

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.

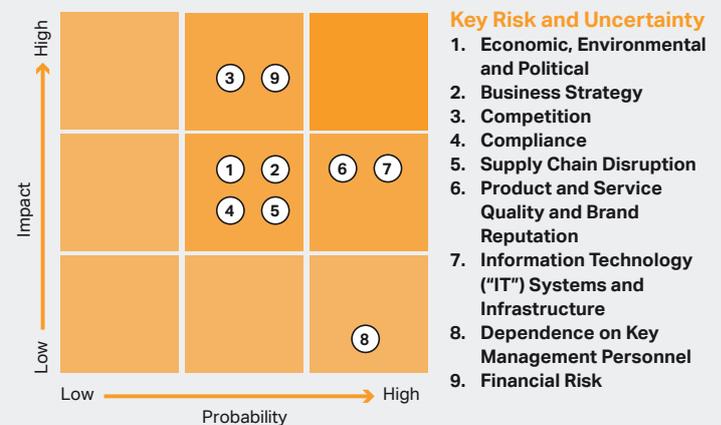
Senior management colleagues assess risks on a department-by-department basis using a variety of techniques to identify risk. The likelihood and impact of these risks are considered and scored against a recognised framework dependent upon their effect on the achievement of our corporate objectives. Responsibility 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

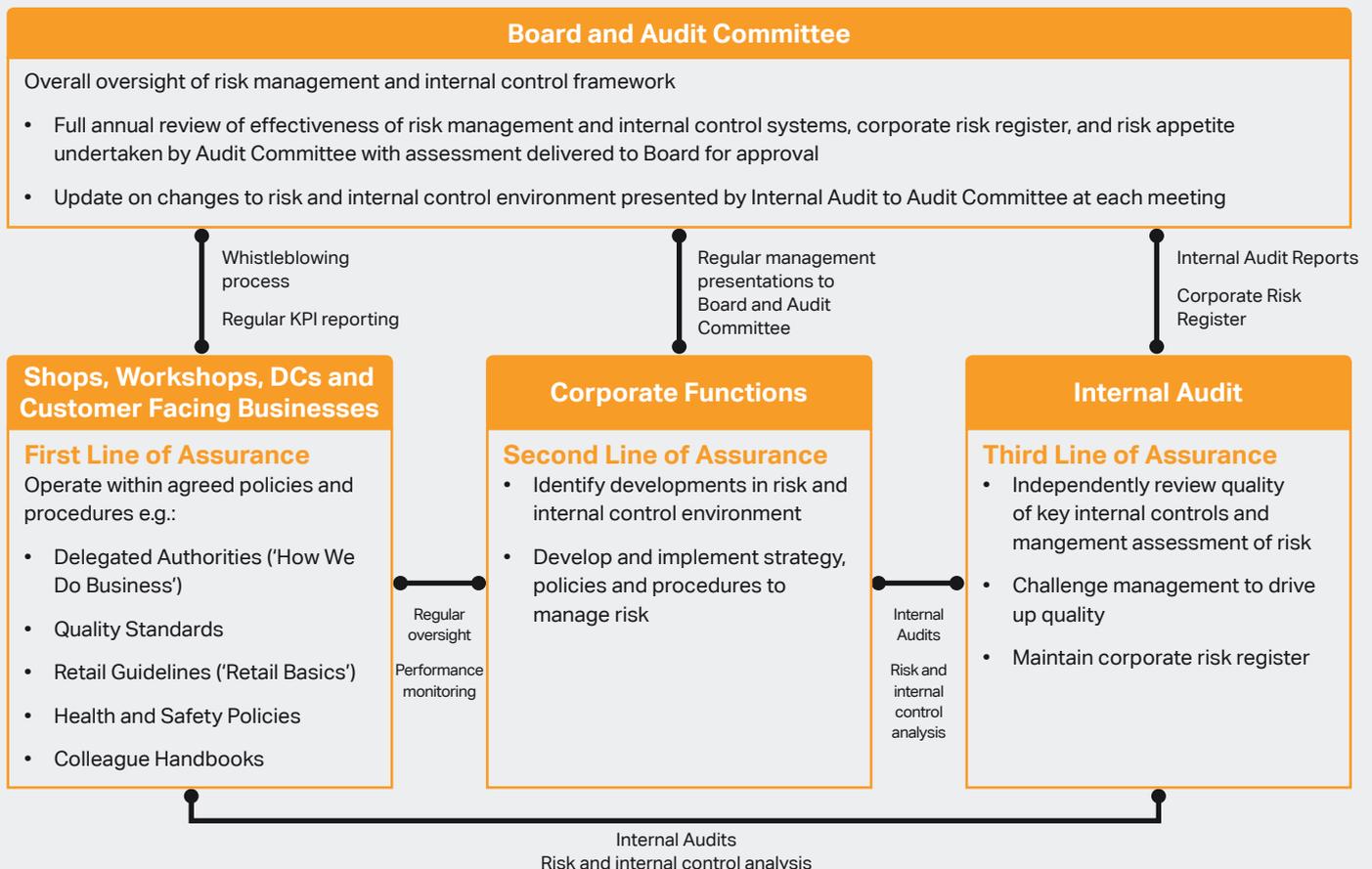
monitor new risks and all mitigating actions to ensure that the Group's appetite for risk is not exceeded. The Board recognises that each of its strategic pillars could be compromised by any of the risks set out below. Individual 'Moving Up A Gear' initiatives are reliant on some of the mitigations identified. 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.



