

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

