

Chief Financial Officer's review

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



Ian Kellett
Chief Financial Officer

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

Group revenue

£729.1m

↑ 9.6%

(2014: £665.4m)

Underlying EBITDA

£121.3m

↑ 9.6%

(2014: £110.7m)

Sales and revenue

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

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

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

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

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

Gross margin

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

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

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

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

* Market data sourced from OC&C Strategy Consultants.

Chief Financial Officer's review

continued

Operating costs

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

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

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

Underlying EBITDA

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

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

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

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

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

Finance expense

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

Taxation, trading profit & EPS

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

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

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

Working capital

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

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

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

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

Borrowings and net debt

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

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

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

Capital expenditure

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

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

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

Cash flows

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

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

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

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

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

Dividend

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

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



Ian Kellett

Chief Financial Officer

3 June 2015

Operating review

Merchandise

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

Food

Advanced Nutrition
Grocery food
Treats
Other food

Accessories

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

Our Merchandise brands

Merchandise revenue

£666.1m
+8.3%



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

Food

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

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

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

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

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

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

Accessories

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

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

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

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

Innovation and exclusivity

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

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

Strategy in action

Own brands and private labels

43%

of store Merchandise revenues

Private labels



Own brands



Operating review **continued**

Services

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

Services & Other

Vet practices
Grooming salons
Insurance
Pets

Our Services brands**Services revenue**

£63.0m
+25.2%



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

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

Veterinary practices

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

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

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

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

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

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

Grooming salons

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

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

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

Pet insurance

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

Strategy in action

VIP club is growing pet services

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

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

How do we encourage VIPs to use pet services?

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



Risk management

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



Risk management responsibilities are allocated as follows:



