Committed to making customers' journeys *better*

Halfords Group plc
Annual Report and Accounts
for the year ended 31 March 2017

Stock Code: HFD
www.halfordscompany.com

halfords

halfords

Introduction to Halfords

For 125 years Halfords has been synonymous with travel.

Halfords is the UK's leading retailer of motoring, cycling and leisure products and through Halfords Autocentres, is also one of the UK's leading independent operators in vehicle servicing, maintenance and repairs.

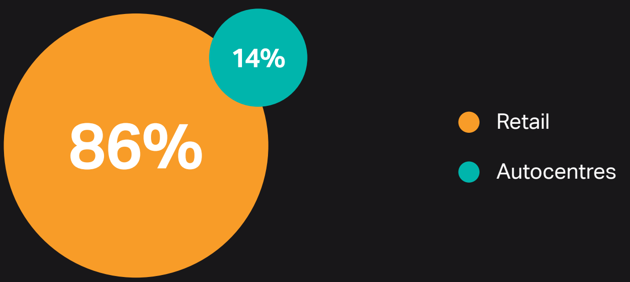
Our Vision

Our vision is clear:

- To be first choice for customers' life on the move
- We will achieve this by being Committed to Making Customers' Journeys Better

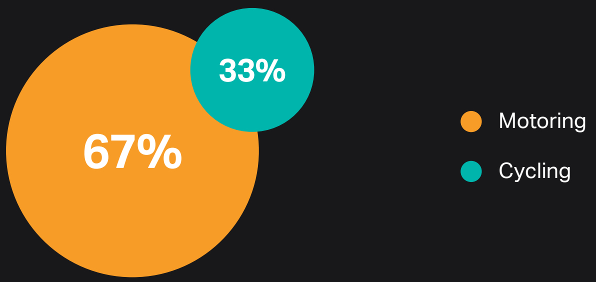
Halfords is divided into two business segments: Retail and Autocentres

Category split of Halfords Group revenue (between Retail and Autocentres)



Category split of Halfords Group revenue

(between Motoring and Cycling)



479
Retail stores in the UK and ROI

15
Cycle Republic stores

313
Autocentres across the UK

£1.1bn
Group Revenue

Online Annual Report

Read our Annual Report online, including a link to the full Remuneration Policy

halfords.annualreport2017.com

Corporate Website

Catch up with our latest news and learn more about Halfords on our corporate website

www.halfordscompany.com

A little direction for *your journey* through our report

This icon signposts the reader to other sections in this report

This icon signposts the reader to more information that can be found online

This icon accompanies 'fast facts' with figures that relate to 2 April 2016 – 31 March 2017

Our Integrated Report

This is our fourth integrated report and is designed to provide a concise overview of how we generate value for all stakeholders. By following an integrated reporting model, we aim to show how our competitive advantage is sustainable in the short, medium, and long term. While this report focuses on value generation for our shareholders, it also demonstrates how we interact with all of our stakeholders.

In producing this report we have: built upon the key changes introduced previously; and developed it in line with the evolving practices in integrated reporting. Our future reports will seek to keep up with these new developments and achieve our aim of continually improving our stakeholder communications.

The steps we have taken in this report:

- Our business model continues to evolve to provide greater clarity on how we create value in the short, medium and long term. We have provided more detail on the outputs of our business model.
- We have increased the signposting and consistency between sections to show how they connect and interact.
- We have included more metrics in the Corporate Social Responsibility section.
- We have ensured that we discussed material matters both positive and negative in a fair, balanced and understandable way.

Stakeholder Engagement

Read more about **Stakeholder Engagement** on pages 14 and 15

Corporate Social Responsibility

Read more about **Corporate Social Responsibility** on pages 30 to 35

Our Strategy

The Group Strategy is described using these five pillars:

Putting Customers in the Driving Seat

Service in Our DNA

Building on Our Uniqueness

Better Shopping Experience

Fit for Future Infrastructure

Read more on **Strategy** on pages 16 to 17

Business Model

The outputs of our business model – Financial Resources, Colleagues, Community, Brand, Physical and IT Infrastructure and Environment – are detailed throughout the report.

This icon is used to indicate content on the outputs of the Business Model.

Read more on **Our Business Model** on pages 12 and 13

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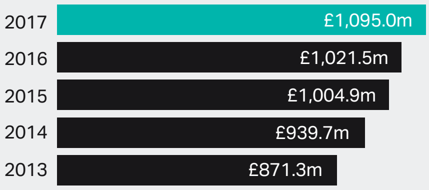
Group Highlights

This is an exciting time to be part of Halfords. We have a clear strategic plan aimed at driving sustainable long-term growth, delivered by engaged and talented colleagues.

We have made great progress against our '*Moving Up A Gear*' strategy, with increased customer insight driving sustained growth in service-related sales.

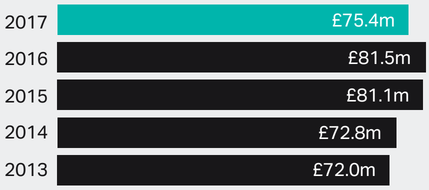
Revenue
£m

+7.2%



Underlying profit before tax*
£m

-7.5%

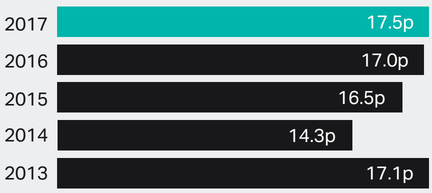


Profit before tax, after non-recurring items
£m

-10.5%

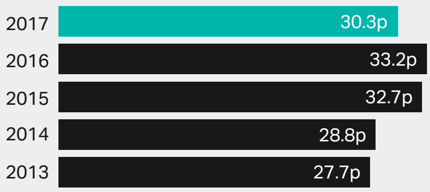
Dividend per ordinary share
pence

+3.0%



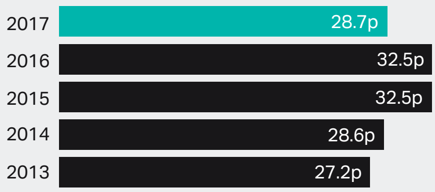
Underlying basic earnings per share*
pence

-8.7%



Earnings per share, after non-recurring items
pence

-11.7%



46%
Proportion of Retail sales matched to customers

11.1%
Service-related sales growth

Market share gains in the year in both Motoring and Cycling

30.5%
Total Group online sales growth**

0.8x
Net Debt to Underlying EBITDA ratio

Complementary M&A and investments across both of our key markets

* Alternative Performance Measures ("APMs"): Measures with this symbol are defined in the Key Performance Indicators table on page 18.
** Including the impact of the acquired Tredz & Wheelies. Excluding the acquired businesses, LFL Group online sales grew 11.5%.

Chairman's Statement

Overview

Since setting out our *Moving Up A Gear* strategy 18 months ago, excellent progress has been made across each of the five key pillars that underpin the strategy. This has been reflected in robust sales growth, an expanded knowledge of our customer preferences, further improvements in service levels, many new and unique product introductions, progress in building a fit for purpose infrastructure and strong growth in our value-added service offerings. To this end, and on behalf of the Board, I would like to thank our Management team and our 10,000 plus colleagues for their hard work and commitment in driving the business forward and for their passion to help our customers on their journeys.

Performance

We achieved solid sales growth from our Motoring activities, in both Retail and Autocentres, and strong growth in Cycling where we continued to register market share gains and can uniquely offer customers the full range: from children's balance bikes to high end performance road bikes. Whilst the depreciation in Sterling following the EU referendum and other cost headwinds, such as the introduction of the National Living Wage, clearly impacted earnings, the underlying business performance was positive and cash flow was robust.

We applied our capital allocation policy consistently: firstly, by further investment in our colleagues and our infrastructure; secondly, with an increased ordinary dividend; thirdly, with two complementary acquisitions – 100% of Tredz and Wheelies in May 2016 and a minority stake in TyresOnTheDrive.com in January 2017; and, thereafter, by paying a special dividend of 10 pence per share in February 2017. Progress was thus made towards our debt target of 1 times EBITDA. In line with our policy of paying an increasing ordinary dividend, the Board has recommended a final dividend of 11.68 pence per share, payable in August 2017 which would result in a total full-year ordinary dividend of 17.51 pence per share, up 3.0% over the previous year.

Investment in our colleagues continues to reap benefits and I am pleased that Halfords was, for the 4th year in a row, awarded an improved place in the list of Top 30 Best Big Companies To Work For. This was also confirmed by an increased internally measured engagement score, improved customer ratings and lower colleague turnover. We are also proud of the recognition we have achieved, and the awards won, for our community partnerships, including many individual local projects, and for our work in prisons to help provide employment to prisoners on release. Our colleagues in Retail have progressed strongly through the "Gears" training programme, gaining increased pay awards and career development opportunities in return. We also continued to invest in our leadership development programmes and apprenticeship schemes.

Dennis Millard
Chairman

> We believe that excellent progress has been made across each of the five key pillars that underpin the strategy.

Outlook

The year ahead brings challenges in the form of further cost headwinds, particularly from a full year's impact in the fall in Sterling, and uncertainty around consumer spending, but we approach these from a position of strength. We hold leading positions in fragmented markets, have detailed plans and initiatives to mitigate cost headwinds and our growing service and services propositions set us apart as a specialist retailer.

It was disappointing that, earlier this month, our CEO Jill McDonald tendered her resignation to take up a senior role at M&S at the end of October. We are grateful for the positive contribution she has made across the business and she will leave Halfords with a clear direction to drive future growth. The *Moving Up A Gear* strategy is well underway and is delivering significant momentum across the organisation. Crucially, we have a talented group of engaged colleagues who remain focused on implementing our strategy and providing customers with the very best customer service; in doing so we will drive sustainable long-term growth.

Dennis Millard
Chairman
24 May 2017

Read more about **Our Strategy** on pages 16 and 17

Read more about **Corporate Social Responsibility** on pages 30 to 35

Chief Executive's Statement

We are pleased with the sales performance this year, with growth across all areas of our business and market share gains in both Motoring and Cycling.

It is now 18 months since we launched the *Moving Up A Gear* strategy, aimed at modernising the business and consolidating our position as a specialist, service-led retailer in order to drive sustainable long-term growth. In this report we set out the strong progress in the year, alongside good sales performance and continued market share gains.

Strategic Progress

Our goal is to be customers' first choice for their life on the move and we will achieve this by being committed to Making Customers' Journeys Better. Our Group strategy has five key pillars:

Putting Customers in the Driving Seat
— investing in customer data and insight capabilities to maximise the lifetime customer value

Service in Our DNA
— embedding the focus on customer service

Building on Our Uniqueness
— exclusive products, relevant innovation and unique partnerships

Better Shopping Experience
— a seamless customer experience, online as well as in store

Fit for the Future Infrastructure
— moving from fixing the basics to improving efficiency and fulfilment

On pages 16 and 17 we have set out a more detailed explanation of the Group strategy, our progress on each of these pillars during FY17 and the key areas of focus for FY18.

Market Update

A full review and update of the markets in which we operate is set out on pages 10 and 11.

Alternative Performance Measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures (APMs).

* These APMs are defined within the Key Performance Indicators table on page 18.
** Free Cash Flow is defined on page 40.

Jill McDonald
Chief Executive

> The underlying business performance is strong and we remain confident in the long-term prospects for the Group.

Summary of Group Results

Revenue of £1,095.0m was up 7.2%, with like-for-like ("LFL")* growth of 2.7%. Gross margin of 51.0% was 220 basis points lower than the prior year, predominantly due to the impact of the movement in foreign currency exchange rates. Total operating costs before non-recurring items rose by 5.0% reflecting planned investments for the *Moving Up A Gear* strategy and the first-time inclusion of the operating expenditure in respect of the acquired Tredz and Wheelies businesses.

The increase in cost of goods associated with the depreciation in Sterling had an adverse impact of circa £14m (pre-mitigation) which more than accounted for the decline in profit for the year. Underlying EBITDA* was down 5.1% to £108.7m. Underlying EBIT* was £77.1m, which compares with £84.5m in the prior year. Underlying Profit Before Tax* was £75.4m and Underlying Basic Earnings Per Share* was 30.3p, down 7.5% and 8.7% respectively. Profit after tax for the year was £56.4m (FY16: £63.5m).

Cash generation remained strong, with Free Cash Flow** of £37.7m. Net Debt* at the end of the year was up £38.0m at £85.9m, with a Net Debt to Underlying EBITDA ratio* of 0.8:1 versus 0.4:1 in the prior year. The increase is consistent with our previously stated intention to move towards a debt target of 1.0x and reflects our acquisition of Tredz and Wheelies in May 2016 for an initial cash consideration of £18.0m, the £4.1m investment made in Tyres on the Drive Limited ("TOTD") in January 2017 (with a further circa £4m to follow in FY18) and the circa £20m special dividend paid in February 2017.

The Board has recommended a final ordinary dividend of 11.68 pence per share (FY16: 11.34 pence) which, if approved, would take the full-year ordinary dividend to 17.51 pence per share, an increase of 3.0% on the prior year. Including the special dividend of 10 pence per share paid in February 2017, the full-year dividend per share was 27.51 pence, an increase of 61.8% on the prior year. If approved, the final dividend will be paid on 25 August 2017 to shareholders on the register at the close of business on 4 August 2017.

Retail Operational Review

Halfords Retail achieved a strong year of sales performance, with revenue up 8.0% to £938.4m. LFL growth of 3.1% reflected Motoring LFL of 2.0% and Cycling LFL of 5.1%. Our service-related sales grew by 11.1% as we continued to consolidate our specialist, service-led retail proposition. The LFL sales growth is principally attributable to our growing service and services proposition, new products and ranges, better trained and engaged colleagues and investments made to modernise the business as part of the *Moving Up A Gear* strategy.

Within Motoring, Car Maintenance revenues increased by 3.1% on a LFL basis, driven by good growth in sales of car parts and the fitting and sale of bulbs, blades and batteries ("3Bs"). Metal storage and hand tools performed very strongly, particularly the increasingly popular *Halfords Advanced* range to which we added new products in the year. We were disappointed with the 2.8% decline in Car Enhancement LFL revenue, which was driven by the continued decline in the sat nav market. Partially offsetting this was strong growth in dash cams, in-car connectivity equipment and car cleaning products. Excluding sat navs, Car Enhancement LFL was up 3.7% and sat navs now represent only 3% of Group sales. Travel Solutions LFL revenues increased 7.9%, driven by robust growth in roof bars and boxes, cycle carriers and child seats; all of which benefit from our market-leading positions and friendly, highly-trained fitters.

Cycling sales improved by 5.1% on a LFL basis and 18.2% on a total sales basis. We took a significant step forward in consolidating the Group's market-leading position, growing market share on a like for like basis as well as continuing to grow the Cycle Republic chain, which grew over 20% like-for-like in the year. Tredz and Wheelies also performed strongly in the year, with revenue growing over 20%.

The like-for-like growth in Retail was driven by strong performances across each of the sub-categories of bikes, Parts, Accessories and Clothing ("PACs") and repair. PACs sales returned to growth for the first time in two years due to stronger attachment sales, new products and a more disciplined approach to ranging, using our improving customer insight to introduce a "good, better, best" hierarchy. Bike sales were supported by the relaunch of our mainstream, award winning ranges (Carrera and Apollo) as well as the launch of the new, exclusive Wiggins range, and growing demand for electric bikes. Our credentials in kids' bikes were validated by the public accreditation from Netmums during the year, and Boardman won a host of industry awards including the prestigious "BikeBiz" bike brand of the year.

Tredz/Wheelies performed strongly since acquisition and we were also very pleased with the Cycle Republic performance, now trading from 15 shops and online. We now have a unique balance in our offering, able to serve the lifestyle consumers through our Halfords stores and website, the growing commuter population through Cycle Republic and the enthusiast and elite segments through both Tredz and Boardman Elite.

Service-related sales increased by 11.1%, driven in particular by cycle repair and elements of motoring fitting, such as 3B's and roof boxes. Although currently a small part of the mix, our new "2Bs" (bulbs and batteries) fitting for motorbikes and windscreen chip repair for cars were contributors to growth. Our service capability continues to be a key focus for us, with the Gears training programme providing depth and breadth of experience for colleagues, supporting our ability to establish Halfords as a differentiated, service-led specialist retailer.

Online Retail revenue grew by 30.5% in total and 6.3% LFL. The importance of our store network and service overlay continued to be highlighted by the strength of Click & Collect, with around 85% of Halfords Retail online orders picked up in store. This high proportion of click and collect continues to differentiate us from other retailers, as our online business, instead of cannibalising our bricks and mortar operation, drives footfall into our stores, with over 80% of customers wanting advice or fitting service with their purchase.

We enter the new financial year with good momentum. We have published trading performance for the 15 weeks to the end of April 2017, which includes the 11 weeks to the end of the financial year and the first 4 weeks of the new year. We consider this period to be more representative of performance because it includes Easter in both the current year and the comparatives. Revenue for this 15-week period was up 3.9% on a LFL basis, comprising Motoring +0.9% and Cycling +11.1%.

Chief Executive's Statement

Autocentres

Autocentres revenues were up 2.4% and, on a LFL basis, up 0.6%. Online sales were strong, with web booking revenues up 29.1%. Consistent with our strategic priorities of 'Service in Our DNA' and 'putting customers in the driving seat', it has been a year of long-term investment in colleagues and creating an improved offer to customers.

To benefit colleagues, we have introduced a new technician pay grading system this year, to reward both teamwork and training. We also continued to invest in training and development, with 86 apprentices taken on in the year demonstrating our commitment to developing young talent and helping our colleagues learn long-lasting skills. We now have 4 training centres open to develop our MOT and hybrid testers. During the year our colleague turnover reached the lowest that it has been for almost 3 years, reflecting these investments as well as the operational changes we introduced.

To benefit customers, we have introduced Sunday and Bank Holiday opening and are also committed to training one technician in every centre in electric and hybrid car maintenance by April next year. We are well underway on this journey. In addition, 16 centres were refreshed during the year and these refreshes included customer service pods, TV screens, Wi-Fi, coffee and large viewing windows. They resonated well with customers, enhancing the shopping experience.

These operational changes were made for long-term benefit, but have been disruptive in the short-term and despite many positive developments we were dissatisfied with the financial results for the year. Accordingly, we are taking a number of actions including a review of the operating model. We see a presence in the car servicing and repair market as important for the Group in order to have a comprehensive suite of services for the "second life of the car". We also see a good growth opportunity; we currently only have around a 1.5% share of a highly fragmented circa £9bn market. We will report our conclusions in due course.

M&A Activity

During the year we expanded the Group's capabilities in motoring and cycling with two modest, highly complementary investments.

In May 2016 we acquired Tredz and Wheelies for an initial £18.0m, with a further circa £5m to be paid in the first half of FY18. Tredz is a UK-wide online retailer of premium bikes and PACs and Wheelies is the UK's largest provider of bicycle replacement for insurance companies. This acquisition extends our presence in the online market for premium bikes, parts, accessories and clothing, and together with our rollout of Cycle Republic means we now address all major segments of the cycling market.

In January 2017 we entered into an operating agreement, accompanied by the acquisition of a minority stake, with TyresOnTheDrive.com ("TOTD"), a UK mobile tyre fitting business, to develop opportunities to leverage each other's capability and expertise. We see a number of sales and cost synergies as well as the opportunity for Halfords to trial an innovative mobile delivery proposition for motoring services, which fits squarely with our focus on improving our service and convenience credentials.

We continue to investigate similar opportunities to expand our capabilities and strengthen our positions in our core markets.

Financial Targets and Capital Allocation Priorities

We continue to apply our four key financial targets:

- Grow sales faster than the markets in which we operate;
- Hold group EBITDA margin broadly flat over the next few years (excluding the impact of FX);
- Grow the ordinary dividend every year with a dividend coverage of 2 times on average over time (excluding the impact of FX); and
- Net debt target of 1x Underlying EBITDA with a range of up to 1.5x.

In the Chief Financial Officer's review we explain these targets in more detail and appraise our performance against them.

During the year we made progress towards our debt target, moving from 0.4x to 0.8x through consistent application of our clear capital allocation priorities. Central to our capital allocation policy is to maintain a strong and prudent balance sheet, and we will use our debt target as a guide for that. Our priorities for use of cash will continue to be: firstly, capital investment to grow the business in line with previous guidance; secondly, to pay and grow the ordinary dividend every year; thirdly, for any appropriate M&A opportunities which may arise; and thereafter, any excess cash would be available for additional distribution to shareholders.

Summary and Outlook

We are pleased with the sales performance in the last financial year, with growth across all areas of our business and market share gains in both Motoring and Cycling. Our focus on, and investment in, services was reflected in the significant growth of service-related sales. We are also pleased with the momentum building as we implement our *Moving Up A Gear* strategy. There is demonstrable progress across each of the five pillars of the plan and plenty more to come. Whilst the currency movements have impacted on reported earnings, the underlying business performance was strong.

Our priorities for the financial year we are now in will include further improving and utilising our customer data, consolidating our service and services credentials, continuing to invest in our colleagues, further investment in our online platforms and rolling out our successful new store refresh concept.

We enter a challenging period from a macroeconomic perspective, with uncertainty over consumer spending and Sterling depreciation bringing input cost headwinds. However, we approach this on the front foot and from a position of strength as we have leading positions in fragmented markets and offer a customer driven, service-led proposition that differentiates us from competitors, both physical and online.

Our FX headwind mitigation plans are well developed and gaining traction. We are seeing the benefits of good strategic progress on performance and have not so far observed any noticeable adverse impact of a change in consumer sentiment on our trading. Taking these factors into account we anticipate FY18 profit to be in line with current market expectations.

I would like to thank all colleagues for their fantastic contribution, support and commitment to Halfords. Our customer-centric, service-led strategy has real traction and I have every confidence in the team to drive the *Moving Up A Gear* strategy to the next level so that we continue to deliver further progress across the Group.

Jill McDonald
Chief Executive
24 May 2017

Read more on **Our Strategy** on pages 16 and 17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Our *Strategic* Report

Our Marketplace

Competitive landscape

Halfords principally operates in two broad markets: Motoring and Cycling. Around 70% of Group sales are generated from products and services that are principally Motoring related with the remaining 30% coming from Cycling.

At a profit level, the contribution of Motoring is even greater. These markets continue to display generally favourable trends and we are particularly well placed to capitalise on them, given our strong service and services proposition, technical expertise and geographic footprint.

Service and services are key differentiators for us, providing us with a unique advantage over much of the competition that are either generalist or fragmented independents. This is reflected in two key statistics: 80% of our customers want some form of advice or service with their purchase and around 85% of online sales on Halfords.com are collected in store.

Our *Moving Up A Gear* strategy is aimed at strengthening our position as a customer centric, service-led specialist retailer. This, combined with our leading positions in fragmented markets, gives us clear competitive advantages and a solid platform from which to drive sustainable long-term growth.

Motoring Market

Market share and competitive landscape

Within Motoring, the Halfords Group operates in two segments:

- Car parts, accessories, consumables and technology, with a total market worth up to an estimated £7bn. This element of the Motoring market has grown by around 3% per annum in the last few years. Halfords Retail competes in a portion of this market, holding around a 15% market share.
- Car servicing and aftercare, with a total market worth around £9bn. This element of the market has grown by around 2% per annum in the last few years and is where Autocentres competes, holding around 1.5% share of a highly fragmented market.

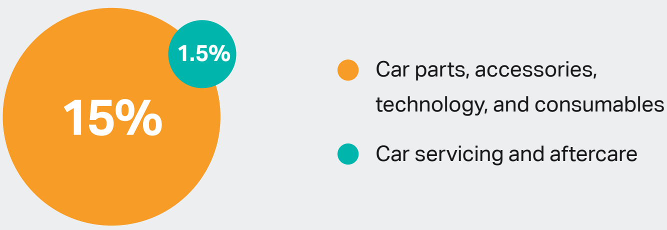
There is no single equivalent competitor of Halfords in the UK and these motoring markets are highly fragmented. There are over 30,000 garages in the UK of which two-thirds are estimated to be independents.

Market trends

New car registrations have grown consistently year on year between 2012 and 2016. After a record year for new car registrations in 2016, the Society of Motor Manufacturers and Traders ("SMMT") has forecast a decline in new car registrations of 2.6% in 2017. A reduction in new car registrations typically results in used cars being held onto for a longer time period. Combined with a strong pipeline of cars feeding into the used car category, this means that we anticipate the used car parc to grow in the years ahead. This will be a positive trend for Halfords given that we predominantly support cars that are over three years old, what we call the "second life of the car".

Cars are also becoming more complex and customers increasingly need support for small as well as large maintenance jobs. We are seeing an on going trend from 'do it yourself' to 'do it for me', which plays strongly to our service and services proposition. Our own market research indicates that 80% of Halfords customers want advice or service with their purchase. We also identified that 75% of UK consumers have medium to low expertise in DIY and are therefore more inclined to pay for someone else to "do it for them". We continue to invest in training and equipment to ensure that we remain at the forefront of technological changes, such as having the ability to replace stop-start batteries on-demand and being able to service electric and hybrid vehicles. We estimate that over 50% of the market for car servicing and aftercare is represented by independents, who are finding it increasingly challenging to meet the increasing complexities of cars and their parts.

Halfords Share of the Motoring market



We continue to see good growth in segments of our in-car technology offering. We are a market leading retailer of in-car cameras ("dash cams") which continued to grow fast in FY17. We are also uniquely placed to offer a fitting service for these products; with around 40% of dash cam sales fitted into the car. Multimedia, connectivity and streaming technology continue to grow as customers look for ways to bring their in-car environment more technologically up-to-date.

The sat nav market continues to decline, but this is becoming an increasingly smaller part of our business, now representing only 3% of Group sales. Across our stores we have an increasing number of accredited child car seat fitters and thousands of colleagues able to fit and provide detailed advice on roof bars and boxes, cycle carriers and number plates. The expert, friendly advice they provide is unique, loved by our customers and key to our further market share gains in these areas.

The services that we offer alongside our products continue to evolve and we now offer a suite of over 30 in-store services for motoring and cycling, complimenting the continued success of our "3Bs" (bulbs, blades, batteries) fitting and cycle repair services.

Going forward we anticipate the Motoring market in which we operate to continue to grow at an average rate of 2-3% per annum over the medium-term and we continue to aim to better those growth rates through our growing service and services proposition.

Cycling Market

Market share and competitive landscape

In Cycling, Halfords has strong market shares of around 26% for bikes, 16% for PACs and 10% for cycle repair. We estimate these markets to be worth annual sales of around £800m, £750m and £100m respectively. The majority of our offer is aimed at mainstream, leisure and family cyclists. However, the recent acquisition of Tredz and Wheelies alongside the development of Cycle Republic means we can now meet the needs of all key customer segments. Over 80% of the bikes sold by the Group are own brands including *Apollo*, the biggest bike brand in the UK by volume, *Carrera*, the biggest bike brand in the UK by value and *Boardman*, the fastest growing premium bike brand in recent years and voted Bike Brand of the year 2017 by BikeBiz. We have added to our own brands this year with the launch of the *Wiggins* range in July 2016, further enhancing our portfolio of exclusive collaborations with Team GB Olympians. Our own brands are supported by selected third party brands, which include *Specialized*, *Giant*, *Cannondale*, *Cube* and *VooDoo*.

The cycling market is highly fragmented. There are an estimated 2,500 bike shops in the UK. Other than Halfords and a small number of chain retailers, the majority of the market is represented by independents. As market leader we conduct extensive research into customer behaviour and trends, as well as the competitive landscape. Over the past year we have identified that the number of independent bike shops in the UK has declined by around 10%.

Market trends

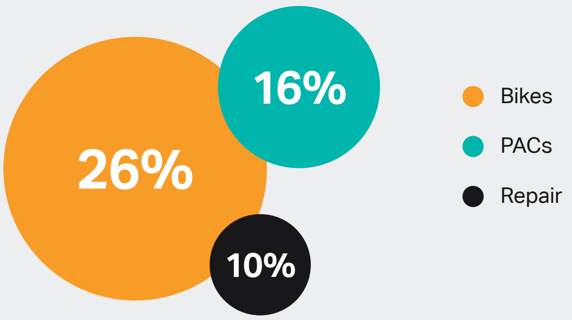
After a difficult year for the cycling market in 2015 due to a combination of high stock levels and poor weather, 2016 was better. The first part of the year saw a continuation of the conditions observed in 2015 compounded by relatively high stock levels in the market and poor weather, which prompted heavier and earlier discounting by competitors than in previous years. However, the peak summer period benefited from warmer weather and the success of Team GB at the Rio Olympics, as well as discounting across the market, which helped to clear much of the stock that had been building up in the market.

Looking ahead we see good growth prospects for the cycling market for several reasons:

- participation levels in the UK remain much lower than in many other European countries. Despite the increase in popularity of the sport in recent years, the number of bikes sold in the UK has remained broadly flat at an average 3.3m bikes per year;
- the level of female participation also remains very low. Recent data suggests that, in the UK, women make up to 27% of cycle journeys compared to 55% in Denmark and the Netherlands;
- the health and wellbeing benefits associated with cycling;
- government infrastructure investment in London and other UK cities;
- the rapidly growing e-bike segment, which makes cycling more accessible to both commuters and older generations; and
- we are seeing existing participants in the cycling market spending more as they increase the amount they use their bikes.

As evidenced by the differing performance in the early and late summer periods this financial year, the weather will continue to have an impact on the timing of customer purchase, but the overall trends are positive. We expect the cycling market to grow on average at 3-5% per annum and we continue to aim to beat that market growth rate, through growing our service and services proposition.

Halfords Share of the Cycling Market



Our Business Model

Effective utilisation of our resources and relationships are an integral part of our plan to drive long-term sustainable growth. Our resources and relationships form the inputs to our business model, which are utilised and transformed in the process of value creation. The outputs of our business model are detailed on the opposite page and throughout the report.

Through the expertise of our partners and well-trained colleagues . . .

Training and accreditation, such as our 3-Gears training programme, ensures that consistent product knowledge and service reaches our customers across all locations.

We are able to leverage the Halfords brand . . .

Halfords is the nations go-to-retailer for motorists and cyclists. We have a range of exclusive and highly-regarded brands including *Boardman*, *Apollo* and *Carrera* in cycling, as well as our *Halfords Advanced* ranges in motoring.

. . . to delight our customers every time

We aim to grow our business by attracting more customers, encouraging them to buy more products and services, and persuading them to visit our stores and Autocentres more often. To do this we make four promises:

Prices you can trust	*Quality you can trust*
Range you can rely on	*Service that wows*

Through our portfolio of convenient stores and Autocentres, efficient distribution network and user-friendly websites . . .

We want to create a compelling shopping experience that excites customers, improves their knowledge of our products and services, and engages them emotionally with our brand. Our ambition is to create a service-led, fully integrated digital proposition which will maintain our ongoing relevance.

Our model is underpinned by our financial discipline, astute purchasing and strategic reinvestments.

We are a cash generative business and have generated £37.7m of Free Cash Flow in the year. We are well supported by our banking syndicate, having amended the debt facility in 2014, extending it to November 2019.

Our integrated approach to sustainability keeps economic, social and environmental considerations in mind, as well as the material issues of our stakeholder groups to inform our model and operations.

Outputs

Financial Resources

Generating returns to our shareholders through effective management of our financial resources

Read more the **Chief Financial Officer's Review** on pages 36 to 41

Brand

Developing our brand through innovation and expertise.

Read our case study on **Exclusive Ranges** on page 25

Colleagues

Developing, rewarding and retaining our circa 10,000 colleagues so that they are engaged and driving our long-term sustainable growth ambitions.

Read more about **"Service in Our DNA"** on pages 22 and 23

Physical and IT Infrastructure

Maintaining and developing our infrastructure and sales channels to strengthen competitive advantages.

Read our case study about **Developments in our Store Portfolio** on page 27

Community

Building relationships with suppliers, customers and the communities around us.

Read more in the **Corporate Social Responsibility** on pages 30 to 35

Environment

The environmental resources that Halfords utilises in its operations.

Read more in the **Corporate Social Responsibility** on pages 30 to 35

This icon is used to indicate content on the outputs of the business model.

Fast Fact*

13th place

achieved by Halfords Retail in the Sunday Times "Best Big Companies to Work For" list

Fast Fact*

Around 10,000

in-store services carried out at each of our 460 Retail stores during the year

Stakeholder Engagement

Stakeholder	Why it is important to engage	Ways we engage	Stakeholders' key interests
Customers	Understanding our customers' needs and behaviours allows us to deliver relevant products and services, retain customers and also attract new ones. It also identifies opportunities for growth.	• Satisfaction surveys • Rewards • Commercial website • Social media engagement	• Value for money • Customer service • Convenience • Range
Colleagues	Interactions with our colleagues are the main ways that customers experience the brand of the Company. Our colleagues are fundamental to the achievement of our customer experience ambitions and are the cornerstone of our service and services proposition.	• '3-Gears' training programme • Listening: surveys and colleague groups • 'Accelerate' management development courses • Recognition and reward • Apprenticeship programme	• Career opportunities • Pay and conditions • Training and development • Innovation • Colleague engagement
Suppliers	Engaging with our supply chain means that we can ensure security of supply and speed to market. Our brand relies heavily on the high standards of our carefully selected suppliers, in order for us to deliver market-leading products and services.	• Far East trading office developing mutually beneficial relationships • Logistics efficiencies and environmental management • Supplier conferences • Infrastructure	• Quality management • Cost efficiency • Ethical Trading policy
Investors	As a publicly listed company we need to provide fair, balanced and understandable information to instil trust and confidence and allow informed investment decisions to be made.	• Annual reports • RNS • Annual General Meetings • Investor presentations • Corporate website • One-on-one meetings	• Future-oriented information • Risk information • Operating and financial performance • Dividend • Access to Management
Communities	Ensures continued viability of the business into the long-term. We aim to contribute positively to the communities and environment in which we operate.	• Community investment initiatives • Media channels	• Impact of Group activities on the wider community
Media	Ensures transparency of information on the business. As a business-to-consumer company, we need strong omnichannel exposure to connect with customers and our wider stakeholder audience.	• Product videos and peer reviews • TV and radio advertising campaign • Email and PR customer engagement • Improving Twitter, Facebook and Youtube content	• Reliable range, product and pricing information • Transparency of reliable and timely Group information
Government	Policies and regulatory changes may provide opportunities and pose risk to our operations. Working closely with the Government ensures that our products and services evolve.	• Cycle to Work policy campaigning • DAB Radio working groups • Driver training and vehicle safety enhancements • Engaging with VOSA, DVLA, TSI, ASA and HSE	• Transport policies and schemes • CO_2 reduction strategies

*Fast Fact**

Nearly 50%

of Retail store management vacancies filled internally

*Fast Fact**

CSR Achievements

we won Retail Week's "CSR Initiative of the Year" for our work at Onley prison

Read more on **Corporate Social Responsibility** on pages 30 to 35

halfords

Our Strategy

In November 2015 we launched the *Moving Up a Gear* strategy

This strategy is an evolution from the previous Getting Into Gear strategy and comprises five pillars.

Putting ***Customers*** in the ***Driving Seat***

Description

Investing in customer data and insight capabilities to maximise the lifetime customer value

Objectives

- Improve understanding of our customers
- Combine our pools of customer data into a single view
- Leverage customer data to gain insights and tailor offers
- Refresh brand positioning to create a more emotional connection
- Address areas where we may be underperforming

Progress to date

- % of sales matched to customers in Retail improved from 3% to 46%
- More personalised email marketing, including product recommendations
- Utilising data for customer insight
- Single view of customer phase 1 is complete, linking up 15 databases
- 5.3m Retail customers added to our database since launch of the strategy
- New brand positioning, For Life's Journeys, launched in June 2016

Focus for FY18

- Single view of customer phase 2, which will involve linking another 15 databases
- Further improvements in the percentage of sales matched to customers and in utilising this data to drive incremental sales

Service in Our ***DNA***

Description

Halfords has been through a service revolution and now we need to embed it in how we do business. Our ability to offer great service is one of our key differentiators

Objectives

- Maintain 3-Gears training programme and increase emphasis on service and selling skills
- Develop talent throughout the Group, including through our Aspire and Apprenticeship programmes
- Reward skills through enhanced pay
- Grow service-related sales

Progress to date

- Nearly 70% of colleagues qualified for Gear 2 and circa 10% for Gear 3
- Continued improvement in key customer service metrics
- Significant reduction in colleague turnover, now circa 33% in Retail
- Received 13th place in the Sunday Times' Best Big Companies category (up from 18th last year)

Focus for FY18

- Further development of our Tradecard service
- Training of colleagues to support our new range of e-bikes

Building on Our ***Uniqueness***

Description

Exclusive products, relevant innovation, unique partnerships and collaborations

Objectives

- Maintain and develop a pipeline of relevant innovation
- Nurture and complement our partnerships and collaborations
- Exclusive product ranges

Progress to date

- *Wiggins* range launched in store in July 2016
- *Orla Kiely* range of leisure products now available in stores
- Exclusive in-car technology in stores, such as Nextbase dash-cams
- *Apollo* and *Carrera* adult bike ranges re-launched in summer 2016

Focus for FY18

- Development of the Boardman Performance Centre
- Delivery of the operating agreement with Tyres on the Drive, and opportunity to trial a broader mobile delivery proposition

Read more about **Putting Customers in the Driving Seat** on page 20

Read more about **Service in Our DNA** on pages 22 and 23

Read more about **Building on Our Uniqueness** on pages 24 and 25

Better *Shopping* Experience

Description

A seamless customer experience, online as well as in store

Objectives

- Update stores using our evolved store refresh concept
- Continual improvement of our online and fulfilment propositions
- Launch a transactional website for Cycle Republic
- Continue to target growth in areas where we have relatively low market share

Progress to date

- New store refresh concept progressed and launched in November 2016 with 5 stores refreshed by year end
- Agile web development approach implemented
- Cycle Republic transactional website launched in August 2016
- Sunday and Bank Holiday opening launched in Autocentres

Focus for FY18

- Digital enhancements to improve the online customer journey including a new intelligent search tool and ability to pay online for collection in store
- Acceleration of the store refresh programme plus the trial of a "light" version

Read more about Better Shopping Experience on pages 26 and 27

Fit for *Future* Infrastructure

Description

Moving from fixing the basics to improving efficiency and fulfilment

Objectives

- Maintain short-term stability of our supply chain operations through peak periods
- Review and identify the long-term requirements for our supply chain
- Turn our IT investment focus to developing value-adding colleague and customer-facing IT applications
- Continue our strategy of right-sizing, relocating and renegotiating leases upon expiry

Progress to date

- Current 3-day-a-week delivery to stores model is embedded and stable
- 29 lease renegotiations, 7 relocations and 2 right-size of Halfords stores in FY17
- Good progress on our two major IT programmes, with launch of Dayforce in March 2017 and iServe in pilot stage
- Successful transition to new warehouse in Daventry, consolidating numerous external storage locations

Focus for FY18

- Investment in our supply chain processes to make our store deliveries easier and quicker to process
- Introducing a number of new, internal "We Operate For Less" initiatives, in order to drive cost efficiencies and deliver additional value for customers and colleagues across the group

Read more about Fit for Future Infrastructure on page 28

*Fast Fact**

Almost 50%

increase in email traffic through targeted and personalised email campaigns

*Fast Fact**

33%

colleague turnover in Retail – a record low

halfords

Our Key Performance Indicators

Shareholder KPIs

KPI	Definition	Commitment	Performance	Historic Performance
Underlying profit before tax	Profit before income tax and non-recurring items as shown in the Group Income Statement.	The Board considers that this measurement of profitability provides stakeholders with information on trends and performance, before the effect of non-recurring items.	Underlying profit before tax declined by 7.5% year-on-year, primarily due to the depreciation of Sterling against the US dollar.	2017 £75.4m 2016 £81.5m 2015 £81.1m
Underlying earnings per share	Profit after income tax and before non-recurring items as shown in the Group Income Statement, divided by the number of shares in issue.	EPS is a measure of our investment thesis and as such we aim to manage revenues, margins and invest in long term growth.	Underlying earnings per share declined by 8.7% year-on-year, primarily due to the depreciation of Sterling against the US dollar and small increase in tax rate.	2017 30.3p 2016 33.2p 2015 32.7p
Underlying EBIT & Underlying EBITDA	Underlying EBIT is results from operating activities before non-recurring items. Underlying EBITDA further removes Depreciation and Amortisation.	The Board considers that these measurements of profitability are a viable alternative to underlying profit and uses these measures to incentivise Management.	Underlying EBITDA declined by 5.1% year-on-year, primarily due to the depreciation of Sterling against the US dollar.	2017 £108.7m 2016 £114.6m 2015 £109.9m The above numbers represent Underlying EBITDA
Dividend per Ordinary Share	Cash returned to shareholders as a return on their investment in the Company.	To grow the dividend every year with cover of around 2x underlying earnings on average over time.	The Board has recommended a final ordinary dividend of 11.68 pence per share (FY16: 11.34 pence) which takes the full-year ordinary dividend to 17.51 pence per share, an increase of 3.0% on the prior year.	2017 17.5p 2016 17.0p 2015 16.5p
Net Debt	Current and non-current borrowings less cash and cash equivalents both in-hand and at bank as shown in the Consolidated Statement of Financial Position.	The Group remains strongly cash generative and continues to invest in the business. The Board is committed to maintaining an efficient balance sheet, returning any surplus capital not required to fund growth to shareholders. This measure helps to understand the financing structure of the Group.	Net Debt has increased by £38.0m to £85.9m, reflecting the acquisition of Tredz & Wheelies, investment in Tyresonthedrive.com and special dividend paid in February 2017.	2017 £85.9m 2016 £47.9m 2015 £61.8m
Net Debt to Underlying EBITDA ratio	Represented by the ratio of Net Debt to Underlying EBITDA, both of which are defined above.	We target a ratio of 1x, with a range of up to 1.5x to allow for appropriate M&A. We will arrive at the debt target over time. This ratio helps to compare the financial result for the year to debt levels.	The Group had a Net debt to underlying EBITDA ratio of 0.8x at the end of FY17, up from 0.4x at the end of FY16, for the reasons explained in "Net Debt".	2017 0.8x 2016 0.4x 2015 0.6x
Like for like sales	Revenues from stores, Autocentres and websites that have been trading for at least a year (but excluding prior year sales of stores and Autocentres closed during the year) at constant foreign exchange rates.	Like for like sales is a widely used indicator of a retailer's trading performance, and is a comparable measure of our year-on-year sales performance.	A balanced result across both Retail and Autocentres. The negative like for like in the Car Enhancement category was attributable to declining sat nav sales (which equate to 3% of Group sales).	See table below

	FY17 LFL revenue movement
Halfords Group	**+2.7%**
Retail	+3.1%
Motoring	+2.0%
Car Maintenance	+3.1%
Car Enhancement	-2.8%
Travel Solutions	+7.9%
Cycling	+5.1%
Autocentres	+0.6%

Operational KPIs

KPI	Definition	Commitment	Performance	Historic Performance
Proportion of trained Retail colleagues	Measures the progress of our colleagues through the 3-Gears training programme.	We aim to have the majority of our colleagues trained to Gear 2 plus around two colleagues per store trained to the Gear 3 "guru" level.	By the end of the year nearly 70% of our eligible Retail store colleagues were qualified at Gear 2 level. We also have a further circa 10% of colleagues at Gear 3 level (equivalent to 1.2 per store).	2017 67% 2016 72% 2015 46% The above numbers represent the proportion of colleagues qualified at Gear 2 level
Service-related Retail sales growth	Service-related sales is the income derived from the fitting or repair services themselves along with the associated product sold within the same transaction.	To grow service-related sales faster than total Retail sales growth.	Service-related sales grew by 11.1% in the year, with growth across the suite of our fitting and repair services.	2017 11.1% 2016 8.5% 2015 8.1%
Proportion of Retail sales matched to a customer	The proportion of sales in Halfords Retail that can be matched to a specific customer in our database.	To increase our understanding of who our customers are. We will do this by adding to our customer databases and combing them to create a single customer view.	We can match 46% of Retail sales to customers, up from 15% this time last year.	2017 46% 2016 15% 2015 3%
Cycle Republic stores (cumulative)	The number of Cycle Republic stores that are trading.	We do not have a fixed store rollout target. However we have guided to open around 5 in FY18.	We opened 5 stores in FY17, in Purley, Birmingham, Leeds, Southampton and Edinburgh, taking the total to 15 at the end of the year.	2017 15 2016 10 2015 4
Store and Autocentre refreshes	The number of Retail stores and Autocentres refreshed in the year.	We are committed to refreshing the design of our stores and Autocentres in order to improve the customer experience.	During the year we refreshed 17 Retail stores and 16 Autocentres.	2017 17 2016 25 2015 45 The above numbers represent the number of Retail stores refreshed
Online sales as a proportion of total Retail sales	Online sales as a proportion of total Retail sales.	We are committed to improving our online shopping experience for customers.	Our online sales represented 14.8% of total Retail sales. This proportion was slightly higher in the year and reflects the addition of Tredz and Wheelies.	2017 14.8% 2016 12.1% 2015 12.1%

Business Review

Putting *Customers* in the *Driving Seat*

Over the course of the financial year we have been rapidly improving our customer data knowledge and capability.

