

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.

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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)

| | Base Salary | Bonus | Benefits | Pension | PSP | Other | Total 'Single Figure' |
|----------------------------|-------------|----------------------|----------|---------|-----|----------------------|-----------------------|
| 2016/2017 | | | | | | | |
| 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 |

- 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.
- 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.
- Jill McDonald was appointed on 11 May 2015.
- 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.
- 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.
- Jonny Mason was appointed on 12 October 2015.
- 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' (up to 1.5× initial award) i.e. 225% of salary | 1.5× initial award vesting | 7.5% or more | 9.0% or more |
| | Straight-line vesting | Between 6.5% and 7.5% | Between 7.5% and 9.0% |
| Core Award (150% of salary) | 100% vesting | 6.5% | 7.5% |
| | 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.

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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' (up to 1.5x initial award) i.e. 225% of salary. | 1.5x initial award vesting | 6.7% or more | 7.5% or more |
| | Straight-line vesting | Between 5.5% and 6.7% | Between 6.0% and 7.5% |
| Core Award (150% of salary) | 100% vesting | 5.5% | 6.0% |
| | 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 | Awards 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")

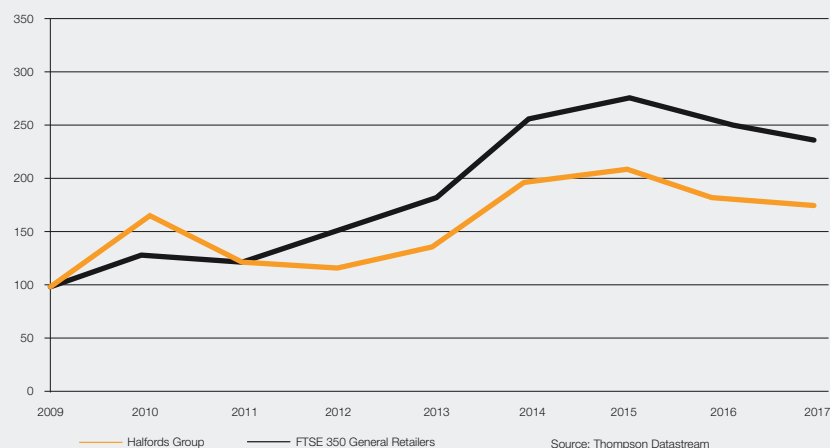
| | Award date | Mid-market price on date of awards £ | Awards held 2 April 2016 | Awarded during the period | Forfeited during the period | Lapsed during the period | Exercised during the year | Awards held 31 March 2017 | Exercisable Date |
|--------------------|------------------|--------------------------------------|--------------------------|---------------------------|-----------------------------|--------------------------|---------------------------|---------------------------|---------------------------------|
| 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.

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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% | — | — | — | — | — |

- 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
- 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.
- David Wild resigned as CEO on 19 July 2012.
- 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.

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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:

| Award | | Group Revenue Growth – CAGR (25% of the award) | Underlying EPS Growth - CAGR (75% of the 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.

- 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.
- 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 |

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