Risks and uncertainties

Key risk	Description and impact	Mitigation
Brand and reputation	<p>The Group recognises the need to protect its brand and reputation. Failure to do so could result in a loss of trust and confidence by both customers and colleagues.</p>	<p>As a retailer of small pets across a large number of stores, the highest possible welfare standards must be maintained at all times. This also extends into the supply chain with our pet suppliers. We operate a comprehensive pet welfare audit process, utilising internal and external resources, where all stores receive unannounced visits on a regular basis. This helps ensure our high standards are maintained across the chain. With our suppliers, we expect the same high standards of welfare and all suppliers are visited regularly by vets, third party assessors, our field pet team and an animal welfare organisation and assessed against a comprehensive set of welfare and standards criteria.</p> <p>The Group also deals with customers' pets on a daily basis through its veterinary practices, Groom Room salons and Support Adoption centres, which may on occasion result in the death or injury of pets whilst in our care. We have a clear set of operational protocols, with the veterinary practices subject to the professional standards mandated by the Royal College of Veterinary Surgeons. We also have highly visible field operations resource in respect of in-store pets, grooming and veterinary surgeries. Each area has specific resource focused on ensuring the highest pet welfare standards are maintained.</p> <p>We operate a confidential 'Pet Promise Line' where colleagues are able to raise concerns about pet care directly with our Head of Pets.</p> <p>Pet welfare across the Group is overseen by the 'Pets Before Profit' Board committee. This meets regularly to review pet welfare and check that appropriate processes are in place to ensure we maintain our high welfare standards.</p>
Competition	<p>The Group competes with a wide variety of retailers and vet practices, including other pet specialists, supermarkets and discounters.</p> <p>Online competition is also a risk, as large well known internet businesses expand into pet products and the established pet product sites improve and expand their offer.</p> <p>Failure to keep abreast of, and respond to, developments by our competition in the areas of price, range, quality and service could have an adverse impact on the Group's financial performance and impact opportunities for growth.</p>	<p>We continue to evolve our proposition through the addition of Vets and Groomers into our existing store estate whilst continuing to innovate with the regular introduction of new and exclusive products into our food and accessory ranges. As a specialist retailer, the delivery of friendly expertise through our highly engaged/trained store colleagues is a key element of our proposition and we continue to invest to ensure our service standards, as measured by our customers through Fish4opinion, are continually improved. The Pets at Home website was successfully upgraded in January 2014 to ensure that our technology platform is capable of supporting our online strategy. Further upgrades have taken place since then and the site has recently been optimised for mobile usage.</p> <p>The VIP (Very Important Pet) club was launched in November 2012 and has been very successful – attracting 3.2m members at Financial year end. This customer and pet database enables more targeted marketing, which helps drive up basket values and enables us to build a stronger sense of engagement with our customers and their pets.</p> <p>We track and respond to competitor pricing movements where appropriate. Continuous market research is carried out to review the pet market both at home and abroad and understand what our competitors are doing worldwide. This helps identify further changes/initiatives that need to be implemented to help keep Pets at Home ahead of the competition here in the UK and remain a leader in the market.</p>
Stores and services expansion	<p>A key part of the Group's growth strategy is to increase the number of stores and to grow its in-store and standalone veterinary practices and Groom Room grooming salons.</p> <p>If we are unable to deliver the number of sites necessary to fulfil the stores and services expansion laid out in our strategy and maintain our existing numbers of sites, our expected financial performance could be adversely impacted.</p>	<p>To successfully open a new store, we have to, in the first instance, identify an appropriate location with a store size appropriate to the local market and with lease terms that are acceptable. We have the ability, with smaller footprint stores, to utilise mezzanine space to deploy Vet and Groom Room offerings, maximising the opportunity to open the majority of stores with a full service proposition. Any proposed new store investment has to deliver an appropriate financial return after taking into account any financial impact on the existing store portfolio. These processes are equally applicable when the Group looks to open a standalone veterinary practice. However, in common with our in-store veterinary practice opening programme, we also need to recruit a joint venture veterinary partner with the ability to fund their investment into the joint venture and with the ability to provide the personal guarantee to the bank providing the third party financing to the joint venture veterinary practice.</p> <p>The business maintains new store and new joint venture partner pipelines which identify potential locations and potential partners at each stage of our process. This enables the Board to monitor progress in delivering the expected number of new stores, veterinary practices and groom rooms. Certain geographical areas (for example, within the M25) represent a particular risk as suitable space for new stores, Groom Rooms and vet practices is limited and existing sites may be redeveloped. Where existing sites are at risk of redevelopment or where leases may not be renewed, specific measures are taken to maximise the opportunity for the Group including considering purchasing the freehold if appropriate.</p>
Our people	<p>As a specialist retailer, retaining highly trained and engaged colleagues is fundamental to our continued success and the delivery of our future growth.</p> <p>If we do not retain and train our colleagues, it is unlikely that we will be able to deliver the outstanding customer service which is a key element of our proposition.</p> <p>Our growth plans and future success are at risk if we do not recruit and retain high calibre, talented senior management.</p>	<p>We continue to invest in training to broaden the skill base of colleagues across the business. We also closely monitor colleague retention rates and engagement, the latter through our annual 'We're All Ears' engagement survey which is followed up by 'We're All Action' to ensure the business responds appropriately to opportunities for improvement raised by colleagues. We also have a rolling programme of listening groups across the business to ensure we are addressing issues on an ongoing basis and we are participating in the 'Great Place to Work' programme.</p> <p>Our remuneration policy, as set out on pages 86 to 103, is designed to ensure executives of the necessary calibre are attracted and retained and that through our Long-Term Incentive Plans and Company Share Option Plan, colleagues across the business can share in our success. Similarly we continually review the remuneration and benefits packages available to all colleagues to ensure our colleagues are appropriately rewarded for the substantial contribution they make to our growth and success. Succession plans are in place for key roles and these are regularly reviewed by the board and senior management.</p>

Outlook

As we continue to increase our size and scale we must work to ensure pet welfare standards continue to be maintained at a high level across the Group. We will continue to monitor welfare standards closely and take appropriate steps where required to maintain them.