We continue to collect customer email addresses across our Retail stores. We have gathered around 5.3m email addresses within our Retail stores over the last 18 months. The majority of these customers are new contacts to our database.

We can now match 46% of Retail sales to customers, up from 3% as of November 2015. We completed the first phase of our 'single customer view' project, joining up 15 different databases. Across the Group we can now match 59% of sales to customers. Investment in customer data has allowed us to move from generic email marketing to a more personalised approach, which in turn is driving incremental revenue and awareness of our services. A few examples include:

- We have added detailed individualised data into our group single customer view, which has informed the timing, content, frequency and channel of all communications to customers, based on the preferences we infer from their behaviour (for example, a family cyclist will see different communications to a camping enthusiast);
- Over winter we targeted customers on their mobiles with bulbs, blades and batteries messages based on the age of their car obtained from the DVLA, their proximity to store through their mobile phone data and the local weather from the Met Office; and
- We sent geo-targeted messages to customers who live, work or shop in the location of our new store in Sutton Coldfield to share with them a virtual tour of the revamped store, emailing customers who used to shop in the old store to let them know the new one was opening. This will be replicated for upcoming store refreshes across the estate.

As a result of these initiatives, we have seen email traffic in FY17 up 49% against the prior year, with an incremental 1.2m visits to the website. Overall, sales attributed to email campaigns were up 19%, and open rates were up from 15% to 21%, on average.

We launched our new brand positioning in June 2016, under the strapline of Halfords - For Life's Journeys. The new campaign is helping to drive a clearer understanding of Halfords' offer, particularly amongst younger customers. We have improved the richness of online content, with more videos and "how to" guides, reinforcing our service credentials online as well as in shops.

Looking ahead to FY18, we will focus on enhancing some key initiatives, such as smarter search and guided selling functions, to continually improve our personalisation, relevance and to drive greater incremental sales.


GRAB LIFE BY THE HANDLEBARS.
Free
£10 voucher

Business Review

Service in Our *DNA*

We have a menu of over 30 in-store services across Motoring and Cycling, which are key to our uniqueness as a service-led, specialist retailer, driving our distinct competitive advantage.

We introduced two new motoring services in the year: windscreen chip repair and motorcycle bulb and battery fitting which are both growing strongly.

We also introduced new services in cycling, such as bike sizing using 'Smartfit' technology in our recently refreshed concept stores, as well as slime puncture proofing. We will be launching many more in-store services across both Motoring and Cycling in the months ahead.

We remain focused on growing the important metric of service-related sales, which we aim to grow faster than overall sales; in FY17 we achieved LFL growth of 11.1%. We completed nearly 5 million fitting services during the year, which equates to over 10,000 services per Retail store. There remains an opportunity to grow our service-related sales through increasing customer awareness of our services, as well as harnessing the trend away from 'do it yourself' to 'do it for me'.

We have updated our net promoter score methodology with a new programme of customer experience measurements in shops, weighted according to what matters most to customers. We have opened up more channels for customers to give us their feedback, including exit interviews as customers leave the store, carried out by an external third party and direct links to e-receipts.

We remain committed to the 3-Gears training programme; nearly 100% of eligible colleagues are at Gear 1, around 70% of colleagues had qualified for Gear 2 by the end of FY17 and we also now have circa 10% of colleagues trained to Gear 3 "guru" level, which is in line with our target proportions. Going forward we will continually refresh existing colleagues' training and also develop new colleagues.

Our Retail apprenticeship scheme remains popular and we have now placed over 40 trainees into permanent roles across our stores. We continued to build our pipeline of Assistant Store Managers and Store Managers through our Aspire programme; in FY17 we filled 48% of store management vacancies internally.

Retail colleague turnover has further improved during the year to record lows and is now circa 33% which will deliver long term benefits for the business. We were also pleased to once again be included within the Sunday Times Best Big Companies to Work For list, moving up to 13th place from 18th place last year.

As of April 2016 we introduced the National Living Wage for our colleagues aged 25 and over, and at the same time introduced our 20p supplement for all colleagues upon qualifying for Gear 1. This, combined with other changes to our pay structures, lifted the pay of all colleagues of the Halfords Group to above the minimum wage.

Case Study: 3-Gears training

In 2013 we launched '3-Gears', a qualification programme that trains and rewards colleagues for gaining expertise.

The programme is now well embedded and is absolutely core to our customer-centric, service-led proposition. 80% of our customers want some form of assistance with their purchases and so it is imperative that we have a team of engaged, friendly experts.

The three Gears represent the different stages of qualification:

- GEAR 1 – Gear 1 applies to all colleagues and is completed over their first three-month period with Halfords. We use structured e-learning modules that cover health & safety, processes & policies, retail skills and customer service. The outcome is that all store colleagues will be qualified to serve customers confidently and receive a pay award.
- GEAR 2 – Gear 2 involves a nine-month training programme which leads to an expert level of product knowledge, with a specialism in either motoring or cycling. Learning is through e-learning, in-store practical and face-to-face training programmes. There are regular refresher courses for Gear 2 colleagues and a pay award for those who attain this level.
- GEAR 3 – Gear 3 colleagues are our Technicians. They are product experts who are qualified to perform more advanced services. They keep their skills and knowledge current and market leading - through workshops, attending product and trade shows and by linking with and visiting suppliers. Our Technicians also receive industry recognised qualifications, continuous professional development and a pay award.

At the end of FY17 around 70% of our colleagues had qualified for Gear 2 and we had over 500 Gear 3 level colleagues.

There are many benefits of this investment in training. We have more multi-skilled colleagues, which means that rather than having one fitter per store, we have many colleagues capable of replacing bulbs, wiper blades or batteries, or child car seats, enabling us to meet demand. Customer satisfaction measures have also improved significantly, reflecting the focus on providing great service as well as enhanced technical and product knowledge. Colleague engagement has increased, evidenced by Halfords' listing in the Sunday Times Best Big Companies To Work For (13th place in 2017) and record low Retail colleague turnover of 33% at the end of FY17. Finally, we are also seeing the benefits in financial outputs. Service-related sales have grown strongly and in FY17 we undertook nearly 5 million in-store services, which equates to over 10,000 per store. We fitted five times as many dash cams in FY17 as we did the year before and we also achieved a sales growth in child car seats that was double the market growth rate.

> We have made great progress in our ability to match sales to customers during the year and also in understanding their behaviours better.
>
> Going forward, this will support us to raise awareness of our services, in-turn becoming more relevant to our customers and driving incremental sales.

Business Review

Building on Our *Uniqueness*

Exclusive products, relevant innovation and unique partnerships all strengthen our clear differentiation as a retailer.

During the year we introduced the following new initiatives and products:

- Launched a new range of mainstream adult *Carrera* and *Apollo* bikes, alongside a new and exclusive *Wiggins* range;
- Developed our capability of being a market-leading fitter of dash cams, differentiating us from online or generalist retailers;
- Launched our "safer seat" campaign helping customers to fit their child car seats with greater peace of mind;
- Enhanced our range of PACs for the Boardman brand, which won Best Bike brand in the prestigious BikeBiz 2017 awards, together with a host of other coveted industry awards;
- Launched an exclusive range of *Orla Kiely* camping and travel accessories; and
- Expanded our range of motorcycling parts and accessories.

Tradecard sales grew 14.6% in the year, supported by an enhanced central support team and from the enabling of cards to be used online for the first time.

Looking ahead to FY18 we have recently enhanced our range of e-bikes, a fast-growing segment of the cycling market, with an increased range of new own-brand e-bikes which have been rolled-out to almost all retail stores from around 120, since the start of April 2017. We will also be building our Boardman Performance Centre, due to open in 2018. This will be a revolutionary cycling research and development centre, including a wind tunnel and physiological testing and also provide access to the growing ranks of enthusiasts to test their capability alongside experts.

From a services perspective, in Motoring we will be launching an ad-blue top-up service and car key fob repair, which will both complement and enhance our existing offering.

Fast Fact*

1/4 million

kids unwrapped bikes from Halfords on Christmas Day

Case Study: Exclusive Ranges

Halfords occupies a unique position in the markets in which we operate and building upon this further strengthens our clear differentiation. Exclusive Ranges are a key part of this.

We have many exclusive ranges within Halfords, ranging from the *Halfords Advanced* own brand tool ranges, the Halfords own brand batteries and bulbs, to our bike brands such as *Apollo* and *Carrera*. In fact, around 80% of the bikes that we sell across the Group are exclusive to Halfords.

During the year we have continued to enhance our product ranges, including:

- New modular tool sets under our Halfords Advanced brand. These come with a lifetime guarantee and are becoming increasingly popular among professional and amateur mechanics alike.
- A partnership with Olympian and Tour de France champion, Sir Bradley Wiggins comprising an exclusive range of 10 high quality children's bikes ranging from a balance bike for toddlers to a junior road bike. The *Wiggins* collection of kids' bikes is Halfords' third venture with an Olympic champion. Halfords also owns the *Boardman Bike* brand launched by Chris Boardman MBE, and also launched the exclusive *Pendleton* range of women's bikes with double Olympic medallist, Victoria Pendleton.
- A partnership with fashion designer *Orla Kiely* to bring a new and exclusive Olive and Orange range to Halfords. The collection includes printed hybrid bikes, cycle accessories, as well as camping essentials for festival season.

In addition to product range enhancements we also continued to add to our range of services. We have over 30 in-store services across motoring and cycling. In FY17 we introduced two new motoring services: windscreen chip repair and motorcycle bulb and battery fitting. We also introduced new services in cycling, such as bike sizing using 'Smartfit' technology in our recently refreshed concept stores, as well as slime puncture proofing. We will be launching more in-store services across both motoring and cycling in the months ahead.

Business Review

Better *Shopping* Experience

During the year we evolved our Retail store refresh concept, opening the first of these in Derby in November 2016 and subsequently opening four more by the end of the financial year.

The previous store programme had been successful, delivering good sales uplifts, and therefore did not require fundamental changes.

However, we have updated the concept to reflect the *Moving Up A Gear* strategy and to incorporate advances in our customer insight and technological capabilities. The differences to the previous store refresh format include:

- Enhancements to reflect our growing service proposition, including customer waiting areas with coffee machines and more prominence placed on in-store services to raise awareness;
- Technological enhancements, including digital imaging bike fitting, dedicated hubs for service, technology, click & collect;
- Colleague headsets to enable better communication between colleagues supporting better customer service;
- A shop-in-shop feel with clear differences between the Motoring and Cycling sections; and
- New brand positioning internally and externally.

Early signs are very encouraging, both in terms of customer response and sales uplifts; the latter running at higher levels than achieved in the early days of the previous store refresh iteration. The priority for our first store in Derby was to establish a basic blueprint from which to roll out at an accelerated rate in FY18. We will continually evolve the concept, learning as we go and adding new features. We will also launch a “light” version, designed to bring some of the principles to stores that do not financially justify a full refresh. In total we anticipate refreshing around 30 stores in FY18.

During the year we successfully rolled-out the use of Apple Pay and contactless card payments across the Retail estate, thereby improving the in-store shopping experience for our customers. As at March 2017, around 50% of in-store transactions were completed using one of these new methods. We are also making great progress in mobile, with traffic up 31% in the year and one in three online orders made using a mobile device this year, compared to one in four last year.

During the year we also implemented a more agile approach to web development, whereby we complemented the core digital team at our Support Centre in Redditch with a separate web development team in central London.

This enabled us to accelerate the improvement of our websites during the year through the following means:

- Deploying code changes five times more frequently than in the prior year;
- Introducing a guided selling tool, helping customers reach a purchase decision through various questions;
- Redeveloping our mobile check-out process to provide a more seamless customer journey; and
- Making a series of incremental changes to drive conversion rates across our sites.

These changes, along with completing a number of site performance enhancements, supported the development of richer online content and enabled us to maintain our group website performance through peak periods.

By the year-end, Cycle Republic reached 15 stores and represented circa 1% of Group revenue. We opened 5 new stores during the year in Purley, Birmingham, Leeds, Southampton and Edinburgh. We are encouraged by the progress, with strong double-digit LFL sales growth and a successful launch of the transactional website in August 2016. Building on this success we will continue to roll out more stores and further develop the online presence. We anticipate opening around 5 stores in FY18.

We are very pleased with the performance of Tredz during the year, as sales have grown 22.0% year-on-year in the period since acquisition.

Case Study: Updated store refresh concept

Physical and IT infrastructure

Halfords is a service-led specialist retailer. This is reflected in some important statistics:

- 80% of our customers want some form of assistance with their purchases.
- Around 85% of customers shopping on Halfords.com collect their purchases in store.

This means our stores are absolutely central to our proposition and we need to continue to invest in them. In 2013 we embarked upon a store refresh programme and around 100 stores were refreshed in the subsequent three years. This programme was a success with positive customer feedback and sales uplifts that justified the capital investment.

Following the launch of our *Moving Up A Gear* strategy in November 2015 we decided to take another look at our refresh programme; evolving it to reflect improvements in customer data, branding and technological capability, and to showcase our key differentiators: service and services. In November 2016 we opened the first of these new refresh concepts in Derby. We have since refreshed a further four stores before the year end.

The key features of the refresh concept are:

- Greater focus on services, including in-store service menu and clearer signage;
- 'Park up and relax' lounge, where customers can sit and have a hot drink whilst waiting for services on their car or bike;
- Dedicated, covered fitting bays in the car park for on-the-spot bulb, blade and battery fittings and other services, such as windscreen chip repair;
- Electric car charging points, in support of the growing number of electric cars on the road;
- Dedicated hubs within the store for service, parts, technology and 'click & collect';
- Updated design principles, to reflect the "Halfords – For Life's Journeys" brand positioning that was launched in June 2016;
- An exciting new 'Smart Fit' centre that enables customers aged 8 and over to have their measurements taken virtually to find the perfect bike for them;
- Headsets to enable colleagues to communicate instantly regardless of whether they are inside or outside the shop; and
- Two distinct 'shops within a shop'. The cycling area has a softer feel, whilst the motoring area is more functional.

We are learning as we go and we'll be continually testing new concepts along the way. However we are encouraged by the initial response, both in terms of customer feedback and sales uplifts. We plan to refresh around 30 stores in FY18.

Business Review

Fit for *Future* Infrastructure

After a number of changes in the previous two years in our supply chain infrastructure, this year has been much more stable.

The delivery-to-store model is fully-embedded and working well, with resilient performance through the peak Black Friday and Christmas periods.

Leveraging these firm foundations we took the opportunity to review our warehousing arrangements resulting in the consolidation of a number of external storage units into a third distribution centre in Daventry, adding to our existing centres in Coventry and Redditch. This arrangement is broadly cost neutral but is more flexible and enables swifter replenishment of stores.

During the year we also joined up our stock systems, giving us a single view of stock for the first time. This enables better fulfilment of online purchases and improved availability in stores.

After a successful pilot we implemented Dayforce (our colleague resource planning system) in February and March 2017, removing eleven systems and replacing them with one tool that we now use across the Group. Colleagues and line managers can log into the system to view and change shifts, and the system enables us to better optimise scheduling of resource.

We continue to develop the i-Serve project to replace our till hardware and software. This is a major piece of IT change spanning stores and Autocentres. We are in pilot stage, including testing the mobile tablets and we anticipate rolling out to stores and Autocentres towards the end of FY18.

We remain focused on our successful We Operate For Less programme, delivering efficiency improvements. Examples of initiatives completed during the year include:

- A new stock put-away process, saving around 3 hours per store per week;
- Installing a Click & Collect cabinet at the front of shops, saving time for customers and colleagues;
- "*Jade*", a secure tool box positioned in the car park, saving around 2.5 hours per week for colleagues; and
- Rolling-out colleague headsets, enabling colleagues to share knowledge, free-up time and improve customer service.

Fast Fact*

Almost 5 million

fitting services completed during the year in our 460 Retail stores


SIDETRACK
SIDETRACK
SIDETRACK
SIDETRACK
GRAN JR.
GRAN JR.
GRAN JR.
FIRECHIEF
EXTINGUISHER

Corporate Social Responsibility

Our Corporate Social Responsibility ("CSR") strategy centres on four key areas:

Colleagues: finding, supporting and developing great people throughout their Halfords journey

Community: helping to keep families safer on their journeys and encouraging an active lifestyle

Environmental Management: managing our impact on the environment in a responsible and ethical manner

Responsible Trading: building and maintaining the highest standards amongst our suppliers

FTSE4Good

The CSR Policy is available at **www.halfordscompany.com/investors/governance**

Colleagues

Developing, rewarding and retaining our colleagues, ensuring they are fully engaged to drive our long term sustainable growth ambitions

c.10,000

Number of colleagues

80%

Employee Engagement Score

33%

Retail Colleague turnover

Awards:

halfords THE SUNDAY TIMES 30 BEST BIG COMPANIES TO WORK FOR 2017

2017 RetailWeek Awards Winner sponsored by salesforce

Colleagues:

Finding, supporting and developing great people throughout their Halfords journey

We aim to be an inclusive employer of choice, giving colleagues equal opportunities to prosper within rewarding and inspiring teams. We strive to ensure all colleagues enjoy their work and have opportunities to consistently amaze our customers through their friendly expertise. In support, we continue to invest in our '3-Gears', apprenticeship and leadership development programmes and actively look for ways in which we can promote and increase the diversity of our workforce.

A great place to work

For the fourth year running, Halfords Retail has featured in the 'Sunday Times 30 Best Big Companies' To Work For list, this year moving up five places to take 13th place and scoring in the upper quartile for questions relating to 'Recognition for my Contribution', 'Wellbeing', 'My Team' and 'My Manager'.

Friendly expertise

As a business, one of our central strategies is to offer great products that are delivered with great service. This is one of the five key strategic pillars of our business. We refer to it as 'Service in Our DNA'. To achieve the highest possible levels of service we invest heavily in training our colleagues. As part of this investment we have developed a qualification programme called '3-Gears'. This plays a key role in enabling retail colleagues to achieve industry recognised qualifications. They are rewarded as they progress 'through the gears' by gaining experience and qualifications.

All colleagues complete Gear 1 within three months of starting. Gear 2 involves a nine-month programme leading to an expert level of knowledge with a specialism in either Auto & Leisure or Cycling. By the end of FY17 we had nearly 70% of the eligible headcount trained to Gear 2 level. Colleagues can also complete Gear 3 if nominated which gives them 'technician' status in either Auto or Cycling and enables them to complete complex fits and repairs. So far, we have around 10% of eligible colleagues trained to Gear 3 level.

We continually enhance and update our training programmes. This year we delivered additional training following new car seat legislation and our colleagues who work in our in-store 'Bikehuts' benefited from specialist training on electric bikes (e-bikes).

In accordance with our aim to lead the way in the repair of electric and hybrid cars, we also began a programme to have a trained mechanic at each of our Autocentres in 2018. We were one of the first to deliver a new Institute of Motor Industry ("IMI") Level 2 award and our aim is to train more than 300 colleagues to become MOT testers every year.

We have a policy of continuous improvement to support ongoing development. We use a blended learning approach which encourages colleagues to attain more skills and progress their career throughout their Halfords journey. In 2017, thousands of colleagues took advantage of our ongoing development programmes. We operate a programme named 'Aspire', which is a guided learning suite that offers individuals the opportunity to take their careers further and become leaders. Since it began, 420 colleagues have benefited from the Aspire programme to graduate to new roles as an Assistant Manager or a Store Manager. One of the additional benefits of Aspire is that over 80% of store manager vacancies are filled internally.

Right job, right person, right time

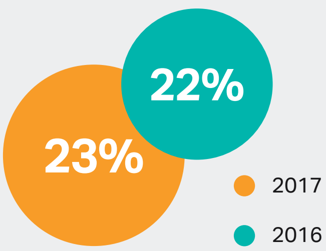
We recognise the value that diversity brings and we continue on our journey to address the balance in some inherently male-dominated areas. We understand that this will take time but in recent years we have made great progress on our gender strategy. Women now represent 50% of our Board, 40% of our senior management team and 23% of our total population of employees (which is an increase from 22% in 2016). We have also introduced development resources aimed specifically at supporting women.

In our retail business, we continue to invest in our apprenticeship programme and will be launching the new apprenticeship standards this academic year. In addition, our traineeship programme for NEETS (not in education, employment or training) has resulted in the placing of 159 trainees to date.

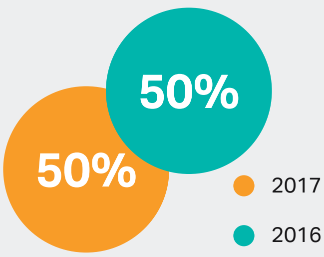
Our work at Onley Prison where we train inmates to build and repair bikes, with a view to offering future employment for those who successfully pass our qualifying criteria, has been a great success. We are very proud that this programme won Retail Week's 'CSR Initiative of the Year'. We have built on this success and during the year opened a second Cycle Academy at Drake Hall Women's Prison. Upon release, one of the graduates of our Cycle Academy started as a bike technician at one of our stores and is now training to be an assistant manager.

Diversity

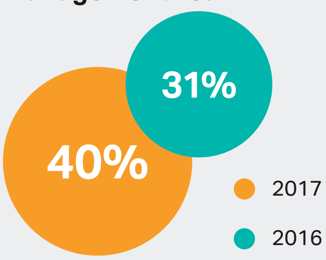
Total Women



Women on the Board



Women in Senior Management Team



Case Study: Scoring a try with Dallaglio RugbyWorks

> The scheme opened my eyes to a possible career path. I've got it all mapped out and found the direction I really needed. I found out about the scheme through school. I've always wanted to do something practical and have had an interest in cars so this seems ideal. Mason Kerry, Dartford

Halfords Autocentres began operating an apprenticeship scheme over 22 years ago and now runs one of the largest motor schemes in the UK, with 213 of the current cohort at differing stages of their three-year programme.

The true value of apprenticeships lies in how they provide people with the opportunity to develop skills that they might not have been able to achieve through education alone.

In 2016 the Autocentres team started working with Dallaglio RugbyWorks to take on young people who have participated in its social inclusion programme. The charity's coaches work with young people across the UK, between the ages of 14 and 17, who are outside of mainstream education.

Corporate Social Responsibility

Community

Using our knowledge and expertise to benefit the communities around us

over 30,000

People benefited from free workshops

Community:

Helping to keep families safer on their journeys and encouraging an active lifestyle

We know that parents recognise the great benefits that are derived from cycling, but we are also aware that they can be concerned about it because they want to ensure it is as safe as possible and that both they, and their children, are able to fix things should any problems occur. To improve their confidence in these areas we have organised workshops where our colleagues can share their knowledge and expertise and so give customers the confidence to get out on their bikes. The majority of workshops focus on primary school children, an age when they are often starting to cycle without adults and are also doing the 'Bikeability' programme.

Kids bike workshops

In FY17, over 18,500 children and their parents attended free in-store bike workshops. These workshops significantly help to improve their skills in basic bike maintenance and cycling safely, giving parents and children greater confidence to go out cycling more.

School bike workshops

Our colleagues also went out to primary schools to teach bike maintenance and safety to pupils in their final year. Complementing the Government scheme known as 'Bikeability', which teaches children how to ride a bike safely, our 'Gear-Up' workshops teach basic bike maintenance and so help children to cycle more safely by recognising, and so being able to avoid, safety hazards. These are important skills for pupils who are preparing to make the transition to secondary school. Over 5,100 pupils benefited from the programme in FY17.

Partnering with organisations

British Cycling's Breeze

We understand the fear many adults have of getting back on a bike after years out of the saddle so, to help, we partnered with British Cycling's Breeze network. In addition to promoting the women's network to customers on our website and through emails, in FY17 we ran bike maintenance workshops in partnership with Breeze, with over 1,600 women attending. The partnership has also provided the opportunity for colleagues to become Breeze champions.

Cub bike workshops

Through our partnership with the Scouts Association, in FY17 we helped over 3,300 Cubs achieve their Cyclist Activity Badge. In addition to running an in-store workshop, a resource pack also supports Cub Leaders, guiding them through requirements for Cubs to achieve their cycle badge.

Case Study: School kids 'wheeling for joy' with free bikes from Halfords

For some families, buying a bike can be too much of a stretch when they've got other, more immediate household bills to pay. To help address this, schools across the country are benefiting from a scheme to help encourage more children, who may not necessarily have access to bikes, to cycle.

In a virtuous cycle the bikes are donated by members of the public, they are then re-conditioned at one of our cycle workshops in Onley and Drake Hall prisons, which train prisoners to be professional cycle mechanics, before being donated along with new helmets to disadvantaged schools.

So far, over 400 bikes have been donated.

Corporate Social Responsibility

Environment

The environmental resources Halfords uses in its operations.

94%

Retail waste diverted from landfill

91%

Autocentres waste diverted from landfill

274,000

Batteries recycled by Retail and Autocentres

30,000

Bikes recycled to date

Fast Fact*

An additional 5

new Cycle Republic shops were opened in the year

Environmental Management:

Managing our impact on the environment in a responsible and ethical manner

We know that our work has an impact on the environment and that we have a duty to manage that impact in a responsible and ethical manner. We do this through identifying all significant environmental impacts and putting processes into place to prevent, reduce and mitigate them. To meet our commitment of protecting the environment, we aim to:

- comply with all relevant environmental legislation;
- operate our business in a way that protects the environment;
- promote environmental awareness to colleagues and enlist their support in improving the Company's performance with training and instruction;
- minimise waste by making sure processes are as efficient as possible;
- look to reduce energy and water usage;
- promote recycling internally and with our suppliers and customers;
- minimise the environmental impact of our logistics activities; and
- continually develop our environmental management system.

Global Greenhouse Gas Emissions

Global Greenhouse Gas Emissions[1]	2016 tCO_2E	**2017 tCO_2E**
Retail Combustion of Gas	6,488.28	**7,035.65**
Autocentres Combustion of Gas	3,329.25	**3,339.91**
Cars on Company Business[2]	889.22	**911.45**
Retail Directly Purchased Electricity	28,507.45	**18,448.01**
Autocentres Directly Purchased Electricity	4,648.26	**3,379.41**
TOTAL	**43,862.46**	**33,114.43**
Company's Chosen Intensity Measurement: tCO_2E per £1m Group Revenue	42.90	**30.24**

1. Carbon Trust Conversion Factors Energy and Carbon Conversions 2016 update
2. An estimate based on previous usage, taking as a basis the Average Petrol Car and Diesel Car Carbon Trust Conversion Factors Energy and Carbon Conversions 2013 update

Case Study: Testing environmental enhancements

The opening of our new Derby store, to begin testing different concepts, provided an opportunity to introduce new environmental features, including:

- LED lights throughout on motion and daylight sensors;
- back of house lights on motion sensors, warehouse lights also include auto dimming to help reduce energy consumption levels; and
- air movement fans – low energy/high performance air movement fans installed, reducing running costs and moving air more efficiently.

Case Study: Smart Solutions

In 2013, we introduced national trade-in events. These are run in addition to our ongoing bike donations at over 75 shops.

We invite customers to donate their unwanted bikes to charity and so support a sustainable and life changing cause. Our core charity partner is Re~Cycle, who divert unwanted bikes from landfill/disuse and donate them to people and communities both in the UK and in Africa. This programme really does transform the lives of those who benefit from it.

In February 2017, a team of colleagues from Halfords, who had won our 'Journey of a Lifetime' competition, went to see for themselves the benefit that the donated bikes have provided. Fundraising, collecting bikes, loading a container and following it over to Gambia, they met with partners there on the ground, as well as delivering bike workshops to local children. Commenting on the adventure, the team's leader Stephen Roche, said: "It was a fantastic experience and great to see the real difference every single bike makes. We loved the trip from start to finish!" Our partnership with Re~Cycle has raised nearly £400,000 and has changed the lives of over 180,000 people in Africa from the 30,000 bikes donated, diverting over 450 tonnes from potential landfill waste.

Responsible Management

Building and maintaining the highest standards amongst our suppliers

Responsible Trading:

Building and maintaining the highest standards amongst our suppliers

We are committed to maintaining the highest standards amongst our suppliers. We are strongly opposed to the exploitation of workers and we will not tolerate forced labour, or labour which involves physical, verbal or psychological harassment, or intimidation of any kind.

We will not accept human trafficking or the exploitation of children and young people in our business and undertake all possible steps to ensure that these high standards are maintained. We regularly review related policies to ensure that they remain up-to-date and fit-for-purpose.

Read more online at www.halfordscompany.com/investors/governance

Chief Financial Officer's Review

Financial Resources

Generating returns for our stakeholders through effective management of our financial resources.

£1,095.0m

Group revenue

£75.4m

Underlying Group profit before tax*

30.3p

Underlying Basic earnings per share*

Fast Fact*

130%

Increase in electric bike sales during the year

Fast Fact*

46%

Increase in dash cam sales during the year

Jonny Mason
Chief Financial Officer

> Group revenue in FY17 at £1,095.0m, was up 7.2% and comprised Retail revenue of £938.4m and Autocentres revenue of £156.6m.

Reportable Segments

Halfords Group operates through two reportable business segments:

- Retail, operating in both the UK and Republic of Ireland; and
- Autocentres, operating solely in the UK.

All references to Retail represent the consolidation of the Halfords ("Halfords Retail") and Cycle Republic businesses, Boardman Bikes Limited and Boardman International Limited (together, "Boardman Bikes"), Tredz Limited and Wheelies Direct Limited (together, "Tredz and Wheelies") trading entities. All references to Group represent the consolidation of the Retail and Autocentres segments.

The FY17 accounting period represents trading for the 52 weeks to 31 March 2017 ("the financial year"). The comparative period FY16 represents trading for the 52 weeks to 1 April 2016 ("the prior year").

Alternative Performance Measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures (APMs).

* These APMs are defined within the Key Performance Indicators table on page 18.

Group Financial Results

	52 weeks Ended 31 March 2017 £m	52 weeks Ended 1 April 2016 £m	52 week change
Revenue	**1,095.0**	1,021.5	+7.2%
Gross Profit	**558.6**	543.1	+2.9%
Underlying EBIT*	**77.1**	84.5	-8.8%
Underlying EBITDA*	**108.7**	114.6	-5.1%
Net Finance Costs, before non-recurring items	**(1.7)**	(3.0)	
Underlying Profit Before Tax*	**75.4**	81.5	-7.5%
Profit Before Tax, after non-recurring items	**71.4**	79.8	-10.5%
Basic Underlying Earnings per Share*	**30.3p**	33.2p	-8.7%

* Definitions to these Alternative Performance Measures are shown on page 18

Group revenue in FY17, at £1,095.0m, was up 7.2% and comprised Retail revenue of £938.4m and Autocentres revenue of £156.6m. This compared to FY16 Group revenue of £1,021.5m, which comprised Retail revenue of £868.5m and Autocentres revenue of £153.0m. Group gross profit at £558.6m (FY16: £543.1m) represented 51.0% of Group revenue (FY16: 53.2%), reflecting a decrease in the Retail gross margin of 260 basis points ("bps") to 48.6% partially offset by an increase in the Autocentres gross margin of 80 bps to 65.1%.

Total Operating Costs before non-recurring items increased to £481.5m (FY16: £458.6m) of which Retail represented £379.8m (FY16: £363.0m), Autocentres £99.8m (FY16: £94.5m) and unallocated costs £1.9m (FY16: £1.1m). Unallocated costs represent amortisation charges in respect of intangible assets acquired through business combinations, namely the acquisition of Autocentres in February 2010, Boardman Bikes in June 2014 and Tredz and Wheelies in May 2016, which arise on consolidation of the Group.

Group Underlying EBITDA* decreased 5.1% to £108.7m (FY16: £114.6m), whilst net finance costs before non-recurring items were £1.7m (FY16: £3.0m). Group Underlying EBITDA margin, one of our financial targets, was 9.9% (FY16: 11.2%).

Underlying Profit Before Tax* for the year was down 7.5% at £75.4m (FY16: £81.5m). Non-recurring items of £4.0m (FY16: £1.7m) across Retail and Autocentres related primarily to costs associated with the acquisition of Tredz and Wheelies and investment in TyresOnTheDrive.com, the settlement of a historic legal case and organisational restructure costs. After non-recurring items, Profit Before Tax in the year was £71.4m (FY16: £79.8m).

Retail

	52 Weeks Ended 31 March 2017 £m	52 Weeks Ended 1 April 2016 £m	52 week change
Revenue	**938.4**	868.5	+8.0%
Gross Profit	**456.6**	444.8	+2.7%
Gross Margin	**48.6%**	51.2%	-260bps
Operating Costs	**(379.8)**	(363.0)	+4.6%
Underlying EBIT*	**76.8**	81.8	-6.1%
Non-recurring items	**(3.1)**	(1.2)	
EBIT after non-recurring items	**73.7**	80.6	-8.6%
Underlying EBITDA*	**101.1**	106.0	-4.6%

* Definitions to these Alternative Performance Measures are shown on page 18

Chief Financial Officer's Review

Revenue for the Retail business of £938.4m reflected a like-for-like ("LFL")* sales increase of 3.1%. Non-LFL sales, including five new Cycle Republic store openings since the prior year, and the acquired Tredz and Wheelies businesses contributed £53.3m revenue in the year.

Motoring sales represented 62.0% of Retail sales and LFL grew by 2.0%. Car Maintenance LFL revenues increased by 3.1%, reflecting strong growth in the sale and fitting of bulbs, blades and batteries ("3Bs") and good growth in workshop products, particularly the increasingly popular *Halfords Advanced* range to which we added new products during the year. Our new motorcycling parts and accessories ranges also performed well.

Car Enhancement LFL revenues declined by 2.8% reflecting the continued decline in the market for sat navs. This was partially offset by excellent growth in dash cams, with our range authority and increasingly popular fitting service consolidating our market-leading position in this category. Car cleaning also performed well, supported by new product ranges such as Christmas gift packs. Travel Solutions LFL revenues increased 7.9% LFL, driven by strong growth in roof bars, roof boxes, cycle carriers and child car seats.

Cycling sales grew by 5.1% on a like-for-like basis and 18.2% in total after including new Cycle Republic stores and the acquisition of Tredz and Wheelies. The like-for-like growth was driven by strong performances across each of the sub-categories of bikes, Parts, Accessories and Clothing ("PACs") and repair.

Bike sales were supported by the relaunch of our Apollo and Carrera mainstream cycle ranges and the launch of the exclusive Wiggins range, as well as the cycling promotion and favourable weather in the peak summer period. Cycle Republic sales grew by strong double-digit LFL and we opened 5 new stores.

Revenues for the Retail business (including Boardman Bikes and Tredz & Wheelies) are split by category below:

	52 weeks Ended 31 March 2017 (%)	**52 weeks Ended 1 April 2016 (%)**	**FY17 LFL* revenue movement**
Cycling	**38.0**	**34.3**	**+5.1%**
Motoring	**62.0**	**65.7**	**+2.0%**
– Car Maintenance	31.4	32.9	+3.1%
– Car Enhancement	19.0	21.6	-2.8%
– Travel Solutions	11.6	11.2	+7.9%
Total	**100.0**	**100.0**	**+3.1%**

Gross profit for the Retail business at £456.6m (FY16: £444.8m) represented 48.6% of sales, 260 bps down on the prior year (FY16: 51.2%). This movement is explained as follows:

- Circa 80 bps decline from the inclusion of Tredz and Wheelies, which operate in the lower-margin-percentage but higher average selling price category of premium cycling;
- Circa 150 bps from the gross impact of the depreciation of Sterling against the US Dollar; and
- Circa 30 bps decline from the adverse mix impact of faster cycling sales growth and the cycling promotion in the first half, partially offset by the favourable mix impact from service-related sales and the FX mitigation measures, which started to take effect towards the end of the year.

Operating Costs before non-recurring items were £379.8m (FY16: £363.0m) and, improved as a percentage of Retail sales from 41.8% in FY16 to 40.5% in FY17. The breakdown of costs is set out below:

	52 weeks Ended 31 March 2017 £m	52 weeks Ended 1 April 2016 £m	Change
Store Staffing	**110.2**	103.0	+7.0%
Store Occupancy	**138.6**	138.3	+0.2%
Warehouse & Distribution	**45.4**	45.7	-0.7%
Support Costs	**77.4**	76.0	+1.8%
Total Operating Costs before Tredz and Wheelies and non-recurring items	**371.6**	363.0	+2.4%
Tredz & Wheelies Costs	**8.2**	—	—
Total Operating Costs before non-recurring items	**379.8**	363.0	+4.6%

Store Staffing costs increased by 7.0% and reflected the changes in pay rates, principally driven by the uplift from the National Living Wage and Gears pay increments, together with the increase in trading volumes leading to incremental investment in store hours. The opening of 5 Cycle Republic stores also contributed to the increase.

Store Occupancy costs increased by 0.2%, reflecting broadly flat rent and rates costs on the existing estate with incremental costs arising from new Cycle Republic stores.

Warehouse & Distribution costs decreased by 0.7%, driven by cost savings in the first half when the more efficient 3-day-a-week delivery-to-store schedule annualised against the 5-day-a-week model operating at the start of the previous year.

Support Costs increased by 1.8% due to higher depreciation charges on non-store-related capital expenditure and a modestly increased marketing spend. Tredz and Wheelies added £8.2m of operating costs since acquisition. Going forwards these costs will be allocated to the cost categories presented in the table above.

