

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