Strategic priorities

- 1 Grow like-for-like
- 2 Grow space and optimise footprint
- 3 Grow margins

Change



Recent competition for physical retail store space has been limited and we do not expect this to change in the near term. There is some increase in the number of pure-play online competitors but this is not expected to have a significant impact on our business. Competitor pricing strategies could become more competitive.

- 1 Grow like-for-like
- 2 Grow space and optimise footprint
- 3 Grow margins



An increased proportion of our new stores will be located on newly developed retail parks and park extensions. Whilst this can create greater timing uncertainties, we do not expect any challenges in relation to the volume of new space available.

- 1 Grow like-for-like
- 2 Grow space and optimise footprint
- 3 Grow margins



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.

- 1 Grow like-for-like
- 2 Grow space and optimise footprint



Risks and uncertainties **continued**

Key risk	Description and impact	Mitigation
Business Systems and Information Security	<p>We are aware of the need to keep core business systems up to date, with the capability to support the Group's growth plans.</p> <p>If our investments in both systems and infrastructure do not keep pace with the growth of the business there may be a consequent limitation to our ability to trade and expand. Also, the scale of system and infrastructure change is currently significant and this may impact on our ability to deliver IT services to the business.</p> <p>We hold a significant amount of customer data and recognise the need to keep this secure. Any information security breach could adversely affect our reputation and the take up of our customer loyalty scheme.</p>	<p>We are in the process of upgrading our business critical systems to industry leading packages. SAP was implemented in the prior financial year and the HANA and BPC modules have recently been added. Our warehouse management system has been replaced with JDA during this year and core enterprise applications such as IBM Websphere have been upgraded. We continue to monitor the level of activity within the Business Systems function and will respond appropriately should IT project or service delivery be at risk.</p> <p>Disaster recovery is a key part of our systems strategy, enabling us to continue to trade in the event of a system outage. Disaster Recovery plans have been reviewed and updated and a schedule for regular testing is now in place. The business also undertakes regular system penetration testing.</p> <p>Our customer loyalty scheme data is held by a specialist third party who has industry standard information security accreditations and is regularly audited. Encryption is used to protect the transmission of customer data. Internal audits of IT security and data protection have recently taken place within Pets at Home, to ensure we have both a focus and improvement plan in respect of processes and control in this area.</p>
Supply Chain/Sourcing	<p>During the financial year, approximately 17% of the Group's Merchandise cost of goods were globally sourced, and as a consequence we are exposed to the risks associated with international trade, such as inflation, changing regulatory frameworks and currency exposure. We are also exposed to the risks associated with the quality and safety of products produced globally on behalf of the Group, many of which are own branded or exclusive private labels.</p> <p>A failure to adequately manage this risk could lead to reputational damage, reflected in a lack of confidence by customers and colleagues in the Group brands.</p> <p>We have two national distribution centres covering the north and south of the UK respectively. A disaster at one of the DCs may result in a significant interruption to the supply of stock for a large number of stores and in the fulfilment of internet orders.</p>	<p>Having Pets at Home colleagues on the ground working collaboratively with suppliers enables us to monitor closely compliance with the Group's Code of Ethics and Business Conduct policy, as well as compliance with our Supplier Quality Manual. In addition, unannounced visits are undertaken by an independent third party to further monitor compliance with Group policies. A review of our sourcing activities in the Far East was carried out by our Internal Audit department during the year and no significant issues were noted.</p> <p>Exposure to foreign currency movements is mitigated through our hedging strategy. More detail on this can be found on page 138.</p> <p>Business continuity plans are in place for the distribution centres and plans are in place to mitigate the impact of any disaster by servicing all stores from a single distribution centre.</p>
Liquidity and Credit Risk	<p>The business requires adequate cash resources to enable it to fund its growth plans through its capital projects and/or an expansion of the Group's working capital requirement.</p> <p>Without adequate cash resources the Group may be unable to deliver its growth plans, with a consequent impact on future financial performance.</p>	<p>The Group's finances are continually monitored in the context of its growth plans. As a result the Group is confident that it has adequate medium-term financing in place, with a broad syndicate of ten banks.</p> <p>The Group's growth plans in respect of joint venture veterinary practices is predicated on the availability of finance for new joint venture veterinary partners to fund both the capital cost and working capital requirement for each new practice opening. The Group has two revolving and two non-revolving facilities in place with major high street lenders which give us confidence that our medium-term growth plans are financed adequately.</p> <p>The Group ensures that all cash surpluses are invested with banks which have credit ratings and investment criteria that meet the requirements set out in the Group Treasury policy, which has been approved by the Board.</p> <p>The Group's key suppliers are exposed to credit risk and as part of the Group's overall risk management programme, the business has identified alternative suppliers and developed contingency plans, particularly in respect of own label and private label food products.</p>
Treasury and Financial Risk	<p>The Group has an exposure to exchange rate risk in respect of the US dollar which is the principal purchase currency for goods sourced from the Far East. The Group also faces risks from changes to interest rates and compliance with taxation legislation.</p> <p>If we do not adequately manage this exposure there could be an impact on the Group's financial performance with a consequential impact on operational and growth plans.</p>	<p>This exposure to FX fluctuation is managed via forward foreign currency contracts which are designated as cash flow hedges.</p> <p>The Group has borrowings with floating interest rates linked to LIBOR, thereby exposing the Group to fluctuations in LIBOR and the consequent impact on interest cost. To manage this risk the Group has interest rate swaps in place which fix the interest rate on a significant proportion of the Group borrowings. Further details can be found on page 134.</p> <p>All hedging activity is undertaken by the Group Treasury function in accordance with the Group Treasury policy which sets out the criteria for counterparties with whom the Group can transact and clearly states that all hedging activities are undertaken in the context of known and forecast cashflows, with speculative transactions specifically prohibited.</p> <p>Dedicated tax resource is in place and specialist tax advisors are retained to assist in this area.</p>
Regulatory and Compliance	<p>Many of the Group's activities are regulated by legislation and standards including, but not limited to, trading, advertising, product quality, health and safety, pet shop licensing, carbon emission reporting, bribery act and data protection. Failure to comply with these may result in financial or reputational damage.</p>	<p>We actively monitor compliance with our existing obligations and we have internal policies and standards to ensure compliance where appropriate. We also provide training for colleagues where required and operate a confidential hotline for colleagues to raise concerns in confidence.</p> <p>Our suppliers commit to adhering to relevant regulations and standards as outlined in our Quality Manual. We carry out a rolling programme of supplier audits to check for compliance with our requirements.</p>
Extreme Weather	<p>Prolonged extreme or unseasonal weather conditions may reduce footfall in our stores, resulting in weak sales, leading to adverse impacts on profit and inventory.</p>	<p>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.</p>