Autocentres

	52 Weeks Ended 31 March 2017 £m	52 Weeks Ended 1 April 2016 £m	52 week change
Revenue	**156.6**	153.0	+2.4%
Gross Profit	**102.0**	98.3	+3.8%
Gross Margin	**65.1%**	64.3%	+80bps
Operating Costs	**(99.8)**	(94.5)	+5.6%
Underlying EBIT*	**2.2**	3.8	-42.1%
Non-recurring items	**(0.3)**	(0.5)	
EBIT after non-recurring items	**1.9**	3.3	-42.4%
Underlying EBITDA*	**7.6**	8.6	-11.6%

* Definitions to these Alternative Performance Measures are shown on page 18

Autocentres generated total revenues of £156.6m (FY16: £153.0m), an increase of 2.4% on the prior year with a LFL revenue increase of 0.6%. Online-booking revenues grew 29.1% in the year. Gross profit at £102.0m (FY16: £98.3m) represented a gross margin of 65.1%; an increase of 80 bps on the prior year, reflecting improved margins across Service, MOT, repair and tyres.

Autocentres' underlying EBITDA* of £7.6m was 11.6% lower than FY16 (FY16: £8.6m), with the upside in gross profit offset by continued cost investments as part of the long-term growth plans. Underlying EBIT* was £2.2m (FY16: £3.8m).

As referred to in the CEO Statement, we are dissatisfied with the financial results for the year and are taking a number of actions to improve performance.

As part of pre-existing strategic plans we have taken the decision to cease participation in a tyre affiliate programme, having determined that it was generating insufficient net profit for the workload capacity that it consumed in our centres.

We anticipate the impact of this to result in a decline in LFL sales in FY18, accompanied with an improvement in gross margin percent, such that there is a net profit benefit year-on-year from this initiative.

Portfolio Management

The Retail store portfolio at 31 March 2017 comprised 479 stores (end of FY16: 472).

The following table outlines the changes in the Retail store portfolio over the year:

	Number	Stores
Relocations	7	Aylesbury, Warrington, Crewe, Chichester, Hull Clough Road, Derby (Kingsway), Sutton Coldfield
Lease re-gears	29	Brentwood, Newcastle-under-Lyme, Erdington, Merry Hill, Pontefract, Carmarthen, Sunbury, Burgess Hill, Harrow, North Shields, Yate, Salisbury, Braehead, Sutton, West Wickham, Croydon (Windmill Rd), Newhaven, Redhill, Newton Abbot, Gosport, Sheldon, Bridgwater, Twickenham, Bournemouth, Bath, Hounslow, Bridgend, Huntingdon, Bradford
Rightsizes	2	Altrincham, Tonbridge
Openings	6	Purley Way (Cycle Republic,"CR"), Birmingham (CR), Wimbledon Plough Lane, Leeds (CR), Edinburgh (CR), Southampton (CR)
Closures	3	Mitcham, Wimbledon Broadway, Hastings
Acquired (Tredz)	4	Cardiff, Swansea (2), Cross Hands

Of the six openings in the Retail portfolio, five were Cycle Republic. Management anticipates opening around five Cycle Republic stores in FY18.

17 Retail stores were refreshed in the year (FY16: 25) and management anticipates refreshing 30 in FY18.

Five new Autocentres were opened and six were closed during the year, taking the total number of Autocentre locations to 313 as at 31 March 2017 (end of FY16: 314). 16 Autocentres were refreshed in the year (FY16: 24).

With the exception of eight long leasehold and two freehold properties within Autocentres, the Group's operating sites are occupied under operating leases, the majority of which are on standard lease terms, typically with a 5 to 15-year term at inception and with an average lease length of less than 7 years.

Chief Financial Officer's Review

Net Non-recurring Items

The following table outlines the components of the non-recurring items recognised in the year:

	FY17 £m	FY16 £m
Organisational restructure costs	**(0.6)**	(1.7)
Costs in relation to a historic legal case	**(0.8)**	—
Acquisition and investment related fees	**(1.7)**	—
Operating lease obligation	**(0.3)**	—
Net non-recurring operating expenditure	**(3.4)**	(1.7)
Acquisition related interest charge	**(0.6)**	—
Net non-recurring items	**(4.0)**	(1.7)

In the current and prior year £0.6m and £1.7m of costs were respectively incurred in relation to separate and unrelated organisational restructuring initiatives across Autocentres and Retail.

During the year a court case was settled relating to activities during FY12, resulting in costs of £0.8m.

Acquisition costs of £1.7m (FY16: £nil) in the period related to the costs associated with the purchase of the entire share capital of Tredz and Wheelies, and the minority investment in TyresOnTheDrive.com. The interest element relates to the unwinding of the discounting applied to the contingent consideration due on the acquisition of Tredz, which will be paid in the first half of FY18.

The operating lease obligation of £0.3m in FY17 related to rectification work unique to one of the Group's retail stores, which was required to make good an area of land upon which the store is located.

Net Finance Costs

The Net Finance Costs excluding acquisition related interest charge for the year was £1.7m (FY16: £3.0m). The primary driver of the lower costs was £1.4m income (FY16: £0.1m expense) in relation to points on foreign exchange forward contracts.

Taxation

The taxation charge on profit for the financial year was £15.0m (FY16: £16.3m), including a £0.9m credit (FY16: £0.3m credit) in respect of non-recurring items. The effective tax rate on profit before tax and non-recurring items of 21.0% (FY16: 20.5%) was higher than the UK corporation tax rate (20.0%) principally due to the effect of non-deductible depreciation and amortisation charged on capital expenditure. For FY18 we anticipate the effective tax rate to be circa 20%.

Earnings Per Share ("EPS")

Underlying Basic EPS* was 30.3 pence and after non-recurring items 28.7 pence (FY16: 33.2 pence, 32.5 pence after non-recurring), an 8.7% and 11.7% decrease on the prior year. Basic weighted-average shares in issue during the year were 196.6m (FY16: 195.2m).

Dividend

The Board has recommended a final dividend of 11.68 pence per share ("DPS") (FY16: 11.34 pence), taking the full year ordinary dividend to 17.51 pence per share, an increase of 3.0%. If approved the final dividend will be paid on 25 August 2017 to shareholders on the register at the close of business on 4 August 2017. Including the 10.00 pence special dividend paid in February 2017 the total full year dividend is 27.51 pence.

We continue to target coverage of around 2 times on average over time. However, the impact of adverse FX movements will reduce cover initially until fully mitigated, which will take some time.

Capital Expenditure

Capital investment in the year totalled £36.1m (FY16: £40.3m) comprising £29.5m in Retail and £6.6m in Autocentres. This total includes £1.8m of assets capitalised through the acquisition of Tredz & Wheelies in May 2016.

Within Retail, £11.5m (FY16: £13.4m) was invested in stores, including 17 store refreshes, 9 of which were also store relocations or right-sizes, 5 new Cycle Republic stores as well as general capital spend relating to training rooms, roofing, flooring and heating. By the end of FY17, 114 (FY16: 87) stores were trading in either the latest or preceding refresh format. Additional investments in Retail infrastructure included a £12.5m investment in IT systems, such as continual development of the online Retail proposition, the 'Dayforce' integrated people management solution, development of the 'iServe' till hardware and software project, and a Cycle Republic website.

The £6.6m (FY16: £8.2m) investment in Autocentres comprised the opening of 5 centres in the year (FY16: 11) along with an investment in refreshing centres and new equipment.

On a cash basis, total capital expenditure in the year was £34.4m (FY16: £38.5m).

In FY18 we anticipate capital expenditure to be circa £40m, split broadly half on store refreshes and half on IT investments. We anticipate the Group depreciation and amortisation charge to be circa £33m for FY18.

Inventories

Group inventory held as at the year-end was £191.1m (FY16: £157.9m). Retail inventory increased to £189.8m (FY16: £156.6m) comprising c. £14m from the impact of foreign exchange, c. £13m stock build for Easter and new ranges (such as e-bikes, launched in the final week of the year) and £5.9m Tredz & Wheelies inventory. Autocentres' inventory was £1.3m (FY16: £1.4m).

Cash flow and Borrowings

Operating Cash Flow** during the year was £90.0m (FY16: £103.7m). Free Cash Flow*** of £37.7m (FY16: £45.4m) was generated in the year. Group Net Debt* was £85.9m (FY16: £47.9m), with the Net Debt to Underlying EBITDA ratio* at 0.8:1.

* Definitions to these Alternative Performance Measures are shown on page 18

** Operating Cash Flow is defined as Underlying EBITDA plus share based payment transactions and loss on disposal of property, plant and equipment, less working capital movements and movements in provisions.

*** Free Cash Flow is defined as Operating Cash Flow (as defined above) less capital expenditure, net finance costs, taxation and fair value gain on derivatives.

Financial Targets

We continue to apply four key financial targets, which we reaffirm and appraise ourselves against below:

	DESCRIPTION	FY17 PERFORMANCE
1	**Grow sales faster than the markets** in which we operate. We continue to anticipate that the motoring market will grow at an average rate of 2-3% per annum and the cycling market at an average rate of 3-5% per annum over the medium term. We will aim to beat whatever those growth rates are.	In Retail we gained share in both motoring and cycling. In Autocentres we gained share on a total sales basis, whilst the operational changes had a short-term impact on like-for-like performance.
2	**Maintain Group EBITDA % margin roughly flat** as we continue to invest for sustainable growth. The impact of adverse FX movements will reduce margin initially, until fully mitigated, which will take some time.	Group EBITDA margin was 9.9% (FY16: 11.2%). Excluding the impact of adverse foreign exchange movements, EBITDA margin was broadly flat in FY17 compared to FY16.
3	**Grow the dividend per share every year**, with coverage of around 2 times on average over time. The impact of adverse FX movements will reduce cover initially, until fully mitigated, which will take some time.	The Board has proposed a final dividend of 11.68p, which would take the full year dividend to 17.51p, an increase of 3.0% on the previous year.
4	**A debt target of 1.0x Underlying EBITDA with a range of up to 1.5x** to allow for appropriate M&A. We anticipate moving towards the debt target over time.	We have moved from 0.4x to 0.8x net debt to Underlying EBITDA in FY17 through the consistent application of our capital allocation priorities which resulted in M&A of circa £22m and a special dividend of circa £20m.

Brexit

The decision of the UK to leave the European Union ("Brexit") presents significant uncertainties to the Group as a result of the impact on the wider UK economy. The main areas in which Brexit is likely to impact the Group are as follows:

- Impact on foreign currency exchange rates – the value of Sterling fell by nearly 20% since FY16. The Group buys a significant proportion of its goods in US Dollars; between $250m and $300m a year. At a spot rate of £1:$1.25 the total FX headwind pre mitigation is nearly £50m of annual cost inflation compared to the FY16 average rate flowing through cost of sales of $1.60. Our hedging programme means that this phases into our P&L roughly as follows: circa £14m in FY17, a further circa £25m in FY18 and a further circa £10m in FY19. Good progress is being made on FX mitigation, through supplier negotiations, operational efficiencies and pricing. We are seeing prices rise in the cycling market, both from suppliers into retailers and then onto customers. Some of our prices have also risen, but we continue to look to maintain good value against the competition. It is early days and we are yet to see how wider cost inflation impacts on consumer spending more generally, however we are encouraged by the limited volume impact observed to date. We continue to anticipate that we will fully recover the FX impact over time.
- Prolonged uncertainty over exit terms and continued weakness in Sterling could lead to a slowdown in the UK economy, and consequent loss of consumer confidence, impacting trading conditions for the Group. However, Halfords has strong positions in fragmented Motoring and Cycling markets, and a service-led offer that differentiates us from our competitors, physical and online. Much of our sales are in needs-based categories that are more resilient to macro-economic cycles and our discretionary categories, such as cycling, camping and travel solutions, could benefit from an increase in the number of people choosing to stay at home rather than holidaying abroad; a trend that we observed in 2009.

Principal Risks and Uncertainties

The Board considers risk assessment, identification of mitigating actions and internal control to be fundamental to achieving Halfords' strategic corporate objectives. In the Annual Report & Accounts the Board sets out what it considers to be the principal commercial and financial risks to achieving the Group's objectives. The main areas of potential risk and uncertainty in the balance of the financial year are described on pages 42 to 47 and note 21 of the Annual Report and Accounts. These include:

- Economic risks; including market risks
- Business strategy risks
- Competitive risks
- Compliance
- Supply chain disruption
- Product and service quality
- Information technology systems and infrastructure; and
- Dependence on key management personnel

Specific risks associated with performance include Christmas trading as well as weather-sensitive sales, particularly within the Car Maintenance and Cycling categories in the Retail business.

Jonny Mason
Chief Financial Officer
24 May 2017

Our Principal Risks and Uncertainties

Like all businesses, our Group faces risks and uncertainties that could impact the achievement of the Group's strategy. These risks are accepted as being a part of doing business. The Board recognises that the nature and scope of these risks can change and so regularly reviews them as well as the systems and processes to mitigate them.

Our corporate risk register is maintained by the Head of Internal Audit and Risk and is regularly updated following discussions with executives and senior management. It is subject to an annual in-depth review by the Audit Committee. The Audit Committee is also alerted to any material changes to the register at each of its meetings. The Board is regularly updated on Audit Committee proceedings.

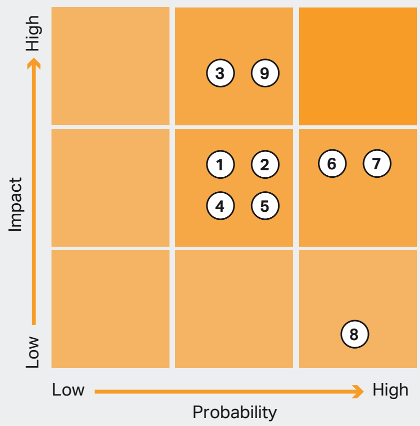
The Directors have therefore carried out a robust assessment of the principal risks facing the Company, including those that would threaten the business model, future performance, solvency or liquidity. The Corporate Governance Report on pages 58 to 69 further discusses the Board's responsibilities in relation to risk management and internal control systems.

Senior management colleagues assess risks on a department-by-department basis using a variety of techniques to identify risk. The likelihood and impact of these risks are considered and scored against a recognised framework dependent upon their effect on the achievement of our corporate objectives. Responsibility for taking the necessary actions to manage risk is delegated to appropriate colleagues in the business, with executive manager sponsor involvement.

Mindful of corporate strategy, executive management and the Board consider the risks reported within the risk register and review and monitor new risks and all mitigating actions to ensure that the Group's appetite for risk is not exceeded. The Board recognises that each of its strategic pillars could be compromised by any of the risks set out below. Individual '*Moving Up A Gear*' initiatives are reliant on some of the mitigations identified. For example, 'Service in Our DNA' delivery is reliant on full utilisation of our online training system and on our ability to attract and retain good colleagues. 'Better Shopping Experience' is reliant on our continuing investment in modernisation of our stores.

The Group has discussed its risk register with its insurance broker and ensures that it has cover to help to mitigate significant risks where practicable and cost-effective.

Specific financial risks (e.g. liquidity, foreign currency) are detailed in note 21 to the Financial Statements on page 133.



Key Risk and Uncertainty

1. **Economic, Environmental and Political**
2. **Business Strategy**
3. **Competition**
4. **Compliance**
5. **Supply Chain Disruption**
6. **Product and Service Quality and Brand Reputation**
7. **Information Technology ("IT") Systems and Infrastructure**
8. **Dependence on Key Management Personnel**
9. **Financial Risk**

Risk Management Framework

Board and Audit Committee

Overall oversight of risk management and internal control framework

- Full annual review of effectiveness of risk management and internal control systems, corporate risk register, and risk appetite undertaken by Audit Committee with assessment delivered to Board for approval
- Update on changes to risk and internal control environment presented by Internal Audit to Audit Committee at each meeting

Whistleblowing process

Regular KPI reporting

Regular management presentations to Board and Audit Committee

Internal Audit Reports

Corporate Risk Register

Shops, Workshops, DCs and Customer Facing Businesses

First Line of Assurance

Operate within agreed policies and procedures e.g.:

- Delegated Authorities ('How We Do Business')
- Quality Standards
- Retail Guidelines ('Retail Basics')
- Health and Safety Policies
- Colleague Handbooks

Regular oversight

Performance monitoring

Corporate Functions

Second Line of Assurance

- Identify developments in risk and internal control environment
- Develop and implement strategy, policies and procedures to manage risk

Internal Audits

Risk and internal control analysis

Internal Audit

Third Line of Assurance

- Independently review quality of key internal controls and mangement assessment of risk
- Challenge management to drive up quality
- Maintain corporate risk register

Internal Audits
Risk and internal control analysis

Key Risk and Uncertainty	Mitigation	Primary Links to *Moving Up A Gear* Strategy Pillar	Risk Movement
1. Economic, Environmental and Political			
The economy is a major influence on consumer spending. Trends in employment, inflation, taxation, consumer debt levels, weather and interest rates impact consumer expenditure in discretionary areas. Changes in Government policies (e.g. Cycle to Work) may also affect our customers' ability to benefit from our products and services. Withdrawal from the EU may have an impact on consumer spending, please refer to page 41 for further information.	The Group mitigates these risks by maintaining a focus on the 'defensive' characteristics of its 'needs driven' product groups. A firm focus is maintained on cost control. Targeted promotions and excellent service are designed to attract and retain customers. Advanced econometric modelling is used to understand the effect of weather conditions on our business and we ensure that marketing and merchandising can be revised quickly. We also ensure that we have representation with Governmental decision-makers in the areas supporting our core categories, both directly and through membership of trade bodies.		→
2. Business Strategy			
The aim of the Group's business strategy is to deliver long-term value to our shareholders. The Board understands that if the strategy and vision are inappropriately formulated, communicated, or executed then the business will suffer. Key investments and acquisitions could fail to deliver sufficient returns. The Autocentres and Cycle Republic businesses, and our new acquisitions, could fail to meet growth expectations.	The Group has set out its '*Moving Up A Gear*' strategy. Strategic issues are regularly reviewed at Board meetings. Regular assessment is made to ensure that strategy remains appropriate, and that the business is making progress in meeting its strategic objectives. KPIs relating to strategy have been communicated clearly, both within the business and to the market. These KPIs are regularly discussed by the Board. Our budget process recognises the importance of strategic initiatives. The Group has delegated authorities processes to approve significant investments, including review by an Investment Committee and the Board. We have recently created the post of 'Business Transformation Director', an executive level role with a Group-wide remit to oversee strategic project management. Autocentres, Cycle Republic and our new acquisitions have dedicated, experienced management teams supported by appropriate infrastructure and allocated resources. The businesses have their own websites. The performances of these businesses are closely monitored by the Board.		→

Key to strategic pillars

Putting Customers in the Driving Seat

Service in Our DNA

Building on Our Uniqueness

Better Shopping Experience

Fit for the Future Infrastructure

Key to risk movement

↑ Risk increasing

→ No risk movement

↓ Risk decreasing

Our Principal Risks and Uncertainties

Key Risk and Uncertainty	Mitigation	Primary Links to *Moving Up A Gear* Strategy Pillar	Risk Movement
3. Competition			
The retail industry is highly competitive and dynamic. The Group competes with a wide variety of retailers of varying sizes and faces competition from UK retailers, in both shops and online, as well as international operators. The car servicing market is a service-based market with a number of different-sized providers where trust is extremely important to customers. Failure to compete with competitors on areas including price, product range, quality, service and trustworthiness could have an adverse effect on the Group's financial results.	The Board is aware of the risks faced from UK retailers both in-shop and online, and from the national car-servicing networks and smaller independents. We have a significant investment programme to support '*Moving up A Gear*'. The investment programme is allowing us to improve the service we provide to customers by improving the quality of our shops, IT infrastructure, training and website (including optimisation for mobile and tablet devices). Excellent service is fundamental to differentiating ourselves from our competitors. We are increasing the number of sales that we are able to associate with individual customers. The national geographical coverage of our shops underpins our 'Click & Collect' offering. Our WeFit service is a key differentiator. Our Cycle Repair and extended Parts, Accessories and Clothing range offer confirm our credibility within the Cycling market. The Group seeks to continually strengthen its 'own-brand' retail offer and develop opportunities to differentiate the Halfords brand, including TV, radio, press and social media advertising. We also have high profile partnerships to market brands like '*Pendleton*', '*Wiggins*', '*Boardman*' and '*Orla Kiely*'. Our Autocentres business continually seeks to provide innovative solutions for their customers, such as 'brakes4life'. Particular attention is given to the changes to our marketplace that are driven by the 'connected car'. The retail motoring team, digital team, and Autocentres management are working collaboratively to respond to opportunities and threats.		→
4. Compliance			
The Group operates in an environment governed by legislation and codes in areas including, but not limited to, Listing Rules, trading standards, advertising, product quality, health and safety, hazardous substances, Bribery Act and data protection. The Group recognises that failure to comply with ethical standards could expose the business to reputational risk and loss of goodwill.	Regulatory requirements are closely monitored by our Company Secretarial team which includes colleagues with relevant professional qualifications and experience. The Group has Quality Assurance and Compliance teams working in both the Retail and Autocentres businesses. Specialist Health and Safety teams ensure that the Group has adequate policies and risk assessments. Retail margin erosions are minimised by a dedicated profit protection team. Colleagues and management are trained to identify and handle in-shop regulatory issues using Gears training modules on our online Learning Management System. We have a Whistleblowing hotline that allows colleagues to raise concerns in confidence. We operate a Code of Conduct that clearly sets out our expectations of suppliers. We have a corporate delegated authorities framework (How We Do Business) setting out key authorisation levels. Anti-bribery and corruption training, and training on anti-competitive behaviours have been delivered through face-to-face and online training sessions. The Group has a dedicated Investor Relations Team which ensures that there is frequent and appropriate communication with investors and the wider financial community. The Group has a dedicated Corporate Social Responsibility Committee, which calls upon cross-functional support as required. The Group has a comprehensive record of community engagement through events such as children's bike workshops, and support of the Re~Cycle charity. Our training programme at HMP Onley was judged 'CSR Initiative of the Year' at the 2017 Retail Week awards.		→

Key Risk and Uncertainty	Mitigation	Primary Links to *Moving Up A Gear* Strategy Pillar	Risk Movement
5. Supply Chain Disruption			
Halfords sources a significant proportion of the merchandise it sells in its shops from outside of the UK, either directly or via third-party suppliers. Consequently, the Group is subject to the risks associated with international trade (particularly those which are common in the import of goods from developing countries) including, but not limited to, inflation, currency fluctuation, the imposition of taxes or other charges on imports, the exposure to different legal standards, the burden of complying with a variety of foreign laws and changing foreign government policies and natural disasters. UK withdrawal from the EU is likely to impact on our supply chain, although it is currently very difficult to predict how, pending ongoing government negotiations. The Group could also be impacted in the event of disruption to domestic logistic arrangements; for example, unavailability of distribution centres or road transport problems.	Extensive research is conducted into quality and ethics before the Group procures products from any new country or supplier. The Group's strong management team in the Far East blends expatriate and local colleagues. It understands the local culture, market regulations and risks and we maintain very close relationships with both our suppliers and shippers to ensure that disruption to production and supply are managed appropriately. We work with suppliers in a number of territories to reduce the risks of disruption, and we monitor sourcing opportunities nearer to the UK. We maintain firm security and protection measures at our distribution centres. We have business continuity plans to manage any incidents that may occur. Our logistics are overseen by an experienced, dedicated warehouse and logistics team who maintain contacts with a range of logistics businesses who could be utilised if necessary. We are closely monitoring Brexit developments and preparing contingency plans for any changes in the nature of the border between the UK and the Republic of Ireland.		↑

Our Principal Risks and Uncertainties

Key Risk and Uncertainty	Mitigation	Primary Links to *Moving Up A Gear* Strategy Pillar	Risk Movement
6. Product and Service Quality and Brand Reputation			
The Board recognises that the quality and safety of both our products and services in our shops and Autocentres are of critical importance and that any major failure will affect consumer confidence and our reputation. Failure to protect the Group's reputation and brand could lead to a loss of trust and confidence. This could result in a decline in the customer base and affect the ability to recruit and retain good people. There is also the risk that our service proposition fails due to inconsistent levels of service at individual shops and individual centres.	The Group constantly seeks to enhance its position as the shop or centre of first choice in each of the markets that it serves. Our 3-Gears training programme uses online modules to ensure that colleagues are consistently knowledgeable about our products and able to deliver quality services to customers. This online training is reinforced by face-to-face learning and assessments. Shops use an accreditation matrix to ensure that all building and fitting is undertaken by competent colleagues. Product knowledge among colleagues is promoted through specialist conferences for selected staff (e.g. BikeHut managers). We have also implemented measures to ensure that we attract and retain the best colleagues; for example, engagement surveys aim to identify opportunities to reduce colleague turnover, which is at its lowest for several years. We have again been recognised as one of the Sunday Times "30 Best Big Companies to Work For". Our recruitment processes are now centralised to improve efficiency and consistency. Our products are risk assessed and rigorously tested for quality and safety by qualified engineers in our dedicated quality team. We monitor customer comments and complaints and, when necessary, we have established recall processes. We work closely with suppliers and frequently visit factories to ensure manufacturing standards are maintained. Our Autocentres utilise a comprehensive quality assurance process with checks by centre managers. Technicians are regularly checked to ensure quality of workmanship, and the priority status allocated to individual jobs is reviewed to ensure safety and prevent overselling. There is a dedicated Operations Quality team. We utilise mystery shoppers. We have recently adopted extended opening hours and implemented a new technician pay grading scheme to drive quality.		→

Key Risk and Uncertainty	Mitigation	Primary Links to *Moving Up A Gear* Strategy Pillar	Risk Movement
7. Information Technology ("IT") Systems and Infrastructure			
In common with most businesses, Halfords is dependent on the reliability and suitability of a number of important IT systems where any sustained performance problems (including those caused by cyberattack) could potentially compromise our operational capability for a period of time, impacting on shops, centres or warehouse, multi-channel and distribution systems. With ambitious growth plans for our multi-channel offer, our trading capacity could be affected by internal and external systems' resilience and interdependencies. Commercial data could be lost or stolen through cyberattack, sabotage, or other security breaches. Press reports and professional advisors indicate that cyberattacks are becoming more sophisticated and common.	Extensive controls are in place to maintain the integrity of our systems and to ensure that systems changes are implemented in a controlled manner. Halfords' key trading systems are hosted within a secure data centre operated by a specialist company remote from our support centre. These systems are also supported by a number of disaster recovery arrangements including a comprehensive backup and patching strategy, and a hotlink secure data centre hosted in a different location. IT recovery processes are tested regularly. We review our IT security processes and risk assessments on an ongoing basis and our IT team has dedicated IT security and continuity experts. We utilise appropriate firewalls, and physical and logical system access controls. We have undertaken network penetration testing. The Audit Committee is briefed by the Chief Information Officer on the business' IT security framework and continues to closely monitor this area.		↑
8. Dependence on Key Management Personnel			
The success of the Group's business depends upon its senior management closely supervising all aspects of its business, in particular, the operation of the shops and Autocentres, including the appropriate training of in-shop and centre colleagues, and the design, procurement and allocation of merchandise.	Our Remuneration Policy outlined on pages 78 to 88 details the strategies in place to ensure that high calibre executives are attracted and retained. The Group looks to improve its senior manager cadre through operating a talent management process to help individuals achieve their full potential within Halfords and to ensure that appropriate succession plans are in place to meet the future needs of the business. On 3 May 2017 the Chief Executive Officer, Jill McDonald, tendered her resignation. She will continue to work her 6 month contractual notice period. The search for her successor is underway. Crucially, we have a talented group of engaged colleagues and a strong executive team who remain fully focused on the implementation of the Group's strategy. At a junior level, the Group continues to invest in graduate and apprenticeship programmes and shop and Autocentre colleague training and development.		→

Dennis Millard
Chairman
24 May 2017

Our *Governance*

Board of Directors

Dennis Millard (N R)
Chairman

Dennis has been Chairman of the Group since 28 May 2009. Dennis is also Non-Executive Deputy Chairman and Senior Independent Director of Pets at Home Group Plc.

His former board appointments include Chairman of Connect Group PLC, Non-Executive Director and Senior Independent Director of Debenhams plc, Non-Executive Director and Senior Independent Director of Premier Farnell plc, Chief Financial Officer of Cookson Group plc, Finance Director of Medeva PLC and a member of the Economics Affairs Committee CBI.

He has broad commercial and financial experience in the retail, service, distribution and manufacturing sectors in the UK and internationally. Dennis is a member of the South African Institute of Chartered Accountants and holds an MBA from the University of Cape Town.

Jill McDonald (N C)
Group Chief Executive Officer

Jill has been Group Chief Executive Officer since 11 May 2015. Previously, Jill was CEO, UK & President, North West Division, Europe for McDonald's Corporation. Her responsibilities at McDonald's encompassed around 3,300 owned and franchised restaurants across seven countries, more than 500 franchisees and over 200,000 colleagues. Jill began her career at Colgate Palmolive and British Airways.

Jill brings outstanding business leadership, particularly with regard to customer service and colleague engagement in a consumer-facing business. She is a Non-Executive Director for Intercontinental Hotels Group plc.

Jonny Mason
Chief Financial Officer

Jonny has been Group Chief Financial Officer since 12 October 2015. Previously, Jonny was CFO of Scandi Standard AB, a Scandinavian company that successfully listed in Stockholm in June 2014. Prior to this, he was CFO at Odeon and UCI Cinemas and Finance Director of Sainsbury's Supermarkets. His early career was at Shell and Hanson PLC.

Jonny brings a broad range of financial experience across consumer-facing and retail businesses. He is a strong leader with a track record in a range of business contexts. Jonny is a Director of the charity Dimensions (UK) Limited.

Key to Committee Membership:
N = Nomination Committee
A = Audit Committee
R = Remuneration Committee
C = Corporate Social Responsibility Committee

David Adams (A N R)
Senior Independent Director

David has been a Non-Executive Director since 1 March 2011 and Senior Independent Director since 1 March 2014. David was Finance Director and Deputy Chief Executive of House of Fraser plc until 2006, then Executive Chairman of Jessops plc, becoming Non-Executive Chairman in 2009. In addition, he has held several Executive and Non-Executive roles in 30 years in retailing including ten years as a plc Finance Director.

David's current roles include Chairman of Conviviality Plc, and Non-Executive Director roles at Fevertree Drinks Plc, Hornby Plc, Elegant Hotels Plc and Thinksmart Plc. He Chairs the Audit Committee at Fever-Tree, Hornby and Thinksmart and the Remuneration Committee at Elegant Hotels. David is additionally a Trustee of Walk the Walk, a breast cancer charity.

Claudia Arney (A N R)
Independent Non-Executive Director

Claudia joined the Board as a Non-Executive Director on 25 January 2011 and became Remuneration Committee Chairman in March 2014.

Claudia was previously Chairman of The Public Data Group, Deputy Chairman and Senior Independent Non-Executive Director of TelecityGroup, and a Board Member of the Shareholder Executive. In her executive career she was Group Managing Director, Digital at EMAP, Director of the Enterprise and Growth Unit at HM Treasury and Managing Director of TheStreet.co.uk. Claudia has also worked at Goldman Sachs, FT.Com and Mckinsey. Claudia brings extensive experience of building digital businesses, strategy formulation and business transformation.

Claudia is currently a Non-Executive Director of Aviva plc, Derwent London plc and the Premier League.

Helen Jones (C A N R)
Independent Non-Executive Director

Helen joined the Board as a Non-Executive Director on 1 March 2014.

Helen is currently a senior executive at Caffé Nero and is a member of Ben and Jerry's Independent Board of Directors. Helen was the CEO of the Zizzi Restaurants group and was also responsible for successfully launching the Ben & Jerry's brand in the UK and Europe.

Helen brings valuable and relevant marketing and branding experience in consumer focused businesses.

Directors' Report

The Directors present their report and the audited financial statements of Halfords Group plc (the "Company") together with its subsidiary undertakings (the "Group") for the period ended 31 March 2017.

Halfords Group plc

Registered Number	04457314
Registered Office Address	Icknield Street Drive, Washford West, Redditch, Worcestershire, B98 0DE
Country of Incorporation	England and Wales
Type	Public Limited Company

Statutory Information

The Company has chosen in accordance with the Companies Act 2006 to provide disclosures and information in relation to a number of matters which are covered elsewhere in this Annual Report. These matters are cross referenced in the following table:

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Disclosures required under the 2013 amendment to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in respect of future developments of the business, charitable donations and greenhouse gas emissions are given in the Strategic Report. Information on the use of financial instruments is given in note 21 to the Group Financial Statements.

Disclosures required by the Financial Conduct Authority's ("FCA") Listing Rule 9.8.4R can be found on the following pages:

- Long-term incentive schemes (Performance Share Plan) – pages 83, 85, 91 and 93; and
- Waiver of dividends – page 54

Directors' Report

Principal Activities
The principal activities of the Group are: the retailing of motoring, cycling and leisure products and services from its Halfords, Cycle Republic and Tredz and Wheelies branded retail stores, websites (including the new website for Boardman Bikes); and car servicing and repair from its Halfords Autocentres outlets. The principal activity of the Company is that of a holding company. The Company's registrar is Capita Asset Services, which is situated at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

Profits and Dividends
The Group's results for the year are set out in the Consolidated Income Statement on page 108. The profit before tax on ordinary activities was £75.4m (2016: £81.5m) and the profit after tax amounted to £59.5m (2016: £64.9m). The Board proposes that a final dividend of 11.68 pence per ordinary share be paid on 25 August 2017 to shareholders whose names are on the register of members at the close of business on 4 August 2017. This payment, together with the interim dividend of 5.83 pence per ordinary share paid on 20 January 2017 and the special interim dividend of 10 pence per ordinary share paid on 17 February 2017, makes a total for the year of 27.51 pence per ordinary share. The total final dividend payable to shareholders for the year is estimated to be £22.9m. On 19 January 2017, it was announced that, having expanded the Group's capabilities in both motoring and cycling, through the Tredz, Wheelies and TyresOnTheDrive.com investments, the Board does not expect to undertake further acquisitions in the near future. Accordingly, the Board approved the special dividend totalling £20m, as part of our progress towards our previously stated net debt target of 1 times EBITDA.

Computershare Trustees (Jersey) Limited, trustee of the Halfords Employees' Share Trust, has waived its entitlement to dividends.

Performance Monitoring
The delivery of the Group's strategic objectives is monitored by the Board through KPIs and periodic review of various aspects of the Group's operations. The Group considers that the KPIs listed on pages 18 to 19 are appropriate measures to assess the delivery of the strategy of the Group.

Directors
The following were Directors of the Company during the period ended 31 March 2017 and, at the date of this Annual Report:

Dennis Millard
Jill McDonald
Jonny Mason
David Adams
Claudia Arney
Helen Jones

In accordance with the Company's Articles of Association and the UK Corporate Governance Code guidelines, all those persons holding office as a Director of the Company on 31 March 2017 will retire and offer themselves for re-election at the 2017 Annual General Meeting.

Appointment and Removal of a Director
A Director may be appointed by an ordinary resolution of shareholders in a general meeting following recommendation by the Nomination Committee in accordance with its Terms of Reference as approved by the Board or by a member (or members) entitled to vote at such a meeting, or following retirement by rotation if the Director chooses to seek re-election at a general meeting. In addition, the Directors may appoint a Director to fill a vacancy or as an additional Director, provided that the individual retires at the next Annual General Meeting, if they are to continue they offer themselves for election. A Director may be removed by the Company in certain circumstances set out in the Company's Articles of Association or by a special resolution of the Company.

Powers of the Directors
Subject to the Articles, the Companies Act and any directions given by the Company by special resolution and any relevant statutes and regulations, the business of the Company will be managed by the Board who may exercise all the powers of the Company. Specific powers relating to the allotment and issuance of ordinary shares and the ability of the Company to purchase its own securities are also included within the Articles and such authorities are submitted for approval by the shareholders at the Annual General Meeting each year. The authorities conferred on the Directors at the 2016 Annual General Meeting, held on 26 July 2016 will expire on the date of the 2017 Annual General Meeting. Since the date of the 2016 Annual General Meeting, the Directors have not exercised any of their powers to issue, or purchase, ordinary shares in the share capital of the Company.

Directors' Interests
The Directors' interests in and options over, ordinary shares in the Company are shown in the Annual Remuneration Report on page 94.

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

In line with the requirements of the Companies Act, Directors have a statutory duty to avoid situations in which they have, or may have, interests that conflict with those of the Company unless that conflict is first authorised by the Board.

The Company has in place procedures for managing conflicts of interest. The Company's Articles of Association contain provisions to allow the Directors to authorise potential conflicts of interest, so that if approved, a Director will not be in breach of his/her duty under company law. In line with the requirements of the Companies Act 2006, 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). Directors have a continuing duty to update any changes to their conflicts of interest.

Directors' Indemnities

Directors' and Officers' insurance cover has been established for all Directors and Officers to provide cover against their reasonable actions on behalf of the Company. The Directors of the Company and the Company's subsidiaries have the benefit of a third-party indemnity provision, as defined by section 236 of the Companies Act 2006, pursuant to the Company's Articles of Association.

Colleagues

The Group strives to meet its business objectives by motivating and encouraging all colleagues to be responsive to the needs of our customers and continually improve operational performance. This is delivered through a range of structured training and development programmes, such as 'Gears in Retail', where Retail colleagues progress through a structured series of e-learning, face-to-face and shop floor experience modules and are then recognised for their success through certification, career progression and increased pay awards. In addition, Cycle Republic also undertakes store supplier training by brands.

Halfords Autocentres runs, in conjunction with the Institute of Motor Industry ("IMI"), a number of Technical Training Courses that are designed to develop colleagues' skills. Similar to Retail, it has its own version of the 'Gears in Retail' programme which supports colleagues' development and rewards via a pay matrix. Autocentres has become the first organisation in 50 years to be authorised by the DVSA to train MOT Testers in-house. Autocentres has embarked on training its technicians in the latest Hybrid technology and has worked with the IMI to train 150 technicians in the IMI Hybrid Level 2 in Servicing. Our ambition next year is to have at least one technician per Autocentre to extend our Hybrid servicing offer across the country.

In addition, we run a Leadership Development programme, called Aspire, to identify, nurture and develop colleagues across the Group, with potential to be our leaders of the future. This continues our drive to develop and therefore, possibly promote from within.

The Group continues to invest in our apprenticeship programme. In our Retail business, we continue to invest our apprenticeship programme and will be launching the new apprenticeship standards this academic year. In addition, our traineeship programme for NEETS (not in education, employment or training) has resulted in the placing of 159 trainees to date. At Halfords Autocentres we have one of the largest apprenticeship schemes in light vehicle maintenance in the UK, with 213 apprentices currently at differing stages of our three-year programme.

The Group is committed to providing equality of opportunity to colleagues and potential colleagues. This applies to recruitment, training, career development and promotion for all colleagues, regardless of physical ability, gender, sexual orientation, religion, age or ethnic origin. Full and fair consideration is given to employment applications by disabled persons wherever suitable opportunities exist, having regard to their particular aptitudes and abilities. Diversity policies are in place around the Group and training and career development support is provided where appropriate. Should a colleague become disabled, efforts are made to ensure their continued employment with the Group, with retraining being provided if necessary.

The Group has an established framework of colleague communications, to provide colleagues with information on matters of concern to them and business performance as well as to encourage the engagement of every colleague in the Board's commitment to high standards of customer care and service provision. This includes a programme of regular conferences to share progress, strategy and direction, a monthly magazine for all Group colleagues, team meetings known as 'huddles', a weekly blog from the CEO, as well as channels to share operational information.

A Whistleblowing Policy and procedure enables colleagues to report concerns on matters affecting the Group or their employment, without fear of recrimination. In addition, the Group takes a zero-tolerance approach to matters of discrimination, harassment and bullying in all aspects of its business operations, including in relation to gender, race, national origin, disability, age, religion or sexual orientation. Appropriate policies and procedures are in place for reporting and dealing with such matters.

Share Capital and Shareholder Voting Rights

Details of the Company's share capital and details of the rights attaching to the Company's ordinary shares are set out in note 22 on page 136. All ordinary shares, including those acquired through Company share schemes and plans, rank equally with no special rights.

All shareholders are entitled to attend and speak at the general meetings of the Company, appoint proxies, receive any dividends, exercise voting rights and transfer shares without restriction. 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. There are no known arrangements that may restrict the transfer of shares or voting rights.

The Company has revolving credit facilities that require the Company in the event of a change of control to notify the facility agent and, if required by the majority lenders, these facilities may be cancelled. The Company does not have agreements with any Director or colleague that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share schemes and Deferred Bonus Plan may cause options and awards granted to Directors and colleagues under such schemes and plans to vest on a takeover.

Details of employee share schemes are provided in note 23 on pages 136 to 138.

Directors' Report

Significant Shareholders

As at 28 April 2017, this being the latest practicable date, the Company has been notified pursuant to Disclosure Guidance and Transparency Rule 5 of the following interests representing 3% or more of the Company's issued ordinary share capital.

Holder	Number of shares	% of issued shares
Schroders Plc	21,078,957	10.59
Jupiter Asset Management Limited	20,644,998	10.37
Artemis Fund Managers Limited	14,471,432	7.27
Invesco Limited	11,480,989	5.77
Rathbones	8,874,535	4.46
Norges Bank Investment Management	6,925,933	3.48
BlackRock Inc	6,179,869	3.10
Wise Investments Limited	6,155,904	3.09
J O Hambro Capital Management	6,068,378	3.05

Authority to Purchase Shares

At the 2016 Annual General Meeting, shareholders approved a special resolution authorising the Company to purchase a maximum of 19,911,663 shares, representing not greater than 10% of the Company's issued share capital at 13 June 2016, such authority expiring at the conclusion of the Annual General Meeting to be held in 2017 or, if earlier, on 30 September 2017.

