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	50
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	50
Shrewsbury Meole Brace Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	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	50
Solihull Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Somercotes Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
South Shields Quays Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
South Shields Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	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

Notes (forming part of the financial statements) continued

27 Investments in subsidiaries (continued)

Company	Holding	Country of incorporation	Class of shares held	At 29 March 2018 %	At 30 March 2017 %
Southport Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	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	50
Stockton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Stourbridge Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Sudbury Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Sunderland South Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	100
Sunderland Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Sutton Coldfield Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Sutton In Ashfield Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Swindon Bridgemead Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Swinton Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Sydenham Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Thamesmead Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Thurrock Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Tilehurst Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	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	50
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
Washington Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	50
Waterlooville Vets4Pets Limited	Indirect	United Kingdom	Ordinary	50	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	50
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	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	50
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
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.

APM	Definition	Reconciliation			
Cash EBITDA	Underlying EBITDA (see below) adjusted for share based payment charge.	Cash EBITDA (£m)	FY17	FY18	Note
		Underlying EBITDA	130.5	123.3	
		Share based payment charge	2.4	3.9	3
		Cash EBITDA	132.9	127.2	
CROIC	Cash return on invested capital, represents cash returns divided by the average of gross capital (GCI) invested for the last 12 months. Cash returns represent underlying 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	FY17	FY18	Note
		Cash returns:			
		Underlying operating profit	100.9	88.8	
		Property rental costs	73.0	75.9	3
		Share based payment charges	2.4	3.9	3
			176.4	168.6	
		Effective tax rate	20%	20%	
		Tax charge on above	(35.3)	(33.7)	
			141.1	134.9	
		Depreciation and amortisation	29.6	34.5	3
		Cash returns	170.7	169.4	
		Gross capital invested (GCI):			
		Gross property, plant and equipment	234.9	263.1	10
		Intangibles	1,005.5	1,014.4	11
		Less KKR goodwill	(906.5)	(906.5)	
		Investments	12.6	14.7	
Net working capital	(87.4)	(89.8)	see definition		
Capitalised operating leases	584.0	607.4	8x		
GCI	843.1	903.3			
Average	827.6	873.2			
Cash returns/average GCI	20.6%	19.4%			
Underlying EBITDA	Earnings before interest, tax, depreciation and amortisation before the effect of Non-underlying items in the period. This is a key management incentive metric.	Underlying EBITDA (£m)	FY17	FY18	Note
		Statutory operating profit (audited)	99.9	83.9	
		Depreciation and amortisation	29.6	34.5	3
		Non-underlying items	1.0	4.9	3
		Underlying EBITDA	130.5	123.3	