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

Corporate Social Responsibility

Responsible retailing is at the heart of our business



Tessa Green CBE
Independent Non-Executive Director

Introduction

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

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

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

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

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

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

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

Our Pets People

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

Heart of the community

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

Sourcing with integrity

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

Our Pets Environment

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

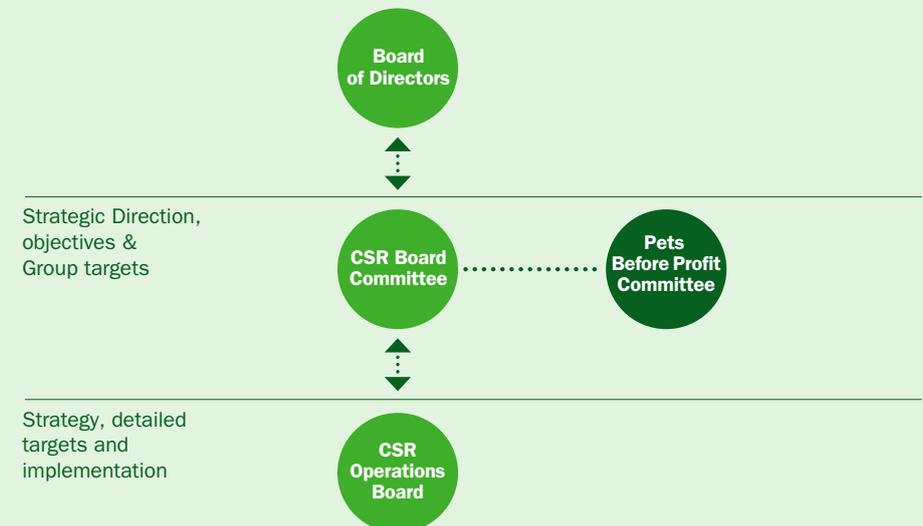
If you would like to see more examples of our CSR strategy in action then please visit our website: investors.petsathome.com