Transactions with Related Parties

During the period, the Company did not enter into any material transactions with any related parties.

Articles of Association

In accordance with the Companies Act 2006, the Articles of Association may only be amended by a special resolution of the Company's shareholders in a general meeting.

Political Donations

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

Going Concern

The Group has a £170m five-year revolving credit facility, ending in November 2019. At the year end, the Group had undrawn borrowing facilities of £97m (2016: £143m). The Group's current committed borrowing facilities contain certain financial covenants, which have been met throughout the period. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its borrowing facilities and covenants for the foreseeable future. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, hence they continue to adopt the going concern basis of accounting in preparing the Financial Statements.

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Directors have assessed the viability of the Company over a three-year period to 1 April 2020. The Directors believe this period to be appropriate as the Company's strategic planning encompasses this period, and because it is a reasonable period over which the impact of key risks can be assessed within a fast-moving retail business.

The Board has a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due at least until 1 April 2020. As is customary when dealing with longer term debt facilities, we would expect these to be renewed well in advance of their next term.

In making this statement, the Directors have reviewed the overall resilience of the Group and have specifically considered:

- a robust assessment of the impact, likelihood and management of principal risks facing the Group, including consideration of those risks that could threaten its business model, future performance, solvency or liquidity or sustainability. The assessment of viability has specifically considered risks that could threaten the Group's day-to-day operations and existence. The assessment considered how risks could affect the business now, and how they may develop over three years; and
- financial analysis and forecasts showing current financial position and performance, cash flow projections, dividend strategy, funding requirements and funding facilities.

More details of our key risks, mitigations and assessment processes are set out on pages 42 to 47.

Anti-Slavery and Human Trafficking Statement

Halfords Group plc operates retail stores across the UK and Ireland and garages throughout the UK. The products Halfords sells are sourced from a broad range of national and international suppliers. Many of those international supplier relationships are sourced and managed by our dedicated team based in Hong Kong and Taiwan.

We have a Code of Conduct on Ethical Trading, which sets out our policy on legislation, child labour, conditions of employment, wages and benefits, health and safety and the environment. The Code of Conduct has recently been updated to include our policy on human trafficking.

We undertake all reasonable and practical steps, including factory, warehouse and tied accommodation inspections and audits, to ensure that our standards are being implemented throughout the businesses of our suppliers and that local legislation and regulations are complied with. We will assess any instances of non-compliance on a case-by-case basis and will then tailor remedial action appropriately. We will only trade with those who fully comply with this policy or those who are taking verifiable steps towards compliance.

The Halfords Group plc Board of Directors reviewed and approved this statement on 28 September 2016.

Creditor Payment Policy

The Group does not follow any formal code of practice on payment, instead it agrees terms and conditions for transactions when orders for goods or services are placed, and includes relevant terms in contracts, as appropriate. These arrangements are adhered to when making payments, subject to the terms and conditions being met by suppliers. The number of trade creditor days outstanding as at 31 March 2017 for the Group was 59 days (2016: 63 days). The Company is a holding company and has no trade creditors.

Branches

The Company and its subsidiaries have established branches in the different countries in which they operate.

Auditor

The Company's Auditor is KPMG LLP. A resolution proposing the reappointment of KPMG LLP is expected to be in the Notice of the Annual General Meeting and will be put to shareholders at the meeting.

Disclosure of Information to the Auditor

In accordance with Section 418(2) of the Companies Act 2006, each Director in office at the date the Directors' Report is approved confirms that:

i. so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and

ii. he/she has taken all the steps that he/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 Company's Auditor is aware of that information.

Important Events Since Year End

On 3 May 2017, it was announced that Jill McDonald, Chief Executive Officer, has resigned from the business to take up another role. Jill will remain as Chief Executive Officer until the expiry of her notice period in October 2017. The process for the appointment of her successor is underway.

Annual General Meeting ("AGM")

The AGM will be held at the Hilton Garden Inn, 1 Brunswick Square, Brindleyplace, Birmingham B1 2HW on Wednesday 26 July 2017. The Notice of the AGM and explanatory notes regarding the special business to be put to the meeting will be set out in a separate circular to shareholders.

By order of the Board

Tim O'Gorman
Group Company Secretary
24 May 2017

Corporate Governance Report

Chairman's Introduction

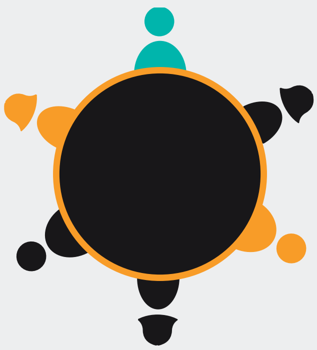
As Chairman my role is to ensure that the Board contains the right balance of skills and experience to work effectively and collaboratively to create sustainable, long-term shareholder value and that we have in place strong and effective governance practices.

Good corporate governance is a key element of our business success. The Board is committed to ensuring that high standards of governance, values and behaviours are consistently applied throughout the Group. These elements are critical to business integrity and maintaining the trust of all stakeholders in Halfords.

The following Corporate Governance Report contains a summary of the Company's governance arrangements and the regulatory assurances required under the UK Corporate Governance Code 2014.

I would encourage you to attend this year's Annual General Meeting where you can meet me and my Board colleagues.

Dennis Millard
Chairman
24 May 2017



Chairman **1**
Executive Directors **2**
Non-Executive Directors **3**

Dennis Millard
Chairman

> The Board is committed to ensuring that high standards of governance, values and behaviours are consistently applied throughout the Group.

Statement of Compliance with the 2014 UK Corporate Governance Code ("Code")

Responsibility for good governance lies with the Board. The Board is accountable to shareholders and is committed to the highest standards of corporate governance as set out in the Code. The Code can be found on the Financial Reporting Council's website at www.frc.org.uk. The Board considers that throughout the period ended 31 March 2017, the Company has complied, without exception, with the provisions of the Code.

This report outlines how the Board has applied the main principles of good governance set out in the Code during the period under review.

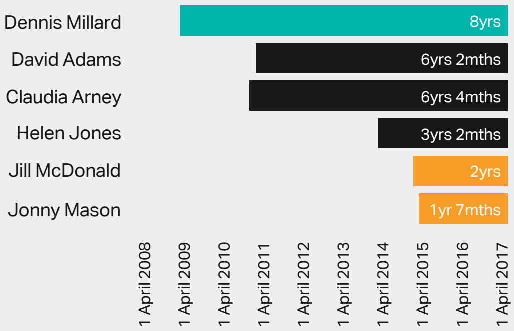
Board Composition and Succession

As at the date of this report, the Board of Directors was made up of six members, comprising the Non-Executive Chairman, three other Non-Executive Directors and two Executive Directors. The composition of the Board is as set out on page 54 and the biographies of individual Directors, including any other business commitments, are available on pages 50 to 51.

Read more online at **www.halfordscompany.com/investors/governance/the-board**

Each of the Non-Executive Directors (excluding the Chairman) is considered independent of management and free of any relationship that could materially interfere with the exercise of their independent judgement. The Chairman was considered independent upon his appointment. The Board considers that each Non-Executive Director brings their own senior level of experience, gained within their field.

Director Tenure



Succession planning for the Board is ongoing and as the Chairman, Dennis Millard, will have been in office for nine years in 2018 and so, in accordance with best practice, the intention is that he will stand down at the Annual General Meeting in July 2018. To manage this succession, in the second half of the financial year ahead the Nomination Committee will begin the process of identifying suitable candidates and recommending an appointment to the Board. Succession planning is also viewed at executive management level on an ongoing basis.

In addition, it was announced on 3 May 2017, that the Company's Chief Executive Officer, Jill McDonald, has resigned from the business to take up another role; she will remain as Chief Executive Officer until the expiry of her notice period in October 2017. The process is underway to find her replacement. As with the succession of the Chairman, this process will be led by the Nomination Committee.

Board Responsibilities

The Board is committed to ensuring that it provides leadership to the business as a whole, having regard to the interests and views of its shareholders and other stakeholders. It is also responsible for setting the Group's strategy, values and standards. Details of the Group's business model and strategy can be found on pages 12 to 17.

The roles of Chairman and Chief Executive Officer are separate and clearly defined, with the division of responsibilities set out in writing and agreed by the Board.

The Chairman is responsible for the effective leadership, operation and governance of the Board and its Committees. He ensures that all Directors contribute effectively in the development and implementation of the Company's strategy whilst ensuring that the nature and extent of the significant risks the Company is willing to embrace in the implementation of its strategy are determined and challenged.

The Chief Executive Officer is responsible for the management of the Group's business and for implementing the Group's strategy.

Further details and the definitions of the roles are available at: **www.halfordscompany.com/investors/governance/division-of-responsibilities-between-the-chairman-and-chief-executive-officer**

The Directors together act in the best interests of the Company via the Board and its Committees, devoting sufficient time and consideration as necessary to fulfil their duties. Each Director brings different skills, experience and knowledge to the Company, with the Non-Executive Directors additionally bringing independent thought and judgement. This combination seeks to ensure that no individual or group unduly restricts or controls decision-making.

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Corporate Governance Report

Shareholders

The Chairman – Key Responsibilities

- Leads the Board including its operation and governance
- Builds an effective and complementary Board
- Sets the agenda, style and tone of Board discussions
- Facilitates and encourages active engagement in meetings, promoting effective relationships and open communication
- Ensures effective communication with shareholders and other stakeholders
- Acts as an adviser to the Chief Executive Officer
- Meets with the Non-Executive Directors without Executive Directors being present

The Halfords Board – Key Responsibilities

The Board is the principal decision-making forum for the Group, setting the strategic direction and ensuring that the Group manages risk effectively. The Board is accountable to shareholders for financial and operational performance.

See page 62 for examples of Matters Reserved for the Board. A complete list is available on the Company's website **www.halfordscompany.com/investors/governance/matters-reserved-for-the-board**

Chief Executive Officer

Key Responsibilities:

- Develops the Group objectives and strategy for Board approval
- Creates and recommends to the Board an annual budget and three-year financial plan
- Delivers the annual budget and plan and other objectives and executes the agreed Group strategy
- Identifies and executes new business opportunities and potential acquisitions or disposals
- Manages the Group's risk in line with the Board approved risk profile

Senior Independent Director

Key Responsibilities:

- Supports the Chairman in his role
- Holds meetings with the other Non-Executive Directors without the Chairman at least once a year to appraise the Chairman's performance
- Acts as an intermediary for the other Directors or as a sounding board for the Chairman if required
- Available to other Directors and shareholders with concerns that cannot be addressed through the normal channels

Non-Executive Directors

Key Responsibilities:

- Evaluate and appraise the performance of Executive Directors and Senior Management against agreed targets
- Participate in the development of the strategy of the Group
- Monitor the financial information, risk management and controls processes of the Group to make sure that they are sufficiently robust
- Meet regularly with senior management
- Periodically visit Halfords, Cycle Republic and Tredz and Wheelies retail stores, Autocentres outlets and distribution centres. Meet together without the Executive Directors present
- Formulate Executive Director remuneration and succession planning

Company Secretary

Key Responsibilities:

- Works closely with the Chairman, Group Chief Executive Officer and Board Committee Chairmen in setting the rolling calendar of agenda items for the meetings of the Board and its Committees
- Ensures accurate, timely and appropriate information flows within the Board, the Committees and between the Directors and senior management
- Provides advice on Board matters, legal and regulatory issues, corporate governance, Listing Rules compliance and best practice

Nomination Committee

Key Objectives:

To ensure that the Board has the skills, knowledge and experience to be effective in discharging its responsibilities and to have oversight of all governance matters.

Main Responsibilities

The Nomination Committee's responsibilities include:

- making appropriate recommendations to maintain the balance of skills and experience of the Board by:
  - considering the size, structure and composition of the Board;
  - considering senior management succession plans; and
  - identifying and making recommendations to the Board on potential candidates for the Board.

More information on **Diversity in the Group** can be found on page 66

Read more within the **Nomination Committee Report** on pages 70 to 71

Chair: Dennis Millard

Members: David Adams, Claudia Arney, Helen Jones, Jill McDonald

Audit Committee

Key Objectives:

To provide effective governance over the Group's financial reporting processes. These include the internal audit function and external Auditor. The Committee maintains oversight of the Group's systems of internal control and risk management activities.

Main Responsibilities

The Audit Committee's responsibilities include:

- making recommendations to the Board on the appointment/removal of the external Auditor, the terms of engagement and fees;
- reviewing and monitoring the integrity of the Company's financial statements, including its annual and interim reports and preliminary results announcements and any other formal announcement relating to its financial performance, and then recommending the same to the Board;
- assisting the Board in achieving its obligations under the Code in areas of risk management and internal control; and
- focusing particularly on compliance with legal requirements, accounting standards and the Listing Rules.

Read more within the **Audit Committee Report** on pages 74 to 77

Chair: David Adams

Members: Claudia Arney, Helen Jones

Remuneration Committee

Key Objectives:

To ensure that a Board policy exists for the remuneration of the CEO, the Chairman, Non-Executive Directors, other Executive Directors and members of the executive management.

Main Responsibilities

The Remuneration Committee's responsibilities include:

- recommending to the Board the total individual remuneration package of Executive Directors and members of the executive management;
- recommending the design of the Company share incentive plans to the Board, approving any awards to Executive Directors and other executive managers under those plans and defining any performance conditions attached to those awards;
- determining the Chairman's fee, following a proposal from the CEO; and
- maintaining an active dialogue with institutional investors and shareholder representatives.

Read more within the **Remuneration Committee Report** on pages 78 to 97

Chair: Claudia Arney

Members: David Adams, Dennis Millard, Helen Jones

The Nomination, Audit and Remuneration Committees' full Terms of Reference are available on the Company's website **www.halfordscompany.com/investors/governance/our-committees** or on request from the Company Secretary.

Corporate Governance Report

Board Responsibilities

The key responsibilities of Board members are set out in the chart on page 60.

A formal schedule of matters reserved for the Board is in place and regularly reviewed.

This is available at **www.halfordscompany.com/investors/governance/ matters-reserved-for-the-board**

To discharge these responsibilities effectively, the Board has additionally implemented a system of delegated authorities, which is described on page 62. This enables the effective day-to-day operation of the business and ensures that significant matters are brought to the attention of management and the Board as appropriate. It is through this system that the Board is able to provide oversight and direction to the Executive Directors, the Senior Management Team and the wider business.

Matters Reserved for the Board include: Authority; Strategy and Management; Structure and Capital; Investor Relations; Audit, Financial Reporting and Controls; Nominations to the Board; Executive Remuneration and material contracts.

THE BOARD

Key Matters Reserved for Board Approval

Group Strategy and Risk Management

- approval of the Group's Strategy and Business Plan;
- approval of changes to capital structure;
- approval of acquisitions or disposals;
- approval of any decisions to cease to operate all or any material part of the Group's business; and
- approval of extension of activities into new businesses or geographical areas.

Financial and Internal Controls

- oversight of risk management and internal control framework;
- approval of budgets;
- approval of financial statements and results announcements;
- approval of shareholder communications, circulars and Notices of Meetings;
- approval of the Auditor's remuneration and terms of engagement;
- recommendation and declaration of dividends;
- approval of major capital expenditure projects; and
- approval of material contracts.

Board Membership and Committees

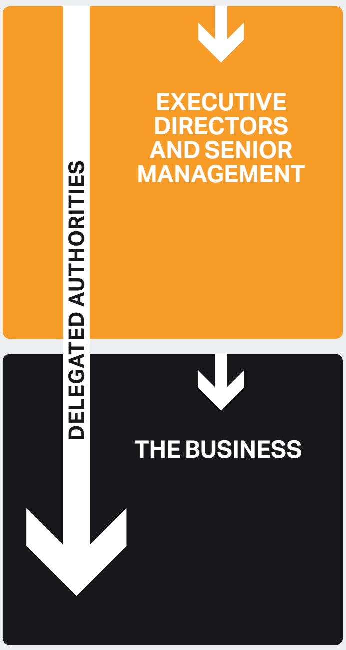
- appointment of Directors;
- approval of the fees of the Non-Executive Directors; and
- setting of Board Committees' Terms of Reference.

Corporate Governance

- undertaking formal performance reviews of the Board, Committees and individual Directors;
- determining the independence of Directors; and
- receiving reports on Group policies, such as health and safety, risk management strategy, the CSR Strategy and charitable and political donations.

Read more about the remit of each Committee on page 61

See Committee Terms of Reference at **www.halfordscompany.com/investors/governance/our-committees**



'How We Do Business' is the internal name of the formal delegated authorities document approved by the Board. It describes how day-to-day decisions are delegated to the Executive Directors, the Senior Management Team and others within the business. Briefing sessions were held for all relevant Support Centre and Operating colleagues upon launch. Each potential activity is set out by reference from whom approval must be sought and the process and documentation required to evidence that approval. Where an activity is not expressly described within How We Do Business, approval must be sought from the Senior Management Team, who will apply the principles of How We Do Business to the decision. The implementation of the document is constantly monitored, with updates proposed to the Board to reflect changing practices or structures. Amendments are made to improve the efficiency and governance across the business.

Board Meetings and Attendance

Board Member	Board Meetings Scheduled: 10	Audit Committee Meetings Scheduled: 3	Remuneration Committee Meetings Scheduled: 5	Nomination Committee Meetings Scheduled: 2
Executive Directors				
Jill McDonald	10 10	n/a	n/a	2 2
Jonny Mason	10 10	n/a	n/a	n/a
Non-Executive Directors				
Dennis Millard	10 10	n/a	5 5	2 2
David Adams	10 10	3 3	5 5	2 2
Claudia Arney	10 10	3 3	5 5	2 2
Helen Jones	10 10	3 3	5 5	2 2

Number of meetings attended by the individual (first figure, orange)

Number of meetings available to the individual (second figure, black)

The table above shows the attendance of Directors at the meetings of the Board and of the Audit, Remuneration and Nomination Committees during the year ended 31 March 2017.

Other members of the Senior Management Team and advisors attended Board meetings by invitation as appropriate throughout the year. The Board also held a two-day Strategy meeting during the period.

At each Board meeting, the Chief Executive Officer delivers a high level update on the business, the Board considers specific reports, reviews business and financial performance, key initiatives, risks and governance. In addition, throughout the year the Senior Management Team and other colleagues deliver presentations to the Board on proposed initiatives and progress on projects.

Corporate Governance Report

KEY BOARD DISCUSSIONS AND ACTIONS DURING THE PERIOD

April 2016

- Review of trading performance
- Review of FY16 results and key messages
- Review of a potential acquisition opportunity
- Discussion on summer activity plan and new brand guidelines
- Capital structure update
- Review of Directors' Appointments and Conflicts of Interests Register
- Discussion of logistics network infrastructure
- Review and approval of Budget for FY17

Dec 2016

- Review of trading performance
- Consideration of potential acquisition opportunity
- Discussion on capital return options
- Review and approval of Document Retention Policy
- Review and approval of Ethical Trading Statement
- Discussion on brand and brand strategy

May 2016

- Review of trading performance
- Review of the Group's annual colleague engagement survey
- Review of third distribution centre site
- Review of Cycle Republic brand
- Discussion on Store of the Future
- Further discussion on potential acquisition opportunity
- Approval of debt target and capital returns
- Review of the preliminary results announcement
- Final review of the FY16 Annual Report and Financial Officer Statements
- Approval to recommend the FY16 final dividend
- Review of Board Evaluation results
- Approval of Directors' Appointment and Conflicts of Interest Register
- Approval of Risk Register
- Approval of Notice of Meeting for FY16 AGM

Jan 2017

- Review of trading performance
- Approval of special dividend
- Review of customer strategy
- Update on digital business
- Peak trading review
- Consideration of 5 Year Plan
- Discussion on developments for FY18
- Status of budget for FY18
- Update and approval for software programme

July 2016

- Review of trading performance
- Review of Cycle Republic brand
- Review of Store of the Future
- Review of potential corporate activity
- Approval of role of Chairman, role of Chief Executive Officer and role of Senior Independent Director
- Discussion post Brexit vote

March 2017

- Review of trading performance
- Update on IT strategy
- Update on Halfords Global Sourcing
- Update on logistics network
- Health and Safety review and update
- Review of FY18 budget
- Update of 5 Year Plan
- Group Treasury review
- Review of bank debt facility
- Review and approval of Diversity Policy
- Review and approval of Environmental Policy
- Review and approval of Matters Reserved for the Board
- Proposal on the re-election of Directors at the FY17 AGM
- Review of draft reports for inclusion in the FY17 Annual Report and Financial Statements

Sept 2016

- Review of trading performance
- Review of Investor Survey
- Approval of Group's Delegated Authorities
- Review and approval of Halfords' Anti-Slavery and Human Trafficking Statement
- Review and approval of Sanctions Policy

Nov 2016

- Review of trading performance
- Discussion on forecast for FY17 Quarter 2
- First look at FY18 and 5 Year Plan
- Review of draft interim results announcement and proposed messaging
- Approval of interim dividend and dividend policy

Board Committees

The Board's principal Committees are the Audit Committee, the Nomination Committee and the Remuneration Committee, as detailed in the chart on page 61. In December 2015, the Board established a Corporate Social Responsibility ("CSR") Committee, comprising Directors and senior management and chaired by a Non-Executive Director. Each Committee has its Terms of Reference approved and regularly reviewed by the Board. The Terms of Reference for the Committees are available on **www.halfordscompany.com/investors/governance**. On the following pages each Committee Chairman reports how the Committee he/she chairs discharged its responsibilities in FY17 and the material matters that were considered.

Following each meeting of a Committee, the Committee Chairman reports to the Board. Whilst not entitled to attend, other Directors, professional advisors and members of senior management attend when invited to do so. The Auditor attends Audit Committee meetings by invitation. No person is present at Nomination Committee or Remuneration Committee during discussions pertinent to them. The Company Secretary acts as the secretary to each Committee.

A Disclosure Committee, made up of a minimum of two Directors, approves the final wording of market announcements prior to release. There were six Disclosure Committee meetings during the period.

The day-to-day investment decisions of the Group are approved by an Investment Committee, chaired by the Chief Financial Officer. Similarly, the treasury needs of the Group are managed by the Treasury Committee, chaired by the Chief Financial Officer; the other members are senior members of the Finance and Treasury teams.

The Board may establish other ad hoc committees of the Board to consider specific issues from time to time. No such committees were formed during the year.

Concerns

The Chairman seeks to resolve any concerns raised by the Board, whether raised in a Board meeting or in another forum. Where raised and unresolved in a Board meeting, the unresolved business can be recorded on behalf of a Director in the minutes of the relevant meeting. A resigning Non-Executive Director would also be able to raise any concerns in a written letter to the Chairman, who would bring such concerns to the attention of the Board. No such concerns have been raised throughout the period.

Independence and Effectiveness

Following a rigorous review, the Board considers David Adams, Claudia Arney and Helen Jones to be independent in character and judgement in accordance with the requirements of the Code. The Chairman, Dennis Millard, was considered independent on his appointment.

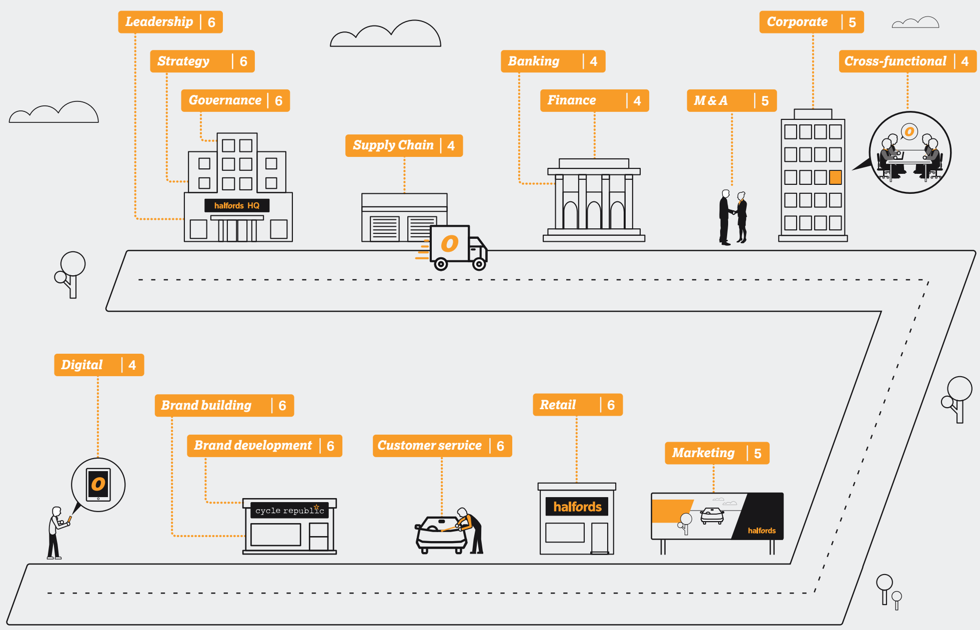
In compliance with the requirements of the Code, at least half of the Board, excluding the Chairman, are deemed to be independent. During the period, of the five Directors other than the Chairman, three (i.e. 60% of the Board) were independent.

The independent Non-Executive Directors bring a wide range of experience and expertise to the Group's affairs and carry significant weight in the Board's decisions. The independent Non-Executive Directors are encouraged to challenge management and help develop proposals on strategy.

Skills and Experience of the Board

Delivering the journey

The below graphic illustrates the number of Directors on the Board who have the relevant skills and experience.



Individual Directors may fall into one or more categories.

Represents the Board at the close of the period.

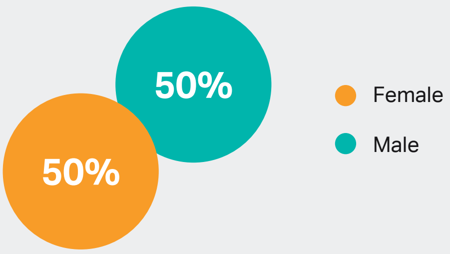
Corporate Governance Report

Diversity

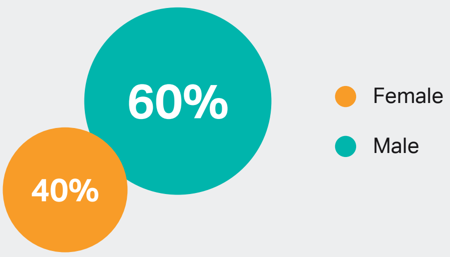
During the year, the Board renewed the Group's Diversity Policy (the "Policy") which sets out our commitment to eliminating unlawful discrimination and promoting equality of opportunity. The Policy is applied to the Board and it is considered that the background and experience brought to the Board by each individual demonstrates the Board's diversity and commitment to its Diversity Policy. The principle that candidates are considered "on merit and against objective criteria, and with due regard for the benefits of diversity on the Board, including gender" is established in the Terms of Reference of the Nomination Committee.

No fixed quota is applied to decisions regarding recruitment, rather the Nomination Committee considers capability and capacity to commit the necessary time to the role in its recommendations to the Board. The intention is to ensure the appointment of the most suitably qualified candidate to complement and balance the current skills, knowledge and experience on the Board. Those appointed are deemed to be the best able to help lead the Company in its long-term strategy. At Halfords half of the Board is female. The chart below demonstrates the gender split at Board level, within senior management and across the workforce as a whole.

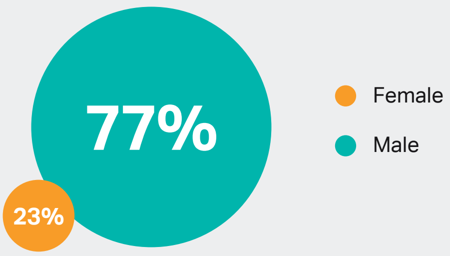
Board Level



Senior Management Level



All Colleagues



The Board is well placed by the mixture of skills, experience and knowledge of its Directors to act in the best interests of the Company and its shareholders.

Appointments to the Board

There were no appointments to the Board during the year.

Directors' Induction

When new Directors are appointed they receive a personalised induction programme, tailored to their individual requirements, to include briefings on the activities of the Group and visits to operational sites. They also meet all of the Company's other Directors and senior executives. This facilitates their understanding of the Group and the key drivers of the business' performance.

Training and Development

All current Directors have various opportunities for ongoing development and support via:

- a programme of Support Centre, distribution centre, Halfords, Cycle Republic and Tredz and Wheelies retail stores and Autocentres outlet visits;
- reviews with the Chairman to identify any training and development needs;
- advice on governance, relevant legislative changes affecting the business or their duties as Directors from the Company Secretary;
- access to independent professional advice at the Company's expense; and
- membership of the Deloitte Academy, a training and guidance resource for boards and directors.

Evaluation

The Code recommends that an evaluation of the effectiveness of the Board and its Committees is conducted annually and that this process is facilitated externally at least every third year. This year the evaluation process was carried out internally for the second year. The last external review was undertaken by Linstock in 2015.

The evaluation was internally facilitated by the Company Secretary where each Director was required to respond to a questionnaire devised by the Company Secretary and agreed with the Chairman. The evaluation was based on a number of key areas:

- Board composition, role, skills, diversity, balance, experience and effectiveness;
- Board leadership and culture;
- developing the Company's strategy and its implementation;
- Board and Committee agendas, papers and resource;
- monitoring of Company performance;
- risk management;
- governance, regulatory compliance and support;
- committee performance;
- individual Director effectiveness; and
- succession planning and training issues.

The Directors' individual responses were collated and evaluated. The Chairman considered the results of the performance evaluation report which were discussed with the Board.

Overall, the Board is considered strong, bringing a good balance and mix of experience and diversity. Board Committees were all considered to work well and to be effective in meeting the requirements of the Terms of Reference.

Following the review, the most significant actions to be taken as a result of the assessment are set out below:

- improved succession planning;
- more corporate governance updates;
- improved focus on Board Strategy Day; and
- ensuring continuation of the NED programme.

It is expected that the Board evaluation for FY18 will be facilitated externally.

Re-election

In compliance with the Code and the Company's Articles of Association, all Directors on the Board as at 24 May 2017, will seek re-election at the Company's Annual General Meeting.

Directors and their Other Interests

Each Director is required to notify 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). None was notified during the period.

All Directors are aware of the need to consult with the Company Secretary should any possible situational conflict arise, so that prior consideration can be given by the Board as to whether or not such conflict will be approved.

Details of the Directors' service contracts, emoluments, the interests of the Directors and their immediate families in the share capital of the Company and options to subscribe for shares in the Company are shown in the Directors' Remuneration Report on pages 89 to 97.

Internal Control and Risk Management

Overall responsibility for the system of internal control and reviewing its effectiveness rests with the Board. This involves ensuring that there is a process to identify, evaluate and manage any significant risks that may affect the achievement of the Group's strategic objectives.

The Board has conducted an annual review of the effectiveness of the systems of internal control during the year, under the auspices of the Audit Committee. The Audit Committee provides the Board with an independent assessment of the Group's financial position, accounting affairs and control systems. In addition, the Board receives regular reports on how specific risks that are assessed as material to the Group are being managed. For further information on the Company's compliance with the Code provisions relating to the Audit Committee and Auditor please refer to pages 74 to 77.

The risk management and internal control system is designed to manage, rather than eliminate, the risk of failing to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. The Board's policy on internal control is implemented by management through a clearly defined operating structure with lines of responsibility and delegated authority.

An ongoing process for identifying, evaluating and managing the significant risks faced by the Group and assessing the effectiveness of related controls has been established by the Board to ensure an acceptable risk/reward profile across the Group. The Group's corporate risk register is maintained by the Head of Internal Audit and Risk. It records key risks, with impact and likelihood assessments, mitigations and ongoing developments. It is updated regularly, following structured interviews with managers and executives across the Group. The accuracy of the register is validated through a rolling programme of independent internal audits. The register is scrutinised in detail annually by the Audit Committee. Any material change in the register is flagged to the Audit Committee by the Head of Internal Audit and Risk within his regular internal audit progress report. The process has been in place throughout the period ended 31 March 2017, and up to the date of approving the Annual Report and Financial Statements.

Our process for identifying, evaluating and managing the significant risks faced by the Group and assessing the effectiveness of related controls routinely identifies areas for improvement, but the Board has neither identified nor been advised of any failings or weaknesses that it has determined to be material or significant.

The Board considered its appetite in relation to the Group's top risks, determining that the risks and mitigating actions were appropriate to the level of risk that was both acceptable to, and incumbent within, a listed business. More information on the Company's key risks and uncertainties, and its risk assessment methodology, is shown on pages 42 to 47.

Corporate Governance Report

Shareholder Engagement

The Board is committed to effective communications with its shareholders and, accordingly, has a strong Investor Relations ("IR") programme that seeks to actively engage with shareholders.

This programme includes formal presentations of full year and interim results. These presentations, along with the Annual Report and Accounts, are the primary means of communication during the year with all of the Company's shareholders. Additionally, the Chief Executive Officer, Chief Financial Officer and IR Director have met with analysts and institutional shareholders during the period to keep them informed of significant developments and help maintain a balanced understanding of their issues and concerns. The IR Director and Company Secretary bring to the attention of the Board any material matters of concern raised by the Company's shareholders, including private investors.

KEY THEMES DISCUSSED WITH SHAREHOLDERS IN FY17

- Progress in the execution of the *Moving Up A Gear* strategy;
- The dynamics of the Motoring and Cycling markets, including the growth prospects, competitive environment and future trends;
- The impact of foreign exchange volatility following the EU referendum;
- Gross and operating margin performance;
- Discussion and formulation of the new Directors' Remuneration Policy; and
- Capital allocation priorities. In particular, the trends and preferences surrounding internal investment, M&A and returns to shareholders.

The Chairman is responsible for ensuring that appropriate channels of communication are established between Directors and shareholders and that all Directors are aware of any issues or concerns that major shareholders may have. Regular engagement provides investors with an opportunity to discuss any areas of interest and raise concerns. The Group is eager to make sure that it understands shareholders' views and that it is able to effectively communicate its strategy. The Group engages effectively through its regular communications, the Annual General Meeting and other IR activity. In addition, the Board commissions independent investor perception studies from time to time. The last such survey was undertaken in June and July 2016, with the results fed back to the Board in September 2016.

IR PROGRAMME

The Group has a comprehensive IR programme through which the Chief Executive Officer, Chief Financial Officer and IR Director regularly engage with the Company's largest shareholders on a one-to-one basis, to discuss strategic issues and give presentations on the Group's results. Further communication is achieved through the Annual Report and Accounts, corporate website and investor days.

- Annual Report and Accounts – this is the most significant communication tool, ensuring that investors are kept fully informed regarding Group developments. Management continually strives to produce a clear and transparent Annual Report and Accounts, which provides a complete picture;
- The corporate website – provides investors with timely information on the Group's performance as well as details of corporate social responsibility activities;
- Management roadshow – allows key investors to access management, usually attended by the Chief Executive Officer, Chief Financial Officer and IR Director;
- Attending broker conferences – Management regularly attend and present at various conferences hosted by a variety of brokers to ensure a wide variety of shareholders, including those from different geographies, also have access to management; and
- Responding promptly – the Group is committed to responding to any investor-related queries within a short time frame.

IR calendar for FY18

May 2017	FY17 Preliminary results	Sept 2017	FY18 20 week trading update
June 2017	UK management roadshow	Nov 2017	FY18 Interim results, UK management roadshow
July 2017	AGM	Jan 2018	FY18 Q3 trading statement

The primary method of communication with shareholders is by electronic means, helping to make the Company more environmentally friendly. Information available on the Company's website includes current and historic copies of the Annual Report and Accounts, full and half-year financial statements, market announcements, corporate governance information, the Terms of Reference for the Audit, Nomination and Remuneration Committees and the Matters Reserved for the Board.

The Annual General Meeting gives all shareholders the opportunity to communicate directly with the Board and their participation is welcomed. The Chairmen of the Remuneration, Nomination, Audit and CSR Committees will be present at the AGM and will be in a position to answer questions relevant to the work of those Committees. It is the Company's practice to propose separate resolutions on each substantial issue at the Annual General Meeting. The Chairman will advise shareholders on the proxy voting details at the meeting.

By order of the Board

Tim O'Gorman
Company Secretary
24 May 2017

Nomination Committee Report

Chairman's Letter

The Committee's role is to:

- review the size, structure and composition of the Board;
- consider succession planning; and
- identify and make recommendations to the Board on potential candidates for the Board.

Its key objective is to ensure that the Board comprises individuals with the necessary skill, knowledge, experience and diversity to ensure that the Board is effective in discharging its responsibilities. The Committee is also tasked with ensuring that succession plans are in place for the Senior Management Team.

Dennis Millard
Chairman of the Nomination Committee

> The Company . . . has created a more balanced and diverse Board and Senior Management Team and continues to work to ensure this is replicated across the entire business . . .

Committee Composition

During the year, the Committee comprised:

Dennis Millard (Chairman)
David Adams
Claudia Arney
Helen Jones
Jill McDonald

There were two Committee meetings held during the year, attended by all members and after each Committee meeting I reported to the Board on the key issues that we had discussed. A number of informal discussions were also held between Committee members and me throughout the year as the need arose.

Activities During the Year

During the year, the Committee:

- reviewed the composition of the Board and its succession plan;
- carried out an annual review of the Committee's Terms of Reference;
- recommended re-election of the Board at the forthcoming Annual General Meeting; and
- reviewed the results of the Board performance evaluation process.

Diversity

During the year, the Board also renewed the Group's Diversity Policy ("Diversity Policy") which sets out our commitment to eliminating unlawful discrimination and promoting equality of opportunity. This applies to all our activities, including our role as an employer and as a provider of services, ensuring that no colleague, potential colleague, customer, visitor or contractor will receive less favourable treatment on the grounds of: age; disability; gender reassignment; race; religion or belief; gender; sexual orientation; marital or civil partnership status; pregnancy or maternity; or disability.

The Company does not currently publish specific diversity targets but in practice, it has created a more balanced and diverse Board and Senior Management Team. We continue to work to ensure this is replicated across the entire business, in particular in relation to gender diversity.

Further information regarding Board diversity can be found on page 66 and gender diversity in the Group as a whole on page 31.

Looking Ahead

In the year ahead, as I intend to step down from the Board at the Annual General Meeting in July 2018, having by then served nine years as Chairman, the Committee will begin the process in the second half of the financial year ahead to identify suitable candidates and recommend an appointment to the Board. On 3 May 2017, it was announced that the Company's Chief Executive Officer, Jill McDonald, has resigned from the business to take up another role. Jill will remain as Chief Executive Officer until the expiry of her notice period in October 2017. The process is underway by the Committee to find her replacement.

The Committee will also continue to assess the Board and Senior Management Team composition and how they both may be enhanced.

The Committee's Terms of Reference are available on the Company's corporate website **www.halfordscompany.com/investors/governance/our-committees**

Dennis Millard
Chairman of the Nomination Committee
24 May 2017

Corporate Social Responsibility Committee Report

Chairman's Letter

This is my second letter as Chair of the Corporate Social Responsibility ("CSR") Committee and since last year we have continued to make great progress on our CSR initiatives.

In seeking to ensure that CSR initiatives are increasingly integrated into our business we have developed the programme significantly from when I gave my first report last year. We have added a greater focus on Environmental Management to the Committee's remit and we are constantly seeking to ensure that our Corporate Social Responsibility Strategy remains fit for purpose. During the year, the Committee ensured that:

- short and long term objectives for the Company's CSR activities are in place;
- key metrics are reported on; and
- all related policies are regularly reviewed and updated.

Helen Jones
CSR Committee
Chairman

> We are constantly seeking to ensure that our Corporate Social Responsibility Strategy remains fit for purpose.

*Fast Fact**

3

Committee meetings held

Committee Composition and Meetings

The Committee consisted of:

Helen Jones (Chairman)
Jill McDonald
Jonathan Crookall
Emma Fox (resigned 20 January 2017)
Richard Street (appointed 27 March 2017)
Andy Randall (appointed 27 March 2017)

There were three Committee meetings held during the year and after each one, I reported to the Board on the key issues that we had discussed. Informal discussions were also held between Committee members, business leaders and me throughout the year as the need arose.

Activities undertaken

During the year the Committee:

- agreed internal priorities and metrics to track and deliver CSR progress;
- reviewed and agreed the Company's approach to charitable support;
- approved an additional charity partner, voted for by colleagues;
- approved internal and external policies on Environment;
- carried out an annual review of the CSR Policy;
- carried out an annual review of the Committee's Terms of Reference; and
- reviewed proposed changes in forthcoming CSR related regulations and governance.

Further information on corporate social responsibility in the Group, including environmental details on emissions, can be found on pages 30 to 35 of the Strategic Report.

Looking Ahead

We have prioritised our work on Environmental Management as a key area of focus in the year ahead. Having allocated resource to support this, we will concentrate on agreeing detailed benchmarks for measuring our performance and the development of our strategy.

The Committee's Terms of Reference are available on the Company's corporate website **www.halfordscompany.com/investors/governance/our-committees**

Helen Jones
Chairman of the CSR Committee
24 May 2017

Audit Committee Report

Chairman's Introduction

I am pleased to present the report of the Audit Committee for the financial year ended 31 March 2017.