Glossary – Alternative Performance Measures continued

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, debt issue costs, purchase of own shares and finance lease obligations, and is stated before cash flows for Non-underlying costs.	<table border="1"> <thead> <tr> <th>Free cash flow (£m)</th> <th>FY17</th> <th>FY18</th> <th>Note</th> </tr> </thead> <tbody> <tr> <td>Free cash flow</td> <td>64.6</td> <td>55.8</td> <td></td> </tr> <tr> <td>Dividends</td> <td>(39.9)</td> <td>(37.3)</td> <td>CFS</td> </tr> <tr> <td>Acquisition of subsidiary</td> <td>(14.8)</td> <td>–</td> <td>CFS</td> </tr> <tr> <td>Disposal of subsidiary</td> <td>0.7</td> <td>–</td> <td>CFS</td> </tr> <tr> <td>Loans issued</td> <td>(2.2)</td> <td>–</td> <td>CFS</td> </tr> <tr> <td>Proceeds from new loan</td> <td>8.0</td> <td>–</td> <td>CFS</td> </tr> <tr> <td>Repayment of borrowings</td> <td>–</td> <td>(15.0)</td> <td>CFS</td> </tr> <tr> <td>Net increase in cash</td> <td>16.3</td> <td>3.5</td> <td></td> </tr> </tbody> </table>	Free cash flow (£m)	FY17	FY18	Note	Free cash flow	64.6	55.8		Dividends	(39.9)	(37.3)	CFS	Acquisition of subsidiary	(14.8)	–	CFS	Disposal of subsidiary	0.7	–	CFS	Loans issued	(2.2)	–	CFS	Proceeds from new loan	8.0	–	CFS	Repayment of borrowings	–	(15.0)	CFS	Net increase in cash	16.3	3.5	
		Free cash flow (£m)	FY17	FY18	Note																																	
Free cash flow	64.6	55.8																																				
Dividends	(39.9)	(37.3)	CFS																																			
Acquisition of subsidiary	(14.8)	–	CFS																																			
Disposal of subsidiary	0.7	–	CFS																																			
Loans issued	(2.2)	–	CFS																																			
Proceeds from new loan	8.0	–	CFS																																			
Repayment of borrowings	–	(15.0)	CFS																																			
Net increase in cash	16.3	3.5																																				
CFS = Consolidated Statement of Cash Flows																																						
Gross profit margin (%)	Gross profit divided by revenue expressed as a percentage.	Information provided in the consolidated income statement on page 108.																																				
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 17.																																				
Underlying basic EPS	Underlying 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.	<table border="1"> <thead> <tr> <th>Underlying basic EPS (p)</th> <th>FY17</th> <th>FY18</th> <th>Note</th> </tr> </thead> <tbody> <tr> <td>Underlying basic EPS</td> <td>15.3</td> <td>13.5</td> <td></td> </tr> <tr> <td>Non-underlying items</td> <td>(0.2)</td> <td>(0.9)</td> <td>5</td> </tr> <tr> <td>Basic earnings per share</td> <td>15.1</td> <td>12.6</td> <td></td> </tr> </tbody> </table>	Underlying basic EPS (p)	FY17	FY18	Note	Underlying basic EPS	15.3	13.5		Non-underlying items	(0.2)	(0.9)	5	Basic earnings per share	15.1	12.6																					
		Underlying basic EPS (p)	FY17	FY18	Note																																	
Underlying basic EPS	15.3	13.5																																				
Non-underlying items	(0.2)	(0.9)	5																																			
Basic earnings per share	15.1	12.6																																				
Underlying operating profit	Underlying 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.	<table border="1"> <thead> <tr> <th>Underlying operating profit (£m)</th> <th>FY17</th> <th>FY18</th> <th>Note</th> </tr> </thead> <tbody> <tr> <td>Underlying operating profit</td> <td>100.9</td> <td>88.8</td> <td></td> </tr> <tr> <td>Non-underlying items</td> <td>(1.0)</td> <td>(4.9)</td> <td>3</td> </tr> <tr> <td>Operating profit</td> <td>99.9</td> <td>83.9</td> <td></td> </tr> </tbody> </table>	Underlying operating profit (£m)	FY17	FY18	Note	Underlying operating profit	100.9	88.8		Non-underlying items	(1.0)	(4.9)	3	Operating profit	99.9	83.9																					
		Underlying operating profit (£m)	FY17	FY18	Note																																	
Underlying operating profit	100.9	88.8																																				
Non-underlying items	(1.0)	(4.9)	3																																			
Operating profit	99.9	83.9																																				
Underlying profit before tax	Underlying 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.	<table border="1"> <thead> <tr> <th>Underlying PBT (£m)</th> <th>FY17</th> <th>FY18</th> <th>Note</th> </tr> </thead> <tbody> <tr> <td>Underlying PBT</td> <td>96.4</td> <td>84.5</td> <td></td> </tr> <tr> <td>Non-underlying items</td> <td>(1.0)</td> <td>(4.9)</td> <td>3</td> </tr> <tr> <td>PBT</td> <td>95.4</td> <td>79.6</td> <td></td> </tr> </tbody> </table>	Underlying PBT (£m)	FY17	FY18	Note	Underlying PBT	96.4	84.5		Non-underlying items	(1.0)	(4.9)	3	PBT	95.4	79.6																					
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APM	Definition	Reconciliation			
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)	FY17	FY18	Note
		Underlying tax expense	(20.0)	(17.0)	
		Non-underlying items	–	0.2	3,8
		Tax expense	(20.0)	(16.8)	
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 excluding Non-underlying items. The change in working capital is a key component of the free cash flow measure of the Group.	Net working capital (£m) movement	FY17	FY18	Note
		Net working capital	(2.3)	(0.4)	
		Being:			
		Increase in trade and other receivables	(8.9)	(6.0)	CFS
		Increase in inventories	(5.0)	(4.1)	CFS
		Increase in trade and other payables	11.5	11.9	CFS
		Excluding movement in payables relating to Non-underlying items		(2.4)	
		Decrease in provisions	0.1	1.1	CFS
		Excluding movement in provision relating to Non-underlying items		(0.9)	
		Net movement in payables	11.6	9.7	
		Net working capital	(2.3)	(0.4)	
		CFS = Consolidated Statement of Cash Flows			
		Net working capital	FY17	FY18	Note
		Receivables	69.7	74.8	15
		Inventory	56.4	60.5	12
		Trade and other receivables (incl Corporation Tax)	(211.6)	(222.1)	18
		Provisions	(0.5)	(0.8)	19
		Non-current provisions	(1.4)	(2.2)	19
		Net working capital	(87.4)	(89.8)	
Omni-channel revenue	Revenue net of discounts and VAT from core online, sales, subscriptions and order to store.	(£m)	FY17	FY18	Note
		Omnichannel revenue	51.4	29.4	
Underlying EBIT	Earnings before interest and tax agreed to operating profit relating to underlying trading.	(£m)	FY17	FY18	Note
		Operating profit relating to Underlying trading (EBIT)	100.9	88.8	

Advisors and contacts

Registered Office

Pets at Home Group Plc
Epsom Avenue
Stanley Green Trading Estate
Handforth
Cheshire
SK9 3RN
United Kingdom

Registered Number

8885072

Investor Relations

investors.petsathome.com
investorrelations@petsathome.co.uk
+44 (0)161 486 6688

Corporate Brokers

Bank of America Merrill Lynch

2 King Edward Street
London
EC1A 1HQ

Numis Securities Limited

The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Legal Advisors

Simpson Thacher & Bartlett LLP

CityPoint
One Ropemaker Street
London
EC2Y 9HU

Auditor

KPMG

St James Square
Manchester
M2 6DS

Registrar

Computershare Investor Services PLC

The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ



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Telephone: 020 7403 4099
www.sampsonmay.com



Pets at Home Group Plc

Epsom Avenue
Stanley Green Trading Estate
Handforth
Cheshire
SK9 3RN

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