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

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

Yours sincerely,

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



Green Paws

Responsible Retailing people • pet • planet

Our vision

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



Visualising our CSR strategy:

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

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

Corporate Social Responsibility

continued

1 Our Pets People

Our commitment

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

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

Exceptional colleague engagement

94%

colleague engagement

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

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

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

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

World-class training

5,546

colleagues completed Steps 1 and 2

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

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

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

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

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



Training with Pets at Home



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

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

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

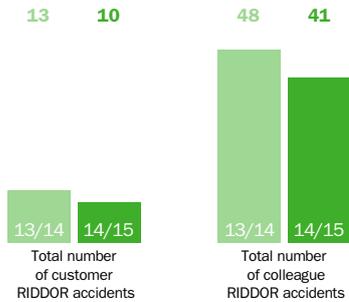
Last year, Step 4 was launched and I decided to go for that one too. Again, I specialised in Aquatics. It has taken me another year to complete it but I was really pleased to hear that I passed it on 8 May 2014.

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

Joel Collict
Pets at Home
Leicester Fosse Park

Corporate Social Responsibility continued

Total RIDDOR* accidents – Stores/Practices

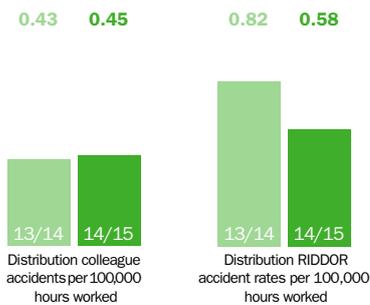


*Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013

Accident rates – Stores/Practices



Distribution accident rates



Keeping Our Pets People healthy and safe

30%

Reduction in colleague accident rate

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

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

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

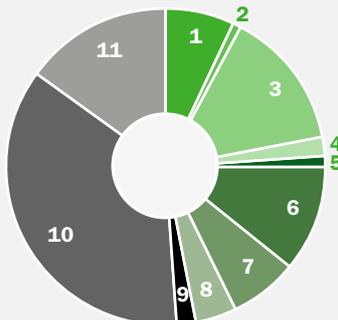
This year for the first time, our two distribution centres applied for the British Safety Council’s International Safety Awards. Both sites received Merits. The award is marked out of 60 points and to gain a merit a score of between 48 and 59 must be achieved. Our distribution centre, in Stoke, achieved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



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

FY 14/15 Accident Causation

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



2 Heart of the Community

Our commitment

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

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

Leading the way on responsible pet ownership

763

Beaver, Cubs and Brownie workshops held in stores

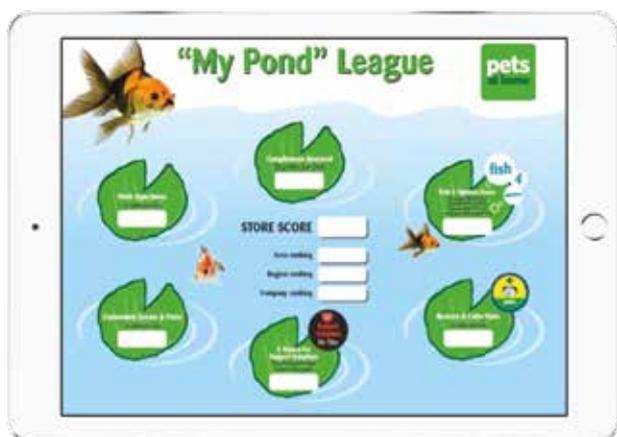
Young people are the pet owners of tomorrow. Their knowledge about pet care and commitment to their pets flows through to their parents today. Educating children about responsible pet ownership is therefore an incredibly important job and one that we take very seriously.