Throughout the year, the Audit Committee has continued its work of reviewing the effectiveness of Halfords' corporate governance framework with particular emphasis on the quality of financial reporting, internal control, and risk management systems. The Committee monitors risk and internal control through engagement with external auditors, internal auditors and executive management who regularly present management briefings to the Committee, explaining in detail how selected key areas of business risk are managed. During the year, the Committee reviewed presentations on Supplier Rebates and Contributions, Cyber Security and Global Sourcing issues.

This report explains in detail how the Committee undertook its duties.

David Adams
Chairman of the Audit Committee
24 May 2017

*Fast Fact**

3

Committee meetings held

David Adams
Chairman of the Audit Committee

> The Audit Committee has continued its work of reviewing the effectiveness of Halfords' corporate governance framework with particular emphasis on the quality of financial reporting, internal control, and risk management systems.

Membership and Remit of the Audit Committee

a. Membership

All the members of the Audit Committee are independent Non-Executive Directors. Having been the Deputy Chief Executive and Finance Director of House of Fraser Plc, and currently chairing three other listed companies' Audit Committees, David Adams is considered by the Board to have recent and relevant financial experience and so the requisite experience to chair the Committee. Each of the other independent Non-Executive Directors has, through their other business activities, significant experience in financial matters. The Audit Committee as a whole is considered to have competence relevant to the sector in which the Company operates. The effectiveness of the Audit Committee is reviewed at least annually through discussions at the Board and Audit Committee.

The Chairman of the Company's Board, Executive Directors, senior managers and key advisors are invited to attend meetings as appropriate in order 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 Audit Committee meets according to the requirements of the Company's financial calendar. The meetings of the

Audit 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 Auditor. There have been three such meetings in the period ended 31 March 2017 and nothing of note was reported.

b. Remit

The Audit Committee's responsibilities include:

- making recommendations to the Board on the appointment of the external Auditor, including on effectiveness, independence, non-audit work undertaken (against a formal policy) and remuneration;
- reviewing the accounting principles, policies and practices adopted throughout the period;
- reviewing and approving external financial reporting for adoption by the Board;
- assisting the Board in achieving its obligations under the UK Corporate Governance Code in areas of risk management and internal control, focusing particularly on compliance with legal requirements, accounting standards and the Listing Rules;
- review of corporate risk register and regular Internal Audit reports on developments in the internal control framework to ensure that an effective system of internal financial and non-financial controls is maintained on an ongoing basis;
- approving a formal Whistleblowing Policy whereby staff may, in confidence, disclose issues of concern about possible malpractice or wrongdoings by any of the Group's businesses or any of its employees without fear of reprisal, and includes arrangements to investigate and respond to any issues raised;
- approving the Company's systems and controls for the prevention of bribery and corruption, including the receipt of any reports on non-compliance; and
- approving the Group's Treasury Policy, including foreign currency and interest rate exposure.

The Audit Committee has reviewed its Terms of Reference and its composition during the year and believes that both are appropriate. Copies of full Terms of Reference are available on the Company's website or on request from the Company Secretary.

Read more online at **www.halfordscompany.com/investors/governance/our-committees/audit-committee**

Principal Activities During the Year

The Audit Committee met three times during the year with the following timetable:

May 2016

- Review of Year End Chief Financial Officer's Report
- Management presentation on accounting treatment of supplier rebates and contributions
- Review of External Auditor's Report
- Review of Statement of External Auditor's Independence
- Review of Internal Audit Full-Year Report, including update on the Company's risk management and internal control systems
- Approval of Internal Audit Charter

Nov 2016

- Review of Half-Year Chief Financial Officer's Report
- Recommend the Interim Statement to the Board for Approval
- Review of External Auditor's Half-Year Report
- Review of Internal Audit Progress Report including update on the Company's risk management and internal control systems
- Review of External Auditor Non-Audit Fee Policy
- Review of anti-bribery and corruption risk assessment and approval of Anti-Bribery and Corruption Policy
- Management presentation on cyber security
- Review of Committee's Terms of Reference

March 2017

- Review of External Auditor's annual strategy and fees
- Review of Internal Audit Progress Report and Annual Strategy including update on the Company's internal control systems
- Consideration of management presentation on global sourcing initiatives and related risks which, for administrative reasons, was delivered to the Board
- Review of Group Register of Risks and Controls
- Review of Group Whistleblowing Policy

Audit Committee Report

Significant Issues in Relation to the Financial Statements

In order to discharge its responsibility to consider accounting integrity, the Committee carefully considers key judgements applied in the preparation of the consolidated financial statements which are set out on pages 108 to 113. The Committee's review included consideration of the following key accounting judgements:

- Impairment of Goodwill associated with Autocentres;
- Following the acquisition of Nationwide in 2010, the Group holds significant goodwill in the Halfords Autocentres business. There are a number of factors that could impact on the future profitability of the business (e.g. loss of key customers, change in market behaviour) and there is therefore a risk that the business may not meet the growth projections necessary to support the carrying value of the intangible asset (see note 11 on page 128 of the Financial Statements); and
- The Audit Committee has received detailed reports from Halfords' Finance team and External Auditor addressing this issue. The Finance team has undertaken detailed work to consider the impairment of goodwill associated with Autocentres. Consideration has been given to ensuring that cash flow models, discount rates, sensitivity analysis and centre profitability are all reasonable. The Committee concluded that it is satisfied with the accounting treatment of impairment of goodwill.
- Valuation of inventory within the retail division;
- With the business holding a wide range of stock, it is likely that changing consumer demands will mean that some lines cannot be sold, or will be sold at below the carrying value. Provisions are made to reflect this. Given the difficulties in forecasting market trends, there is a risk that inventory provisions made will be inappropriate or incomplete (see note 14 on page 130 of the Financial Statements). Management has an established methodology for assessing inventory provisions. Range reviews are regularly undertaken to ensure that all discontinued inventory is identified; and
- The Audit Committee has received detailed reports from Halfords' Finance team and External Auditor addressing this issue. The Finance team has undertaken detailed work around the valuation of inventory within the Retail division. After consideration of the accuracy of the provisioning model, the completeness and accuracy of range reviews, and the reflection of these reviews within the provisions, the Committee concluded that it is satisfied with the accounting treatment of the valuation of inventory.

External Auditor

a. Effectiveness of external audit

The effectiveness of the External Audit is considered throughout the year through, amongst other factors: assessment of the degree of the audit firm's challenge of key estimates and judgements made by the business; feedback from any external or internal quality reviews on the audit; and the wider quality of communication with the Committee.

In addition, at its meeting in March 2017, the Committee performed a specific evaluation of the performance of the External Auditor considering the areas set out above and feedback from management. Following this, the Committee concluded that:

- the overall audit approach, materiality, threshold, and areas of audit focus were appropriate to the business; and
- the audit team possessed the necessary quality, expertise and experience to provide an independent and objective audit.

b Approach to appointment or reappointment

KPMG LLP (formerly KPMG Audit plc) was appointed as External Auditor to the Group in 2009 following a formal tender process. Since that time, KPMG LLP has complied with the partner rotation requirement set out in Ethical Standards for Auditors, with the most recent rotation taking place in 2014. This rotation saw Peter Meehan becoming our audit partner.

The Audit Committee considers that the relationship with the Auditor is working well and is satisfied with its independence, objectivity and effectiveness and has not considered it necessary to require KPMG LLP to re-tender for external audit work this year. The Audit Committee has recommended to the Board, for approval by shareholders at the Annual General Meeting on 26 July 2017, the reappointment of KPMG LLP as External Auditor. The Audit Committee monitors, and will continue to comply with best practice and external guidance in respect of the frequency of audit tenders.

c Approach to safeguarding objectivity and independence if non-audit services are provided

The Audit Committee has established a policy to ensure that any non-audit services delivered by the External Auditor will not jeopardise objectivity and independence. The policy is consistent with Ethical Standards for Auditors.

The policy specifies:

'The External Auditor can be used to provide non-audit services subject to any non-audit engagement proposal provided by the External Auditor being formally approved by the Audit Committee before contractual arrangements are entered into, except for activities set out in the list of prohibited activities included in the Regulation as follows:

- *Tax services relating to:*
- *Preparation of tax forms;*
- *Payroll tax;*
- *Customers duties;*
- *Identification of public subsidies and tax incentives unless support from the audit firm in respect of such services is required by law;*
- *Support regarding tax inspection by tax authorities unless support from the audit firm in respect of such inspections is required by law;*
- *Calculation of direct and indirect tax and deferred tax; and*
- *Provision of tax advice;*
- *Services that involve paying any part in the management or decision-making of the audited entity;*
- *Bookkeeping and preparing accounting records and financial statements;*
- *Payroll services;*

- *Designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology systems;*
- *Valuation services, including valuations performed in connection with actuarial services or litigation support services;*
  - *Legal services, with respect to:*
  - *The provision of general counsel;*
  - *Negotiating on behalf of the audited entity; and*
  - *Acting in an advocacy role in the resolution of litigation;*
  - *Services related to the audit entity's internal audit function;*
  - *Services linked to the financing, capital structure and allocation, and investment strategy of the audited entity, except providing assurance services in relation to the financial statements, such as the issuing of comfort letters in connection with prospectuses issued by the audited entity;*
  - *Promoting, dealing in, or underwriting shares in the audited entity; and*
  - *Human resources services, with respect to:*
  - *Management in a position to exert significant influence over the preparation of the accounting records or financial statement which are the subject of the statutory audit, where such services involve:*
    - *searching for or seeking out candidates for such position; or*
    - *undertaking reference checks of candidates for such positions;*
  - *structuring the organisation design; and*
  - *cost control.*

Other than for the above, for each separate service proposed to be provided by the Auditor, the Group Chief Financial Officer will prepare a note either to be tabled and minuted at an Audit Committee meeting or to be circulated via email to the Audit Committee members and the CEO giving a description of the work to be undertaken, the reasons why the Auditor is involved in the proposal and how objectivity and independence has, and is seen to be, safeguarded.

In addition, the fees for any proposal for non-audit services will not exceed 70% of the three year average statutory audit fees when taken into consideration with total fees for non-audit services already committed in the financial year.

Consent is required from the Audit Committee Chair on behalf of the Audit Committee before the Auditor can be engaged for non-audit services.'

In addition, the External Auditor follows its own ethical guidelines and continually reviews its audit team to ensure that its independence is not compromised.

An analysis of the fees earned by the External Auditor is disclosed in note 2 on page 143 to the Financial Statements.

Role and Effectiveness of Internal Audit

The Company has a dedicated in-house Internal Audit team, which is able to obtain advice from external specialists if necessary. The team principally reviews the effectiveness of the controls operating within the business by undertaking an agreed schedule of independent audits each year. The Audit Committee determines the nature and scope of the annual audit programme and revises it from time to time according to changing business circumstances and requirements. The Audit Committee also confirms that Internal Audit has appropriate resources available to it. The annual audit programme is derived from an audit universe.

Our Internal Audit plan for the forthcoming year features 30 reviews covering financial and commercial processes, governance issues and key risk safeguards. The executive summaries of all Internal Audit reports are circulated to Audit Committee members and discussed at meetings where appropriate.

The Audit Committee is satisfied that the Internal Audit team has the quality, experience and expertise appropriate for the business.

Internal Audit reports on a day-to-day basis to the Group's Chief Financial Officer, but is independent in action and reporting of issues, with direct line of communication to the Audit Committee Chairman. The findings of the independent audits are reported initially to executive management and any necessary corrective actions are agreed. Summaries of these reports are presented to, and discussed with, the Audit Committee along with details of progress against action plans as appropriate.

Whistleblowing

A Whistleblowing Policy and Procedure enables colleagues to report concerns on matters affecting the Group or their employment, without fear of recrimination. Posters publicising whistleblowing channels are distributed to all stores, Autocentres, distribution centres and the Support Centre.

The Whistleblowing Policy and Procedure was reviewed and approved by the Audit Committee and was subject to an Internal Audit review during the year. The Company Secretary provides the Audit Committee with a regular summary of whistleblowing contacts and resolutions.

Anti-Bribery and Corruption Policy

The Group's Anti-Bribery and Corruption Policy statement reinforces that the Halfords' Board is committed to conducting its business affairs so as to ensure that it does not engage in or facilitate any form of corruption. It is Halfords' policy to prohibit all forms of corruption amongst our employees, suppliers and any associated parties acting on our behalf. The Group has a detailed Anti-Bribery and Corruption Policy and maintains Gifts and Hospitality Registers. Anti-Bribery expectations are set out in standard purchasing terms and conditions. Face-to-face and online training has been provided to colleagues to raise awareness of Anti-Bribery and corruption legislation.

The Audit Committee has requested that Anti-Bribery and corruption safeguards are periodically reviewed by Internal Audit.

Internal Control and Risk Management

Details of the Group's internal control and risk management framework are set out on pages 42 to 47.

Remuneration Committee Report

Dear Shareholder

On behalf of the Remuneration Committee, I am pleased to present the Remuneration Report for the financial period ended 31 March 2017.

The Report consists of three sections:

- this Annual Statement;
- our Remuneration Policy Report, which sets out a summary of the Directors' Remuneration Policy for all Directors of Halfords; and
- our Annual Directors' Remuneration Report, which sets out the details of how the Company's Directors were paid during FY17 and how our policy will be implemented in FY18.

The Directors' Remuneration Policy is subject to a binding shareholder vote at the 2017 Annual General Meeting and the Directors' Remuneration Report is subject to an advisory shareholder vote.

Claudia Arney
Chairman of the Remuneration Committee

> Our remuneration philosophy is aimed at providing Executive Directors with incentive opportunities strongly aligned to growth, profitability and shareholder returns.

Remuneration Policy

The Committee undertook a review of the Remuneration Policy (the "Policy") in consultation with shareholders and shareholder advisory bodies. In general, shareholders were supportive of the changes proposed and we adapted the proposals in certain areas to reflect the feedback received. The key changes to the Policy are as follows:

- simplification of the long term incentive (PSP) and a reduction in the overall maximum opportunity from 225% to 200%;
- extension of the retention period for the PSP to enhance long-term alignment with shareholders (the whole award is transitioning to a two-year holding period);
- reduction in the PSP 'start to earn' quantum from 30% to 25%;
- changes to PSP metrics to ensure alignment with the strategy (EPS has replaced EBITDA);
- increase in shareholding guidelines to 200%, with 75% of any vesting under PSP or the Deferred Bonus Plan being retained until guidelines are met; and
- reduction in the pension salary cap from 20% to 15%.

Overall, the Committee is confident that the proposed approach will support the Company's strategy over the next three years, and that it is fair and balanced. A copy of the revised Policy is available at www.halfordscompany.com/investors.

Policy Implementation

The implementation of Remuneration Policy in FY17 is summarised as follows:

Performance Share Plan

To ensure the interests of the Executive Directors continue to align with the delivery of the strategy, the Committee again determined that the performance measures for the FY17 PSP would be based on 75% Group EBITDA growth and 25% Group Revenue growth.

Annual Bonus

Profit before tax ("PBT") was £75.4m in 2016/17 and therefore 20.4% of this element of the bonus was achieved (80% of the total bonus being based on PBT). There has been strong progress against our strategic priorities during the year, particularly in relation to matching sales to specific customers, Cycle Republic like-for-like growth, service related sales growth and colleague engagement. Therefore, 12.7% of this element should be paid. This resulted in an overall bonus of 33.1% of maximum.

Restricted Share Plan ("RSP")

The Committee has introduced a new share plan to promote further the alignment of more colleagues' interests with shareholders and to support engagement and commitment. Executive Directors are excluded from the RSP. The scheme will facilitate the granting of shares to colleagues (as opposed to share options) based on them staying with the Company for a period of three years. This new plan builds on the existing Save As You Earn Scheme ("SAYE") which continues to be open to all colleagues.

Remuneration Review

The Committee approved a salary increase for the Executive Directors of 2% in October 2016 which mirrored the award for Support Centre colleagues and was below the average for all colleagues.

Jill McDonald resigned on 3 May 2017 from her role as Chief Executive Officer and will continue to work her six-month contractual notice period. Jill will not receive a bonus in respect of 2016/17. All of Jill's unvested share awards under the Deferred Bonus Plan and the PSP will lapse in full when she leaves the Company. On her appointment it was agreed that Jill would be made Halfords share awards with a total value of £529,819 to replace awards made by her previous employer that lapsed on resignation. These awards were to be delivered in four annual tranches from 2016 to 2019. Two tranches have already been delivered. Jill will forfeit the outstanding two tranches which were intended to be delivered in 2018 and 2019.

Concluding Remarks

I hope that you find the Report clear, transparent and informative. The Committee has sought to promote a remuneration environment that strongly aligns the commercial direction of the Group with the interests of shareholders, whilst reflecting best practice developments and market trends. I look forward to your support at the Company's Annual General Meeting.

Yours faithfully

Claudia Arney
Chairman of the Remuneration Committee
24 May 2017

Remuneration Policy Report

Executive Remuneration Policy

The Policy report set out on pages 80 to 88 sets out the Remuneration Policy (the "Policy") that the Company intends to apply, subject to shareholder approval, with effect from 26 July 2017 (the date of the Annual General Meeting ("AGM")). This Policy will replace in full the Directors' Remuneration Policy set out in the 2013/14 Annual Report, which was approved by shareholders at the AGM on 29 July 2014. It is intended that this Policy will apply until the 2020 AGM, unless the Company seeks shareholder approval for a revised policy which comes into force before this date.

The Committee seeks to support the delivery of the Group's strategy through establishing appropriate remuneration arrangements. Our goal is to build a strong long-term sustainable business by delivering ongoing sales growth and sustainable shareholder returns through the delivery of authoritative ranges of products, colleague and service excellence, digital participation and helpful store and Autocentre environments.

Consequently, the overall Remuneration Policy of the Committee, and of the Board, is to provide remuneration packages for Executive Directors and other senior managers in the Group which:

- **Attract and retain** – Enable the Group to attract and retain management of a high calibre with the necessary retail, customer service, financial, digital and service-industry skills and credentials required to deliver a sustainable business model and drive shareholder returns. Remuneration arrangements are set at levels appropriate to achieving this goal without paying more than is considered necessary. The Committee considers market data at appropriate intervals to inform the positioning of executives' pay relative to the companies of a similar size and in similar sectors, without seeking to 'match the median', to identify and mitigate the risk of losing strong performers.
- **Link variable pay to performance and the delivery of the agreed strategy** – Provide management with the opportunity to earn competitive remuneration through annual and long-term variable pay arrangements that are designed to support delivery against key strategic objectives. Performance measures are aligned with strategic goals so that remuneration arrangements are transparent to executives, shareholders and other stakeholders. Different elements of executive pay are delivered over the short and longer term and are designed to ensure that a substantial proportion of the executives' remuneration is variable and performance-related.
- **Align executives with shareholders** – Ensure management's interests are aligned with those of shareholders by incentivising management to deliver the Group's long-term strategy of a sustainable, growing business and thus enhance shareholder value. A significant portion of reward is delivered in shares to create alignment of interests.
- **Drive sustainable performance** – Remuneration arrangements are designed to support the sustainable delivery of performance and to prevent excessive risk-taking.

Key changes under the updated Policy

To ensure that the Remuneration Policy continues to support the Company's strategy for the next three-year cycle and reflects market best practice, the following key changes have been made:

- **Simplify the long-term incentive (PSP) and reduce overall maximum opportunity** – Under the Policy approved in 2014, the PSP was structured so that a 'core' award is granted and participants have the opportunity to earn above this level (the 'multiplier') for exceptional performance. The overall maximum award under the PSP is 225% of salary. The operation of the PSP under the new Policy has been simplified by removing the multiplier and the overall maximum limit has been reduced to 200% of salary.
- **Extension of the retention period for the PSP** – Under the 2014 Policy, the two-year retention period only applied to any portion of the award earned above the core award i.e. that part related to the multiplier. To reflect the simplified PSP structure and to make our approach more consistent with market practice going forward, a two-year retention period will apply to all amounts earned under the PSP. Transitional arrangements are in place to move to this position from FY19.
- **Reduce the cap on pension contributions** – Under the new Policy the pension cap of 20% of salary has been reduced to 15% of salary to reflect current operating levels.
- **Increase shareholding guidelines** – The shareholding guideline under the 2014 Policy for the Executive Directors was 100% of base salary. To further align executives' interests with those of shareholders, the shareholding guideline has been increased to 200% of salary. Executives will be required to retain 75% of any post-tax shares that vest under share incentive plans until this shareholding is reached. The requirement to meet the guideline over a period of time has been removed.

In addition to the above, other minor changes have been made, intended to align the new Policy to evolving market and best practice and to simplify its operation.

Key elements of Executive Remuneration Policy

Base Salary

Purpose and link to strategy
Base salary, which is payable in cash, is set at an appropriate level to attract and retain management of a high calibre with the necessary retail, customer service, financial, digital and service-industry skills and credentials required to deliver a sustainable business model and drive shareholder returns.

Operation	Maximum Opportunity
Generally, salaries are reviewed annually with increases effective from 1 October but may be reviewed at other times if the Committee considers this appropriate. In determining base salary levels consideration is given to: • the individual's experience and the performance of the Group and the individual; • salary levels at other companies of a similar size and complexity and at other UK listed retailers (without seeking to 'match the median'); and • the pay increases for other employees in the Group.	While there is no maximum salary level, salary increases will generally be in line with increases awarded to other employees in the Group. However, larger increases may be made at the discretion of the Committee to take into account circumstances such as: • changes in an individual's role or responsibility; • to reflect an individual's progression and increase in experience in the role; and • where a salary is significantly behind market practice. **Performance Measures** The payment of salary is not subject to performance conditions. However, when determining salary levels the performance of Executive Directors is taken into account, in advance of any increases being awarded.

Benefits

Purpose and link to strategy
To provide Executive Directors with market competitive benefits consistent with the role.

Operation	Maximum Opportunity
The Committee's policy is to set benefits at an appropriate level taking into account the individual's circumstances and market practice. Executive Directors currently receive a car plus fuel or a cash allowance, private health insurance and life assurance as standard benefits. However, the Committee may determine that additional benefits may be provided based on individual circumstances (e.g. the use of a chauffeur) when it is considered appropriate. In the event that an executive is required to relocate to perform their role then additional one-off or ongoing benefits may be provided such as relocation expenses, a housing allowance and school fees. The Company reimburses reasonable business expenses and may pay any tax incurred in relation to these. Executives are also eligible to participate in any all-employee share plans operated by the Company on the same basis as other employees.	The overall level of benefits will depend on the cost of providing individual items and the individual's circumstances and therefore there is no maximum level of benefit. The maximum participation levels for all employee share plans is the same as any maximum applicable to other employees (and consistent with any relevant HMRC limits). **Performance Measures** None

Remuneration Policy Report

Pensions

Purpose and link to strategy
To enable the Company to offer market competitive remuneration through the provision of additional retirement benefits.

Operation	Maximum Opportunity
Executives are eligible for a defined employer contribution funding to the Halfords Pension Plan, payments into a personal fund and/or a cash allowance in lieu of pension. The Committee may determine that alternative arrangements should apply (including for new hires). When determining such arrangements the Committee will consider cost and market practice (subject to the overall limit set out in the maximum column).	The aggregate value of any annual pension contributions and cash allowance for each individual will not exceed 15% of base salary. **Performance Measures** None

Annual Bonus

Purpose and link to strategy
To incentivise executives to achieve annual financial targets and performance against key strategic objectives. Deferral of bonus under the Deferred Bonus Plan ("DBP") further incentivises Executive Directors to manage risk and align their long-term interests with those of shareholders.

Operation	Maximum Opportunity
The annual bonus is normally based on performance over a financial year. After the year-end the Committee determines the extent to which targets have been met. In certain circumstances the Committee may review the annual bonus payout in the context of the performance of the business during the year and the delivery against strategy and may amend the level of bonus payout (upwards or downwards) to reflect overall business and individual performance. Normally up to two-thirds of the total bonus is paid in cash. The remaining one-third of the bonus is deferred as shares for three years. The Committee may determine that a different portion of the bonus will be paid in shares or that the bonus may be paid in cash. Deferred awards normally vest three years from award (or after such other period as the Committee determines) and have no additional performance conditions. Malus and clawback provisions apply to the cash bonus payments and deferred share awards for a period of three years from award. During this period, the Committee may determine that payments may be scaled back in the event of a material misstatement of the Company's results, or where the Company has suffered serious loss or reputational damage in respect of the period for which the Executive had responsibilities for the running of the business. Bonuses are non-pensionable.	The maximum annual bonus opportunity is 150% of base salary. **Performance Measures** The annual bonus measures are based on a mix of financial and strategic measures. Measures are selected each year by the Committee to ensure continued focus on the Company's strategy. At least 50% of the bonus will be based on financial measures. Performance measures are set annually to ensure they are appropriately stretching for the delivery of threshold, target and maximum performance. For 2017/18, the bonus will be based on performance against PBT and strategic objectives consistent with the *Moving Up A Gear* strategy. Further details are provided on page 96 of the Annual Remuneration Report. No bonus will be paid for below threshold performance, typically around 50% of the bonus will be paid for achieving 'target' levels of performance and 100% of bonus will be paid for achieving a stretching performance target. Performance targets are set by the Remuneration Committee with reference to prior year performance and the Group's business plan.

Performance Share Plan ("PSP")	
Purpose and link to strategy To attract and retain Executive Directors of a high calibre. To align Executive Directors' interests with those of our shareholders by incentivising them to deliver the Company strategy and to create a sustainable business and maximise returns to shareholders.	
Operation	**Maximum Opportunity**
Annual awards of shares with vesting based on performance over a three-year period (or such other period as the Committee shall determine). The vesting of awards to Executive Directors is subject to the satisfaction of performance conditions. A post-vesting retention period will apply to awards granted under the PSP. Shares that vest will not normally be released to executives (and nil-cost options will not normally become exercisable) for a further two-year period (unless the Committee determines otherwise) from the point at which the Committee determined that the performance conditions have been met. In FY18, transitional arrangements are in place, see page 96. The Committee can apply malus provisions to an unvested award if there has been a material misstatement of the Company's results or misconduct by the Executive, or if the Committee considers there are other similar circumstances which mean that the malus provisions should apply. The Committee can also apply clawback provisions to an award for a period of two years following its vesting if there has been a material misstatement of the Company's results, a calculation error in respect of the number of shares over which the award was granted or vested, or misconduct, actions or omissions by the Executive which have caused or contributed to serious reputational damage to the Company.	Maximum award under the PSP is 200% of base salary. **Performance Measures** For 2017 awards will vest subject to the achievement of stretching Revenue and EPS growth targets. The vesting of 25% of the awards will be determined by the growth in the Group's revenue and the vesting of 75% of the award will be determined by the growth in the Group's underlying EPS over a three-year performance period. 25% of the award vests for entry level performance. Any vesting of the PSP will be subject to an underpin whereby the net debt to EBITDA ratio remains below 1.5 times on average for the 3 years of the plan. For future awards the Committee may determine that different financial, operational / strategic or share price related performance measures may apply to awards or that a different weighting between performance measures may apply to ensure continued alignment with our evolving strategy. The majority of the award will be subject to meeting a financial performance target.

Other information

Shareholding guidelines

The Committee believes that it is important that Executive Directors' interests are aligned with those of our shareholders to incentivise them to deliver the corporate strategy, thus creating value for all shareholders. Executive Directors are encouraged to acquire and retain shares with a value equal to 200% of their annual base salary. Executives are expected to retain 75% of any post-tax shares that vest under any share incentive plans until this shareholding is reached. Current Executive Director shareholdings are disclosed on page 94.

Legacy awards

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out above where the terms of the payment were agreed (i) before 29 July 2014 (the date the Company's first shareholder-approved Directors' Remuneration Policy came into effect); (ii) before the policy set out in this 2016/17 Annual Report came into effect, provided that the terms of the payment were consistent with the shareholder-approved Directors' Remuneration Policy in force at the time they were agreed; or (iii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Remuneration Policy Report

Plan rules

Awards under any of the Company's DBP and PSP may:

a. be granted as conditional share awards or nil-cost options or in such other form that the Committee determines has the same economic effect;

b. have any performance conditions applicable to them amended by the Committee if an event occurs which causes the Committee to consider that the existing performance condition should be amended to ensure that the objective criteria against which performance will be measured will be a fairer measure of such performance and that the amended performance condition will afford a more effective incentive to the Executive;

c. when assessing the level of vesting under the PSP, the Committee will consider the underlying financial performance of the Company and the value generated for shareholders and may adjust the level of vesting if it considers that the outcome based on the assessment of performance against targets does not reflect this;

d. incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under an award that vests up to the time such shares are delivered). This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis;

e. in respect of the PSP, be settled in cash or with the grant of a vested option at the Committee's discretion; and

f. be adjusted in the event of any alteration of the Company's share capital by way of capitalisation or rights issue, sub-division, consolidation or reduction, the payment of a special dividend, a demerger or any other variation of the share capital of the Company.

Remuneration arrangements in different performance scenarios

As outlined above, the Remuneration Policy is designed to ensure that a substantial proportion of the Executive Directors' remuneration is variable and performance-related. By linking the remuneration of the individual Executive Director to the performance of the Company, the Committee seeks, as far as possible, to motivate that individual towards superior business performance and shareholder value creation, and to only pay rewards when these goals have been realised. Performance measures are aligned with strategic goals so that remuneration arrangements are transparent to Directors, shareholders and other stakeholders.

The charts below illustrate remuneration arrangements in different performance scenarios. The assumptions for each scenario are outlined below:

Fixed Pay	• Fixed pay (base salary, benefits and pension) only
Expected	• Fixed pay
	• On target PSP award
	• 50% of PSP award
Maximum	• Fixed pay
	• 100% of maximum annual bonus opportunity
	• 100% of maximum PSP award

Executive Director	Base Salary with effect from 1 October 2016	Benefits Single Figure Value for 2016/17	Pension Based on Salary with effect from 1 October 2016	Total Fixed Remuneration
Jill McDonald (CEO)	£520,200	£10,262	£76,500	£606,962
Jonny Mason (CFO)	£357,000	£17,699	£52,500	£427,199

Performance conditions

Annual bonus: The bonus is subject to a mix of financial and strategic measures. These measures are selected to provide an appropriate balance between profitability and strategic objectives and to incentivise individual Directors to meet corporate targets and drive individual performance. Targets are set on an annual basis taking into account internal and external expectations of performance.

Performance Share Plan ("PSP"): The performance measures for 2017 awards are Group Revenue and underlying EPS growth. Revenue growth is strongly aligned with our *Moving Up A Gear* strategy and is easily identified by both management and shareholders. However, in order to add value for shareholders, revenue improvements need to lead through to improved profitability. The majority of the PSP award is therefore subject to improved bottom line profit performance measuring the overall success of the implementation of our strategy. Targets are set taking into account internal and external expectations of performance.

The Committee may determine that different performance measures will apply to future PSP awards.

Recruitment remuneration policy

When hiring a new Executive Director, it would be expected that the structure and quantum of the variable pay elements would reflect those set out in the Policy table above. However, at recruitment, the Committee would retain the discretion to flex the balance between annual and long-term incentives and the measures used to assess performance for these elements, with the intention that a significant proportion would be delivered in shares and that variable pay would be subject to performance conditions. In all cases the value of any variable pay that will be granted in respect of an executive's recruitment (excluding any buyout compensation for the 'loss' of existing variable remuneration benefits) will be a maximum of 350% of annual salary.

The Committee may also make arrangements to compensate the new Executive Director for 'loss' of existing remuneration when leaving a previous employer. In doing so the Committee may take account of the form in which they were granted; any relevant performance conditions; the length of time that any relevant performance periods have to run; and the organisation which previously employed the Executive Director. The Committee will seek to deliver buy-out arrangements on a broadly like-for-like basis to those forfeited.

When determining salary levels for a new Executive Director, the Committee may set the initial salary level towards the lower end of market practice and may award higher salary increases in the first few years as the individual gains in experience to move them towards a more market normal level.

To facilitate buy-out awards outlined above, in the event of recruitment, the Committee may grant awards to a new Executive Director under the Listing Rule 9.4.2 which allows for the granting of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director without seeking prior shareholder approval or under other relevant Company incentive plans.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as appropriate. In addition, the Committee may agree to provide tax equalisation for any new appointment.

For the appointment of a new Chairman or Non-Executive Director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time.

In the event that an internal candidate was promoted to the Board legacy terms and conditions would normally be honoured, including pension entitlements and any outstanding incentive awards.

Remuneration arrangements elsewhere in the Group

Whilst our Remuneration Policy follows the same principles across the Group, remuneration packages for colleagues reflect their different roles and experiences, and market practice for similar roles.

The remuneration policy for senior executives in the Group is similar to the policy for Executive Directors as set out in this report – a substantial proportion of remuneration is performance-related in order to encourage and reward superior business performance and shareholder returns and remuneration is linked to both individual and Company performance. Basic salary is targeted at normal commercial rates for comparable roles and is benchmarked on a regular basis. Bonuses can be earned on the same basis as the Executive Directors. Senior executives immediately below Board level also benefit from participation in the PSP.

Increases to executive managers' base salaries are considered at the same time as all other colleagues across the Group and increases are generally in line with all colleagues.

All of the Group's circa 10,000 colleagues are eligible to join the Halfords Sharesave Plan ("SAYE") after they have served one complete month's service. Where appropriate, some groups of colleagues are eligible for a quarterly or full year bonus, although the type, limits and performance conditions vary according to job level. Senior managers and other key management individuals are invited to join the Company Share Option Scheme or the Restricted Share Plan.

In 2016/17 all newly appointed colleagues and other existing colleagues who had experienced a 'joining-trigger' event were eligible to join the Halfords Pension Plan 2009. All members of the Pension Plan are required to make a minimum contribution of 1% and the Company also contributes a minimum of 1%, dependent on length of service and seniority. During the year the Company has met its obligations under the pensions auto enrolment legislation, auto enrolling all other colleagues as appropriate.

Executive Directors' service agreements

Term and notice periods

The Company's policy in relation to contractual terms on termination, and any payments made, is that they should be fair to the individual, the Company and shareholders. Failure should not be rewarded and the departing Executive Director's duty to mitigate any loss he or she suffers should be recognised. The notice period for the current Executive Directors is six months on either side. The Committee policy is that notice period for new Executive Directors will be no more than 12 months. The Committee will continue to review this policy, to ensure that it remains in line with the Company's overall Remuneration Policy.

	Date of Service Agreement	Notice Period
Jill McDonald	11 May 2015	6 months
Jonny Mason	12 October 2015	6 months

Remuneration Policy Report

Termination of contract

No compensation would be payable if a service contract were to be terminated by notice from an Executive Director or for lawful termination by the Company (other than as set out below). The Company may terminate service agreements in accordance with the appropriate notice periods. In the event of termination for any reason (other than for a reason justifying summary termination in accordance with the terms of the service agreement) the Company may (but is not obliged to) pay to the Executive Director, in lieu of notice, a sum equal to the Executive Director's then salary, benefits and pension contributions, which he or she would have received during the contractual notice period (six months), the sum of which shall normally be payable in monthly instalments.

Executive Directors who are considered to be good leavers may, if the Committee determines, receive a bonus for the financial year in which they leave employment. Such bonus will normally be calculated on a pro rata basis by reference to their period of service in the financial period in which their employment is terminated and performance against targets.

The Committee reserves the right to make any other payments in connection with a Director's cessation of office or employment where the payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement of any claim arising in connection with the cessation of a Director's office or employment. In addition, the Committee reserves the right, acting in good faith, to pay fees for outplacement assistance and/or the Director's legal and/or professional advice fees in connection with his or her cessation of office or employment.

Mitigation on termination

Where a contract has been terminated early the Executive Director shall use their best endeavours to secure an alternative source of remuneration, thus mitigating any loss to the Company, and shall provide the Board with evidence of such endeavours upon their reasonable request. If the Executive Director fails to provide such evidence the Board may cease all further payments of compensation. To the extent that the Executive Director receives any sums as a result of alternative employment or provision of services while he or she is receiving such payments from the Company, the payments may be reduced by the amount of such sums. In good leaver circumstances the Executive Director might be offered a lump sum termination payment paid at the time they cease employment which would normally be less than he or she would receive if he or she were to be paid his or her annual salary and benefits over six months.

Change of control

The service agreements of Executive Directors do not provide for any enhanced payments in the event of a change of control of the Company.

The Executive Directors' services contracts are available for inspection by shareholders at the Company's registered office.

Share plans – leaver treatment

The treatment of outstanding share awards in the event that an Executive Director ceases to hold office or employment with the Group of the Company's associated companies is governed by the relevant share plan rules. The following table summarises leaver provisions under the executive share plans.

	'Good leavers' as determined by the Committee	Leavers in other circumstances (other than gross misconduct)
Halfords Performance Share Plan		
Under the PSP 'Good Leavers' include: death, injury, ill-health disability, redundancy, retirement, sale of the individual's employing business or company out of the Group or to a company which is not associated with the Company or in any other circumstances the Committee determines.	Awards will vest at the end of the performance period and be released at the end of the retention period. The Committee will determine the level of vesting having due regard to the extent to which the performance conditions have been met and unless the Committee determines otherwise the proportion of the performance period that had elapsed at leaving. The Executive has 12 months from the end of the retention period to exercise options if awards are structured as nil-cost options. Alternatively the Committee may determine that awards should vest and be released at the time of leaving on the basis set out above. In these circumstances the Executive has 12 months from his or her date of leaving to exercise options if awards are structured as nil-cost options.	Unvested awards lapse on leaving. Awards for which the performance condition has been met at the time of leaving but which were subject to a retention period will continue to be released at the end of the retention period. The Executive has 12 months from leaving, or if later, the end of the retention period to exercise vested but unexercised options (if applicable) unless the Committee determines otherwise.

	'Good leavers' as determined by the Committee	Leavers in other circumstances (other than gross misconduct)
Deferred Bonus Plan ("DBP")		
Under the Deferred Bonus Plan 'Good Leavers' include: death, injury, ill-health disability, redundancy, retirement, sale of the individual's employing business or company out of the Group or to a company which is not associated with the Company or in any other circumstances the Committee determines.	Outstanding awards vest on leaving. The Executive has six months from leaving to exercise options (12 months in the case of death).	Awards will lapse on leaving.

The leavers' treatment under the Halfords Sharesave Scheme is determined in accordance with HMRC provisions.

In the event of an individual's misconduct all outstanding share awards would generally be forfeited.

Change of control

In the event of a change of control of the Company, PSP awards may vest and be released (pro-rated for time elapsed in the performance period unless the Committee determines otherwise) to the extent that the Committee determines the performance condition should be deemed satisfied having regarding to the Company's progress towards that condition. The Committee may allow awards to vest on the same basis in the event of a voluntary winding up or reconstruction of the Company or a demerger except that in the event of a demerger the Committee may determine the extent to which awards shall be time pro-rated.

DBP awards may vest on a change of control, reconstruction, winding up or demerger of the Company.

Alternatively, awards may be rolled over into equivalent awards in a different company.

Key elements of Non-Executive Director Remuneration Policy

	Purpose and link to strategy	Operation	Maximum Opportunity	Performance Measures
Chairman and Non-Executive Directors	To attract and retain high-calibre individuals to serve as Non-Executive Directors.	Fee levels are set to reflect the time, commitment and experience of the Chairman and the Non-Executive Directors, taking into account fee levels at other companies of a similar size and complexity and to other UK listed retailers. The fees of Non-Executive Directors shall normally be reviewed every two years to ensure that they are in line with market conditions and any changes to said fees will be approved by the Board as a whole following a recommendation from the Chief Executive. Fees for the Company Chairman shall normally be reviewed every two years to ensure that they are in line with market conditions and any changes to said fees will be approved by the Board as a whole. The fees are normally paid in cash quarterly but may be paid in shares if this is considered appropriate. The Chairman is paid a single fee which includes his chairmanship of the Nomination Committee. The Non-Executive Directors are paid a base fee plus additional fees for their chairmanship of a Board Committee and for the role of the Senior Independent Director. Further additional fees may be paid to reflect additional time, Committee or Board responsibilities if this is considered appropriate. The Company reimburses reasonable business expenses and may settle any tax incurred in relation to these. The Chairman and Non-Executive Directors do not currently receive other benefits but reasonable benefits may be provided in the future if appropriate.	Overall fees paid to Directors will remain within the limit stated in the Company's Articles of Association, currently £600,000. Non-Executive Directors and the Chairman are not entitled to participate in any cash or share incentive schemes.	None

Remuneration Policy Report

Appointment

None of the Non-Executive Directors has an employment contract with the Company. However, each has entered into a letter of appointment with the Company confirming their appointment for a period of three years, unless terminated by either party giving the other not less than three months' notice or by the Company on payment of fees in lieu of notice.

The remuneration package for a newly appointed Non-Executive Director would normally be in line with the structure set out in the policy table for Non-Executive Directors above.