Risk Management Framework



Key Risk and Uncertainty	Mitigation	Primary Links to Moving Up A Gear Strategy Pillar	Risk Movement
1. Economic, Environmental and Political			
<p>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.</p>	<p>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.</p> <p>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.</p>		
2. Business Strategy			
<p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p>		

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

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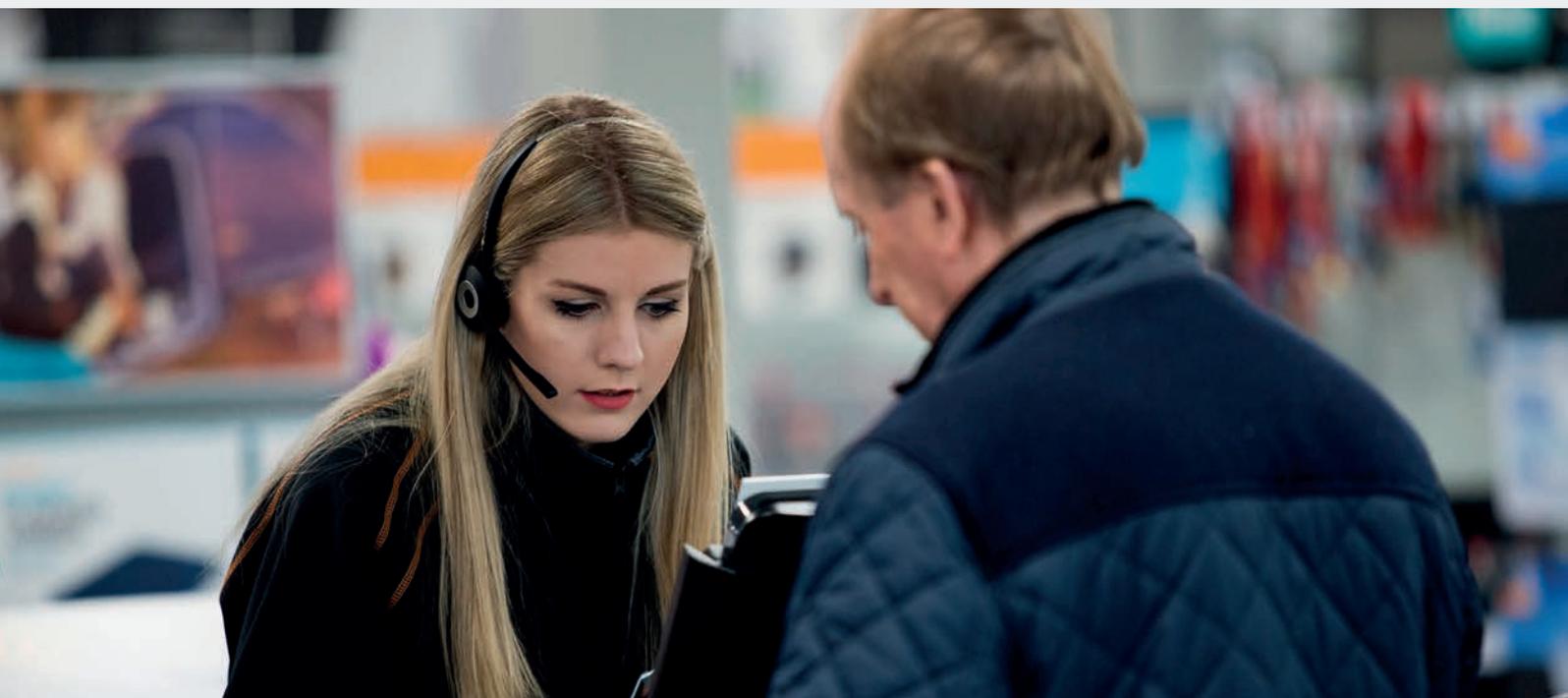
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3. Competition			
<p>The retail industry is highly competitive and dynamic. The Group competes with a wide variety of retailers of varying sizes and faces competition from UK retailers, in both shops and online, as well as international operators. 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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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'.</p> <p>Our Autocentres business continually seeks to provide innovative solutions for their customers, such as 'brakes4life'.</p> <p>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.</p>		
4. Compliance			
<p>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.</p> <p>The Group recognises that failure to comply with ethical standards could expose the business to reputational risk and loss of goodwill.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>The Group has a dedicated Investor Relations Team which ensures that there is frequent and appropriate communication with investors and the wider financial community.</p> <p>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.</p>		

Key Risk and Uncertainty	Mitigation	Primary Links to Moving Up A Gear Strategy Pillar	Risk Movement
<p>5. Supply Chain Disruption</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>We work with suppliers in a number of territories to reduce the risks of disruption, and we monitor sourcing opportunities nearer to the UK.</p> <p>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.</p>		



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6. Product and Service Quality and Brand Reputation			
<p>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.</p>	<p>The Group constantly seeks to enhance its position as the shop or centre of first choice in each of the markets that it serves.</p> <p>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.</p> <p>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.</p> <p>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.</p>		



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7. Information Technology ("IT") Systems and Infrastructure			
<p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>The Audit Committee is briefed by the Chief Information Officer on the business' IT security framework and continues to closely monitor this area.</p>		
8. Dependence on Key Management Personnel			
<p>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.</p>	<p>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.</p>		

Dennis Millard
 Chairman
 24 May 2017