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

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

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

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



Corporate Social Responsibility

continued

Providing work inspiration

1,000
work inspiration placements

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

Rehoming pets in need of new families

68,000
pets rehomed through adoption centres in our stores

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

Providing Lifelines to local and national charities

600
animal charities supported as chosen by our customers

Our VIP Lifelines

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

Support Adoption for Pets

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



Feeding the Dogs Trust

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

Charity days

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

3 Sourcing with Integrity

Our commitment

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

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

Driving the standards in the pet industry

100%

of our primary pet suppliers visited by the RSPCA

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

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

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

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

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

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

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

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

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

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

Corporate Social Responsibility

continued

Looking after our rabbits

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

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

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



Promoting the highest possible animal welfare standards

100%

of all rabbits sold or adopted in stores to be microchipped

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

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

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

Highest quality and safety standards

19

tests carried out on our leads and harnesses

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

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

4 Our Pets Environment

Our commitment

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

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

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

What we have achieved this year	Target FY16
Eliminating waste sent to landfill Diverted 90% of the waste produced in the business from landfill Diverted 3,131 tonnes of soiled animal bedding from landfill	Divert 92% of waste from landfill
Using less electricity Reduced the amount of kWh we use in stores per sq. ft. by 4% when compared with end of FY12 Upgraded over 80 of our external signs to energy efficient LEDs, saving over 750 tonnes of CO ₂ e	Reduce energy consumption (kWh) per square foot by 6% compared to a baseline of FY12
Becoming more fuel efficient Reduced fuel usage by 18% per KM travelled since 2009 Achieved 128.85 KMs travelled per 1,000 cases shipped	Achieve a 1% improvement in KM travelled per litre of Diesel across the fleet Reduce to 128.4 KMs ran per 1,000 cases shipped
Rethinking our packaging Achieved 84% compliance on recent WRAP monitoring survey	Continue to engage with WRAP

Eliminating waste sent to landfill

90%
of waste diverted from landfill

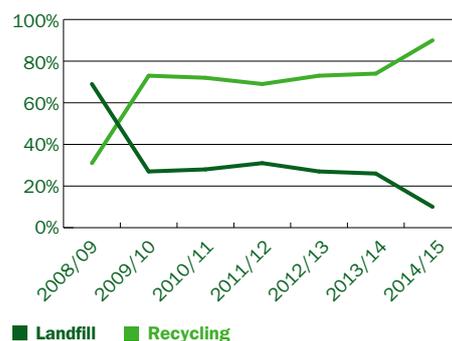
We are committed to minimising our waste consumption with the aspiration ultimately to divert 100% waste from landfill whilst maximising our recycling rates. This year we diverted 90% of our waste from landfill.

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

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

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

Waste divergence from landfill from 2008/09 to current



Corporate Social Responsibility

continued

Using less electricity

4%

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

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

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

Rethinking our packaging

84%

compliance score across packs checked

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

Becoming more fuel efficient

18%

decrease in fuel usage compared to FY09

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

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

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

Monitoring our water consumption

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

Calculating greenhouse gases

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

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

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

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

Notes:

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

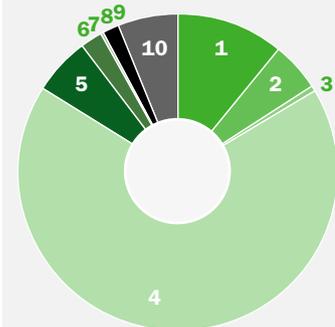
Engaging with stakeholders

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

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

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

Fuel source (Tonnes of CO₂ emissions)



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