The appointment period for each Non-Executive Director is set out below:

Director	Date of Appointment	Date of Current Appointment	Date of resignation	Expiry Date	Unexpired term at the date of this Report
Dennis Millard	28 May 2009	28 May 2015	—	27 May 2018	12 months
David Adams	1 March 2011	1 March 2017	—	29 February 2020	33 months
Claudia Arney	25 January 2011	25 January 2017	—	24 January 2020	32 months
Helen Jones	1 March 2014	1 March 2017	—	29 February 2020	33 months

Their appointments are subject to the provisions of the Companies Act 1985 and 2006 and the Company's Articles of Association, and in particular, the need for re-election. Continuation of an individual Non-Executive Director's appointment is also contingent on that Non-Executive Director's satisfactory performance, which is evaluated annually by the Chairman. The Chairman is evaluated by the Senior Independent Director.

The Non-Executive Directors' letters of appointment are available for inspection by shareholders at the Company's registered offices.

Termination of Non-Executive Directors' letters of appointment

No compensation would be payable to a Non-Executive Director if his or her engagement were terminated as a result of him or her retiring by rotation at an Annual General Meeting, not being elected or re-elected at an Annual General Meeting or otherwise ceasing to hold office under the provisions of the Articles of Association of the Company. There are no provisions for compensation being payable upon early termination of the appointment of a Non-Executive Director.

Dialogue with shareholders

The views of our shareholders are very important to the Committee and it is our policy to consult with our largest shareholders in advance of making any material changes to the executive remuneration arrangements.

The Committee actively considers feedback received from shareholders prior to and following each annual general meeting. It also actively monitors guidance and directional themes emerging from institutional shareholder bodies on the subject of executive remuneration. This feedback, plus any emerging relevant guidance, is considered as part of the Company's annual review of remuneration policy.

Dialogue with employees

The Committee generally considers pay and employment conditions elsewhere in the Group when considering pay for Executive Directors and senior management. When considering base salary increases, the Committee reviews overall levels of base pay increases offered to other employees in the Group.

The Committee does not consult directly with employees regarding Executive Directors' remuneration. However, at regular intervals the Company conducts a survey of the views of employees in respect of their experience of working at Halfords including their own reward.

Annual Remuneration Report

Structure and content of the Remuneration Report

This Remuneration Report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Group (Accounts and Reports) (Amendment) Regulations 2013. This Report meets the requirements of the Listing Rules and the Disclosure Guidance and Transparency Rules.

The information set out below represents auditable disclosures referred to in the Auditor's Report on pages 102 to 106, as specified by the UK Listing Authority and the Regulations.

Committee Composition

During the year, the Committee comprised:

Claudia Arney (Chair)
Dennis Millard
David Adams
Helen Jones

There were five Committee meetings held during the year, attended by all members; details are shown in the table on page 63. The Chairman of the Remuneration Committee reported to the Board on the key issues discussed. A number of informal discussions were also held between the Committee Chairman and Committee members throughout the year as the need arose.

All members are considered to be independent for the purposes of the UK Corporate Governance Code. The Company Secretary acts as secretary to the Committee.

Activities During the Year

During the year, the Committee has

- discussed and approved both financial and strategic annual bonus metrics and targets;
- discussed and reviewed Directors' and Senior Management salaries;
- discussed and reviewed attainment against the performance conditions for the Performance Share Plan and Company Share Option Scheme due to vest during the period;
- approved grants under the Performance Share Plan, Company Share Option Scheme (to senior managers below Board) and the Sharesave Scheme;
- reviewed the mechanics and assets of the Employee Benefit Trust;
- reviewed the Executive Remuneration Policy; and
- reviewed the Terms of Reference of the Committee.

Advisors

During the year, the Committee has been supported by Jonathan Crookall, People Director and Tim O'Gorman, Company Secretary. The Chief Executive Officer and Chief Financial Officer also attend Committee meetings on occasion, at the request of the Committee; they are never present when their own remuneration is discussed. The Committee also engaged with Deloitte LLP, which advised on performance measures for the PSP, remuneration reporting and other remuneration matters. Fees paid to Deloitte for this advice were £10,016, their fees are charged on a time and materials basis. Deloitte has also provided advice to management, to enable their support of the Committee, primarily in relation to remuneration reporting. Deloitte also provided unrelated tax advice during the year.

Deloitte is a founding member of the Remuneration Consultants Group and adheres to the Remuneration Consultants Group Code of Conduct when dealing with the Committee. We consider Deloitte's advice to be independent and impartial. We are also satisfied that the Deloitte Engagement Partner and team, who provided remuneration advice to the Committee, do not have connections with the Company that might impair their independence. The Committee considered the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Willis Towers Watson also provided the Committee with executive salary market data. Willis Towers Watson is also a signatory of the Remuneration Consultants Code of Conduct. Fees paid to Willis Towers Watson for this advice were £3,500. Willis Towers Watson also provides insurance broking services to the Group.

Shareholder Dialogue

The voting outcome from the 2016 Annual General Meeting reflected very strong individual and institutional shareholder support. We continue to be mindful of the concerns of our shareholders and other stakeholders and welcome shareholder feedback on any issue related to executive remuneration. In the event of a substantial vote against a resolution in relation to Directors' remuneration, we would seek to understand the reasons for any such vote, determine appropriate actions and detail any such actions in response to it in the Directors' Remuneration Report.

During the year we consulted with our major shareholders and shareholder advisory bodies on the changes proposed to our remuneration which are outlined in the Chairman's letter on page 78. In general shareholders were supportive of the changes proposed and we adapted the proposals in certain areas to reflect the feedback received.

Annual Remuneration Report

The following table sets out the votes cast at the 2016 AGM in respect of the previous Remuneration Report and the votes cast at the 2014 AGM in respect of the Remuneration Policy.

Votes in relation to the Annual Report on Remuneration

	% of votes For	% of votes Against
FY16 Directors' Remuneration Report (2016 AGM)*	98.66%	1.34%
FY14 Directors' Remuneration Policy (2014 AGM)**	97.00%	3.00%

* 1.0% votes were withheld in relation to this resolution.
** 0.56% votes were withheld in relation to this resolution.

How the Remuneration Policy was Implemented in 2016/17 – Executive Directors

Single remuneration figure (audited)

2016/2017	Base Salary	Bonus	Benefits	Pension	PSP	Other	Total 'Single Figure'
Jill McDonald[1]	515,100	-[1]	10,262	76,500	—	139,550[2]	741,412
Jonny Mason	353,500	175,463	17,699	52,500	—	—	599,162
2015/2016							
Jill McDonald[3]	450,513	159,390[4]	24,779	69,500	—	147,279[5]	851,461
Jonny Mason[6]	166,026	38,690	8,372	22,278	—	76,277[7]	311,643

1. On 3 May 2017 it was announced that Jill McDonald has resigned to take up a role at another business. Jill is therefore no longer entitled to receive a bonus for the year.
2. On 13 February 2017, Jill McDonald received an award of 38,635 ordinary shares as announced on 14 February 2017, made as compensation for Jill's forfeited entitlement to long-term incentives and share options with her previous employer.
3. Jill McDonald was appointed on 11 May 2015.
4. One third of Jill's bonus was deferred into the Deferred Bonus Plan, for a period of three years. It was announced on 3 May 2017 that Jill McDonald has resigned from her role of CEO and, therefore, her 2015/16 unvested Deferred Bonus Plan award will lapse in full when she leaves the Company.
5. On 13 February 2016 Jill McDonald received an award of 38,973 ordinary shares as announced on 15 February 2016, made as compensation for Jill's forfeited entitlement to long-term incentives and share options with her previous employer.
6. Jonny Mason was appointed on 12 October 2015.
7. In accordance with the announcement on 2 July 2015 Jonny Mason received a payment of £71,777 in March 2016 to replace his pro-rated bonus from his previous employer equivalent to the amount he would have received based on performance. In addition, in December 2015 Jonny was awarded a Save As You Earn grant amounting to £4,500, based on the discount at grant. These awards were not included in last year's disclosure.

2016/17 Annual Bonus

Annual bonuses for FY17 for Executive Directors were based 20.4% on Group PBT and 12.7% on the delivery of key strategic initiatives crucial to the delivery of the Company's strategy.

The PBT targets for the FY16/17 bonus were as follows:

15% payable at £73.0m (90% of budget)
50% payable at £81.1m (budget)
100% payable at £89.2m (110% of budget)

Annual bonuses reported in the table on page 90 and payable in June 2017 for the FY17 financial period were calculated as follows:

KPI	Definition	FY17 outturn	Threshold	Maximum	% achieved (out of 4%)
Sales matched to customers	Proportion of sales we can match to customers	59%	30%	40%	4%
Engagement index	The index achieved in the survey planned to take place in April 2017. Results available at end of April	80%	80%	82%	2%
Service related sales growth	The growth in total WeFit (inc. 3Bs) and Cycle Repair service and associated product sales	£89.6m	£83.3m	£101.8m	2.7%
Cycle Republic	Like-for-like sales	27%	15%	25%	4%
NPS	Store performance	70	71	73	0

The annual bonus outturn was reviewed in the context of the performance of the underlying business during the year and delivery against strategy.

	PBT	Strategic Measures	Total
Jonny Mason	£108,171	£67,292	£175,463

In accordance with the Deferred Bonus Plan, Jonny Mason's bonus will be paid two-thirds in cash with one-third being deferred into shares for a period of three years. As set out on page 79 it was announced on 3 May 2017 that Jill McDonald has resigned from her role of CEO and therefore will not receive a bonus in respect of FY17. We are committed to providing the greatest possible transparency in relation to retrospective achievement against the objectives that form part of the strategic bonus measures.

2015/16 Annual Bonus – PBT Targets

Last year the Company committed to disclose PBT targets for the bonus paid in respect of 2015/16. These were as follows:

15% payable at £81.5m
40% payable at £86.3m
100% payable at £91.8m

2014 Performance Share Plan Award

Awards granted in 2014 under the PSP were subject to the following performance conditions:

		Group Revenue Growth – CAGR (25% of the award)	Group EBITDA Growth (75% of the award)
Award 'Multiplier'	1.5× initial award vesting	7.5% or more	9.0% or more
(up to 1.5× initial award) i.e. 225% of salary	Straight-line vesting	Between 6.5% and 7.5%	Between 7.5% and 9.0%
Core Award	100% vesting	6.5%	7.5%
(150% of salary)	Straight-line vesting	Between 5.0% and 6.5%	Between 5.0% and 7.5%
	30% vesting	5.0%	5.0%
	0% vesting	Below 5.0%	Below 5.0%

The performance conditions for 2014 awards are based on Group revenue performance and Group EBITDA growth. The CAGR and EBITDA performance are assessed on an independent basis. However, to ensure that the PSP continues to support sustainable performance, the performance levels are set on a stepped basis, where vesting on the revenue measure is dependent upon the EBITDA threshold being met, and in addition the revenue measure can only be one step above the EBITDA measure. Given that EBITDA growth was 2.4% the scheme did not vest, even though the revenue growth was 5.2%.

The following table shows the history of PSP award vesting over the last five years.

	FY13	FY14	FY15	FY16	FY17
PSP vestings (% of maximum)	0%	0%	15%	102.5%	0%

Jill McDonald was appointed to the Board on 11 May 2015 and Jonny Mason was appointed to the Board on 12 October 2015. Neither therefore received a PSP award in 2014.

Benefits

Benefits include payments made in relation to life assurance, private health insurance and the provision of a fully expensed company car or equivalent cash allowance and fuel card.

Pension

Pension payments represent contributions made either to defined contribution pension schemes or as a cash allowance. The CEO and CFO both received a contribution of 15% of base salary.

Leaving Arrangements for Jill McDonald

On 3 May 2017 it was announced that Jill McDonald has resigned from her role of CEO. Jill will continue to work her six month contractual notice period. Jill McDonald will not receive a bonus in respect of 2016/17. All of Jill's unvested share awards under the Deferred Bonus Plan and the Performance Share Plan will lapse in full when she leaves the Company. On her appointment it was agreed that Jill would be made awards with a total value £529,819 to replace awards made by her previous employer that lapsed on resignation. These awards were to be delivered in four annual tranches from 2016 to 2019. Two tranches have already been delivered, one in February 2016 and one in February 2017. Jill will forfeit the outstanding two tranches of this award, originally intended to be delivered in 2018 and 2019.

Annual Remuneration Report

Share Awards Granted During the Year (Audited)

Performance Share Plan

During the period we approved awards to the Executive Directors under the Performance Share Plan as follows:

	Date of award	Type of award	Number of shares*	Maximum face value of award (1.5x the number of awards granted)**	Threshold vesting (% of target award)	Performance period
Jill McDonald***	11 August 2016	Nil cost option (0p exercise price)	214,586	£1,158,764	30%	2 April 2016 to 29 March 2019
Jonny Mason	11 August 2016		147,265	£795,231		

* These awards were based on 150% of salary
** Based on the mid-market price on the date of the awards of £3.60 on 11 August 2016
*** As set out on page 79 it was announced on 3 May 2017 that Jill McDonald has resigned from her role of CEO and her 2016 PSP award will lapse in full when she leaves the Company

Performance Conditions

Awards granted in FY17 are subject to the following performance conditions:

		Group Revenue Growth – CAGR (25% of the award)	Group EBITDA Growth – CAGR (75% of the award)
Award 'Multiplier'	1.5× initial award vesting	6.7% or more	7.5% or more
(up to 1.5× initial award) i.e. 225% of salary.	Straight-line vesting	Between 5.5% and 6.7%	Between 6.0% and 7.5%
Core Award	100% vesting	5.5%	6.0%
(150% of salary)	Straight-line vesting	Between 4.0% and 5.5%	Between 4.0% and 6.0%
	30% vesting	4.0%	4.0%
	0% vesting	Below 4.0%	Below 4.0%

In addition to achieving these targets, the vesting of awards will be subject to meeting an underpin of net debt to EBITDA ratio no greater than 1.5x throughout the three-year performance period. This will ensure that net debt remains at appropriate levels and management is not incentivised to increase net debt levels to meet targets; the focus is to maximise the return on cash investments. The Core Award shares that vest will become exercisable in August 2019. To the extent that awards vest in line with the performance multiplier outlined above, these shares will only become exercisable in August 2021, following a retention period of two years.

CEO Share Award

The Board agreed that upon joining the Company, Jill McDonald would be given an award of shares to compensate her for awards made by her previous employer that lapsed on resignation. The value of these shares was £529,819. Two tranches have been delivered, one in February 2016 and one in February 2017. As set out on page 79 it was announced on 3 May 2017 that Jill McDonald has resigned from her role of CEO and therefore will forfeit the outstanding two tranches of this award.

Deferred Bonus Plan

Awards granted during the year:

	Award date	Mid-market price on date of awards £	Awards held 2 April 2016	Awarded during the period	Dividend Reinvestment[1]	Forfeited during the period	Lapsed during the period	Exercised during the year	Awards held 31 March 2017	Vesting
Jill McDonald	30 June 2016	3.215	—	16,525	1,247	—	—	—	17,772	30 June 2019-30 June 2020

1. Interim and final dividends have been reinvested in shares at prices between £3.615 and £3.87532

On 30 June 2016, one-third of Jill McDonald's 2015/16 bonus was deferred into shares for a period of three years.

As set out on page 79 it was announced on 3 May 2017 that Jill McDonald has resigned from her role of CEO and, therefore, her 2015/16 unvested Deferred Bonus Plan award will lapse in full when she leaves the Company.

Outstanding Share Awards (Audited)

Performance Share Plan

The following summarises outstanding awards under the PSP:

	Award date	Mid-market price on date of awards £	Awards held 2 April 2016	Awarded during the period	Dividend Reinvestment[1]	Forfeited during the period	Lapsed during the period	Exercised during the year	Awards held 31 March 2017	Performance period 3 years to
Jill McDonald[2]	14 August 2015	5.34	142,916	—	10,787	—	—	—	153,703	30 March 2018
	11 August 2016	3.60	—	214,586	16,196	—	—	—	230,783	29 March 2019
Jonny Mason[3]	12 November 2015	3.95	123,966	—	9,357	—	—	—	133,322	30 March 2018
	11 August 2016	3.60	—	147,265	11,115	—	—	—	158,380	29 March 2019

1. Interim and final dividends have been reinvested in shares at prices between £3.615 and £3.87532
2. Jill McDonald was appointed on 11 May 2015
3. Jonny Mason was appointed on 12 October 2015

As set out on page 79 it was announced on 3 May 2017 that Jill McDonald has resigned from her role of CEO and, therefore, her 2015 and 2016 unvested PSP award will lapse in full when she leaves the Company.

Save As You Earn ("SAYE")

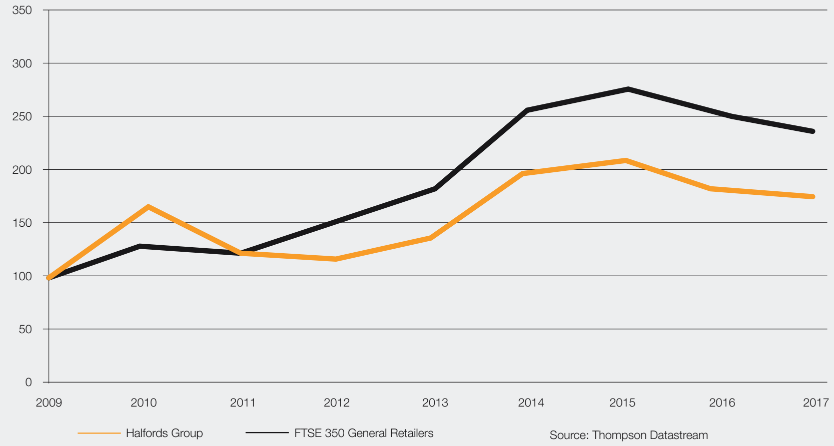
	Award date	Mid-market price on date of awards £	Awards held 2 April 2016	Awarded during the period	Forfeited during the period	Lapsed during the period	Exercised during the year	Awards held 31 March 2017	Exercisable Date
Jonny Mason	30 December 2015	2.979	6,042	—	—	—	—	6,042	1 February 2019 – 1 August 2019

On 30 December 2015, Jonny Mason was granted 6,042 shares in the Company's SAYE.

Annual Remuneration Report

CEO Pay Compared to Performance

The following graph shows the TSR performance of the Company since April 2009, against the FTSE 350 General Retailers (which was chosen because it represents a broad equity market index of which the Company is a constituent).



The following table summarises the CEO single figure for the past eight years and outlines the proportion of annual bonus paid as a percentage of the maximum opportunity and the proportion of PSP awards vesting as a percentage of the maximum opportunity. The annual bonus is shown based on the year to which performance related and the PSP is shown for the last year of the performance period.

		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
CEO single figure (£000)	Jill McDonald[1]	—	—	—	—	—	—	851	741
	Matt Davies[2]	—	—	—	499	1,372	645	54	—
	David Wild[3]	1,134	531	617	198	—	—	—	—
Annual bonus (% of maximum)	Jill McDonald	—	—	—	—	—	—	23.5%	—[1]
	Matt Davies	—	—	—	50%	97.5%	—[4]	—[4]	—
	David Wild	80%	—	0%	—	—	—	—	—
PSP vesting (% of maximum)	Jill McDonald	—	—	—	—	—	—	—[1]	—[1]
	Matt Davies	—	—	—	—	—	—	—	—
	David Wild	—	—	99%	—	—	—	—	—

1. Jill McDonald was appointed on 11 May 2015. On 3 May 2017, it was announced that Jill McDonald has resigned from her role of CEO. Jill will not be eligible to receive any bonus for FY17
2. Matt Davies was appointed on 4 October 2012 and resigned as CEO on 30 April 2015. Matt did not receive PSP awards in 2012, as these were before he was appointed.
3. David Wild resigned as CEO on 19 July 2012.
4. Matt Davies tendered his resignation prior to the payment of the FY15 bonus and, accordingly was not eligible to receive any bonus in respect of the period.

Shareholding Guidelines (Audited)

The Committee believes that it is important that Executive Directors' interests are aligned with those of our shareholders. Executive Directors are encouraged to acquire and retain shares with a value equal to 100% of their annual base salary. Executive Directors have a five-year period to build this shareholding following their appointment. As set out on page 83 from 2017/18 the shareholding guideline for Executive Directors has been increased to 200% of salary. Executives will be required to retain 75% of their vested shares under the Deferred Bonus Plan and PSP until this guideline is met.

	Jill McDonald	**Jonny Mason**
Shareholding requirement	100%	100%
Shareholding as at 31 March 2017	41,057	75,000
Current value (based on share price on 31 March 2017)	£145,629	£266,025
Current % of salary	28%	75%
Date by which guideline should be met	11 May 2020	12 October 2020

These figures include those of their spouse or civil partner and infant children, or stepchildren, as required by Section 822 of the Companies Act 2006. There was no change in these beneficial interests between 31 March 2017 and 24 May 2017.

Outside Appointments

Halfords recognises that its Executive Directors may be invited to become non-executive directors of other companies. Such non-executive duties can broaden experience and knowledge which can benefit Halfords. Subject to approval by the Board, Executive Directors are allowed to accept non-executive appointments and retain the fees received, provided that these appointments are not likely to lead to conflicts of interest. Jill McDonald received fees of £81,000 as a non-executive director of Inter Continental Hotels Group plc in the period.

Loss of Office Payments (Audited)

No loss of office payment was made to a Director during the year.

Payments to Former Directors (Audited)

No payments were made to former Directors during the year.

How the Remuneration Policy was Implemented in 2016/2017 – Non-Executive Directors

Non-Executive Director single figure comparison (audited)

Director	Role	Board Fees	Senior Independent Director	Committee Chairman Fees	Total 'Single Figure' 2017	Total 'Single Figure' 2016
Dennis Millard	Chairman	185,000	—	—	185,000	176,000
David Adams	Senior Independent Director & Audit Committee Chairman	50,000	10,000	10,000	70,000	68,000
Claudia Arney	Remuneration Committee Chairman	50,000	—	10,000	60,000	53,000
Helen Jones	CSR Committee Chairman	50,000	—	5,000	55,000	48,000
Totals		335,000	10,000	30,000	370,000	345,000

Non-Executive Director Shareholding

Director	2017	2016
Dennis Millard	**70,000**	60,000
David Adams	**7,284**	6,780
Claudia Arney	**21,052**	21,052
Helen Jones	**3,000**	3,000

These figures include those of their spouses, civil partners and infant children, or stepchildren, as required by Section 822 of the Companies Act 2006. There was no change in these beneficial interests between 31 March 2017 and 24 May 2017.

Non-Executive Directors do not have a shareholding guideline but they are encouraged to buy shares in the Company.

How the Remuneration Policy will be Implemented for 2017/18 — Executive Directors

Salary

Base salaries were reviewed with effect from 1 October 2016 and increases were made as per the details on page 79. Current salaries for the Executive Directors are as follows:

Chief Executive Officer	£520,200
Chief Financial Officer	£357,000

Salaries will next be reviewed with effect from 1 October 2017.

Annual Remuneration Report

Annual Bonus

The annual bonus opportunity for 2017/18 will be as follows:

Chief Executive Officer and Chief Financial Officer	Maximum opportunity of 150% of base salary 2/3 paid in cash 1/3 paid in Halfords shares deferred for three years

The annual bonus will continue to be based 80% on Profit Before Tax ("PBT") performance and 20% based on performance against strategic objectives. PBT targets range from 90% of budget, where payment is 15% to 110% of budget for maximum payment. The Committee reviews the goals included in the strategic objectives portion of the bonus to ensure that they remain appropriate. These objectives include metrics in relation to customer service and colleague engagement.

In determining whether any bonuses are payable, the Committee retains the discretionary authority to increase or decrease the bonus to ensure that the level of bonus paid is appropriate in the context of performance. Bonus targets are released retrospectively as they are considered by the Board to be commercially sensitive as they could reveal information about Halfords' business plan and budgeting process to competitors which could be damaging to Halfords' business interests and therefore to shareholders.

Performance Share Plan

As noted in the Chairman's introduction, during the year the Committee undertook a review of remuneration arrangements and made a number of changes to the structure and operation of the performance share plan to reflect market best practice and shareholder expectations.

We have simplified the PSP for 2017/18 awards to remove the 'multiplier' award for exceptional performance and the maximum award level has been reduced to 200% of salary. The level of vesting for threshold performance has been reduced to 25% of maximum.

The vesting of awards will be subject to meeting the following performance conditions:

		Group Revenue Growth – CAGR (25% of the award)	Underlying EPS Growth - CAGR (75% of the award)
Award (200% of salary)	100% vesting	7.0%	6.0%
	straight-line vesting	Between 3.5% and 7.0%	Between 1.5% and 6.0%
	25% vesting	3.5%	1.5%
	0% vesting	Below 3.5%	Below 1.5%

2017 awards are based on underlying EPS growth and Group Revenue. EPS growth has replaced EBITDA growth to focus management on driving returns for shareholder through improved bottom line profit performance measuring the overall success of the implementation of our strategy. Group Revenue continues to be an important PSP measure which focuses the management team on driving volume in the business and are not proposing to change this element. The two metrics will operate independently of each other.

The Committee believes that these targets are appropriately stretching in the context of the current retail environment, in particular the substantial cost headwinds expected over the next few years.

When assessing the level of vesting under the PSP, the Committee will consider the underlying financial performance of the Company and the value generated for shareholders and may adjust the level of vesting if it considers that the outcome based on the assessment of performance does not reflect this. Any vesting of the PSP will be subject to an underpin whereby the net debt to EBITDA ratio remains below 1.5 times on average for the 3 years of the plan. In particular the Committee will consider the net debt to EBITDA ratio over the three-year performance period to ensure net debt remains at appropriate levels and management is not incentivised to increase net debt levels to meet targets; the focus is to maximise the return on cash investments.

For 2017 PSP awards, 50% of the shares that vest will be subject to a one-year holding period with the remaining 50% subject to a two-year holding period. For 2018 awards and onwards a two-year holding period will apply to the full award. While committed to the use of equity-based performance-related remuneration as a means of aligning Executive Directors' interests with those of shareholders, we are aware of shareholders' concerns on dilution through the issue of new shares to satisfy such awards. Therefore, when reviewing remuneration arrangements, we take into account the effects such arrangements may have on dilution. Halfords intends to comply with the Investment Association guidelines relating to the issue of new shares for equity incentive plans.

How the Remuneration Policy will be Implemented for 2017/18 — Non-Executive Directors

Fees

The fees of Non-Executive Directors are normally reviewed every two years to ensure that they are in line with market benchmarks. Any changes to these fees will be approved by the Board as a whole following a recommendation from the Chief Executive. The base fee for Non-Executive Directors was last increased with effect from 1 April 2016 this was the first increase in these fees since April 2013. Current fees for Non-Executive Directors are as follows:

	2018	2017
Chairman	£185,000	£185,000
Base fee	£50,000	£50,000
Additional fees		
Senior Independent Director	£10,000	£10,000
Committee Chairman (Audit and Remuneration)	£10,000	£10,000
Committee Chairman (CSR)	£5,000	£5,000

Change in Remuneration of Chief Executive Compared to Group Employees

The table below sets out the increase in total remuneration of the Chief Executive and that of all colleagues.

	% change in base salary FY16 to FY17	**% change in bonus earned FY16 to FY17**	**% change in benefits FY16 to FY17**
Chief Executive	2%	-[1]	No change
All colleagues	2.69%	9%	-[2]

The budget across the business was 3% and the application awarded to all colleagues was 2% with an additional 1% merit pot.

1. Jill McDonald resigned from her role as Chief Executive Officer on 3 May 2017, and therefore Jill is not eligible to receive a bonus in respect of FY17.
2. In FY17, the Company introduced Life Assurance for all colleagues.

Relative Importance of Pay

The Committee is also aware of shareholders' views on remuneration and its relationship to other cash disbursements. The following table shows the relationship between the Company's financial performance, payments made to shareholders, payments made to tax authorities and expenditure on payroll.

	2017	2016
EBITDA	**£108.7m**	£114.6m
PBT (underlying)	**£75.4m**	£81.5m
Returned to shareholders:		
Dividend	**£53.5m**	£32.4m
Payments to employees:		
Wages and salaries	**£195.5m**	£183.3m
Including Directors[1]	**£1.3m**	£1.4m

1. Based on the single figure calculation, not all of which is included within wages and salary costs

Directors' Responsibilities

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 Group and parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and applicable law and have elected to prepare the parent Company financial statements in accordance with UK Accounting Standards. 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 parent Company and of their profit or loss for that period. In preparing each of the Group and parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent Company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

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

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

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

Responsibility Statement

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 Annual Report and Accounts include 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.

We consider the Annual Report and Accounts, 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.

Approved by order of the Board.

Dennis Millard
Chairman
24 May 2017


ction
oikes
Then take it for a spin
outside or right here
on our interactive turbo
trainer.
We have over
great services
to keep your
bike rolling

halfords

Financial *Statements*

Independent Auditor's Report to the Members of Halfords Group plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Halfords Group plc for the period ended 31 March 2017 set out on pages 108 to 145. 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 31 March 2017 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;

— the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 *Reduced Disclosure Framework*; 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.

Overview		
Materiality: group financial statements as a whole		£3.3m (FY16:£4.0m) 4.7% (FY16: 5.0%) of profit before tax
Coverage		100% (FY16:100%) of profit before tax
Risks of material misstatement		**vs FY16**
Recurring risks	Carrying amount of Autocentres Goodwill	↑
	Carrying value of Retail division inventory	←→

2. Our assessment of risks of material misstatement

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

	The risk	Our response
Carrying amount of Autocentres Goodwill (£69.7 million; FY16: £69.7 million) *Refer to page 74 to 77 (Audit Committee Report), page 116 (accounting policy) and page 128 (financial disclosures).*	**Forecast-based valuation** Following the acquisition of Nationwide Autocentres in 2010, the Group holds significant goodwill in the Autocentres division. As set out in the Chief Executive's Statement on page 6, the results of the Autocentres division were not in line with management's expectations, and, as such, the risk of impairment to the associated goodwill has increased. The business operates in a competitive market, and commercial factors, such as loss of a significant customer, changes to market share or changes to the frequency with which customers replace their cars, may lead to a risk that the business does not meet the growth projections necessary to support the carrying value of the goodwill. The estimated recoverable amount is subjective due to the inherent uncertainty involved in forecasting these cash flows and therefore, this is considered to be one of the key judgemental areas that our audit is concentrated on.	Our procedures included: — **Benchmarking assumptions:** Comparing the Group's assumptions, in particular those relating to forecast long term growth rates and discount rates, to externally derived data; — **Historical comparisons:** Assessing the Group's performance against budget in the current and prior periods to evaluate the historical accuracy of the Group's forecasts; — **Sensitivity analysis:** Performing sensitivity analysis on the assumptions noted above, including assumed EBITDA growth of 10% and 0% over the next 5 periods; — **Comparing valuations:** Comparing the sum of the discounted cash flows to the Group's market capitalisation to assess the reasonableness of those cash flows; and — **Assessing transparency:** Assessing whether the group's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the valuation of goodwill.

Independent Auditor's Report to the Members of Halfords Group plc only

	The risk	Our response
Carrying value of Retail division inventory (£181.4 million; FY16: £153.3 million) *Refer to pages 74 to 77 (Audit Committee Report), page 117 (accounting policy) and page 130 (financial disclosures).*	**Subjective estimate** Inventories are carried at the lower of cost and net realisable value. The estimated net realisable value of inventory and associated provisions are subjective due to the inherent uncertainty in predicting consumer demand. Further, changes in the Group's provisioning methodology could lead to inappropriate releases to the income statement. The obsolete stock provision is based on a model which includes consideration of each inventory line, recent sales of those lines and the product's position in its lifecycle. The Group further overlays specific provisions to account for other matters not captured in the model, such as known stock losses and faulty goods. There is a risk that the Group's assessment of the level of these provisions is insufficient or inaccurate.	Our procedures included: — **Assessing methodology:** Assessing the adequacy of the Group's inventory provision methodology based on our knowledge of the industry and factors specific to the Group. — **Our sector experience:** Assessing and challenging the directors assumptions behind the changes to the provision methodology against our own knowledge of the industry and factors specific to the Group; — **Tests of detail:** Testing the key inputs to the provisioning model, including recent sales data and inventory costing. Obtaining a report of sales made subsequent to the period end at a negative margin to ascertain whether those items should have been provided for at the period end; — **Historical comparisons:** Assessing the accuracy of inventory provisioning by checking the historical accuracy of the level of inventory provisions in prior periods; and — **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the provision.

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 £3.3 million (FY16: £4.0 million), determined with reference to a benchmark of group profit before tax, of which it represents 4.7% (FY16: 5.0%).

We reported to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.17 million (FY16: £0.20 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 5 (FY16: 4) components, we subjected 5 (FY16: 4) to full scope audits for group purposes. All components are located in the UK.

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

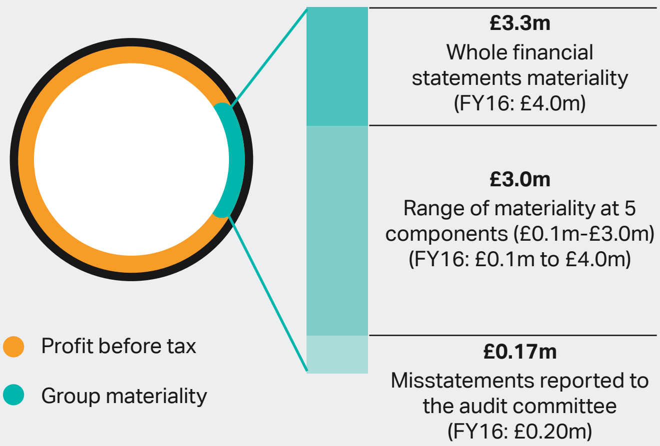
The Group team approved the component materialities, which ranged from £0.1 million to £3.0 million (FY16: £0.1 million to £4.0 million), having regard to the mix of size and risk profile of the Group across the components. The work on 5 of the 5 components (FY16: 4 of the 4 components) was performed by the Group team.

Profit before tax

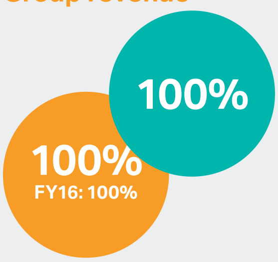
£71.4m (FY16: £79.8m)

Materiality

£3.3m (FY16: £4.0m)

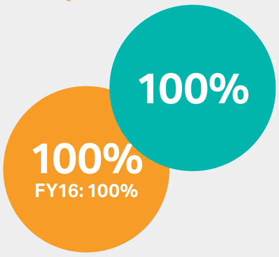


Group revenue



Group profit before tax

Group total assets



- Full scope for group audit purposes FY17
- Full scope for group audit purposes FY16

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

In our opinion:

— the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

— the information given in the Strategic Report and the Directors' Report for the financial period is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

— we have not identified material misstatements in those reports; and

— in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

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

— the Directors' statement of viability on page 56, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Group's continuing in operation over the three periods to 3 April 2020; or

— the disclosures in the financial statements concerning the use of the going concern basis of accounting.

Independent Auditor's Report to the Members of Halfords Group plc only

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

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

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

— we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; or

— the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

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

— adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or

— certain disclosures of Directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

— the directors' statements, set out on page 56, in relation to going concern and longer-term viability; and

— the part of the Corporate Governance Statement on page 58 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

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

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 98, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Peter Meehan (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

24 May 2017

Index to Financials

Consolidated Income Statement

For the period	Notes	52 weeks to 31 March 2017 Before Non-recurring items £m	Non-recurring items (note 5) £m	Total £m	52 weeks to 1 April 2016 Before Non-recurring items £m	Non-recurring items (note 5) £m	Total £m
Revenue		**1,095.0**	**—**	**1,095.0**	1,021.5	—	1,021.5
Cost of sales		**(536.4)**	**—**	**(536.4)**	(478.4)	—	(478.4)
Gross profit		**558.6**	**—**	**558.6**	543.1	—	543.1
Operating expenses	2	**(481.5)**	**(3.4)**	**(484.9)**	(458.6)	(1.7)	(460.3)
Results from operating activities	3	**77.1**	**(3.4)**	**73.7**	84.5	(1.7)	82.8
Finance costs	6	**(3.2)**	**(0.6)**	**(3.8)**	(3.1)	—	(3.1)
Finance income	6	**1.5**	**—**	**1.5**	0.1	—	0.1
Net finance expense		**(1.7)**	**(0.6)**	**(2.3)**	(3.0)	—	(3.0)
Profit before income tax		**75.4**	**(4.0)**	**71.4**	81.5	(1.7)	79.8
Income tax expense	7	**(15.9)**	**0.9**	**(15.0)**	(16.6)	0.3	(16.3)
Profit for the financial period attributable to equity shareholders		**59.5**	**(3.1)**	**56.4**	64.9	(1.4)	63.5
Earnings per share							
Basic	9	**30.3p**		**28.7p**	33.2p		32.5p
Diluted	9	**30.2p**		**28.6p**	33.0p		32.4p

All results relate to continuing operations of the Group.

The notes on pages 121 to 145 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Notes	**52 weeks to 31 March 2017 £m**	52 weeks to 1 April 2016 £m
Profit for the period		**56.4**	63.5
Other comprehensive income			
Cash flow hedges:			
Fair value changes in the period		**14.8**	4.7
Transfers to inventory		**(12.8)**	(2.9)
Transfers to net profit:			
Cost of sales		**(5.1)**	(0.6)
Income tax on other comprehensive income	7	**0.5**	0.4
Other comprehensive income for the period, net of income tax		**2.6**	1.6
Total comprehensive income for the period attributable to equity shareholders		**53.8**	65.1

All items within the Consolidated Statement of Comprehensive Income are classified as items that are or may be recycled to the income statement.

The notes on pages 121 to 145 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

	Notes	31 March 2017 £m	1 April 2016 £m
Assets			
Non-current assets			
Intangible assets	11	**394.1**	362.9
Property, plant and equipment	12	**102.8**	107.3
Investments	13	**8.1**	—
Total non-current assets		**505.0**	470.2
Current assets			
Inventories	14	**191.1**	157.9
Trade and other receivables	15	**58.4**	60.7
Derivative financial instruments	21	**5.2**	4.2
Cash and cash equivalents	16	**16.5**	11.9
Total current assets		**271.2**	234.7
Total assets		**776.2**	704.9
Liabilities			
Current liabilities			
Borrowings	17	**(19.8)**	(23.4)
Derivative financial instruments	21	**(1.5)**	—
Trade and other payables	18	**(206.2)**	(182.5)
Current tax liabilities		**(8.7)**	(7.5)
Provisions	19	**(11.0)**	(9.5)
Total current liabilities		**(247.2)**	(222.9)
Net current assets		**24.0**	11.8
Non-current liabilities			
Borrowings	17	**(82.6)**	(36.4)
Accruals and deferred income – lease incentives	18	**(31.9)**	(32.3)
Deferred tax liability	20	**(0.8)**	—
Provisions	19	**(6.2)**	(7.9)
Total non-current liabilities		**(121.5)**	(76.6)
Total liabilities		**(368.7)**	(299.5)
Net assets		**407.5**	405.4
Shareholders' equity			
Share capital	22	**2.0**	2.0
Share premium	22	**151.0**	151.0
Investment in own shares	22	**(9.5)**	(10.9)
Other reserves	22	**0.6**	3.2
Retained earnings		**263.4**	260.1
Total equity attributable to equity holders of the Company		**407.5**	405.4

The notes on pages 121 to 145 are an integral part of these consolidated financial statements.

The financial statements on pages 108 to 145 were approved by the Board of Directors on 24 May 2017 and were signed on its behalf by:

Jonny Mason
Finance Director

Company Number: 04457314

Consolidated Statement of Changes in Shareholders' Equity

		Attributable to the equity holders of the Company					
			Other reserves				
	Share capital £m	Share premium account £m	Investment in own shares £m	Capital redemption reserve £m	Hedging reserve £m	Retained earnings £m	Total equity £m
Balance at 3 April 2015	2.0	151.0	(13.6)	0.3	1.3	226.7	**367.7**
Total comprehensive income for the period							
Profit for the period	—	—	—	—	—	63.5	**63.5**
Other comprehensive income							
Cash flow hedges:							
Fair value changes in the period	—	—	—	—	4.7	—	**4.7**
Transfers to inventory	—	—	—	—	(2.9)	—	**(2.9)**
Transfers to net profit:							
Cost of sales	—	—	—	—	(0.6)	—	**(0.6)**
Income tax on other comprehensive income	—	—	—	—	0.4	—	**0.4**
Total other comprehensive income for the period net of tax	—	—	—	—	1.6	—	**1.6**
Total comprehensive income for the period	—	—	—	—	1.6	63.5	**65.1**
Transactions with owners							
Share options exercised	—	—	2.7	—	—	—	**2.7**
Share-based payment transactions	—	—	—	—	—	3.0	**3.0**
Income tax on share-based payment transactions	—	—	—	—	—	(0.7)	**(0.7)**
Dividends to equity holders	—	—	—	—	—	(32.4)	**(32.4)**
Total transactions with owners	—	—	2.7	—	—	(30.1)	**(27.4)**
Balance at 1 April 2016	2.0	151.0	(10.9)	0.3	2.9	260.1	**405.4**
Total comprehensive income for the period							
Profit for the period	—	—	—	—	—	56.4	**56.4**
Other comprehensive income							
Cash flow hedges:							
Fair value changes in the period	—	—	—	—	14.8	—	**14.8**
Transfers to inventory	—	—	—	—	(12.8)	—	**(12.8)**
Transfers to net profit:							
Cost of sales	—	—	—	—	(5.1)	—	**(5.1)**
Income tax on other comprehensive income	—	—	—	—	0.5	—	**0.5**
Total other comprehensive income for the period net of tax	—	—	—	—	(2.6)	—	**(2.6)**
Total comprehensive income for the period	—	—	—	—	(2.6)	56.4	**53.8**
Transactions with owners							
Share options exercised	—	—	1.4	—	—	—	**1.4**
Share-based payment transactions	—	—	—	—	—	1.0	**1.0**
Income tax on share-based payment transactions	—	—	—	—	—	(0.6)	**(0.6)**
Dividends to equity holders	—	—	—	—	—	(53.5)	**(53.5)**
Total transactions with owners	—	—	1.4	—	—	(53.1)	**(51.7)**
Balance at 31 March 2017	**2.0**	**151.0**	**(9.5)**	**0.3**	**0.3**	**263.4**	**407.5**

The notes on pages 121 to 145 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

	Notes	52 weeks to 31 March 2017 £m	52 weeks to 1 April 2016 £m
Cash flows from operating activities			
Profit after tax for the period, before non-recurring items		**59.5**	64.9
Non-recurring items		**(3.1)**	(1.4)
Profit after tax for the period		**56.4**	63.5
Depreciation – property, plant and equipment		**21.6**	23.8
Amortisation – intangible assets		**10.0**	6.3
Net finance costs		**2.3**	3.0
Loss on disposal of property, plant and equipment		**0.2**	0.4
Equity-settled share-based payment transactions		**1.0**	3.0
Fair value gain on derivative financial instruments		**(1.8)**	(0.4)
Income tax expense		**15.0**	16.3
(Increase) in inventories		**(33.2)**	(8.6)
Decrease/(increase) in trade and other receivables		**2.3**	(4.9)
Increase in trade and other payables		**14.6**	2.3
(Decrease) in provisions		**(0.2)**	(1.4)
Finance income received		**1.5**	0.1
Finance costs paid		**(2.3)**	(2.3)
Income tax paid		**(15.3)**	(17.2)
Net cash from operating activities		**72.1**	83.9
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		**(18.0)**	—
Purchase of investment		**(4.1)**	—
Purchase of intangible assets		**(18.4)**	(12.5)
Purchase of property, plant and equipment		**(16.0)**	(26.0)
Net cash used in investing activities		**(56.5)**	(38.5)
Cash flows from financing activities			
Net proceeds from exercise of share options		**1.4**	2.7
Proceeds from loans, net of transaction costs		**297.0**	219.0
Repayment of borrowings		**(251.0)**	(245.0)
Payment of finance lease liabilities		**(0.6)**	(0.6)
Dividends paid		**(53.5)**	(32.4)
Net cash used in financing activities		**(6.7)**	(56.3)
Net (decrease)/increase in cash and bank overdrafts	I.	**8.9**	(10.9)
Cash and cash equivalents at the beginning of the period		**(10.8)**	0.1
Cash and cash equivalents at the end of the period	I.	**(1.9)**	(10.8)

Cash and cash equivalents at the period end consist of £16.5m (2016: £11.9m) of liquid assets and £18.4m (2016: £22.7m) of bank overdrafts.

The notes on pages 121 to 145 are an integral part of these consolidated financial statements.

Notes to Consolidated Statement of Cash Flows

I. Analysis of movements in the Group's net debt in the period

	At 1 April 2016 £m	Cash flow £m	Other non-cash changes £m	**At 31 March 2017 £m**
Cash and cash equivalents at bank and in hand	(10.8)	8.9	—	**(1.9)**
Debt due after one year	(25.4)	(46.0)	(0.6)	**(72.0)**
Total net debt excluding finance leases	(36.2)	(37.1)	(0.6)	**(73.9)**
Finance leases due within one year	(0.7)	0.6	(1.3)	**(1.4)**
Finance lease due after one year	(11.0)	—	0.4	**(10.6)**
Total finance leases	(11.7)	0.6	(0.9)	**(12.0)**
Total net debt	(47.9)	(36.5)	(1.5)	**(85.9)**

Non-cash changes include finance costs in relation to the amortisation of capitalised debt issue costs of £0.7m (2016: £0.7m) and changes in classification between amounts due within and after one year.

Cash and cash equivalents at the period end consist of £16.5m (2016: £11.9m) of liquid assets and £18.4m (2016: £22.7m) of bank overdrafts.

Accounting Policies

General Information
Halfords Group plc is a company domiciled in the United Kingdom. The consolidated financial statements of the Company as at and for the period ended 31 March 2017 comprise the Company and its subsidiary undertakings.

Statement of Compliance
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU ("adopted IFRSs").

Basis of Preparation
The consolidated financial statements of Halfords Group plc and its subsidiary undertakings (together "the Group") are prepared on a going concern basis for the reasons set out in the Directors' Report on page 56, and under the historical cost convention, except where adopted IFRSs require an alternative treatment. The principal variations relate to financial instruments (IAS 39 "Financial instruments: recognition and measurement") and share-based payments (IFRS 2 "Share-based payment").

The financial statements are presented in millions of UK pounds, rounded to the nearest £0.1m.

The accounts of the Group are prepared for the period up to the Friday closest to 31 March each year. Consequently, the financial statements for the current period cover the 52 weeks to 31 March 2017, whilst the comparative period covered the 52 weeks to 1 April 2016.

Basis of Consolidation
Subsidiary Undertakings
A subsidiary investment is an entity controlled by Halfords. Control is achieved when Halfords is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect those returns through its power, directly or indirectly, over the investee.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The financial statements of all subsidiary undertakings are prepared to the same reporting date as the Company. All subsidiary undertakings have been consolidated.

The subsidiary undertakings of the Company at 31 March 2017 are detailed in note 4 to the Company balance sheet on page 143.

Business Combinations
The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognised as expenses in the period in which the costs are incurred.

The identifiable assets, liabilities and contingent liabilities of the acquired entity that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of these elements exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

Revenue Recognition
Retail
Retail revenue comprises the fair value of the sale of goods and services to external customers, net of value added tax, rebates, promotions and returns. Revenue is recognised on the sale of goods when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Revenue on goods delivered is recognised when the customer accepts delivery and on services when those services have been rendered.

Car Servicing
Car Servicing revenue comprises the provision of servicing to external customers, net of value added tax, rebates and promotions. Revenue is recognised at the point at which those services have been rendered.

Promotions and Returns
The Group operates a variety of sales promotion schemes that give rise to goods and services being sold at a discount to standard retail price. Revenue is adjusted to show sales net of all related discounts. A provision for estimated returns is made representing the profit on goods sold during the year which are expected to be returned and refunded after the year end based on past experience. Revenue is reduced by the value of sales returns provided for during the year.

Finance income

Finance income comprises interest income on funds invested. Income is recognised, as it accrues in profit or loss, using the effective interest rate method.

Non-recurring Items

Non-recurring items are those items that are unusual because of their size, nature or incidence. The Group's management consider that these items should be separately identified within their relevant income statement category to enable a full understanding of the Group's results.

Earnings Per Share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

The Group has also chosen to present an alternative earnings per share measure, with profit adjusted for non-recurring items. A reconciliation of this alternative measure to the statutory measure required by IFRS is given in note 9.

Foreign Currency Translation

Functional and Presentation Currency

The consolidated financial statements are presented in pounds sterling, which is the Group's presentation currency and are rounded to the nearest hundred thousand, except where it is deemed relevant to disclose the amounts to the nearest pound. Items included in the financial statements of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

Transactions and Balances

Transactions in foreign currencies are recorded at the exchange rate prevailing on the date of the transaction. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rate prevailing at the balance sheet date. Translation differences on monetary items are taken to the income statement with the exception of differences on transactions that are subject to effective cash flow hedges, which are recognised in other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on qualifying cash flow hedges, which are recognised in other comprehensive income.

The assets and liabilities of foreign operations are translated to sterling at the exchange rate at the reporting date. The income and expenses of foreign operations are translated to sterling at an average exchange rate. Foreign currency differences are recognised in other comprehensive income and a separate component of equity. When a foreign operation is disposed of, the relevant amount in equity is transferred to profit or loss.

Employee Benefits

i) Pensions

The Halfords Pension Plan is a contract-based plan, where each member has their own individual pension policy, which they monitor independently. The Group pays fixed contributions and has no legal or constructive obligation to pay further amounts. The costs of contributions to the scheme are charged to the income statement in the period that they arise.

ii) Share-based Payment Transactions

The Group operates a number of equity-settled share-based compensation plans.

The fair value of the employee services received under such schemes is recognised as an expense in the income statement. Fair values are determined by use of an appropriate pricing model and incorporate an assessment of relevant market performance conditions.

The amount to be expensed over the vesting period is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

At each balance sheet date, the Group revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised in the income statement, with a corresponding adjustment to equity.

Taxation

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

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

Accounting Policies

The tax base of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to an entity when it recovers the carrying amount of the asset. If those economic benefits will not be taxable, the tax base of the asset is equal to its carrying amount.

The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods. In the case of revenue which is received in advance, the tax base of the resulting liability is its carrying amount, less any amount of the revenue that will not be taxable in future periods.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred taxation arises from initial recognition of an asset or liability in a transaction other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred taxation is calculated using rates that are expected to apply when the related deferred asset is realised or the deferred taxation liability is settled.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Dividends

Final dividends are recognised in the Group's financial statements in the period in which the dividends are approved by shareholders. Interim equity dividends are recognised in the period they are paid.

Intangible Assets

i) Goodwill

Goodwill is initially recognised as an asset at cost and is reviewed for impairment at least annually. Goodwill is subsequently measured at cost less any accumulated impairment losses. An impairment charge is recognised in profit or loss for any amount by which the carrying value of goodwill exceeds its recoverable amount.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

For acquisitions prior to 3 April 2010 costs directly attributable to business combinations formed part of the consideration payable when calculating goodwill. Adjustments to contingent consideration, and therefore the consideration payable and goodwill, are made at each reporting date until the consideration is finally determined.

Acquisitions after this date fall under the provisions of 'Revised IFRS 3 Business Combinations (2009)'. For these acquisitions transaction costs, other than share and debt issue costs, will be expensed as incurred and subsequent adjustments to the fair value of consideration payable will be recognised in profit or loss.

ii) Computer Software

Costs that are directly associated with identifiable and unique software products controlled by the Group, and that will generate economic benefits beyond one year are recognised as intangible assets. These intangible assets are stated at cost less accumulated amortisation and impairment losses. Software is amortised over three to five years depending on the estimated useful economic life.

iii) Acquired Intangible Assets

Intangible assets that are acquired as a result of a business combination are recorded at fair value at the acquisition date, provided they are identifiable and capable of reliable measurement.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

- Brand names and trademarks 2 years in respect of Autocentres, 10 years in respect of Boardman and 15 years in respect of Tredz and Wheelies;
- Supplier relationships 10 to 15 years;
- Customer relationships 5 to 15 years; and
- Favourable leases over the term of the lease.

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Property, Plant and Equipment

Property, plant and equipment is held at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of property, plant and equipment is provided to write off the cost, less residual value, on a straight-line basis over their useful economic lives as follows:

- Leasehold premises with lease terms of 50 years or less are depreciated over the remaining period of the lease;
- Leasehold improvements are depreciated over the period of the lease to a maximum of 25 years;
- Motor vehicles are depreciated over 3 years;
- Fixtures, fittings and equipment are depreciated over 4 to 10 years according to the estimated life of the asset;
- Computer equipment is depreciated over 3 years; and
- Land is not depreciated.

Depreciation is expensed to the income statement within operating expenses.

Residual values, remaining useful economic lives and depreciation periods and methods are reviewed annually and adjusted if appropriate.

Impairment of Assets

Tangible and intangible assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). For goodwill, an annual impairment review is performed at each balance sheet date.

Leases

Finance Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the rental is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. The benefit of incentives from lessors are recognised on a straight-line basis over the term of the lease.

Landlord Surrender Premiums

Payments received from landlords in respect of the surrender of all or part of units previously occupied by the Group that do not represent an incentive for future rental commitments are recognised in the income statement on the exchange of contracts, where there are no further substantial acts to complete.

Sublease Income

The Group leases properties from which it no longer trades. These properties are often sublet to third parties. Rents receivable are recognised by offsetting the income against rental costs accounted for within selling and distribution costs in the income statement.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle and includes expenditure incurred in inventories, adjusted for rebates, and other costs incurred in bringing them to their existing location.

Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, 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 current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

Details of the provisions recognised and the significant estimates and judgements can be seen in note 19.

Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset when the reimbursement is certain.

Accounting Policies

A provision for vacant properties is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract. The main uncertainty is the quantum and/or timing of the amounts payable, and the time value of money has been incorporated into the provision amount to take account of this sensitivity.

Provision is also made for onerous contracts in loss-making stores and Autocentres which management do not expect to become profitable.

A rent review provision is recognised when there is expected to be additional obligations as a result of rent reviews where the review date has passed and the review has not yet concluded. This forms part of the Group's unavoidable cost of meeting its obligations under the lease contracts. The provision is based on management's best estimate of the rent payable after the review. Key uncertainties are the estimate of the rent payable after the review has occurred.

A dilapidations provision is recognised when there is future obligation relating to the maintenance of leasehold properties. The provision is based on management's best estimate of the obligation which forms part of the Group's unavoidable cost of meeting its obligations under the lease contracts. Key uncertainties are the estimates of amounts due.

Provisions for employer and product liability claims are recognised when an incident occurs or when a claim made against the Group is received that could lead to there being an outflow of benefits from the Group. The provision is based on management's best estimate of the settlement assisted by an external third party. The main uncertainty is the likelihood of success of the claimant and hence the pay-out; however, a provision is only recognised where there is considered to be reasonable grounds for the claim.

Financial Instruments

Financial Assets

The Group's financial assets include cash and cash equivalents, investments and trade and other receivables. All financial assets are recognised when the Group becomes party to the contractual provisions of the instrument.

i) Trade receivables

Trade receivables are recognised and carried at original invoice amount less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the income statement in operating expenses.

ii) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. For the purpose of the consolidated cash flow statement, cash and cash equivalents includes bank overdrafts in addition to the definition above.

iii) Investments

Investments are recognised and carried at cost less any provision for impairment.

Financial Liabilities and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's financial liabilities comprise trade and other payables and borrowings. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

i) Bank borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Finance cost comprises interest expense on borrowings, unwinding of the discount on provisions and the cost of forward foreign exchange contracts.

ii) Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

iii) Equity instruments
Equity instruments issued by the Company are recorded as the proceeds are received, net of direct issue costs. Own shares consist of shares held within an employee benefit trust and are recognised at cost as a deduction from shareholders' equity. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds from the original cost being taken to revenue reserves. No gain or loss is recognised in the Group Income Statement on transactions in own shares held.

iv) Derivative financial instruments and hedge accounting
Derivative financial instruments are used to manage risks arising from changes in foreign currency exchange rates relating to the purchase of overseas sourced products. The Group does not hold or issue derivative financial instruments for trading purposes. The Group uses the derivatives to hedge highly probable forecast transactions and therefore the instruments are designated as cash flow hedges.

Derivatives are recognised at fair value on the date a contract is entered into and are subsequently remeasured at their fair value. The effective element of any gain or loss from remeasuring the derivative instrument is recognised directly in the hedging reserve.

The associated cumulative gain or loss is reclassified from the Group Statement of Changes in Equity and recognised in the Group Income Statement in the same period or periods during which the hedged transaction affects the Group Income Statement. Any element of the remeasurement of the derivative instrument that does not meet the criteria for an effective hedge is recognised immediately in the Group Income Statement within finance income or costs.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is recognised immediately in profit or loss.

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months or as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months.

Estimates and Judgements

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates.

The judgement and key sources of estimation uncertainty that have a significant effect on the amounts recognised in the financial statements are detailed below:

Allowances Against the Carrying Value of Inventories

The Group reviews the market value of and demand for its inventories on a periodic basis to ensure that recorded inventory is stated at the lower of cost and net realisable value. In assessing the ultimate realisation of inventories, the Group is required to make judgements as to future demand requirements and to compare these with the current or committed inventory levels. Assumptions have been made relating to the timing and success of product ranges, which would impact estimated demand and selling prices.

Sensitivities to the assumptions for specific product lines are not expected by management to result in a material change in the overall allowances.

Intangible Asset Valuations

The measurement of fair values on a business combination requires the recognition and measurement of the identifiable assets, liabilities and contingent liabilities. The key judgements involved are the identification of which intangible assets meet the recognition criteria as set out in IAS 38, the fair values attributable to those intangible assets, excluding any buyer-specific synergies, and the useful lives of individual intangible assets. The useful lives of intangibles assets relating to customer relationships involves judgement as to customer retention rates applicable.

Impairment of Assets

Goodwill and other assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable value may be less than their carrying value. Recoverable amount is based on a calculation of expected future cash flows, which includes management assumptions and estimates of future performance. Details of the assumptions used in the impairment review of goodwill and other assets are explained in note 11.

The carrying amount of these assets and liabilities can be seen in the notes to the financial statements on pages 121 to 145.

Accounting Policies

Adoption of new and revised standards

The following standards and interpretations were adopted in the current period as they were mandatory for the year ended 31 March 2017, but either had no material impact on the result or net assets of the Group or were not applicable.

- IAS 1 'Presentation of financial statements' - amendments relating to the Disclosure Initiative.
- IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' - amendments relating to clarification of acceptable methods of depreciation and amortisation.
- IAS 27 'Separate financial statements' - amendments relating to Equity method in separate financial statements.
- IFRS 11 'Joint arrangements' - amendments relating to acquisitions of interests in joint operations.
- Annual improvements to IFRS 2012–2014 Cycle.

New standards and interpretations not yet adopted

The following standards and interpretations have been published, endorsed by the EU, and are available for early adoption, but have not yet been applied by the Group in these financial statements. The Group does not believe the adoption of these standards or interpretations would have a material impact on the consolidated results or financial position of the Group.

- IFRS 9 'Financial instruments' – finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition.
- IFRS 15 'Revenue from contracts with customers' – new standard and amendments.

The following standards and interpretations have been published but not yet endorsed by the EU. The Group does not believe the adoption of these standards or interpretations would have a material impact on the consolidated results or financial position of the Group.

- IAS 7 'Statement of cash flows' – amendments relating to the Disclosure Initiative.
- IAS 12 'Income taxes' – amendments relating to recognition of deferred tax assets for unrealised losses.
- IAS 40 'Investment property' - amendment relating to transfers of investment property.
- IFRS 2 'Share based payment' - amendment relating to classification and measurement of share-based payment transactions.
- IFRS 10 'Consolidated financial statements' and IAS 28 'Investments in associates and joint ventures' - amendments relating to sale or contribution of assets between an investor and its associate or joint venture.
- IFRS 17 'Insurance contracts' - new standard requiring insurance liabilities to be measured at a current fulfilment value and providing a more uniform measurement and presentation approach for all insurance contracts.
- IFRIC 22 'Foreign currency transactions and advance consideration'.
- Annual improvements to IFRS 2014–2016 Cycle.

In addition the above, IFRS 16 'Leases' has been published but not yet endorsed by the EU. Given that all operating leases with a contract life over 12 months will be treated in much the same way as a finance lease on balance sheet, the Group is currently undertaking an impact assessment of the likely effect on the consolidated results and financial position of the Group, as it is not yet practicable to quantify the effect of IFRS 16 on these consolidated financial statements.

Notes to the Financial Statements

1. Operating Segments

The Group has two reportable segments, Retail and Car Servicing, which are the Group's strategic business units. Car Servicing became a reporting segment of the Group as a result of the acquisition of Nationwide Autocentres on 17 February 2010. The strategic business units offer different products and services, and are managed separately because they require different operational, technological and marketing strategies.

The operations of the Retail reporting segment comprise the retailing of automotive, leisure and cycling products through retail stores. The operations of the Car Servicing reporting segment comprise car servicing and repair performed from Autocentres.

The Chief Operating Decision Maker is the Executive Directors. Internal management reports for each of the segments are reviewed by the Executive Directors on a monthly basis. Key measures used to evaluate performance are Revenue and Operating Profit. Management believe that these measures are the most relevant in evaluating the performance of the segment and for making resource allocation decisions.

The following summary describes the operations in each of the Group's reportable segments. Performance is measured based on segment operating profit, as included in the management reports that are reviewed by the Executive Directors. These internal reports are prepared in accordance with IFRS accounting policies consistent with these Group Financial Statements.

All material operations of the reportable segments are carried out in the UK and all material non-current assets are located in the UK. The Group's revenue is driven by the consolidation of individual small value transactions and as a result Group revenue is not reliant on a major customer or group of customers. All revenue is from external customers.

Income statement	**Retail £m**	**Car Servicing £m**	**52 weeks to 31 March 2017 Total £m**
Revenue	**938.4**	**156.6**	**1,095.0**
Segment result before non-recurring items	**76.8**	**2.2**	**79.0**
Non-recurring items	**(3.1)**	**(0.3)**	**(3.4)**
Segment result	**73.7**	**1.9**	**75.6**
Unallocated expenses[1]			**(1.9)**
Operating profit			**73.7**
Net financing expense			**(2.3)**
Profit before tax			**71.4**
Taxation			**(15.0)**
Profit for the year			**56.4**

Income statement	Retail £m	Car Servicing £m	52 weeks to 1 April 2016 Total £m
Revenue	868.5	153.0	1,021.5
Segment result before non-recurring items	81.8	3.8	85.6
Non-recurring items	(1.2)	(0.5)	(1.7)
Segment result	80.6	3.3	83.9
Unallocated expenses[1]			(1.1)
Operating profit			82.8
Net financing expense			(3.0)
Profit before tax			79.8
Taxation			(16.3)
Profit for the year			63.5

1. Unallocated expenses have been disclosed to reflect the format of the internal management reports reviewed by the Chief Operating Decision Maker and include an amortisation charge of £1.9m in respect of assets acquired through business combinations (2016: £1.1m).

Notes to the Financial Statements

1. Operating Segments continued

Other segment items:	**Retail £m**	**Car Servicing £m**	**52 weeks to 31 March 2017 Total £m**
Capital expenditure	**29.5**	**6.6**	**36.1**
Depreciation expense	**16.5**	**5.1**	**21.6**
Amortisation expense	**7.9**	**0.2**	**8.1**

Other segment items:	Retail £m	Car Servicing £m	52 weeks to 1 April 2016 Total £m
Capital expenditure	32.1	8.2	40.3
Depreciation expense	19.1	4.7	23.8
Amortisation expense	5.2	—	5.2

There have been no significant transactions between segments in the 52 weeks ended 31 March 2017 (2016: £nil).

2. Operating Expenses

For the period	**52 weeks to 31 March 2017 £m**	52 weeks to 1 April 2016 £m
Selling and distribution costs	**401.5**	385.7
	401.5	385.7
Administrative expenses, before non-recurring items	**80.0**	72.9
Non-recurring administrative expenses	**3.4**	1.7
	83.4	74.6
	484.9	460.3

3. Operating Profit

For the period	**52 weeks to 31 March 2017 £m**	52 weeks to 1 April 2016 £m
Operating profit is arrived at after charging/(crediting) the following expenses/(incomes) as categorised by nature:		
Operating lease rentals:		
— plant and machinery	**2.0**	2.8
— property rents	**91.7**	89.6
— rentals receivable under operating leases	**(3.8)**	(3.5)
Landlord surrender premiums	**(1.9)**	(2.7)
Loss on disposal of property, plant and equipment	**0.2**	0.4
Amortisation of intangible assets	**10.0**	6.3
Depreciation of:		
— owned property, plant and equipment	**20.8**	23.0
— assets held under finance leases	**0.8**	0.8
Trade receivables impairment	**0.1**	0.2
Staff costs (see note 4)	**219.7**	206.4
Cost of inventories consumed in cost of sales	**524.7**	472.8

3. Operating Profit continued

The total fees payable by the Group to KPMG LLP and their associates during the period was £0.4m (2016: £0.2m), in respect of the services detailed below:

For the period	52 weeks to 31 March 2017 £'000	52 weeks to 1 April 2016 £'000
Fees payable for the audit of the Company's accounts	30	30
Fees payable to KPMG LLP and their associates in respect of:		
The audit of the Company's subsidiary undertakings, pursuant to legislation	205	144
Audit-related assurance services	15	15
Other assurance services	75	—
All other services	75	—
	400	189

4. Staff Costs

For the period	52 weeks to 31 March 2017 £m	52 weeks to 1 April 2016 £m
The aggregated remuneration of all employees, including Directors, comprised:		
Wages and salaries	195.5	183.3
Social security costs	16.3	14.4
Equity settled share-based payment transactions (note 23)	1.0	3.0
Contributions to defined contribution plans (note 25)	6.9	5.7
	219.7	206.4

	Number	Number
Average number of persons employed by the Group, including Directors, during the period:		
Stores/Autocentres	9,729	9,869
Central warehousing	527	382
Support Centre	945	785
	11,201	11,036

Key management compensation

For the period	52 weeks to 31 March 2017 £m	52 weeks to 1 April 2016 £m
Salaries and short-term benefits	4.5	4.9
Compensation for loss of office	0.2	0.1
Social security costs	0.8	0.8
Pensions	0.4	0.4
Share-based payment charge	0.4	1.5
	6.3	7.7

Key management compensation includes the emoluments of the Board of Directors and the emoluments of the Halfords Limited and Halfords Autocentres management boards.

Directors' remuneration

For the period	52 weeks to 31 March 2017 £m	52 weeks to 1 April 2016 £m
Remuneration	1.3	1.4
	1.3	1.4

Full details of Directors' remuneration and interests are set out in the Directors' Remuneration Report on pages 78 to 97 which form part of these financial statements

Notes to the Financial Statements

5. Non-recurring Items

For the period	52 weeks to 31 March 2017 £m	52 weeks to 1 April 2016 £m
Non-recurring operating expenses:		
Acquisition and investment related fees (a)	**1.7**	—
Organisational Restructure Costs (b)	**0.6**	1.7
Operating lease obligation (c)	**0.3**	—
Costs in relation to a historic legal case (d)	**0.8**	—
Non-recurring operating expenditure	**3.4**	1.7
Acquisition related interest charge (e)	**0.6**	—
Non-recurring items before tax	**4.0**	1.7
Tax on non-recurring items (f)	**(0.9)**	(0.3)
Non-recurring items after tax	**3.1**	1.4

(a) Acquisition costs relate to the costs associated with purchase of the share capital of Tredz Limited and Wheelies Direct Limited during the period, and the investment in Tyres on the Drive.

(b) Organisational restructuring was undertaken across Autocentres and Retail during the current and prior years, to better align resource to the requirements of the business. This resulted in a non-recurring redundancy expense of £0.6m (2016: £1.7m). These restructure costs relate to changes in operating structures which are not expected to be repeated.

(c) The operating lease obligation relates to rectification work to one of the Group's retail stores, which was required to make good an area of land upon which the store is located. The rectification work required was unique to the specific site and similar expense is not expected in the future.

(d) During the year the Group settled a court case which related to activities during FY12. The size and historic nature of the settlement was outside the normal experience of the Group.

(e) The acquisition related interest charge reflects the unwinding of the discounting applied to the contingent consideration due on the acquisition of Tredz Limited.

(f) The tax credit of £0.9m represents a tax rate of 20% applied to non-recurring items. The prior period represents a tax credit at 20% applied to non-recurring items.

6. Finance Income and Costs

Recognised in profit or loss for the period	52 weeks to 31 March 2017 £m	52 weeks to 1 April 2016 £m
Finance costs:		
Bank borrowings	**(1.1)**	(0.9)
Amortisation of issue costs on loans	**(0.7)**	(0.7)
Commitment and guarantee fees	**(0.6)**	(0.6)
Costs of forward foreign exchange contracts	**—**	(0.1)
Acquisition related interest charges	**(0.6)**	—
Interest payable on finance leases	**(0.8)**	(0.8)
Finance costs	**(3.8)**	(3.1)
Finance income:		
Bank and similar interest	**0.1**	0.1
Income from forward foreign exchange contracts	**1.4**	—
Finance income	**1.5**	0.1
Net finance costs	**(2.3)**	(3.0)

7. Taxation

For the period	52 weeks to 31 March 2017 £m	52 weeks to 1 April 2016 £m
Current taxation		
UK corporation tax charge for the period	**16.1**	13.1
Adjustment in respect of prior periods	**(0.3)**	—
	15.8	13.1
Deferred taxation		
Origination and reversal of temporary differences	**(0.4)**	3.1
Adjustment in respect of prior periods	**(0.4)**	0.1
	(0.8)	3.2
Total tax charge for the period	**15.0**	16.3

The tax charge is reconciled with the standard rate of UK corporation tax as follows:

For the period	52 weeks to 31 March 2017 £m	52 weeks to 1 April 2016 £m
Profit before tax	**71.4**	79.8
UK corporation tax at standard rate of 20% (2016: 20%)	**14.3**	16.0
Factors affecting the charge for the period:		
Depreciation on expenditure not eligible for tax relief	**1.7**	1.1
Employee share options	**—**	(0.4)
Other disallowable expenses	**0.3**	(0.3)
Adjustment in respect of prior periods	**(0.7)**	0.1
Impact of overseas tax rates	**(0.4)**	(0.4)
Impact of change in tax rate on deferred tax balance	**(0.2)**	0.2
Total tax charge for the period	**15.0**	16.3

The UK corporation tax rate reduced from 21% to 20% (effective 1 April 2015) and will be further reduced to 19% (effective from 1 April 2017) and 17% (effective from 1 April 2020) following changes substantively enacted on 26 October 2015. This will reduce the Company's future current tax charge accordingly. The deferred tax liability at 31 March 2017 has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

In the Chancellor's March 2016 budget he announced plans to further reduce the corporation tax rate to 17% from 1 April 2020: however, during this financial period, the UK corporation tax rate was 20% (2016: 20%).

The effective tax rate of 21.0% (2016: 20.5%) is higher than the UK corporation tax rate principally due to the non-deductibility of depreciation charged on capital expenditure and non-deductible amortisation of intangible assets.

The tax charge for the period was £14.9m (2016: £16.3m), including a £0.9m credit (2016: £0.3m credit) in respect of tax on non-recurring items.

An income tax credit of £0.5m (2016: £0.4m credit) on other comprehensive income relates to the movement in fair valuing forward currency contracts outstanding at the year end. No other items within other comprehensive income have a tax impact.

In addition to the above, a £0.6m current tax debit (2016: £0.7m credit) and a £0.6m deferred tax credit (2016: £1.4m debit) is recognised in reserves in relation to employee share options.

The Group engages openly and proactively with tax authorities both in the UK and internationally, where it trades and sources products, and is considered low risk by HM Revenue & Customs ("HMRC"). The Company is fully committed to complying with all of its tax payment and reporting obligations.

In this period, the Group's contribution from both taxes paid and collected exceeded £160m (2016: £150m) with the main taxes including corporation tax £15.3m (2016: £17.2m), net VAT £59.0m (2016: £50.2m), Employment taxes of £48.3m (2016: £45.3m) and business rates £37.3m (2016: £36.9m).

Notes to the Financial Statements

8. Dividends

For the period	52 weeks to 31 March 2017 £m	52 weeks to 1 April 2016 £m
Equity – ordinary shares		
Final for the 52 weeks to 1 April 2016 – paid 11.34p per share (2016: 11.00p)	**22.3**	21.4
Interim for the 52 weeks to 31 March 2017 – paid 5.83p per share (2016: 5.66p)	**11.5**	11.0
Special dividend – paid 10.00p per share (2016: nil)	**19.7**	—
	53.5	32.4

In addition, the Directors are proposing a final dividend in respect of the financial period ended 31 March 2017 of 11.68p per share (2016: 11.34p per share), which will absorb an estimated £22.9m (2016: £22.3m) of shareholders' funds. It will be paid on 25 August 2017 to shareholders who are on the register of members on 4 August 2017.

9. Earnings Per Share

Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares excludes shares held by an Employee Benefit Trust (see note 23) and has been adjusted for the issue/purchase of shares during the period.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the 52 weeks to 31 March 2017.

The Group has also chosen to present an alternative earnings per share measure, underlying earnings per share, with profit adjusted for non-recurring items because it better reflects the Group's underlying performance. This measure is defined on page 18.

For the period	52 weeks to 31 March 2017 Number of shares m	52 weeks to 1 April 2016 Number of shares m
Weighted average number of shares in issue	**199.1**	199.1
Less: shares held by the Employee Benefit Trust (weighted average)	**(2.5)**	(3.9)
Weighted average number of shares for calculating basic earnings per share	**196.6**	195.2
Weighted average number of dilutive shares	**0.5**	1.1
Total number of shares for calculating diluted earnings per share	**197.1**	196.3

For the period	52 weeks to 31 March 2017 £m	52 weeks to 1 April 2016 £m
Basic earnings attributable to equity shareholders	**56.4**	63.5
Non-recurring items (see note 5):		
Operating expenses	**3.4**	1.7
Finance costs	**0.6**	—
Tax on non-recurring items	**(0.9)**	(0.3)
Underlying earnings before non-recurring items	**59.5**	64.9

Earnings per share is calculated as follows:

For the period	52 weeks to 31 March 2017	52 weeks to 1 April 2016
Basic earnings per ordinary share	**28.7p**	32.5p
Diluted earnings per ordinary share	**28.6p**	32.4p
Basic underlying earnings per ordinary share	**30.3p**	33.2p
Diluted underlying earnings per ordinary share	**30.2p**	33.0p

10. Acquisition of Subsidiaries

On 23 May 2016 the Group acquired 100% of the issued share capital of Tredz Limited and Wheelies Direct Limited for initial cash consideration of £19.2m (excluding transaction costs). The acquired business comprises an online retailer of premium bikes and cycling parts, accessories and clothing, which trades UK-wide under the brand Tredz, and the UK's largest provider of bicycle replacement for insurance companies which trades under the brand Wheelies. The transaction has been accounted for using the acquisition method of accounting.

Contingent Consideration

In addition to the initial consideration, a liability of £5.5m was recognised at fair value in respect of contingent consideration due to the previous shareholders. The contingent consideration is dependent upon the performance of Tredz for the year ended 28 February 2017. The range of possible payments under the contingent arrangement is £nil to £12.5m.

The acquisition had the following impact on the Group's assets and liabilities:

	Book value £m	Fair value adjustment £m	Final fair value £m
Tredz and Wheelies net assets at the acquisition date			
Intangible assets and goodwill	0.8	(0.8)	—
Tangible assets	1.3	(0.1)	1.2
Inventories	5.7	(0.1)	5.6
Trade and other receivables	1.8	—	1.8
Cash	1.2	—	1.2
Trade and other payables	(6.1)	—	(6.1)
Borrowings	(0.3)	—	(0.3)
Current tax liabilities	(0.2)	—	(0.2)
Deferred tax liability	(0.2)	—	(0.2)
Total	**4.0**	**(1.0)**	**3.0**

Goodwill

Goodwill was recognised as a result of the acquisition as follows:

	£m
Total consideration	23.9
Less fair value of identifiable assets	(3.0)
Goodwill and intangible assets	**20.9**
Intangible Assets:	
Supplier relationships	7.8
Tredz and Wheelies Brand Names	5.6
Computer Software	0.5
Deferred tax liability	(2.5)
Goodwill	**9.5**

None of the goodwill acquired is expected to be deductible for income tax purposes. The goodwill relates to the assembled workforce of Tredz and Wheelies and future expansion and growth opportunities.

The Tredz and Wheelies businesses contributed £36.7m revenue and a profit of £1.8m to the Group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition of the Tredz and Wheelies businesses had been completed on the first day of the financial year, Group revenues for the period would have been £6.7m higher and Group profit before tax of the parent would have been £0.5m higher (before amortisation of intangible assets arising on consolidation).

Notes to the Financial Statements

11. Intangible Assets

	Brand names and trademarks £m	Customer relationships £m	Supplier relationships £m	Favourable leases £m	Computer software £m	Goodwill £m	Total £m
Cost							
At 3 April 2015	4.2	14.9	—	2.3	25.1	355.2	401.7
Additions	—	—	—	—	12.5	—	12.5
Disposals	—	—	—	—	(0.1)	—	(0.1)
At 1 April 2016	4.2	14.9	—	2.3	37.5	355.2	414.1
Additions	5.6	—	7.8	—	18.3	9.5	41.2
Disposals	—	—	—	—	—	—	—
At 31 March 2017	**9.8**	**14.9**	**7.8**	**2.3**	**55.8**	**364.7**	**455.3**
Amortisation							
At 3 April 2015	1.3	8.5	—	0.4	13.0	21.7	44.9
Charge for the period	0.3	0.7	—	0.1	5.2	—	6.3
At 1 April 2016	1.6	9.2	—	0.5	18.2	21.7	51.2
Charge for the period	0.6	0.7	0.4	0.1	8.2	—	10.0
At 31 March 2017	**2.2**	**9.9**	**0.4**	**0.6**	**26.4**	**21.7**	**61.2**
Net book value at 31 March 2017	**7.6**	**5.0**	**7.4**	**1.7**	**29.4**	**343.0**	**394.1**
Net book value at 1 April 2016	2.6	5.7	—	1.8	19.3	333.5	362.9

No intangible assets are held as security for external borrowings.

Product rights of £0.2m, which are fully amortised, have been included within Brand names and trademarks.

Goodwill of £253.1m (2016: £253.1m) arose on the acquisition of Halfords Holdings Limited by the Company on 31 August 2002 and is allocated to the Retail segment. The goodwill relates to a portfolio of sites within the UK which management monitors on an overall basis as a group of cash-generating units being Retail. Goodwill of £69.7m arose on the acquisition of Nationwide Autocentres on 17 February 2010 and is allocated to the Car Servicing segment. The goodwill relates to a portfolio of centres within the UK which management monitors on an overall basis as a group of cash-generating units being Car Servicing. Goodwill of £10.7m arose on the acquisition of Boardman Bikes Limited and Boardman International Limited on 4 June 2014 and is allocated to the Retail segment. The goodwill relates to the two Boardman entities which management monitors on an overall basis as part of the Retail cash-generating unit. Goodwill of £9.5m arose on the acquisition of Tredz Limited and Wheelies Direct Limited on 23 May 2016 and is allocated to the Retail segment. The goodwill relates to the two entities which management monitors on an overall basis as part of the Retail cash-generating unit.

The goodwill arising on the acquisition of the Nationwide Autocentres is attributable to a) future income to be generated from new retail, fleet customer contracts and related relationships, b) the workforce, c) the value of immaterial other intangible assets, and d) operating synergies. The goodwill on acquisition of the Boardman Bikes is attributable to a) operating synergies and increased control of operations, b) the value of immaterial other intangible assets, and c) future income to be generated from new retail customer contracts and related relationships. The goodwill on acquisition of Tredz and Wheelies is attributable to a) assembled workforce and b) future expansion and growth opportunities.

The recoverable amount of goodwill is determined based on "value-in-use" calculations for each of the two groups of cash-generating units, being Retail and Car Servicing. This is the lowest level within the Group at which the goodwill is monitored for internal management purposes, which is not higher than the Group's operating segments as reported in note 1.

The value-in-use of the goodwill held at 31 March 2017 and 1 April 2016 is driven by, and is most sensitive to, the key assumptions underlying the recoverable amounts of the Group cash-generating units, which are the discount rate and growth rate.

Cash flow projections are based on financial budgets approved by management covering a three to five-year period and after consideration of all available information, incorporating the strategies and risks of each segment. The growth rates used beyond the range of the budgets are shown on the next page. Given the maturity of the Retail business, no growth rate has been assumed beyond the budget period.

The discount rate is a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the cash-generating units. The pre-tax discount rates used to calculate value in use are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each cash-generating unit. The discount rates used are shown on the next page.

11. Intangible Assets continued

		Retail		Car Servicing	
	Note	**2017**	2016	**2017**	2016
Discount rate	1	**7.3%**	8.5%	**7.3%**	7.7%
Growth rate	2	**0.0%**	0.0%	**1.0%**	1.0%

Notes:
1. Pre-tax discount rate applied to the cash flow projections.
2. Growth rate used to extrapolate cash flows beyond the budget period.

Sensitivity analysis on the key assumptions in the value-in-use calculations has been undertaken, which found that there is a more than adequate amount of headroom before an impairment would be triggered. The directors are confident that a reasonably possible change in the key assumptions, including a +/- 1.0% change in the discount rate, would not cause the carrying amounts to exceed the recoverable amounts.

Overall, the directors have concluded that the recoverable amount of the Group's CGUs exceeded their carrying amount.

12. Tangible Assets

	Land and buildings £m	Fixtures, fittings and equipment £m	Payments on account and assets in course of construction £m	Total £m
Cost				
At 3 April 2015	67.3	185.9	—	253.2
Additions	6.6	21.2	—	27.8
Disposals	(1.0)	(1.9)	—	(2.9)
At 1 April 2016	72.9	205.2	—	278.1
Additions	5.0	12.5	0.2	17.7
Disposals	(0.6)	(2.6)	—	(3.2)
At 31 March 2017	**77.3**	**215.1**	**0.2**	**292.6**
Depreciation				
At 3 April 2015	34.6	114.8	—	149.4
Depreciation for the period	4.3	19.5	—	23.8
Disposals	(0.9)	(1.5)	—	(2.4)
At 1 April 2016	38.0	132.8	—	170.8
Depreciation for the period	4.8	16.8	—	21.6
Disposals	(0.5)	(2.1)	—	(2.6)
At 31 March 2017	**42.3**	**147.5**	**—**	**189.8**
Net book value at 31 March 2017	**35.0**	**67.6**	**0.2**	**102.8**
Net book value at 1 April 2016	34.9	72.4	—	107.3

No fixed assets are held as security for external borrowings.

Included in the above are assets held under finance leases as follows:

	Land and buildings[1] £m	Fixtures, fittings, and equipment £m	Total £m
As at 31 March 2017			
Cost	**12.7**	**2.5**	**15.2**
Additions	**—**	**0.5**	**0.5**
Accumulated depreciation	**(6.6)**	**(1.4)**	**(8.0)**
Net book value	**6.1**	**1.6**	**7.7**
As at 1 April 2016			
Cost	12.7	1.4	14.1
Additions	—	1.1	1.1
Accumulated depreciation	(6.1)	(1.1)	(7.2)
Net book value	6.6	1.4	8.0

1. Relates to the Halfords support centre building lease, which expires in 2028.

Notes to the Financial Statements

12. Tangible Assets continued

Finance lease liabilities are payable as follows:

	Minimum lease payments 2017 £m	Interest 2017 £m	Principal 2017 £m	Minimum lease payments 2016 £m	Interest 2016 £m	Principal 2016 £m
Less than one year	**2.2**	**0.8**	**1.4**	1.4	0.7	0.7
Between one and five years	**7.0**	**2.4**	**4.6**	6.1	2.4	3.7
More than five years	**7.4**	**1.4**	**6.0**	9.1	1.8	7.3
	16.6	**4.6**	**12.0**	16.6	4.9	11.7

13. Investments

	Non-current 2017 £m	2016 £m
Available – for sale investments carried at cost		
Shares	**8.1**	—
	8.1	—

During the year the Group acquired a minority stake in an automotive related business, Tyres On The Drive. The investment is payable in instalments, and comprises an initial cash consideration of £4.1m for the first tranche of shares, with a further £4.0m subject to performance conditions being met for the second tranche of shares. The full £8.1m has been recognised as an investment, with a liability recognised for the second instalment.

14. Inventories

	2017 £m	2016 £m
Finished goods for resale	**191.1**	157.9

Finished goods inventories include £17.5m (2016: £15.7m) of provisions to carry inventories at fair value less costs to sell where such value is lower than cost. The Group did not reverse any unutilised provisions during the period.

During the period £9.3m was recognised as an expense in respect of the write-down of inventories (2016: £5.1m) to net realisable value. No inventories are held as security for external borrowings.

15. Trade and Other Receivables

	2017 £m	2016 £m
Falling due within one year:		
Trade receivables	**20.0**	17.9
Less: provision for impairment of receivables	**(0.4)**	(0.5)
Trade receivables — net	**19.6**	17.4
Other receivables	**8.9**	9.3
Prepayments and accrued income	**29.9**	34.0
	58.4	60.7

During the period the Group charged the provision with £0.1m (2016: £0.2m) for the impairment of trade receivables and utilised £0.2m (2016: £0.1m).

15. Trade and Other Receivables continued

The following table shows the age of financial assets that are past due and for which no provision for bad or doubtful debts has been raised:

	2017 £m	2016 £m
Neither past due nor impaired	16.2	15.4
Past due by 1–30 days	1.8	2.6
Past due by 31–90 days	1.3	1.2
Past due by 91–180 days	0.9	1.0
Past due by more than180 days	0.7	0.5
	20.9	20.7

The Group does not have any individually significant customers and so no significant concentration of credit risk.

Based on historic default rates and extensive analysis of the underlying customers' credit ratings, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by up to 30 days.

The Directors consider that the carrying amount of trade and other receivables approximates their fair value. Financial assets in the scope of IAS 39 include all trade receivables and £1.3m (2016: £3.3m) of other receivables.

16. Cash and Cash Equivalents

	2017 £m	2016 £m
Cash at bank and in hand	16.5	11.9

The Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of certain other Group companies.

17. Borrowings

	2017 £m	2016 £m
Current		
Unsecured bank overdraft	18.4	22.7
Finance lease liabilities	1.4	0.7
	19.8	23.4
Non-current		
Unsecured bank loan and other borrowings[1]	72.0	25.4
Finance lease liabilities	10.6	11.0
	82.6	36.4

1. The above borrowings are stated net of unamortised issue costs of £1.0m (2016: £1.6m).

The Group's current debt facility came into effect from 14 November 2014 and is a five-year £170m revolving credit facility starting from that date. The facility carries an interest rate of LIBOR plus a margin which is variable based on the gearing measures as set out in the facility covenant certificate and which is currently 125 basis points. Both utilisation and non-utilisation fees are also applicable being charged when utilisation rises above a set percentage with non-utilisation based on a set percentage of the applicable margin. These charges are based on market rates as are the commitment fees as mentioned below.

The Group had the following undrawn committed borrowing facilities available at each balance sheet date in respect of which all conditions precedent had been met:

	2017 £m	2016 £m
Expiring within 1 year	20.0	20.0
Expiring between 1 and 2 years	—	—
Expiring between 2 and 5 years	77.0	123.0
	97.0	143.0

The overdraft facility expiring within one year is an annual facility subject to review at various dates during the period. The facility of £97.0m (2016: £143.0m) relates to the Group's revolving credit facility. All these facilities incurred commitment fees at market rates.

Notes to the Financial Statements

18. Trade and Other Payables

	2017 £m	2016 £m
Current liabilities		
Trade payables	**110.7**	98.7
Other taxation and social security payable	**25.1**	23.8
Other payables	**20.9**	11.1
Deferred income – lease incentives	**4.3**	4.5
Accruals and other deferred income	**45.2**	44.4
	206.2	182.5
Non-current liabilities		
Deferred income – lease incentives	**31.9**	32.3

19. Provisions

	Property related £m	Other trading £m	Total £m
At 1 April 2016	8.7	8.7	17.4
Charged during the period	0.5	2.1	2.6
Utilised during the period	—	(2.6)	(2.6)
Released during the period	(0.2)	—	(0.2)
At 31 March 2017	**9.0**	**8.2**	**17.2**
Analysed as:			
Current liabilities	**7.1**	**3.9**	**11.0**
Non-current liabilities	**1.9**	**4.3**	**6.2**

Property related provisions consist of costs associated with vacant property, rent reviews and dilapidations. Also included are liabilities in respect of previous assignments of leases where the lessee has entered into administration.

Other trading provisions comprise a sales returns provision and a provision for the costs associated with the cessation of the standalone cycle concept 'BikeHut', including closure of stores where necessary, an employer/product liability provision and provision for unused gift vouchers in issue.

20. Deferred Tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon in the current and prior reporting periods.

	Property related items £m	Short-term timing differences £m	Share-based payments £m	Intangible assets £m	Total £m
At 3 April 2015	1.0	3.5	2.0	(2.4)	4.1
Credit/(charge) to the income statement	0.5	(4.0)	—	0.4	(3.1)
Credit to other comprehensive income	—	0.4	—	—	0.4
Charge to equity	—	—	(1.4)	—	(1.4)
At 1 April 2016	1.5	(0.1)	0.6	(2.0)	—
Credit/(charge) to the income statement	3.5	(2.2)	—	(0.5)	0.8
Credit to other comprehensive income	—	0.5	—	—	0.5
Acquisition of subsidiary	—	(2.7)	—	—	(2.7)
Credit to equity	—	—	0.6	—	0.6
At 31 March 2017	**5.0**	**(4.5)**	**1.2**	**(2.5)**	**(0.8)**

20. Deferred Tax continued

Deferred income tax assets and liabilities are offset when the group has a legally enforceable right to do so and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	31 March 2017 £m	1 April 2016 £m
Deferred tax assets	**6.2**	2.1
Deferred tax liabilities	**(7.0)**	(2.1)
	(0.8)	—

21. Financial Instruments and Related Disclosures

Treasury Policy

The Group's treasury department's main responsibilities are to:

- Ensure adequate funding and liquidity for the Group;
- Manage the interest risk of the Group's debt;
- Invest surplus cash;
- Manage the clearing bank operations of the Group, and
- Manage the foreign exchange risk on its non-sterling cash flows.

Treasury activities are delegated by the Board to the Chief Financial Officer ("CFO"). The CFO controls policy and performance through the line management structure to the Group Treasurer and by reference to the Treasury Committee. The Treasury Committee meets regularly to monitor the performance of the Treasury function.

Policies for managing financial risks are governed by Board approved policies and procedures, which are reviewed on an annual basis.

The Group's debt management policy is to provide an appropriate level of funding to finance the Business Plan over the medium term at a competitive cost and ensure flexibility to meet the changing needs of the Group. Details of the Group's current borrowing facilities are contained in note 17.

The key risks that the Group faces from a treasury perspective are as follows:

Market Risk

The Group's exposure to market risk predominantly relates to interest, currency and commodity risk. These are discussed further below. Commodity risk is due to the Group's products being manufactured from metals and other raw materials, subject to price fluctuation. The Group mitigates this risk through negotiating fixed purchase costs or maintaining flexibility over the specification of finished products produced by its supply chain to meet fluctuations.

Interest Rate Risk

The Group's policy aims to manage the interest cost of the Group within the constraints of the Business Plan and its financial covenants. The Group's borrowings are currently subject to floating rate interest rates and the Group will continue to monitor movements in the swap market.

If interest rates on floating rate borrowings (i.e. cash and cash equivalents and bank borrowings which attract interest at floating rates) were to change by + or – 1% the impact on the results in the Income Statement and equity would be a decrease/increase of £0.4m (2016: £0.4m).

Interest rate movements on deposits, obligations under finance leases, trade payables, trade receivables, and other financial instruments do not present a material exposure to the Group's balance sheet.

Capital Risk Management

The Group's objectives when managing capital 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 and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group manages capital by operating within a debt ratio, which is calculated as the ratio of net debt to Underlying EBITDA. This was 0.8:1 in 2017 (2016: 0.4:1).

Notes to the Financial Statements

21. Financial Instruments and Related Disclosures continued

Fair Value Disclosures

The fair values of each class of financial assets and liabilities is the carrying amount, based on the following assumptions:

Trade receivables, trade payables and finance lease obligations, short-term deposits and borrowings	The fair value approximates to the carrying amount because of the short maturity of these instruments, using an interest rate of 7.1% for long-term finance lease obligations.
Long-term borrowings	The fair value of bank loans and other loans approximates to the carrying value reported in the balance sheet as the majority are floating rate where payments are reset to market rates at intervals of less than one year.
Forward currency contracts	The fair value is determined using the market forward rates at the reporting date and the outright contract rate.

Fair Value Hierarchy

Financial instruments carried at fair value are required to be measured by reference to the following levels:

- Level 1: quoted prices 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); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All financial instruments carried at fair value have been measured by a Level 2 valuation method.

The fair value of financial assets and liabilities are as follows:

	2017 £m	2016 £m
Cash and cash equivalents	**16.5**	11.9
Loans and receivables	**20.9**	20.7
Forward exchange contracts used for hedging (assets)	**3.7**	4.2
Total financial assets	**41.1**	36.8
Trade and other payables – held at amortised cost	**(178.4)**	(154.2)
Borrowings at amortised cost	**(73.1)**	(27.0)
Unsecured bank overdraft	**(18.4)**	(22.7)
Finance leases	**(12.0)**	(11.7)
Total financial liabilities	**(281.9)**	(215.6)

Trade and other payables within the scope of IAS 39 include all trade payables, all other payables and £46.0m (2016: £44.4m) of accruals and deferred income.

Credit Risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was £41.1m (2016: £36.8m) as detailed in the table above.

Foreign Currency Risk

The Group has a significant transaction exposure with increasing direct-sourced purchases from its suppliers in the Far East, with most of the trade being in US Dollars. The Group's policy is to manage the foreign exchange transaction exposures of the business to ensure the actual costs do not exceed the budget costs by more than 10% (excluding increases in the base cost of the product).

The Group does not hedge either economic exposure or the translation exposure arising from the profits, assets and liabilities of non-sterling businesses whilst they remain immaterial

During the 52 weeks to 31 March 2017, the foreign exchange management policy was to hedge via forward contract purchase between 75% and 80% of the material foreign exchange transaction exposures on a rolling 24-month basis. Hedging is performed through the use of foreign currency bank accounts and forward foreign exchange contracts.

21. Financial Instruments and Related Disclosures continued

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	31 March 2017		1 April 2016	
	USD £m	Other £m	USD £m	Other £m
Cash and cash equivalents	**4.3**	**0.2**	2.3	(1.1)
Trade and other payables	**(27.0)**	**(0.8)**	(19.4)	(0.4)
	(22.7)	**(0.6)**	(17.1)	(1.5)

The table below shows the Group's sensitivity to foreign exchange rates on its US dollar financial instruments, the major currency in which the Group's derivatives are denominated.

	2017 Increase/ (decrease) in equity £m	2016 Increase/ (decrease) in equity £m
10% appreciation of the US dollar	**18.3**	10.2
10% depreciation of the US dollar	**(14.9)**	(8.4)

A strengthening/weakening of Sterling, as indicated, against the USD at 31 March 2017 would have (decreased)/ increased equity and profit or loss by the amounts shown above. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

The movements in equity relates to the fair value movements on the Group's forward contracts that are used to hedge future stock purchases.

Pension Liability Risk

The Group has no association with any defined-benefit pension scheme and therefore carries no deferred, current or future liabilities in respect of such a scheme. The Group operates a number of Group Personal Pension Plans for colleagues.

Liquidity Risk

The Group ensures that it has sufficient cash or loan facilities to meet all its commitments when they fall due by ensuring that there is sufficient cash or working capital facilities to meet the cash requirements of the Group for the current Business Plan. The minimum liquidity level is currently set at £30m, such that under Treasury Policy the maximum drawings would be £140m of the £170m available facility, to include the Overdraft Facility of £20m.

The process to manage the risk is to ensure there are contracts in place for key suppliers, detailing the payment terms, and for providers of debt, the Group ensured that such counterparties used for credit transactions held at least an 'A-' credit rating at the time of amend and extend agreement (November 2014). At the year-end the banks within the banking group maintained a credit rating of A- or above, in line with Treasury policy. The counterparty credit risk is reviewed in the Treasury report, which is forwarded to the Treasury Committee and the Treasurer reviews credit exposure on a daily basis.

The risk is measured through review of forecast liquidity each month by the Treasurer to determine whether there are sufficient credit facilities to meet forecast requirements, and through monitoring covenants on a regular basis to ensure there are no significant breaches, which would lead to an "Event of Default". Calculations are submitted bi-annually to the Group banking agent. There have been no breaches of covenants during the reported periods.

The contractual maturities of finance leases are disclosed in note 12. All trade and other payables are due within one year.

The contractual maturity of bank borrowings, including estimated interest payments and excluding the impact of netting agreements is shown below:

	31 March 2017 Bank borrowings £m	1 April 2016 Bank borrowings £m
Due less than one year	**1.1**	1.1
Expiring between 1 and 2 years	**1.1**	1.1
Expiring between 2 and 5 years	**73.7**	28.9
Expiring after 5 years	**—**	—
Contractual cash flows	**75.9**	31.1
Carrying amount	**72.0**	25.4

Notes to the Financial Statements

21. Financial Instruments and Related Disclosures continued

The following table provides an analysis of the anticipated contractual cash flows for the Group's forward currency contracts. Cash flows receivable in foreign currencies are translated using spot rates as at 31 March 2017 (1 April 2016).

	2017 Receivables £m	2017 Payables £m	2016 Receivables £m	2016 Payables £m
Due less than one year	**171.3**	**(167.8)**	89.9	(85.8)
Due between 1 and 2 years	**17.5**	**(17.3)**	8.3	(8.2)
Contractual cash flows	**188.8**	**(185.1)**	98.2	(94.0)
Fair value	**5.2**	**(1.5)**	4.2	—

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

22. Capital and Reserves

Ordinary shares of 1p each	2017 Number of shares	2017 £000	2016 Number of shares	2016 £000
Allotted, called up and fully paid	**199,116,632**	**1,991**	199,116,632	1,991

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. All shares rank equally with regard to the Company's residual assets.

During the current period the Company has not changed its share capital but during the prior period it increased by 53,410 shares, following the issue of shares in relation to the exercise of options under the Company's Sharesave Scheme. There was no significant impact on share premium as a result of the transaction, which has remained at £151.0m (2016: £151.0m).

In total the Company received proceeds of £1.4m (2016: £2.7m) from the exercise of share options.

Investment in Own Shares

At 31 March 2017 the Company held in Trust 2,097,863 (2016: 2,984,289) of its own shares with a nominal value of £20,979 (2016: £29,843). The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's ordinary shares. The market value of these shares at 31 March 2017 was £7.4m (2016: £11.7m). In the current period nil (2016: nil) were repurchased and transferred into the Trust, with 886,426 (2016: 1,761,344) reissued on exercise of share options.

Other Reserves

Capital Redemption Reserve

The capital redemption reserve has arisen following the purchase by the Company of its own shares and comprises the amount by which the distributable profits were reduced on these transactions in accordance with the Companies Act 2006.

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.

23. Share-based Payments

The Group has three share award plans, all of which are equity–settled schemes. The Group Income Statement charge recognised in respect of share-based payments for the current period is £1.0m (2016: £3.0m).

1. Halfords Company Share Option Scheme

The CSOS was introduced in June 2004 and the Company has made annual grants since. Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 10 years.

Options granted before August 2013 will become exercisable on the third anniversary of the date of grant, subject to the achievement of a three-year performance condition. For grants up to 150% of basic salary the options can only be exercised if the increase in earnings per share ("EPS") over the period is not less than the increase in the Retail Price Index ("RPI") plus 3.5% per year. In the case of grants in excess of 150% of basic salary, the excess can only be exercised in full if the increase is not less than RPI plus 10% per year. Exercise of an option is subject to continued employment.

Changes to the performance criteria of the CSOS scheme in relation to the awards granted from August 2013 onwards were made by the Remuneration Committee. These changes were made in order to create better alignment with Group's three-year strategic priorities following the *Moving Up A Gear* programme. The awards are dependent on EBITDA performance and are only exercisable if EBITDA growth exceeds a compound annual growth rate of 2.5% over the three-year performance period, or a total growth rate of 8.4%. Exercise of an option is subject to continued employment.

The expected volatility is based on historical volatility of a peer group of companies since the IPO in June 2004. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds.

Options were valued using the Black–Scholes option-pricing models. No performance conditions were included in the fair value calculations.

23. Share-based Payments continued

2. Halfords Sharesave Scheme

The SAYE is open to all employees with eligible employment service. Options may be exercised under the scheme if the option holder completes their saving contract for a period of three years and then not more than six months thereafter. Special provisions allow early exercise in the case of death, injury, disability, redundancy, retirement or because the company or business which employs the option holder is transferred out of the Group, or in the event of a change in control, reconstruction or winding up of the Company.

Options were valued using the Black–Scholes option-pricing models.

3. Performance Share Plan

The introduction of a Performance Share Plan ("PSP") was approved at the Annual General Meeting in August 2005 awarding the Executive Directors and certain senior management conditional rights to receive shares. Annual schemes have been approved for each year from 2005.

The extent to which such rights vest will depend upon the Company's performance over the three-year period following the award date. The vesting of 50% of the awards will be determined by the Company's relative total shareholder return ("TSR") performance and the vesting of the other 50% by the Company's absolute EPS performance against RPI. The Company's TSR performance will be measured against the FTSE 350 general retailers as a comparator group. No retesting will be permitted.

The TSR element of the options granted under the schemes has been valued using a model developed by Deloitte. The Deloitte model uses the Group's share price volatility, the correlation between comparator companies and the vesting schedule attaching to the PSP tranche rather than generating a large number of simulations of share price and TSR performance to determine the fair value of the award using a Monte Carlo model.

For 2009 awards onwards, the Committee has recommended the reinvestment of dividends earned on award shares, such shares to invest in proportion to the vesting of the original award shares. This is in line with best practice as contained in the ABI guidelines on executive remuneration. Following this recommendation the shares awarded in 2011, 2012 and 2013 under the Performance Share Plan earned final dividends of 9.1p per share and were reinvested in shares at a cost of £4.82 per share. Shares awarded in 2012, 2013 and 2014 under the PSP earned interim dividends of 5.5p per share and were reinvested in shares at a cost of £4.59 per share.

Changes to the performance criteria of the PSP in relation to the awards granted during 2015 were made by the Remuneration Committee. These changes were made in order to create better alignment with the Company's three-year strategic priorities following the Getting Into Gear programme. The awards are weighted 25% towards Group revenue growth targets and 75% towards Group EBITDA growth targets. The core award remains at 150% of base salary with a multiplier being introduced of 1.5× the core award if exceptional levels of performance are achieved. The shares vesting as part of this multiplier calculation will attract a retention period of two years. In order to focus management the awards will be underpinned by a minimum Group EBITDA, and a net debt to EBITDA ratio no greater than 1.5× throughout the three-year performance period.

The following tables reconcile the number of share options outstanding and the weighted average exercise price (WAEP) for all share award plans except for the Co-Investment Plan, details of which are covered above.

For the period ended 31 March 2017

	CSOS		SAYE		PSP	
	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)
Outstanding at start of year	5,288	3.96	2,419	3.12	1,337	—
Granted	1,848	3.59	2,038	2.50	1,013	—
Shares representing dividends reinvested	—	—	—	—	177	
Forfeited	(1,023)	4.03	(1,150)	3.07	(540)	—
Exercised	(126)	3.48	(350)	2.56	(366)	—
Lapsed	(4)	3.02	(65)	3.11	(9)	—
Outstanding at end of year	5,983	3.87	2,892	2.77	1,612	—
Exercisable at end of year	197	3.36	—	—	—	—
Exercise price range (£)		2.20–5.43		1.56–4.25		—
Weighted average remaining contractual life (years)		8.0		2.7		1.7

Notes to the Financial Statements

23. Share-based Payments continued

For the period ended 1 April 2016

	CSOS		SAYE		PSP	
	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)	Number ('000)	WAEP (£)
Outstanding at start of year	5,378	3.45	2,603	2.23	2,078	—
Granted	3,017	4.35	2,289	3.36	698	—
Shares representing dividends reinvested	—	—	—	—	—	—
Forfeited	(1,243)	5.12	(897)	3.89	(955)	—
Exercised	(77)	3.54	(1,573)	1,56	(73)	—
Lapsed	(1,787)	2.20	(3)	—	(411)	—
Outstanding at end of year	5,288	3.96	2,419	3.12	1,337	—
Exercisable at end of year	262	3.32	—	—	—	—
Exercise price range (£)		2.20 to 5.43		1.56 to 4.25		—
Weighted average remaining contractual life (years)		8.2		2.8		1.6

The following table gives the assumptions applied to the options granted in the respective periods shown:

	52 weeks to 31 March 2017			52 weeks to 1 April 2016		
Grant date	**CSOS**	**SAYE**	**PSP**	CSOS	SAYE	PSP
Share price at grant date (£)	**3.60**	**3.49**	**3.60**	3.33 / 5.38	5.33 / 3.37	5.33 / 3.95
Exercise price (£)	**3.59**	**2.50**	**0**	3.22 / 5.43	4.25 / 2.98	0.00
Expected volatility	**32.0%**	**31.66%**	**0**	32%/ 32%	33%/ 33%	31%
Option life (years)	**10**	**3**	**3**	10	3	3
Expected life (years)	**4.85**	**3.5**	**3**	4.85	3.5	3
Risk free rate	**0.17%**	**0.21%**	**0**	1.31%	1.06%	0
Expected dividend yield	**4.72%**	**4.87%**	**0.00%**	3.07%/ 5.01%	3.1%/ 4.95%	0.00%
Probability of forfeiture	**33%**	**44%**	**30%**	33%	44%	30%
Weighted average fair value of options granted	**£0.57**	**£0.89**	**£3.60**	£0.86	£0.90	£5.02

As the PSP awards have a nil exercise price the risk free rate of return does not have any effect on the estimated fair value and therefore is excluded from the above table.

24. Commitments

	2017 £m	2016 £m
Capital expenditure: Contracted but not provided	**1.9**	0.2

At 31 March 2017, the Group was committed to making payments in respect of non-cancellable operating leases in the following periods:

	Land and buildings 2017 £m	**Other assets 2017 £m**	Land and buildings 2016 £m	Other assets 2016 £m
Within one year	**86.6**	**2.1**	80.5	2.6
Later than one year and less than five years	**298.6**	**2.3**	281.8	3.7
After five years	**217.0**	**—**	212.0	0.2
	602.2	**4.4**	574.3	6.5

The Group leases a number of stores and warehouses under operating leases of varying length for which incentives/premiums are received/paid under the relevant lease agreements. Land and buildings have been considered separately for lease classification. The operating lease commitments are shown before total future minimum receipts of sublet income, which totalled £19.4m (2016: £20.0m).

25. Pensions

Employees are offered membership of the Halfords Pension, which is a contract based plan, where each member has their own individual pension policy, which they monitor independently. The costs of contributions to the scheme are charged to the income statement in the period that they arise. The contributions to the scheme for the period amounted to £6.9m (2016: £5.7m).

In accordance with Government initiatives Halfords operates an automatic enrolment process with regards to its pension arrangements. Employees who are aged between 22 and state pension age, earn more than £10,000 a year, and work in the UK are automatically enrolled into the Group pension arrangement. Employees retain the right to withdraw from this pension arrangement however election of this choice must be made.

26. Contingent Liabilities

The Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owed by the Group during the course of its trading. In the event of any amount being immediately payable under the guarantee, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 31 March 2017 amounted to £3.7m (2016: £3.9m).

The Group's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

27. Related Party Transactions

The Groups ultimate parent company is Halfords Group plc. A listing of all related undertakings is shown within the financial statements of the Company on page 144.

Transactions with Key Management Personnel

The key management personnel of the Group comprise the Executive and Non-Executive Directors and the Halfords Limited and Halfords Autocentres management boards. The details of the remuneration, long-term incentive plans, shareholdings and share option entitlements of individual Directors are included in the Directors' Remuneration Report on pages 78 to 97. Key management compensation is disclosed in note 4.

Directors of the Company control 0.11% of the ordinary shares of the Company.

28. Off Balance Sheet Arrangements

The Group has no off balance sheet arrangements to disclose as required by S410A of the Companies Act 2006.

29. Post Balance Sheet Events

On 3 May 2017 the Group announced the resignation of its Group Chief Executive Officer, Jill McDonald, with a leaving date of the end of October 2017.

Company Balance Sheet

	Notes	**31 March 2017 £m**	1 April 2016 £m
Fixed assets			
Investments	4	**20.5**	19.5
Current assets			
Debtors falling due within one year	5	**478.5**	471.8
Cash and cash equivalents		**6.5**	5.2
		485.0	477.0
Creditors: amounts falling due within one year	6	**(142.7)**	(132.8)
Net current assets		**342.3**	344.2
Creditors: amounts falling due after more than one year	6	**(72.0)**	(25.3)
Net assets		**290.8**	338.4
Capital and reserves			
Called up share capital	8	**2.0**	2.0
Share premium account	9	**151.0**	151.0
Investment in own shares	9	**(9.5)**	(10.9)
Capital redemption reserve	9	**0.3**	0.3
Profit and loss account	9	**147.0**	196.0
Total shareholders' funds		**290.8**	338.4

The notes on pages 143 to 145 are an integral part of the Company's financial statements.

The Company has elected to prepare its financial statements under FRS 101 and the accounting policies are outlined on page 142.

The financial statements on pages 140 to 145 were approved by the Board of Directors on 24 May 2017 and were signed on its behalf by:

Jonny Mason
Chief Financial Officer

Company number: 04457314

Company Statement of Changes in Shareholders' Equity

	Share capital £m	Share premium £m	Investment in own shares £m	Capital redemption £m	Retained earnings £m	Total £m
At 3 April 2015	2.0	151.0	(13.6)	0.3	216.5	**356.2**
Profit for the period	—	—	—	—	8.9	**8.9**
Share options exercised	—	—	2.7	—	—	**2.7**
Share-based payments	—	—	—	—	3.0	**3.0**
Dividends paid	—	—	—	—	(32.4)	**(32.4)**
At 1 April 2016	2.0	151.0	(10.9)	0.3	196.0	**338.4**
Profit for the period	—	—	—	—	3.5	**3.5**
Share options exercised	—	—	1.4	—	—	**1.4**
Share-based payments	—	—	—	—	1.0	**1.0**
Dividends paid	—	—	—	—	(53.5)	**(53.5)**
At 31 March 2017	**2.0**	**151.0**	**(9.5)**	**0.3**	**147.0**	**290.8**

Accounting Policies

Accounting Convention

The accounts of the Company are prepared for the period up to the Friday closest to 31 March each year. Consequently, the financial statements for the current period cover the 52 weeks to 31 March 2017, whilst the comparative period covered the 52 weeks to 1 April 2016. The accounts are prepared under the historical cost convention, except where Financial Reporting Standards requires an alternative treatment in accordance with applicable UK accounting standards and specifically in accordance with the accounting policies set out below. The principal variation to the historical cost convention relates to share-based payments.

Basis of Preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100). In the prior year the Company adopted FRS 101 'Reduced Disclosure Framework' and has ceased to apply all UK Accounting Standards issued prior to FRS 100. Therefore, the recognition and measurement requirements of EU-adopted IFRS have been applied, with amendments where necessary in order to comply with Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the Group financial statements.

As permitted by section 408 of the Companies Act 2006, no profit or loss account is presented for this company. The profit for the year is disclosed in note 1 to the financial statements. Additionally, no cash flow statement is presented as permitted by FRS 101.8 (h).

Employee Benefit Trusts ('EBTs') are accounted for under IFRS 10 and are consolidated on the basis that the parent has control, thus the assets and liabilities of the EBT are included on the Company balance sheet and shares held by the EBT in the Company are presented as a deduction from equity.

Share-based Payments

The Company operates a number of equity-settled, share-based compensation plans that are awarded to employees of the Company's subsidiary undertakings.

In accordance with FRS 101 'Group and treasury share transactions', the fair value of the employee services received under such schemes is recognised as an expense in the subsidiary undertaking's financial statements, which benefit from the employee services. The Company has recognised the fair value of the share-based payments as an increase to equity with a corresponding adjustment to investments.

Fair values are determined using appropriate option pricing models. The total fair value recognised is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

At each balance sheet date, the Company revises its estimates of the number of share incentives that are expected to vest. The impact of the revision of original estimates, if any, is recognised as an adjustment to equity, with a corresponding adjustment to investments, over the remaining vesting period.

Investments

Investments in subsidiary undertakings are stated at the original cost of the investments. Provision is made against cost where, in the opinion of the Directors, the value of the investments has been impaired.

Dividends

Final dividends are recognised in the Company's financial statements in the period in which the dividends are approved by shareholders. Interim equity dividends are recognised in the period they are paid.

Notes to the Financial Statements

1. Profit and Loss Account

The Company made a profit before dividends paid for the period of £3.5m (52 week period to 1 April 2016: £8.9m). The Directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented a profit and loss account for the Company alone.

2. Fees Payable to the Auditor

Fees payable by the Group to KPMG LLP and their associates during the period are detailed in note 3 to the Group financial statements. In the 52 weeks to 31 March 2017 the Company expensed £nil (2016: £nil) in fees relating to KPMG LLP.

3. Staff Costs

The Company has no employees other than the Directors. Full details of the Directors' remuneration and interests, including those details required by Schedule 5, are set out in the Directors' Remuneration Report on pages 78 to 97 which forms part of the audited information.

4. Investments

	£m
Shares in Group undertaking	
Cost	
As at 1 April 2016	19.5
Additions – share-based payments	1.0
At 31 March 2017	**20.5**

The investments represent shares in the following subsidiary undertakings as at 31 March 2017 and the fair value of share-based compensation plans that are awarded to employees of the Company's subsidiary undertakings.

Subsidiary undertaking	Incorporated in	Ordinary shares percentage owned %	Principal activities
Halfords Holdings (2006) Limited	Great Britain*	100	Intermediate holding company

* Registered in England and Wales

In the opinion of the Directors the value of the investments in the subsidiary undertakings is not less than the amount shown above.

Notes to the Financial Statements

4. Investments continued

The related undertakings of the Company at 31 March 2017 are as follows:

Subsidiary undertaking	Principal activity	% Ownership of ordinary equity shares
Subsidiaries registered in England & Wales, with a registered address of: Icknield Street Drive, Redditich, Worcestershire, B98 0DE		
Halfords Holdings (2006) Limited	Intermediate holding company	100
Halfords Holdings Limited*	Intermediate holding company	100
Halfords Finance Limited*	Intermediate holding company	100
Halfords Limited*	Retailing of auto parts, accessories, cycles and cycle accessories	100
Halfords Payment Services Limited*	Dormant	100
Savvy Bikes Limited*	Dormant	100
Halfords Investments (2010) LP**	Intermediate holding partnership	100
Halfords Autocentres Holdings Limited*	Intermediate holding company	100
Halfords Autocentres Funding Limited*	Dormant	100
Halfords Autocentres Limited*	Car servicing	100
Halfords Autocentres Acquisitions Limited*	Dormant	100
NW Autocentres Limited*	Dormant	100
Halfords Autocentres Developments Limited*	Dormant	100
Stop N' Steer Limited*	Dormant	100
Halfords Vehicle Management Limited*	Dormant	100
Boardman Bikes Limited*	Cycle design and cycle sales	100
Boardman International Limited*	Cycle design and cycle sales	100
Cycle Republic Limited*	Dormant	100
Performance Cycling Limited*	Intermediate holding company	100
Tredz Limited*	Retailing of cycles and cycle accessories	100
Wheelies Direct Limited*	Retailing of cycles and cycle accessories	100
Giant (Wales) Limited*	Retailing of cycles and cycle accessories	100
Subsidiary registered in the Republic of Ireland, with a registered address of: c/o DWF Dublin, 4 George's Dock, IFSC, Dublin 1, DO1 X8N7		
Halfords Limited (ROI)*	Dormant	100
Other equity investment, registered in Northern Ireland, with a registered address of: 22 Derryhall Road, Portadown, Craigvon, Northern Ireland, BT62 1PL		
Hamilton Internet Services Limited*	E-Commerce	7.6
Other equity investment, registered in England & Wales, with a registered address of: Cotton Court, Middlewich Road, Holmes Chapel, Crewe, England, CW4 7ET		
Tyres On the Drive Limited*	Retailing of motor vehicle parts and accessories	5.7

* Shares held indirectly through subsidiary undertakings
** Wholly owned indirectly through subsidiary undertakings

The only subsidiaries to trade during the year were Halfords Limited, Halfords Autocentres Limited, Boardman Bikes Limited, Boardman International Limited, Wheelies Direct Limited, Tredz Limited and Giant (Wales) Limited.

5. Debtors

	2017 £m	2016 £m
Falling due within one year:		
Amounts owed by Group undertakings	**478.5**	471.8
	478.5	471.8

Amounts owed by Group undertakings are subject to interest. At 31 March 2017 the amounts bear interest at a rate of 1.75% (2016: 1.75%).

6. Creditors

	2017 £m	2016 £m
Falling due within one year:		
Bank borrowings (note 7)	**20.7**	26.2
Accruals and deferred income	**122.0**	106.6
	142.7	132.8
Falling due after more than one year:		
Bank borrowings (note 7)	**72.0**	25.3
	72.0	25.3

7. Borrowings

	2017 £m	2016 £m
Current		
Unsecured bank overdraft	**20.7**	26.2
Non-current		
Expiring between two and five years	**72.0**	25.3
	92.7	51.5

The above borrowings are stated net of unamortised issue costs of £1.0m (2016: £1.6m).

Details of the Company's borrowing facilities are in note 17 of the Group's financial statements.

8. Equity Share Capital

Ordinary shares of 1p each:	2017 Number of shares	2017 £000	2016 Number of shares	2016 £000
Allotted, called up and fully paid	**199,116,632**	**1,991**	199,116,632	1,991

During the current period the Company has not changed its share capital but during the prior period it increased by 53,410 shares following the issue of shares in relation to the exercise of options under the Company's Sharesave Scheme. There has been no significant impact on share premium as a result of the transaction, which has remained at £151.0m (2016: £151.0m).

In total the Company received proceeds of £1.4m (2016: £2.7m) from the exercise of share options.

Potential Issue of Ordinary Shares

The Company has three employee share option schemes, which were set up following the Company's flotation. Further information regarding these schemes can be found in note 23 of the Group's financial statements.

Investment in Own Shares

At 31 March 2017 the Company held in Trust 2,097,863 (2016: 2,984,289) of its own shares with a nominal value of £20,979 (2016: £29,843). The Trust has waived any entitlement to the receipt of dividends in respect of its holding of the Company's ordinary shares. The market value of these shares at 31 March 2017 was £7.4m (2016: £11.7m). In the current period nil (2016: nil) were repurchased and transferred into the Trust, with 886,426 (2016: 1,761,344) reissued on exercise of share options.

9. Reserves

The Company settled dividends of £53.5m (2016: £32.4m) in the period, as detailed in note 8 of the Group's financial statements.

In the prior year, the receivable of £280.3m recognised in the Company balance sheet as a result of the 2015 dividend-in-specie was settled in return for another receivable with a Group company. This resulted in the realisation of the £166.0m non-distributable reserves disclosed in the accounts for period ended 3 April 2015.

10. Related Party Disclosures

Under FRS 101 'Related party disclosures' the Company is exempt from disclosing related party transactions with entities which it wholly owns.

11. Contingent Liabilities

The Group's banking arrangements include the facility for the bank to provide a number of guarantees in respect of liabilities owed by the Group during the course of its trading. In the event of any amount being immediately payable under the guarantee, the bank has the right to recover the sum in full from the Group. The total amount of guarantees in place at 31 March 2017 amounted to £3.7m (2016: £3.9m).

The Company's banking arrangements are subject to a netting facility whereby credit balances may be offset against the indebtedness of other Group companies.

12. Off Balance Sheet Arrangements

The Company has no off balance sheet arrangements to disclose as required by S410A of the Companies Act 2006.

Five Year Record

	52 weeks to 29 March 2013 (audited) £m	52 weeks to 28 March 2014 (audited) £m	52 weeks to 27 March 2015 (pro forma)* £m	52 weeks to 1 April 2016 (audited) £m	**52 weeks to 31 March 2017 (audited) £m**
Revenue	871.3	939.7	1,004.9	1,021.5	**1,095.0**
Cost of sales	(394.2)	(435.5)	(469.8)	(478.4)	**(536.4)**
Gross profit	477.1	504.2	535.1	543.1	**558.6**
Operating expenses	(400.0)	(426.4)	(450.5)	(458.6)	**(481.5)**
Operating profit before non-recurring items	78.1	77.8	84.6	84.5	**77.1**
Non-recurring operating expenses	(1.0)	(0.2)	(0.3)	(1.7)	**(3.4)**
Operating profit	77.1	77.6	84.3	82.8	**73.7**
Net finance costs	(6.1)	(5.0)	(3.5)	(3.0)	**(2.3)**
Underlying Profit Before Tax***	72.0	72.8	81.1	81.5	**75.4**
Non-recurring operating expenses	(1.0)	(0.2)	(0.3)	(1.7)	**(3.4)**
Non-recurring finance costs	—	—	—	—	**(0.6)**
Profit before tax	71.0	72.6	80.8	79.8	**71.4**
Taxation	(18.2)	(17.0)	(17.4)	(16.6)	**(15.9)**
Taxation on non-recurring items	(0.1)	(0.1)	(0.1)	0.3	**0.9**
Profit attributable to equity shareholders	52.7	55.5	63.3	63.5	**56.4**
Basic earnings per share	27.2p	28.6p	32.5p	32.5p	**28.7p**
Basic underlying earnings per share***	27.7p	28.8p	32.7p	33.2p	**30.3p**
Weighted average number of shares	194.3m	194.0m	194.2m	195.2m	**196.6m**

Key Performance Indicators

	52 weeks to 29 March 2013	52 weeks to 28 March 2014	52 weeks to 27 March 2015	52 weeks to 1 April 2016	**52 weeks to 31 March 2017**
Revenue growth	+1.0%	+7.9%	+6.9%	+1.7%	**+7.2%**
Gross margin	54.8%	53.7%	53.2%	53.2%	**51.0%**
Operating margin**	8.8%	8.3%	8.4%	8.3%	**7.0%**
Underlying Group EBITDA***	£103.4m	£101.1m	£109.9m	£114.6m	**£108.7m**
Net debt***	(£110.6m)	(£99.6m)	(£61.8m)	(£47.9m)	**(£85.9m)**

* The statutory 53-week period to 3 April 2015 comprises results that are non-comparable to the 52-week periods reported in other years. To provide a more meaningful comparison, the above tables include the pro forma 52 weeks to 27 March 2015.

** Operating margin is defined as results from operating activities before non-recurring items as a percentage of revenue.

*** These alternative performance measures are defined on page 18.

Company Information

Financial Calendar

26 July 2017	Annual General Meeting
4 August 2017	Final Dividend Record Date
25 August 2017	Final Dividend Payment Date
5 September 2017	20 Week Trading Update
9 November 2017	Interim Results

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Shareholder Notes

halfords

Corporate and IR website
www.halfordscompany.com

Online Annual Report 2017
halfords.annualreport2017.com

Commercial Website
www.halfords.com